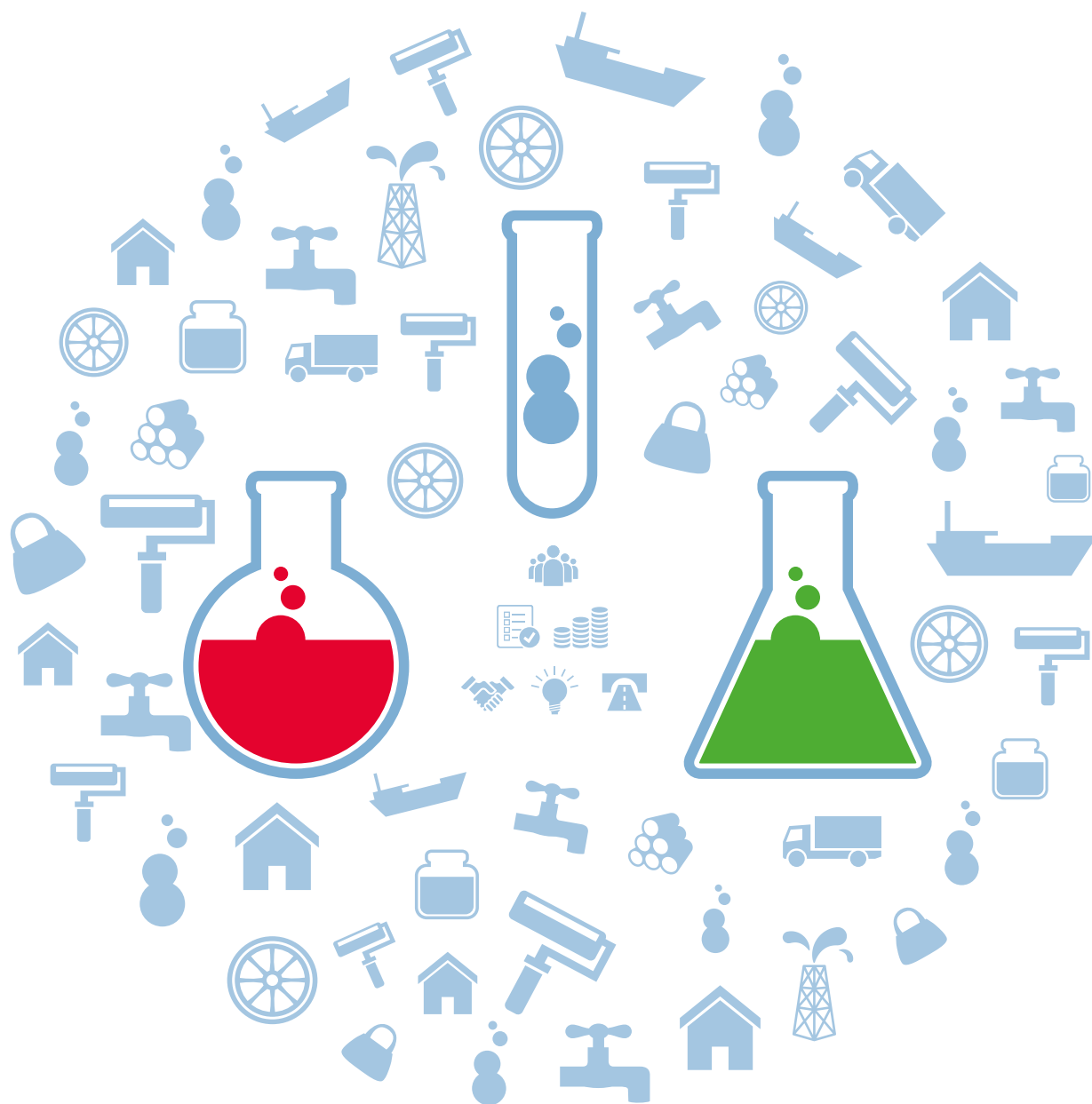


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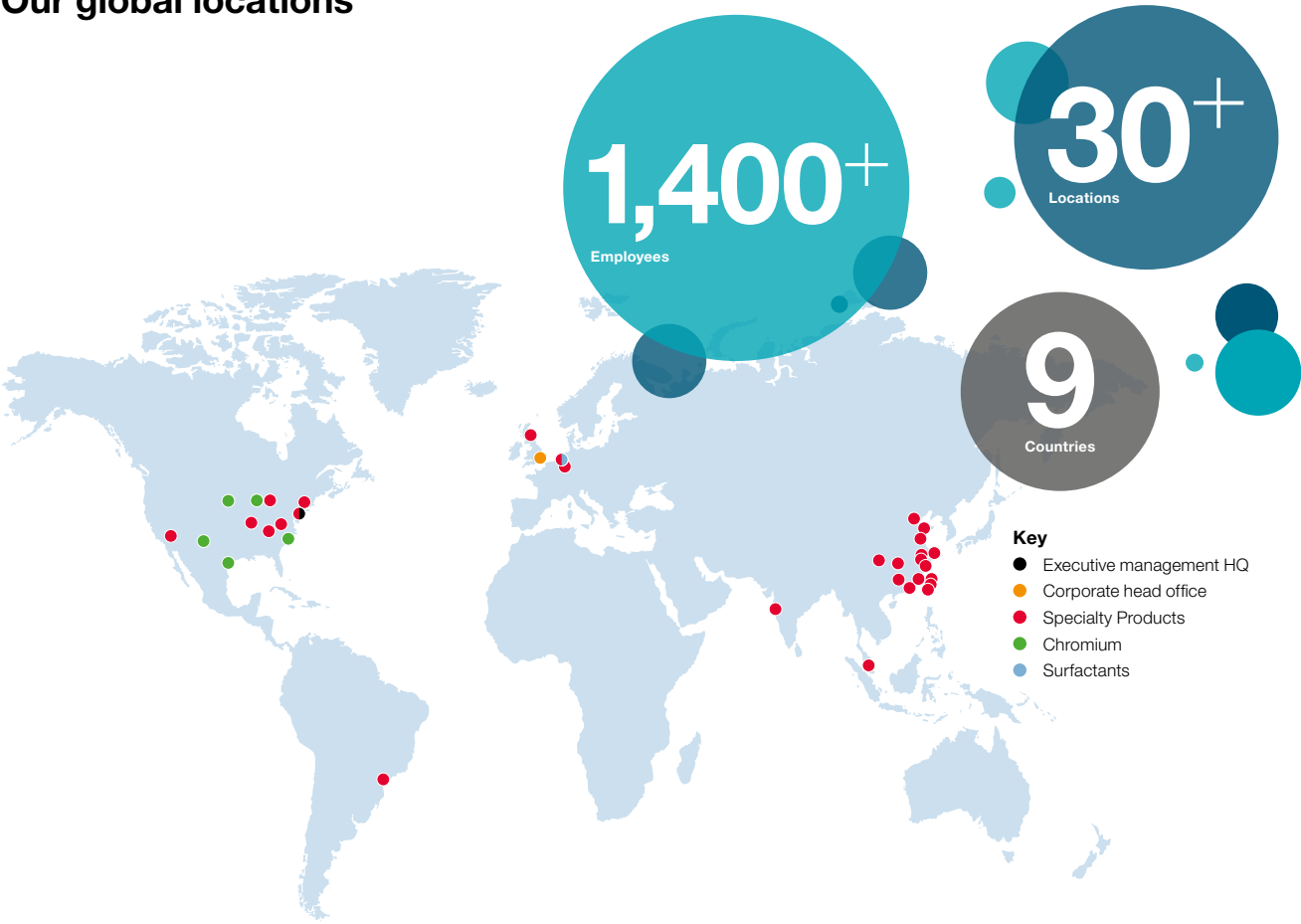
A global specialty chemicals company



# 2015

**Elementis plc**  
Annual report and accounts

Our global locations



Our success factors



## Our businesses



### Specialty Products

#### Centres of excellence

Our innovation model comprises three R&D centres of excellence and five 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

East Windsor, 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

#### Reaction chemistry capability

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

Elementis is a global supplier with reaction chemistry capability in all of our three regions: Americas, Europe and Asia.

#### Sites

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

#### 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



Charleston, WV, US



Newberry Springs, CA, US



Livingston, Scotland, UK



Anji, Zhejiang province, China



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.

→ **Specialty Products**  
For more information  
go to page 6



# 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.



# At a glance



## 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 6

**\$453.2m**  
Revenue



## Chromium

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

► Read more on page 8

**\$182.7m**  
Revenue



## 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

**\$53.8m**  
Revenue

### Cautionary statement:

The Annual Report and Accounts for the financial year ended 31 December 2015, 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.

## Highlights

- ▶ Group sales reduced by 14 per cent due to lower oilfield drilling and impact of stronger US dollar.
- ▶ Specialty Products delivered improved contribution margins and market share gains, successes include:
  - North American decorative coatings\* up 15 per cent.
  - European coatings\* up 3 per cent.
  - Personal care\* up 3 per cent for the year; 6 per cent in the second half.
- ▶ Another year of excellent cash generation:
  - Net cash position increased to \$74.0 million.
- ▶ Total dividends for the year increased by 7 per cent to 16.45 cents:
  - Final dividend maintained at previous year level.
  - Special dividend increased by 15 per cent; fourth consecutive payment.

\* constant currency sales

## Financial summary

	2015	2014
Sales	<b>\$678.8m</b>	\$790.4m
Operating profit**	<b>\$122.5m</b>	\$150.1m
Profit before tax**	<b>\$116.2m</b>	\$141.9m
Diluted earnings per share**	<b>20.8c</b>	24.8c
Operating cash flow	<b>\$102.5m</b>	\$144.4m
Net cash	<b>\$74.0m</b>	\$64.2m
Profit for the year	<b>\$95.3m</b>	\$175.4m
Basic earnings per share	<b>20.6c</b>	38.1c
Dividends to shareholders:		
Interim dividend	<b>2.70c</b>	2.70c
Final proposed	<b>5.75c</b>	5.75c
Special dividend	<b>8.00c</b>	6.95c
Total for the year	<b>16.45c</b>	15.40c

\*\* before non-recurring items

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IFC Who we are

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**Andrew Duff**  
Chairman

**After five years of successive earnings growth\*\*, the market environment in 2015 turned out to be challenging for the Group. Periods of challenging demand patterns such as this are often a good test of the core qualities of a business and I am pleased to report that our key strengths in terms of market position, customer relationships, value proposition and cash generation have all shown impressive resilience in 2015.**

Lower oil prices had a significant impact on our oilfield drilling business and the appreciation of the US dollar against most global currencies led to changes in the competitive landscape for both Elementis and its customers, creating an additional headwind during the year for Chromium and our North American industrial coatings business.

Innovation continues to be important to our success, as demonstrated by the growing proportion of our sales coming from new products, which continues to be encouraging. Following on from the successful commissioning of our new decorative coatings facility in New Martinsville we have continued to commit further investment to our Specialty Products business and have recently completed an investment in a new castor wax facility in Taiwan.

Our track record of consistent cash generation over the last six years has been an important component of the Group's equity story. In 2015, despite the more challenging environment, the Group still delivered a positive cash flow performance, helped by the sale of a portion of our site in Corpus Christi and lower pension contributions. This in turn means that we have been able to increase our special dividend by 15 per cent.

#### Financial results

In 2015, Group sales were \$678.8 million compared to \$790.4 million in the previous year and Group diluted earnings per share\*\* was 20.8 cents compared to 24.8 cents. In addition the Group is reporting a number of non-recurring items, including the Corpus Christi land sale, and these items are discussed more

fully in the Finance report. After taking account of these items, Group diluted earnings per share was 20.4 cents compared to 37.7 cents in 2014.

#### Balance sheet

The Group's balance sheet remains in a very sound position following another year of positive cash generation. The Group's net cash position at the end of 2015 is \$74.0 million, compared to \$64.2 million at the end of the previous year.

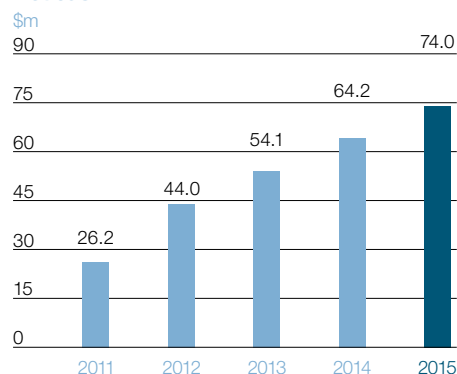
The IAS 19 deficit, on the Group's post retirement benefit plans also improved during the year from \$65.8 million at the end of 2014 to \$29.0 million. The UK pension plan accounts for the majority of the Group's pension obligations and a new funding agreement was concluded during the year, based on a triennial valuation date of 30 September 2014. As a result the Group's total annual contributions to all plans are expected to be below \$15.0 million in each of the next three years.

#### Dividends

Under the dividend policy introduced in 2012, the Board undertook to pay approximately one third of earnings, before non-recurring 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. However, the Board is maintaining the final dividend at the same level as the previous year, to reflect its confidence in the Group's business model and medium term prospects. In addition, the year end net cash balance increased and we will be paying a special dividend of 50 per cent of that amount. Consequently, total dividends for the year are increased by 7 per cent to 16.45 cents per share, the components of which are as follows:

- ▶ The Board is recommending a final dividend for 2015 of 5.75 cents per share (2014: 5.75 cents) and a special dividend of 8.00 cents per share (2014: 6.95 cents).
- ▶ The Board declared an interim dividend at the time of the Interim Results announcement of 2.70 cents per share (2014: 2.70 cents).

#### Net cash



The final and special dividends will be paid on 27 May 2016, in pounds sterling at an exchange rate of £1.00:\$1.3955 (equivalent to a sterling amount of 9.8531 pence per share), to shareholders on the register on 29 April 2016.

#### Health, safety and the environment

In this important aspect of our business I am pleased to report that our overall performance continues to be of a high standard compared to the industry. However, we also recognise that continuous improvement and an ultimate goal of zero incidents are absolutely essential to our philosophy. As regulators around the world rightly demand ever increasing engagement in this area, we will continue to be cooperative and proactive, while striving always to exceed their expectations.

#### Board changes

As previously announced Paul Waterman became Group Chief Executive and joined the Board on 8 February 2016. Paul has an impressive business background, having most recently been the Global CEO of BP's Lubricants business. He is fully engaged in getting to know Elementis and its people and is excited about the opportunity to take the Group forward.

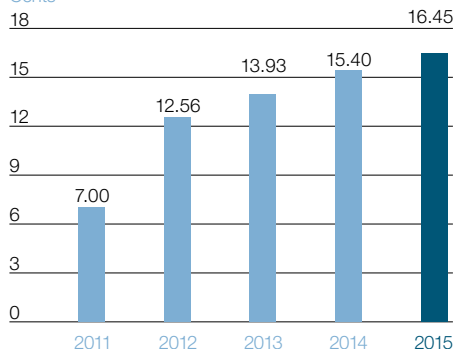
David Dutro, who retired as Group Chief Executive on 7 February 2016, continued to assist the Board until 29 February 2016 as a Special Advisor to facilitate a smooth transition. David has led the Group through a period of impressive progress and shareholder value creation and the Board would like to thank him sincerely for his outstanding contribution. We wish him well in his retirement.

→ **Our Board**  
For more information  
go to page 26

\*\* before non-recurring items

### Total dividends per share

Cents



# 16.45<sup>C</sup>

Total dividends  
per share

### Governance

I am pleased to report that your Board has made good progress over the past year, following the changes to its composition in 2014. The new non-executive members, including myself, have been fully engaged in getting to know the business and its people, and have established strong relationships with the management and business leadership teams. We have an excellent Board culture that is cohesive and transparent, based on trust, integrity and a shared purpose, which enables all directors to perform effectively, both collectively and as individuals.

The Board considers that it has applied fully all of the principles and provisions of the Corporate Governance Code during 2015. More information is provided in the Corporate governance report.

### People

In periods of more difficult trading, it goes without saying that the pressures and responsibilities on our employees and their families are greatly increased. Our progress is, in no small part, due to their continued efforts and talents and, on behalf of the Board, I would like to give them my sincere thanks.

### Outlook

As stated in our announcement in December, the market environment remains challenging. Chromium is cycling against a one time income of \$5 million in 2015. However, the Specialty Products business will continue to make progress based on its strong market positions and investments in growth. We are delighted to welcome Paul Waterman as Group Chief Executive. The Board is confident that he is inheriting a sound business model and financial platform on which to take the Group forward to what we are confident will be future success.

**Andrew Duff**  
Chairman

1 March 2016

### 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.

→ **Our businesses**  
For more information  
go to page 6





### 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 quality 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 three 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 objectives

### Group

- ▶ Deliver year on year sustainable earnings growth.
- ▶ Outperform the FTSE 250 Index for total shareholder return over each successive annual and three year period.
- ▶ Maintain a strong balance sheet to provide financial stability and support investments in growth.
- ▶ Manage key corporate and business risks and maintain high standards in business conduct, ethics and corporate responsibility.

## Our strategies

### Group

- ▶ Offer added value, high quality solutions tailored to our customers with strong technical support.
- ▶ Manage businesses to deliver strong financial performance and cash flow.
- ▶ Maintain well invested facilities, operational excellence, strong HSE performance and comply with laws and regulations.

## Our key risks

- 1 = Economy/Competition
- 2 = Growth opportunities
- 3 = Supply chain disruption
- 4 = Litigation/regulatory action
- 5 = Regulation/Technology
- 6 = Weather/operating incident
- 7 = Cyber security
- 8 = Energy sector volatility
- 9 = Succession planning

The key risks listed above are the principal risks to the achievement of the Group's objectives and strategies, as identified by the Board and management team. These are set out more fully in the Risk management report on page 15.

### Specialty Products

Grow the Specialty Products business profitably.

### Specialty Products

Grow by focusing on new products, markets, applications and geographies and complementary bolt on acquisitions.

### Chromium

Manage the Chromium business to deliver stable earnings and cash flow.

### Chromium

Optimise capacity utilisation and operating efficiencies, manage cost base, serve higher margin markets and maintain margin discipline.

### Surfactants

Transition the Surfactants product portfolio to higher margin specialty additives.

### Surfactants

Optimise profitability, operating efficiencies and commercial focus.



## Our business model

### Key inputs



- ▶ Strong leadership, passionate and committed global workforce and an embedded culture of performance and customer service.
- ▶ Clear strategies and business priorities, supported by robust governance framework and risk management controls.
- ▶ Strong financial resources, balance sheet and cash generation, underpinned by good financial and operating discipline.
- ▶ Long term relationships with customers, suppliers and other stakeholders that are built on trust and collaboration.
- ▶ Proprietary technology and a strong focus on innovation, new product development and providing technical service and expertise.
- ▶ Well maintained facilities, excellent commercial and functional support teams and a strong global infrastructure providing a differentiated service to diverse markets.

### 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.



## Group performance

### Revenue

	Revenue 2014 \$million	Effect of exchange rates \$million	Increase/ (decrease) 2015 \$million	Revenue 2015 \$million
Specialty Products	519.7	(30.0)	(36.5)	<b>453.2</b>
Chromium	216.5	–	(33.8)	<b>182.7</b>
Surfactants	67.1	(11.2)	(2.1)	<b>53.8</b>
Inter-segment	(12.9)	–	2.0	<b>(10.9)</b>
	790.4	(41.2)	(70.4)	<b>678.8</b>

### Operating profit

	Operating profit 2014** \$million	Effect of exchange rates \$million	Increase/ (decrease) 2015 \$million	Operating profit 2015** \$million
Specialty Products	98.5	(6.7)	(11.8)	<b>80.0</b>
Chromium	58.3	0.2	(9.6)	<b>48.9</b>
Surfactants	4.9	(1.2)	0.8	<b>4.5</b>
Central costs	(11.6)	1.9	(1.2)	<b>(10.9)</b>
	150.1	(5.8)	(21.8)	<b>122.5</b>

\*\* before non-recurring items

## Specialty Products



**Greg McClatchy**  
President of Elementis Specialty Products and  
Elementis Surfactants

### Our performance

	2015	2014
Sales	<b>\$453.2m</b>	\$519.7m
Operating profit**	<b>\$80.0m</b>	\$98.5m
Operating margin**	<b>18%</b>	19%
ROCE***	<b>28%</b>	35%

\*\* before non-recurring items

\*\*\* before tax and excluding goodwill

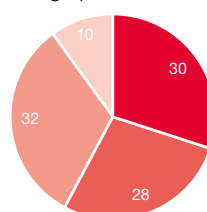


### Our success factors are at the heart of our operations

- ▶ Strong leadership
- ▶ Clear strategy
- ▶ Availability of finance
- ▶ Long term relationships
- ▶ Innovation
- ▶ Global infrastructure

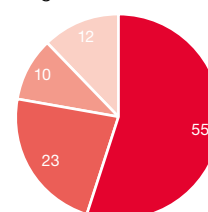
### Split of sales revenue

#### Geographic %



- North America
- Europe
- Asia Pacific
- Rest of the world

#### Segment %



- Industrial coatings
- Decorative coatings
- Oilfield drilling
- Personal care

### Key facts

- We accounted for 67 per cent of Group sales and 65 per cent of Group operating profit\*\* in 2015.
- 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, three research centres of excellence (including a process development facility), five technical service centres and 11 dedicated sales offices.
- Our top ten customers account for around 24 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 5.

A map of our global locations is 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.

### 2015 Performance

The Specialty Products business provides a solid platform for growth over the medium term, through its balanced geographic exposure across mature and emerging economies, strong and differentiated technology base and strategic market diversification. The business has a significant technical service and application support presence in its chosen markets, which has been built on long term relationships of trust, collaboration and technical expertise. In 2015, growth was negatively impacted by a downturn in some of its key markets, particularly oilfield drilling, coatings in China and industrial coatings in North America, where end users have experienced a downturn in their exports as a result of the strong US dollar. While these trends meant that the business was unable to deliver growth in 2015, they did not have any detrimental effect on our market share or value offering to customers, as evidenced by the fact that product contribution margins remained stable, or improved, in the year. All of this demonstrates some of the core strengths and resilience of the Specialty Products business and should ensure that profitable growth returns promptly as end market demand recovers.

Specialty Products' sales in 2015 were \$453.2 million, compared to \$519.7 million in the previous year, representing a decrease of 13 per cent, or 7 per cent excluding currency movements. The remainder of this business commentary refers to constant currency sales.

In coatings additives, North American sales of decorative products continued to show good growth as the new product line of acrylic thickeners being produced at the recently completed New Martinsville facility continued to gain impressive traction with customers. However, sales to industrial applications, which account for approximately 70 per cent of sales in the region, experienced a slowdown as end user exports were constrained by the stronger US dollar. As a result, total sales of coatings additives in North America were 4 per cent lower than the previous year.

In Asia Pacific sales were 4 per cent lower than the previous year, as the well publicised slowdown in the Chinese economy became a stronger influence as the year progressed. China accounts for approximately 70 per cent of coatings additives sales in the Asia Pacific region. The business began production from its new Taiwan based castor wax facility in the year, which will support future growth by broadening the rheology product offering to customers in high solids systems used in industrial applications.



→ **Our strategy**  
For more information  
go to page 4

\*\* before non-recurring items

## Specialty Products continued

### 2015 Performance continued

In Latin America, sales were 1 per cent higher than the previous year, helped by good growth in decorative products, whilst in Europe, sales improved by 3 per cent with some signs that the weaker euro is having a positive impact on industrial sales for export.

In personal care, sales for the year were 3 per cent higher than the previous year as the business finished the year on a positive note. Good progress was made during the latter part of the year in replacing business lost in Latin America during the first six months of the year, due to significant local currency weakness. This was reported at the time of the Group's Interim Results. Personal care sales in the final three months of the year were 16 per cent higher than the same period in the previous year and 9 per cent higher than in the third quarter of 2015. Sales were particularly strong in aerosol antiperspirants and sun care products, as well as in the new Rheoluxe® line of products, and European sales in Q4 were the most prominent in terms of year on year growth.

Sales in oilfield drilling in 2015 were 41 per cent lower than the previous year, as the sector responded to low oil and gas prices by significantly reducing drilling activity, particularly in North America. The business experienced a sharp decline in sales during the first three months of the year, after which sales stabilised at approximately 50 per cent below previous year levels.

Operating profit in 2015 was 19 per cent below the previous year at \$80.0 million, or 13 per cent excluding currency movements. Lower sales, particularly in our oilfield drilling business, was the main cause of the decline. Reassuringly, overall selling prices remained relatively stable and the impact of lower activity was mitigated by several projects designed to improve supply chain costs and increase production yields. These projects led directly to an improvement in the contribution margin for the year. In addition, measured actions were taken during the second half of the year to reduce fixed costs, resulting in annual savings of approximately \$2.5 million, most of which will benefit 2016.

## Elementis Chromium



**Dennis Valentino**  
President of Elementis Chromium

### Our performance

	2015	2014
Sales	<b>\$182.7m</b>	\$216.5m
Operating profit**	<b>\$48.9m</b>	\$58.3m
Operating margin**	<b>27%</b>	27%
ROCE***	<b>50%</b>	58%

\*\* before non-recurring items

\*\*\* before tax and excluding goodwill

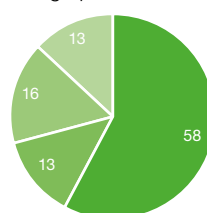


### Our success factors are at the heart of our operations

- ▶ Strong leadership
- ▶ Clear strategy
- ▶ Availability of finance
- ▶ Long term relationships
- ▶ Innovation
- ▶ Global infrastructure

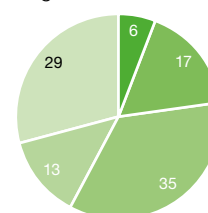
### Split of sales revenue

#### Geographic %



- North America
- Europe
- Asia Pacific
- Rest of the world

#### Segment %



- Leather tanning
- Timber treatment
- Metal finishing
- Pigmentary
- Other

### Key facts

- We accounted for 25 per cent of Group sales and 40 per cent of Group operating profit\*\* in 2015.
- We are the only domestic producer of chromium chemicals in the US and operate from two major facilities in Castle Hayne, North Carolina, and Corpus Christi, Texas, and three smaller processing facilities supplying local tanneries.
- We have over 200 employees, most of whom are located in the US.
- Our top ten customers account for less than 57 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 5.

A map of our global locations is 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.

### 2015 Performance

2015 was a challenging year for Chromium, primarily as a result of the US dollar strengthening significantly against most key currencies. This created a testing pricing dynamic for export sales by Elementis Chromium and its customers in North America. The business strategy is to deliver more stable earnings and cash flow by utilising its existing capacity and flexible manufacturing platform to focus on the more differentiated markets. In particular, the North American market is preferred because of its proximity to the manufacturing base and because of the more value added offering to customers as a result of the unique delivery systems the business has developed in that region. Hence, over time, the North American market is likely to become a larger proportion of total sales and so the business will progressively become less exposed to the dynamics of other world markets. In 2015 approximately 42 per cent of sales were made outside of North America.

Chromium sales in 2015 were 16 per cent lower than the previous year at \$182.7 million. Volumes were 8 per cent lower than the previous year, primarily due to the reduction in sales of refractory grade oxide in North America. Sales in this application were particularly strong in 2014 due to a number of significant customer projects, which were completed towards the end of that year. Excluding this effect, sales volumes in 2015 were at a similar level to the previous year. Average pricing in 2015 was 7 per cent lower than the previous year as the stronger US dollar had a significant impact on export selling prices in North America.

Operating profit in 2015 was \$9.4 million below the previous year, at \$48.9 million. Lower sales volumes reduced operating profit by approximately \$8 million, while lower pricing net of variable cost benefits had a negative impact of approximately \$11 million. Variable costs benefited from lower raw material and energy prices and planned projects to improve manufacturing yields. The business took action towards the end of 2015 to improve fixed costs by reducing the overall workforce, with the majority of this benefit materialising from 2016 onwards. Otherwise fixed costs in 2015 improved due to tight cost control and by approximately \$5 million relating to a legal settlement and property easement fees. Operating margin in 2015 was stable at 26.8 per cent (24.0 per cent excluding the items above), compared to 26.9 per cent in the previous year.



→ **Our strategy**  
For more information  
go to page 4

\*\* before non-recurring items

## Elementis Surfactants



Our success factors are at the heart of our operations

- ▶ Strong leadership
- ▶ Clear strategy
- ▶ Availability of finance
- ▶ Long term relationships
- ▶ Innovation
- ▶ Global infrastructure



### Our performance

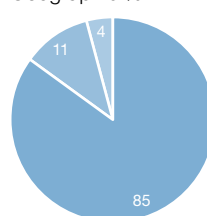
	2015	2014
Sales	<b>\$53.8m</b>	\$67.1m
Operating profit**	<b>\$4.5m</b>	\$4.9m
Operating margin**	<b>8%</b>	7%
ROCE***	<b>22%</b>	21%

\*\* before non-recurring items

\*\*\* before tax and excluding goodwill

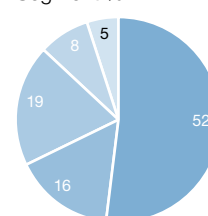
### Split of sales revenue

Geographic %



- Europe
- Rest of the world
- Asia Pacific
- North America (<1%)

Segment %



- Oilfield production chemicals
- Other
- Textile and leather
- Water treatment
- Feed

### Key facts

- We accounted for 8 per cent of Group sales and 4 per cent of Group operating profit\*\* in 2015.
- We share a manufacturing plant in Delden, Netherlands, with Elementis Specialty Products.
- We employ over 100 employees at our Delden site.
- Our top ten customers represent 86 per cent of total sales.
- The business has many competitors from multinationals to smaller privately owned businesses.

### What we do

- We manufacture a wide range of surface active ingredients and products that are used as intermediates in the production of chemical compositions.
- 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 5.

A map of our global locations is on the Inside front cover.

### 2015 Performance

The programme for Surfactants is to transition the Delden, Netherlands facility, where surfactants are produced, towards manufacturing higher margin additives for Specialty Products. Hence it is expected that sales volumes in Surfactants will generally decrease over time. However, in the more challenging market environment in 2015, the Surfactants business retained more sales than it otherwise would in order to offset reduced demand in other parts of the Group. In doing so the business was also able to deliver an improved operating margin compared to the previous year.

Surfactants' sales in 2015 were \$53.8 million, compared to \$67.1 million in the previous year, which is a reduction of 20 per cent, or 4 per cent excluding currency movements. The majority of sales are denominated in euros. Lower pricing in association with a decline in raw material costs accounted for most of the decline, with volumes maintaining a similar level to the previous year.

Operating profit in 2015 was \$4.5 million compared to \$4.9 million in the previous year, which is a decline of 8 per cent or an increase of 22 per cent if currency movements are excluded. Average selling prices declined in line with lower raw material costs, while improved product mix more than offset modest increases in fixed costs. Hence operating margin improved to 8.4 per cent from 7.3 per cent in the previous year.

\*\* before non-recurring items



## FINANCE REPORT

## Revenue

	2015 \$million	2014 \$million
Specialty Products	453.2	519.7
Chromium	182.7	216.5
Surfactants	53.8	67.1
Inter-segment	(10.9)	(12.9)
	678.8	790.4

## Operating profit

	Operating profit \$million	Non-recurring items \$million	2015 Underlying operating profit \$million	Operating profit \$million	Non-recurring items \$million	2014 Underlying operating profit \$million
Specialty Products	77.6	2.4	80.0	100.1	(1.6)	98.5
Chromium	60.9	(12.0)	48.9	56.8	1.5	58.3
Surfactants	3.3	1.2	4.5	8.2	(3.3)	4.9
Central costs	(13.7)	2.8	(10.9)	(8.7)	(2.9)	(11.6)
	128.1	(5.6)	122.5	156.4	(6.3)	150.1

## Group results

Group sales in 2015 were \$678.8 million compared to \$790.4 million in the previous year, a reduction of 14 per cent, or 9 per cent excluding currency movements. Constant currency sales in Specialty Products were lower by 7 per cent, mostly due to lower demand for oilfield drilling additives, while constant currency sales in Chromium were 16 per cent lower, strongly influenced by a change in competitive dynamics outside of North America as a result of the strengthening of the US dollar. Constant currency sales in Surfactants were 4 per cent lower due to lower pricing, in line with lower raw material costs.

Operating profit\*\* for the year was \$122.5 million, compared to \$150.1 million in 2014, a reduction of 18 per cent, or 15 per cent excluding currency movements. The impact of lower sales in the year was reduced by lower raw material costs and a number of projects across the Group to improve production costs and reduce fixed overheads.

## Currency hedging

Although a large part of the Group's business is transacted in US dollars, the Group also transacts in other currencies, in particular euros, pounds sterling and Chinese renminbi. In order to reduce earnings volatility from these currency exposures, the Group takes out cash flow hedges each year where these are readily available. In 2015, overall currency movements were such that the net impact of these hedge transactions was a credit to operating profit of \$2.6 million, while in 2014 there was a credit of \$1.9 million.

## Central costs

Central costs are those costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of Directors and corporate office. In 2015 central costs\*\* were \$10.9 million, compared to \$11.6 million in the previous year. The decrease was due to a currency gain of \$1.9 million, partially offset by changes in central provisions relating to insurance and other central costs.

## Non-recurring items

A number of items have been recorded under 'non-recurring items' in 2015 by virtue of their size and/or one time nature (2014: recorded as 'exceptional items'), in order to provide a better understanding of the Group's results. The net impact of these items on Group profit before tax for the year is a credit of \$5.6 million (2014: \$6.3 million). The items fall into three categories, as summarised below:

Credit/(charge)	Land sale	Restructuring	Other	Total
Specialty Products	–	(2.1)	(0.6)	(2.7)
Surfactants	–	(0.5)	(0.7)	(1.2)
Chromium	17.0	(0.7)	(4.3)	12.0
Central costs	–	(0.9)	(1.6)	(2.5)
Total	17.0	(4.2)	(7.2)	5.6

## Land sale – net credit of \$17.0 million

In July 2015, Chromium sold a non-operating portion of its site at Corpus Christi, US, for total proceeds of \$26.0 million. After transaction costs and deduction of the book value of the land, the net gain on the sale was \$23.8 million. The terms of the disposal crystallised certain future regulatory and monitoring obligations for the Group and the \$6.8 million one time cost of these have been deducted to arrive at a net profit on property disposal of \$17.0 million and added to the Group's existing environmental provisions.

## Restructuring – charge of \$4.2 million

In October 2015, the Group announced that it was taking certain actions to reduce costs by reducing its workforce and reorganising some parts of its management structure, including the recruitment of a new Group Chief Executive. The one time cost of this exercise including redundancy costs, as well as recruitment and other costs associated with changes in the management structure, was \$4.2 million. Anticipated annual savings from this exercise are approximately \$4.0 million and will largely be realised from 2016 onwards.

\*\* before non-recurring items



### Other – charge of \$7.2 million

A provision has been set up within Chromium that relates to a legacy right of first refusal agreement with a third party. Under that agreement, Chromium pays a fixed annual fee in return for the right to acquire certain land in North Carolina for operating purposes. Payment of the fixed fee is also related to the continued use of certain disposal facilities. Based on the current operating plans of the Chromium business and the estimated value of this land, there is now a low likelihood that the Group will exercise this right of first refusal in the future. Hence a provision has been recorded for the remaining payments under that agreement in the amount of \$4.0 million.

Other items totalling \$2.2 million relate to the impairment of certain software licences, as well as due diligence and other costs associated with investment projects that were not successful. In addition, the Group has also recorded a provision of \$1.0 million for the potential outcome of a regulatory case in Europe.

### Other expenses

Other expenses are administration costs incurred and paid by the Group's pension schemes, which relate primarily to former employees of legacy businesses, and were \$2.1 million in 2015 compared to \$1.9 million in the previous year. The year on year comparison reflects the fact that these schemes are relatively stable, consisting mostly of deferred and pensioner members.

### Net finance costs

	2015 \$million	2014 \$million
Finance income	0.2	0.3
Finance cost of borrowings	(1.2)	(1.6)
	(1.0)	(1.3)
Net pension finance costs	(1.8)	(3.1)
Discount unwind on provisions	(1.4)	(1.9)
	(4.2)	(6.3)

Net finance costs declined by \$2.1 million in 2015 to \$4.2 million due to lower net borrowing and pension finance costs and a reduction in the discount charge on provisions. Net borrowing costs relate mostly to amortised arrangement and commitment fees on unutilised borrowing facilities, as well as interest income and expense on deposits and borrowings. These costs were lower than the previous year, at \$1.0 million, due to lower average borrowings for the year. Pension finance costs were lower than the previous year at \$1.8 million due to a combination of lower pension deficits and lower discount rates at the start of the year, compared to the same time in the previous year. Discount rates, under IAS 19, are set at the beginning of each year based on corporate bond yields. Discount on provisions relates to the annual time value of the Group's environmental provisions, which are calculated on a discounted basis. In 2015 the charge was also lower than the previous year, at \$1.4 million, due to lower discount rates, which declined in line with long term US government bond rates.

### Taxation

Tax charge

	2015 Effective rate per cent	2014 Effective rate per cent
Before non-recurring items	19.3	26.3
Non-recurring items	7.2	(53.5)
<b>Total</b>	<b>26.5</b>	<b>(27.2)</b>

The tax charge of \$26.5 million (2014: credit of \$27.2 million) includes an adjustment to the prior year's non-recurring credit of \$4.7 million and a tax charge in respect of non-recurring items of \$2.5 million. Before these non-recurring tax charges, the tax charge was \$19.3 million (2014: \$26.3 million) and represents an effective tax rate of 16.6 per cent (2014: 18.5 per cent). The decrease in tax rate arises from the release of overseas tax provisions where uncertainties in the treatment of certain items has been resolved and from 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 non-recurring.

Diluted earnings per share, before non-recurring items, was 20.8 cents compared to 24.8 cents in the previous year. The year on year reduction was mostly a result of lower operating profit and a lower tax rate in the current year. Basic earnings per share were 20.6 cents compared to 38.1 cents in 2014, and included a non-recurring debit of 0.4 cents compared to a credit of 13.0 cents in the previous year. Non-recurring items in 2015 are described earlier in this report, while the non-recurring credit in 2014 included 11.8 cents relating to the recognition of certain UK tax assets.

### Distributions to shareholders

During 2015 the Group paid a final dividend in respect of the year ended 31 December 2014 of 5.75 cents per share (2014: 5.50 cents) and a special dividend of 6.95 cents per share (2014: 5.86 cents). An interim dividend of 2.70 cents per share (2014: 2.70 cents) was paid on 2 October 2015 and the Board is recommending a final dividend of 5.75 cents per share and a special dividend of 8.00 cents per share, both of which will be paid on 27 May 2016.

### Cash flow

The cash flow is summarised below.

	2015 \$million	2014 \$million
EBITDA <sup>1</sup>	149.5	175.3
Change in working capital	(12.9)	4.3
Capital expenditure	(31.3)	(34.9)
Other	(2.8)	(0.3)
<b>Operating cash flow</b>	<b>102.5</b>	<b>144.4</b>
Pension deficit payments	(22.8)	(49.5)
Interest and tax	(13.8)	(13.3)
Non-recurring items	20.1	–
Other	(3.2)	(0.8)
<b>Free cash flow</b>	<b>82.8</b>	<b>80.8</b>
Dividends paid	(71.1)	(64.7)
Acquisitions and disposals	–	(4.1)
Currency fluctuations	(1.9)	(1.9)
<b>Movement in net cash</b>	<b>9.8</b>	<b>10.1</b>
Net cash at start of year	64.2	54.1
Net cash at end of year	74.0	64.2

<sup>1</sup> EBITDA – earnings before interest, tax, non-recurring items, depreciation and amortisation

For the sixth consecutive year the Group is reporting a positive net cash flow, increasing the net cash balance at the end of 2015 by \$9.8 million to \$74.0 million. Consistent with a more challenging trading environment in 2015, EBITDA for the year was lower than the previous year by \$25.8 million at \$149.5 million and there was a cash outflow in working capital of \$12.9 million. However, these were more than offset by sale proceeds of \$26.0 million from the sale of part of the land at the Corpus Christi site in the US and pension contributions for the year of \$22.8 million that were \$26.7 million lower than the previous year.

In working capital, inventory levels were reduced by \$18.0 million in line with lower trading levels and inventory days at the end of 2015 were in line with the previous year. Debtor balances also declined in line with lower sales, leaving debtor days at a similar level to the previous year. Creditor balances, however, declined by more than trading levels would imply. This was because creditor days at the end of 2014 were unusually high at 74 days, due to favourable timing of a number of supplier payments, particularly in relation to chrome ore shipments. Hence when creditor days returned to more normal levels (55 days) at the end of 2015, this led to an additional cash outflow in that year and is the main reason behind the overall working capital outflow of \$12.9 million.

Capital expenditure in 2015 was \$3.6 million lower than in 2014 at \$31.3 million, compared to depreciation for the year of \$26.9 million (2014: \$25.4 million). Spending was lower in the current year because the new decorative additives facility in New Martinsville, US, was largely completed in 2014, hence spending on that project was \$5.5 million lower in 2015. Otherwise capital expenditure in 2015 included the final investment in the new castor wax facility in Taiwan, which started production in the year. Investments in plant maintenance and productivity across the Group totalled \$22.1 million in 2015, compared to \$23.7 million in 2014.

### Balance sheet

	2015 \$million	2014 \$million
Intangible fixed assets	362.5	373.0
Tangible fixed assets	211.2	211.7
Working capital	143.1	137.4
Net tax liabilities	(65.4)	(41.4)
Provisions and retirement benefit obligations	(67.4)	(100.8)
Net cash	74.0	64.2
<b>Total equity</b>	<b>658.0</b>	<b>644.1</b>

Group equity increased by \$13.9 million in 2015 (2014: \$98.6 million). Intangible fixed assets declined by \$10.5 million due mostly to a currency translation cost of \$8.3 million and amortisation charges of \$3.3 million. Tangible fixed assets were \$0.5 million lower than the previous year, with the depreciation charge of \$23.6 million and currency translation impact of \$5.8 million offsetting net additions of \$28.9 million. Working capital increased by \$5.7 million, as the reduction in trade and other creditors of \$42.1 million offset decreases in inventories of \$18.0 million and trade and other debtors of \$17.6 million. Net tax liabilities increased by \$24.0 million, as the tax charge on profits for the year exceeded actual cash tax payments and due to the tax effect of a fall in pension deficits. Movements in provisions and retirement benefit obligations are discussed elsewhere in this report. Net cash increased by \$9.8 million as described in the previous section.

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

	Year end	2015 Average	Year end	2014 Average
Pounds sterling	0.68	0.65	0.64	0.60
Euro	0.92	0.90	0.83	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 2015 the Group held provisions of \$38.4 million (2014: \$35.0 million), consisting of environmental provisions of \$29.5 million (2014: \$31.7 million), self insurance provisions of \$3.1 million (2014: \$3.3 million) and restructuring and other provisions of \$5.8 million (2014: nil). In 2015 environmental provisions reduced by \$2.2 million driven mainly by increased spending of \$9.1 million (2014: \$5.1 million) offset by an increase in provision within Chromium following the sale of non-operational land at the Corpus Christi site, which has been treated as a non-recurring item. The self insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme. Within the restructuring and other provisions categories, which were set up following various non-recurring charges made in the year, the \$5.8 million balance includes the remaining liability under a right of first refusal agreement, a provision for an ongoing regulatory case in Europe and future payments relating to reorganisation measures taken during 2015.

### Pensions and other post retirement benefits

	2015 \$million	2014 \$million
Net (surplus)/liability:		
UK	(6.7)	28.4
US	30.7	31.1
Other	5.0	6.3
	<b>29.0</b>	<b>65.8</b>

### UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ("UK Scheme") which had a surplus, under IAS 19, of \$6.7 million at the end of 2015, compared to a deficit of \$28.4 million at the end of 2014. The UK Scheme is relatively mature, with approximately two thirds per cent of its gross liabilities represented by pensions in payment, and is closed to new members. The improvement in the IAS 19 valuation was mainly due contributions from the Company of \$21.1 million (2014: \$41.9 million) and structural improvements in the liability valuation of \$57.2 million (2014: decline of \$70.7 million) due to higher discount rates based on real corporate bond yields and other structural improvements emanating from the most recent triennial valuation. These positive influences more than offset negative asset returns of 2 per cent (2014: positive 13 per cent) due to weak equity markets and the financial cost of the liabilities of \$27.4 million (2014: \$35.6 million). Company contributions were lower in 2015 mainly because the 2014 contribution included a previously agreed one time payment of \$15.2 million. During the year the triennial valuation as of 30 September 2014 was concluded and showed a funding deficit that was lower than anticipated. This resulted in a new funding agreement being reached with the UK Trustees that foresees lower contributions going forward than previously anticipated. Under the new agreement the funding deficit is expected to be eliminated by 30 September 2018 and the maximum annual contributions by the Company in any year, in pounds sterling, are as follows:

Year payable	Amount (£million)
2016	7.2
2017	5.2
2018	3.9

## Pensions and other post retirement benefits (continued)

### US plans

In the US, the Group reports two post retirement plans under IAS 19: a defined benefit pension plan with a deficit value at the end of 2015 of \$24.4 million (2014: \$23.7 million), and a post retirement medical plan with a liability of \$6.3 million (2014: \$7.4 million). The US pension plan is smaller than the UK plan and is closed to future accruals. In 2015 the overall deficit value remained relatively stable as the financial cost of the liability for the year of \$5.1 million (2014: \$5.6 million) was approximately matched by employer contributions of \$2.7 million (2014: \$7.8 million) and positive changes due to updated actuarial assumptions of \$4.1 million (2014: negative \$16.9 million). The positive change of \$4.1 million in the year was mostly due to an increase in corporate bond yields of 45 basis points (2014: decline of 55 basis points). Asset returns in the year were close to zero (2014: plus 7 per cent) as US equity markets remained relatively stable for the year as a whole.

### Other plans

Other liabilities at 31 December 2015 amounted to \$5.0 million (2014: \$6.3 million) and relate to pension arrangements for a relatively small number of employees in Germany and certain UK legacy benefits.

## 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 non-recurring items, to sales. The Group achieved an operating profit\*\* of \$122.5 million for the year ended 31 December 2015 (2014: \$150.1 million before non-recurring items). The Group's operating margin\*\* was 18 per cent compared to 19 per cent in 2014.

### 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 2015 was 25 per cent (2014: 21 per cent).

### 3. Return on operating capital employed

The return on operating capital employed ("ROCE") is defined as operating profit before non-recurring 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 35 per cent for the year ended 31 December 2015 (2014: 42 per cent).

ROCE for the Group including goodwill was 18 per cent in 2015 (2014: 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 2015 was 38 per cent (2014: 38 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 non-recurring items. In 2015 the operating cash flow was \$102.5 million (2014: \$144.4 million).

\*\* before non-recurring items

## Risk management report

### Risk context

Like other chemical companies, the operations and activities of Elementis are exposed to different types of risk that, individually or in combination, have the potential to harm the Group with varying degrees of severity. Risks that are not appropriately managed or mitigated could cause financial, operational and reputational damage and threaten the Group's longer term viability.

The approach at Elementis is to view risk as being inherent in all business operations and activities, whether deriving from an external or internal source. To help our global businesses manage risk, the Board has approved a risk management policy and sets the tone for the Group's culture on risk, appetite for risk and the levels of risk tolerance.

Our risk culture – the values, behaviours and actions – are embodied in key governance documents, such as the Group's risk management policy, Code of Business Conduct and Ethics and Matters Reserved for the Board. Thus compliance with laws and regulations, sound business ethics and practices, and high standards of care in our safety and environmental performance are central to the way Elementis conducts its businesses.

The Board is ultimately responsible for risk, internal control and longer term viability and has defined its risk appetite around an approach towards how it will evaluate major opportunities and risks, whether these relate to key business decisions, strategic investments or particular events or incidents. As the nature of opportunity or risk can be distinctive, the approach is to review these on a case by case basis but with reference to strategic and operating plans, Group policies and guidance from management and advisers.

### Risk management overview

The risk management process is well established within Elementis and embedded throughout the Group. The Board sets the overall policy, culture and tone, and provides support and oversight. The management team provides leadership and has responsibility for implementing Group policies, identifying major risks and ensuring resources are allocated for effective risk management.

At both Board and management team levels, a programme exists to monitor and review major risks and controls on a routine basis. In addition, specific time is set aside during the year to focus on specific risks and controls, different parts of the business or aspects of the risk management process.

The Audit Committee supports the work of the Board and has specific responsibility for monitoring financial reporting, as well as the internal and external audit programmes, one of the primary purposes of which is to provide assurance on financial, operational and compliance controls. (See also Audit Committee report on page 32.)

Other corporate and business functions play an important role in effective risk management and these include: HSE, legal, HR, IT, finance, product stewardship and supply chain. This framework ensures that risk management is embedded into day to day operations and processes in a way that allows our approach to be responsive to changes in the business environment. In addition, our flat management structure allows risk identification, assessment and management activities to be carried out at site or business unit level, supported by escalation procedures to ensure major risks are communicated to the management team and Board as appropriate.

### Summary of key activities during 2015

- ▶ Appointment and transition of Aon UK as our global insurance broker, and renewal of the Group's insurance programme including policy review and cover enhancements.
- ▶ Two risk workshops at management team level to focus on assessing business viability, with presentations from specialists in Aon's UK ERM team.
- ▶ Formal management and Board risk register review process: assessing risk severity and likelihood, reviewing risk mitigation actions and controls, and looking at scenario analysis and stress-testing particularly for financial impact on profitability, liquidity and solvency.
- ▶ Board visits to sites in Delden, Netherlands; Livingston, Scotland; Castle Hayne, North Carolina and East Windsor, New Jersey.
- ▶ Board programme: management succession; business performance; granular reviews of Group strategy, business segment strategies, acquisition criteria, top five major risks in each business; and presentations from the business leadership teams and the operations/HSE, legal and IT functions.
- ▶ Four reforecasting exercises undertaken in the year in response to changing trading conditions, with contingency action being taken to manage the cost base.
- ▶ Completion of programme in respect of agents signing up to terms covering anti-bribery and corruption compliance.
- ▶ Completion of a risk maturity survey and carrying out benchmarking analysis of global risk themes and profiles.
- ▶ Insurance property survey programme.
- ▶ Corporate HSE compliance audits including the use of third party subject matter experts, and the further roll out of corporate safety standards. (See also Corporate responsibility report.)
- ▶ Increased focus and investment in cyber security measures, training and controls.
- ▶ Compliance training programme improved and extended.
- ▶ Improved the resilience of our supply chain and, in particular, broadening our supplier base to reduce dependence on key raw material sources.

### Principal risks and uncertainties

Following a comprehensive risk assessment process at the business leadership, management team and Board level, 15 principal risks have been identified that are disclosed under nine headings below and on page 18. Nine risks were also disclosed last year but there have been a number of changes. Three risks from 2014 have been removed (UK pension fund, disruption to banking systems and increasing scrutiny of tax affairs) and in their place are cyber security incident, energy sector volatility and succession planning.

### Summary of principal risks

- |                                  |                                |
|----------------------------------|--------------------------------|
| 1 = Economy/Competition          | 6 = Weather/operating incident |
| 2 = Growth opportunities         | 7 = Cyber security             |
| 3 = Supply chain disruption      | 8 = Energy sector volatility   |
| 4 = Litigation/regulatory action | 9 = Succession planning        |
| 5 = Regulation/Technology        |                                |

### Risks that have been omitted from this year's table

The UK pension scheme deficit has reduced significantly in recent years and the trustees have progressively moved to a more conservative investment strategy. The 2014 triennial valuation and funding negotiations were concluded successfully last year with a goal of eliminating the funding deficit, on a technical provision basis, by 2018. (See also Finance report.)

The Group continued to be cash generative in 2015 and therefore has relied less on its borrowing facilities. There are a number of facilities in place with different institutions in separate regions and the principal facility has a syndicate of four banks. Credit ratings and deposits are reviewed periodically by the Board along with other treasury matters.

## Risk management report (continued)

Our approach to taxation is to ensure that profits derived from economic activities undertaken within individual jurisdictions are subject to tax in accordance with the tax legislation that applies in each jurisdiction. Our approach is to deal with tax matters in an open and transparent manner. The Group is subject to tax audits and inspections in various jurisdictions that can cover income tax, sales tax and property taxes, and recently completed reviews resulted in no material adjustments.

Although the above three risks do not appear in the 2015 principal risks table, they continue to be monitored and remain on the Group's comprehensive risk register which has records for over 90 risks. Where a risk has been almost completely mitigated or eliminated, it is archived from the live risk register and used for future reference.

### Risks and trends

The most significant challenges facing the Group in 2016 are risks that impact on the Group's ability to deliver its operating plans, achieve strategic growth objectives and generate and preserve value for shareholders over the longer term.

Principal challenges	Principal risks
Deliver operating plans	1, 3, 6, 8
Achieve strategic growth objectives	2, 5,
Generate and preserve value	4, 7, 9

(See also Our objectives, strategies and business model on pages 4 to 5.)

The risk trend for severity of financial impact and likelihood of occurrence for the risks numbered below (which correspond to the risk disclosures above and on page 18) is shown below.

#### Severity of financial impact

Increased	Decreased	Stable
1, 2, 6, 7, 8, 9	4	3, 5

#### Likelihood of occurrence

Increased	Decreased	Stable
1, 6, 7, 8, 9	4	2, 3, 5

### Why risk trends have changed

The main reason for the increases in severity trend is partially down to experience, as in the case of the impact of lower oil prices on demand for our drilling products, and partially due to changes to the way financial severity was assessed this year, following a review of processes and procedures. For example, data from Aon supported by other industry publications helped to quantify potential loss from a cyber security incident that was previously less well quantified.

In terms of the increased likelihood trend, again this generally reflects experience (higher US dollar impacting Chromium sales outside North America, more regulation or weather-related incidents), as well as an increase in awareness or anticipation, for example, of an IT-related incident. Under our insurance programme, the level of deductible is part of the risk being retained by the Company, so the higher frequency of storm events is another cause of the increased risk trend.

### How we manage and mitigate major risks

As reported elsewhere in this Annual Report, trading in 2015 was impacted by the high US dollar, record low oil prices and to a lesser extent slower growth in China. The strong US dollar adversely affected Chromium sales outside North America (where it competes with producers in lower cost places such as Kazakhstan, Turkey, India and China), sales to coatings customers outside the US by Specialty Products, and the competitiveness of Specialty Products' sales in Brazil. The major impacts from these risks are described in the business performance commentaries.

The Group hedges certain non-US dollar currencies, mainly euro and pounds sterling, to mitigate the impact of currency movement on earnings. The Chromium business model continues to be to optimise manufacturing and product mix to supply markets where we can compete most effectively, in order to mitigate changing market dynamics. In order to diversify the Specialty Products business portfolio, where its traditional strength is in industrial coatings, a major focus of our innovation programme has been to target new product sales into the decorative coatings market from our New Martinsville base which has been expanded in recent years. In Taiwan, a new castor wax milling facility was commissioned earlier in the year to shorten supply chains, enhance margins and protect earnings. An investment is also being made in our Songjiang facility in Shanghai to expand the range of defoamer products produced there. This project will be completed during 2016 and will support our growth plans in Asia. Most of these initiatives are about new growth opportunities as being the best way to mitigate the effects of a weaker global economy or poorer trading conditions.

Other mitigation actions taken during the year include cost management initiatives, such as a freeze on all non-essential items of expenditure and the implementation of a reduction-in-force exercise.

The business has continued to work on improving its supply chain resilience by developing alternative sources of supply for key raw materials, such as bentonite clay in Specialty Products and soda ash in Chromium. Improvements were also made to logistics by moving to a new European warehouse. The result of all this work is a greater confidence in our supply chain resilience despite greater uncertainty globally, hence the risk trend has remained unchanged from the previous year.

A key achievement in 2015 was that the businesses, working with our legal team, successfully implemented a programme in respect of agents signing up to terms agreeing to comply with our anti-bribery and corruption policy. The Group continues to provide training and briefings to the management team and employees in this important aspect of our business.

Regulation to restrict the use or transport of certain hazardous chemicals is an inherent risk in our business. The global product stewardship team closely monitors threats to the business, while ensuring that we operate in full compliance with the regulations in the jurisdictions in which we operate.

High standards in our safety and environmental performance remain a key priority and this area has again received a lot of attention in 2015, as part of our programme of continuous improvement. Examples of work undertaken include upgrading and extending fire protection systems in a number of our Asia facilities, expanding our corporate process hazard analysis programme, an industrial hygiene survey and implementing structural changes to the operations/HSE organisation within Specialty Products.



Cyber security was again very topical in 2015. Elementis recognises the threat of cyber risk and how it can disrupt business operations. Our Chief Information Officer worked with Aon to carry out a scenario analysis to quantify the potential financial impact. The role and performance of the IT function is monitored by an IT Steering Committee chaired by the CEO and investments were made to strengthen network security and combat the risk of a cyber-related incident.

Succession planning is disclosed as a major risk this year in recognition that a change of CEO inevitably involves transition, review and change to how the business is managed. A new Chief Human Resources Officer, who joined in the second half of the year, has also accelerated work on reviewing management succession issues and planning for how these will be addressed.

#### **Business viability assessment**











The Board's going concern and business viability statements are set out in the Directors' report on page 52.

The basis of the assessment includes a detailed review of strategic and operating plans, underpinned by one and three year financial forecasts including profit and loss and cash flows. Consideration is therefore given to capital expenditures, investment plans, returns to shareholders and other financial commitments, as well as to the Company's debt bearing capacity, its financial resources, borrowings and the availability of finance. A key part of any review of business plans and financial forecasts is a robust assessment of the inherent risks and opportunities.









The Board's programme of monitoring those major risks disclosed on page 18 (for severity of financial, operational and reputational impact, likelihood and mitigation controls) is therefore a critical component of the business viability assessment. Business and segment growth scenarios, rate of return on investments, assumptions on global GDP growth rates, relevant currency rates and commodity prices in business plans and financial forecasts are all considered, with stress testing on financial models where appropriate. Finally, a review of litigation and tax reports, legal and compliance risks throughout the year and at a formal year end risk review ensures that the viability statement is made with an appropriate degree of confidence.

## Risk management report (continued)

Table of principal risks and uncertainties

Risk	Impact	Mitigation
<p>1. Global economic conditions and competitive pressure in the marketplace (including from currency movement).</p> <p>Risk trend over the year</p>  	<ul style="list-style-type: none"> <li>▶ 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.</li> <li>▶ The resultant non-delivery of operating plans can lead to market expectations of Group earnings not being met.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Specialty Products is well positioned against a deterioration in economic conditions due to its balanced geographic footprint, broad differentiated product offering and the broad application of its technology across different sectors.</li> <li>▶ Chromium business model is flexible and can be adapted to respond to variances in regional demand patterns.</li> <li>▶ Financial performance (including monthly sales, profit and cash flows) is closely monitored with full year forecasts updated three times a year and variances explained and investigated.</li> <li>▶ 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.</li> </ul>
<p>2. Growth opportunities (including acquisitions) and product innovation may not materialise.</p>  	<ul style="list-style-type: none"> <li>▶ Lack of growth opportunities can lead to sub-optimal financial performance and loss of shareholder value.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Organic and acquisitive growth is a priority for the Board and a key area of focus for the management team.</li> <li>▶ Experienced Board and management team, robust due diligence processes and support from professional advisers.</li> <li>▶ Capacity expansion programmes are kept under review to ensure the business can supply to high growth markets.</li> <li>▶ Regular Board reports on new product pipeline and progress on R&amp;D projects.</li> </ul>
<p>3. Business interruption caused by supply chain failure of key raw materials.</p>  	<ul style="list-style-type: none"> <li>▶ Disruption to supply chain (e.g. third party, infrastructure, transport or IT failure), all of which can impact capacity utilisation and add to operating costs.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Raw materials are sourced from a broad and diverse supplier base.</li> <li>▶ Strategic holding of key raw materials.</li> <li>▶ Transport and carrier mitigation plans and insurance in place.</li> </ul>
<p>4. Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations.</p>  	<ul style="list-style-type: none"> <li>▶ Can lead to higher operating costs and reputational damage.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Active compliance and risk management programmes in place (including policies, procedures and training).</li> <li>▶ Insurance programme and risk transfer strategy in place to mitigate financial losses.</li> <li>▶ Experienced General Counsel supported by in-house and external legal teams.</li> <li>▶ 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.</li> </ul>
<p>5. Increased regulation/technology obsolescence.</p>  	<ul style="list-style-type: none"> <li>▶ New regulations restricting the use or carriage of chemicals can lead to loss of applications and sales and/or add to operating costs.</li> <li>▶ New technology, methods of production or processes can give competitors a market advantage.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Active REACH programme in which the businesses participate in industry consortia, providing data and information to regulators and experts, to support safety reviews of our products in a broad range of applications.</li> <li>▶ Strong Global Product Stewardship team in place to support the businesses.</li> <li>▶ R&amp;D team aims to develop new products and technologies for use in an evolving market to meet the changing needs of our sophisticated customers and in response to regulatory changes.</li> </ul>



Risk	Impact	Mitigation
<p>6. Business interruption caused by a major event or natural catastrophe (e.g. operations/HSE, IT or transport incident caused by process/system failure or human error, or by fire, storm and/or flood).</p> <p> </p>	<p>► Such incidents can disrupt our operations, impact capacity utilisation and add to operating costs, as well as damage reputation.</p>	<p>► Good housekeeping, preventative maintenance, process and other safety procedures help to mitigate the effects of a major incident.</p> <p>► Reliance on hectorite mine and flood risk mitigated by the installation of drainage pumps at the mine in 2011.</p> <p>► Insurance programme and business continuity plans that are tested periodically help to mitigate the effects of a major incident.</p> <p>► HSE management programme in place that includes corporate compliance audits involving third party specialists, where appropriate, and insurance property surveys.</p>
<p>7. Cyber security incident.</p> <p> </p>	<p>► Systems security breach and loss of network connectivity and integrity can disrupt key operations and add to operating costs.</p> <p>► Loss of business and personal data can disrupt key operations and add to operating costs.</p>	<p>► Experienced Chief Information Officer supported by in-house and external consulting teams, with oversight from IT Steering Committee chaired by the CEO.</p> <p>► Security controls that include: policies and procedures; staff awareness and training; risk management and compliance; systems and information management and protection; process management; and continuous assessments and monitoring.</p> <p>► Use of regional back-up data centres in third party locations, cloud-based systems with secure entry-point and administration controls, encryption technology and multiple authentication systems, and website-blocking and next generation firewalls with intrusion detection capability.</p> <p>► Business continuity planning for IT incidents includes practicing high availability failover systems on critical business applications. In the event of an emergency, response plans exist that aim to restore network connectivity, recover lost data and return operations to their normal pre-incident level.</p>
<p>8. Energy sector volatility resulting from geopolitical dynamics.</p> <p> </p>	<p>► Geopolitics, government policy or interstate conflicts can impact oil prices and drilling activity in the oil and gas sector, which can reduce our sales in this business segment and/or lead to increased operating costs.</p>	<p>► The Specialty Products oilfield business benefits from diversification as it supplies 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.</p> <p>► The oilfield business is the only Group segment that is more directly exposed to oil price volatility and its proprietary technology, customer relationships and technical support service are key differentiation factors that help to maintain our customer base.</p>
<p>9. Succession planning.</p> <p> </p>	<p>► Failure to attract or retain key talent can disrupt growth plans and/or critical business functions.</p>	<p>► Experienced Chief HR Officer supported by in-house and external consulting teams.</p> <p>► Management and critical business leader succession planning is a key area of focus for the Board and management team and is kept under review.</p>

**Key: Risk trends**

 Severity
  Likelihood  
 Risk increased
  Risk decreased
  Risk stable

These principal risks and uncertainties should be read in conjunction with the note on contingent liabilities on page 89.

**Brian Taylorson**  
**Finance Director**  
 1 March 2016

## Introduction

**The Board and management team continue to give their attention to this important aspect of our business. The Board sets the tone for our overall approach to and culture on corporate responsibility (“CR”) matters, and exercises oversight in this area, whilst the CEO and management team are responsible for setting day to day policies and keeping our performance under review.**



The Company has been a member of the FTSE4Good index, a leading global responsible investment index, since September 2009. Our membership 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. The principal features of our CR framework and our performance in these areas are set out in the rest of this report.

During 2015, Elementis continued to participate in various sustainability programmes as shown by the logos above. These include the Carbon Disclosure Project climate change (“CDP”) programme, EcoVadis sustainable supply management accreditation programme, Roundtable on Sustainable Palm Oil (“RSPO”) and Repasack. Based on the standardised scoring methodology, we achieved a disclosure score of 90 and a performance band of B in the CDP programme, which compares against 84 and C for the average score and band of companies participating in the programme and qualifying for a performance band. The disclosure score measures the level of transparency in our responses and information shared and the performance band measures how effectively we are addressing climate risk. Our involvement in CDP and the other initiatives listed demonstrates a commitment to recognised sustainable business practices that benefit the environment, improves our performance and helps to reduce the impact of our activities on the environment.

## Business conduct and ethics

### People

Our employees remain our most valuable asset and it is their dedication and hard work that drives the success of our Group at all levels, from innovation and technology leadership to business performance and customer service. Although our workforce is spread across three regions (43 per cent in the Americas, 26 per cent in Europe and 31 per cent in Asia), Elementis globally has one set of corporate values with which all our employees can identify and these are to be innovative, successful, responsible and leaders in the sectors in which we operate. To foster our performance and success culture, the management and business leadership teams lead by example and we have policies and guidance that encourage and support positive behaviours.

To help our employees meet the standards that are expected of them, the Board has adopted the Elementis Code of Business Conduct and Ethics (the “Code of Conduct”) and a compliance programme that are underpinned by training, 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. Our compliance programme includes comprehensive whistle-blowing procedures, supported by an anti-retaliation policy. All new employees are required to undertake training on the Code of Conduct and refresher training is given to all employees periodically. 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. The following compliance training courses were run in 2015: responsible social media use, records retention, careful communications, EU competition law, anti-trust essentials, preventing harassment and discrimination, business identity theft and valuing diversity in the workplace.

### 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. A summary of our employment policies appears on page 52 of the Directors' report. Our total workforce (including contractors and temporary workers) numbers in excess of 1,400. In terms of gender diversity, out of our total workforce (excluding contractors and temporary workers) as at the year end, 974 were male (76 per cent) and 305 were female (24 per cent). Of these female employees, 44 (14 per cent) held managerial positions and 31 (10 per cent) held an executive management position (within the four tiers below Board level). At Board level six directors were male and one was female and at senior manager level (as defined under the prescribed regulations) 20 were male and 1 female. 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 2015 was 5.4 per cent (2014: 7.0 per cent).

### Human rights

Elementis agrees with and supports the statements in the Universal Declaration of Human Rights, as well as the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the latter being freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation. Elementis also 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 contractors, 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 on, for example, risk management, communication, training and compliance monitoring, as well as our anti-harassment policy, grievance procedures and 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 just under 30 per cent are subject to collective bargaining agreements.

### Customers, suppliers, supply chain and quality

We have continued in 2015 to develop and nurture our relationship with customers through our key account business process and by participating in trade shows and industry forums, as well as conducting workshops, training seminars and hosting collaborative laboratory sessions to work with customers on a one on one basis. We continue to be responsive to questions from our customers on social responsibility and environmental awareness programmes and have successfully completed a number of surveys and informal audits.

In 2015 we launched an online supplier survey to increase supplier awareness and compliance with respect to anti-corruption and social and environmental responsibility matters. We updated our Purchasing Code of Practice to incorporate additional requirements to ensure compliance with the Modern Slavery Act 2015. Our programme includes communicating our requirements to suppliers, carrying out risk based supplier risk assessments and supplier audits, and training.

We continue to buy only RSPO certified quaternary amines for all of our Personal care business requirements and have also increased our use of natural products in 2015 to \$18.2 million (2014: \$17.7 million).

Our commitment to quality remains unrelenting and an example of our efforts is that the Specialty Products facility in Milwaukee, which was part of the Hi-Mar acquisition in February 2013, achieved ISO 9001 certification last year. This takes the number of global facilities with this distinction in the Specialty Products operating portfolio to 11, or 85 per cent, spanning the US, Europe and Asia. Another example of our commitment to quality is the use of Statistical Quality Control tools to support continual quality improvement and increase operating efficiencies, with the added benefit of helping cost management initiatives.

### Health, safety and environment

The Board and management team continue to place the health and safety of employees, contractors and visitors, as well as the preservation of the environment, among the Group's key priorities. Elementis recognises a shared responsibility globally for conserving natural resources, minimising the impact of our operating activities on biodiversity, wherever practicable, 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, personnel training, incident investigation, management of change, emergency planning and risk mitigation. The effectiveness of these programmes, as well as overall performance, is continually evaluated through management reviews to ensure they are effective and current with regulatory requirements and industry best practices.

### Health and safety performance

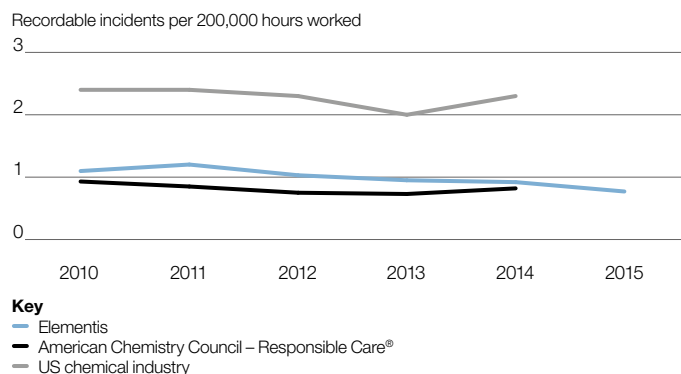
One of our main objectives in this area of focus is to eliminate accidents and injuries within the workplace by taking all reasonably practicable steps towards achieving this goal. These steps include sustaining a strong focus on and commitment to: improving the work environment, using industry best standards, establishing and communicating safety policies and procedures, training, coaching safe behaviours and developing a culture where safety is the first priority and not compromised by operational pressures.

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 three days away from work not including the day of incident.

The number of recordable incidents across the Group in 2015 reduced to ten (2014: 12). Of those recordable incidents only two required days away from work greater than three days (2014: two). Of particular note is our hectorite clay mine in Southern California which now has an outstanding record of 24 years without an LTA. Our facility in Corpus Christi has also achieved the distinction of reaching 12 years without a recordable incident, and the Amarillo, Changxing, Dakota City, Jersey City and Milwaukee plants have all exceeded three years without a recordable incident.

As well as the total number of recordable incidents, the Group uses the total recordable incident rate ("TRIR") as a performance indicator. The TRIR in 2015 was 0.77 per 200,000 hours worked (2014: 0.92). 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 0.82 in 2014, the latest data available), and is significantly better than the general chemical industry in the US (2.3 in 2014 based on the latest data available from the US Bureau of Labor Statistics).

#### Recordable incident rate



Elementis applies the same high safety standards to onsite contractors. All contractors are required to comply with the same safety practices and procedures expected of employees. As a result, Elementis is confident that contractors experience a similar high level of safety as its own employees.

In 2015, contractors suffered two recordable injuries (2014: one) across all manufacturing locations, which equated to an incident rate of 0.91 per 200,000 hours worked (2014: 0.49).

### Health and safety initiatives

During 2015, our health and safety leadership team continued to focus on both occupational health and safety and process safety improvements. Industry recognised process safety programmes include process hazard analyses (PHAs) on installations handling highly hazardous chemicals and Pre-Startup Safety Reviews (PSSRs) before commissioning key equipment. Mechanical integrity inspections are conducted as a predictive and preventative exercise to reduce the likelihood of incidents.

As in previous years, there are corporate and site specific objectives established with the management of each manufacturing location. Corporate objectives address general opportunities to improve performance, based for example on industry best practice, or learning from incidents across the Group. Site specific objectives reflect the particular needs at each location, as well as to align practices with corporate objectives.

### Health, safety and environment (continued)

A formal procedure for incident reporting and investigation continues to be a key management tool used for recognising unsafe conditions and behaviours and for communicating globally any investigative findings and corrective actions. An example of a corrective action is the introduction in a number of our manufacturing sites of a short session of stretching exercises at the start of work each day to help reduce the possibility of back and muscle strains. This initiative is being rolled out across the Group in 2016.

In 2015, renewed emphasis was placed on increasing near miss reporting as a warning of the potential for more serious incidents in slightly different circumstances. In addition, site leadership communicates current safety concerns and reinforces commitment to safety by a variety of means such as issuing safety alert bulletins based on learning from incidents, safety stand-downs where time out is taken to discuss safety with management, and 'tool box' talks led by supervisors to raise awareness on specific topical issues.

### Environmental impact

The Group's activities are closely regulated by robust environmental permits, which Elementis complies with rigorously.

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 2015, Elementis had no Tier 3 or Tier 2 incidents (2014: one Tier 3; zero Tier 2).

### Biodiversity

Our policy is that biodiversity should be protected insofar as it is reasonably practicable to achieve, by reducing or avoiding the impact on and potential for damage to sensitive species, habitats and ecosystems. Our policy is supported by biodiversity surveys of all 18 global facilities by managers at the plants, which help to frame our actions. These plans are based on site level impact assessments. For example, if a facility is located in an industrial zone, then there may be limited impact on biodiversity. Other factors considered might include an assessment of the local environment for natural features or habitats. Of our 18 facilities, seven are based in industrial areas, seven in areas classed as rural, three classed urban and one a desert. Of the seven rural locations, these tend to be on or near woodlands, grasslands or farmlands. Local plans for reducing or avoiding impact on biodiversity are therefore based on factors specific and appropriate to each site.

Biodiversity, the variety and variability of life, is protected, and in some cases can be enhanced, in a variety of ways. A major contribution is achieved through effective design, operation and monitoring of environmental control systems. Biodiversity benefits generally from reduced emissions to air, discharges to water and solid waste disposal. However, some specific actions and controls are targeted at achieving particular objectives. Examples of our efforts and specific action plans implemented include the following:

- ▶ Seedlings for native species trees (more than one hectare) have been planted at the Specialty Products site at Palmital in Brazil.
- ▶ Action has been taken to preserve and protect the habitat of desert tortoises, which are a protected species, from activities at the Specialty Products hectorite clay mine in the Mojave Desert in California. These include erecting a tortoise fence and barriers and working with a certified biologist to remove tortoises that make their way beyond the barrier and return them to their own habitat.

- ▶ Monitoring and compliance with environmental permits and good environmental practice ensures that permitted discharges from the Specialty Products Charleston facility in West Virginia do not affect freshwater mussels in the Kanawha River, another protected species.
- ▶ Our Chromium business has maintained relatively large fenced areas of undeveloped land (130 hectares) adjacent to its main manufacturing site in Castle Hayne, North Carolina, which will remain forested to provide a haven for wildlife to inhabit.
- ▶ At two sites, Milwaukee, Wisconsin (Chromium), and Anji, China (Specialty Products), retaining walls have been constructed to prevent silt and residual clay from being washed into the adjacent rivers.
- ▶ The Specialty Products facility in Livingston, Scotland, which is the primary manufacturing site for our Personal care business, achieved (in 2014) the rigorous standards required to be certified under RSPO for its organoclay range of products, which it plans to extend to its gel product range in 2016. The site is a member of RSPO and also achieved Good Manufacturing Practice (2012) certification in 2014 from the European Federation for Cosmetics Ingredients, demonstrating our commitment to quality, safety, sustainability and innovation for the personal care industry.

### Environmental performance

Elementis monitors key environmental statistics for each manufacturing facility. Energy and water 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.

Elementis continues to work proactively to improve environmental performance. For example in 2015 a new, high efficiency regenerative thermal oxidiser was installed at the Jersey City plant. Improvements to the amine unloading area at the St Louis plant have reduced the environmental risk of spillage and improves operational safety.

### Energy consumption

Elementis consumes energy from several sources (electricity, steam, natural gas, LPG, coal, biomass and oil) at manufacturing sites, principal offices and laboratories. For comparison purposes, energy consumption is converted into consistent energy units, Gigajoules ("GJ"). Energy consumption is shown in the table below.

#### Energy consumption

	2015		2014		2013	
	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production
Energy consumed (GJ)	4,864	12.7	5,046	12.1	5,102	13.0

For reference: one GJ = 277.7778 kWh

Energy consumption reduced in 2015 mainly as a function of production. In addition Elementis seeks wherever practicable to improve its energy efficiency in the plant and equipment used. This is illustrated in the examples of energy saving initiatives described on the next page.

## ESOSR

Elementis falls within the scope of the UK Energy Savings Opportunity Scheme Regulations 2014 ("ESOSR") because the UK turnover and balance sheet exceed the qualification threshold. Previous work by Elementis to improve energy efficiency meant that much of the evidence for compliance with ESOSR was already in place. Nevertheless, as required, Elementis undertook the necessary audit of energy consumption with third party assistance and identified energy saving opportunities. A registered lead assessor verified the ESOSR assessment and notification of compliance with ESOSR was made to the Environment Agency by the due date.

### Examples of 2015 energy initiatives that have improved energy efficiency

The Delden facility in the Netherlands was in the third year of a four year energy efficiency initiative. Replacing the nitrogen compressor unit and the planned investment in the boiler plant room will bring substantial energy savings projected to be over 10,000 GJ per year.

The Chromium facility in Castle Hayne, NC, has reduced energy consumption by installing lower energy, longer life LED (light emitting diode) lighting in place of the older types of lighting.

Operators at the Specialty Products hectorite mine were able to improve fuel consumption on their equipment through better utilisation of larger capacity mine equipment.

The building optimisation project at SciPark in East Windsor, NJ, which comprises a technical centre and management headquarters, is achieving 11 per cent savings on gas consumption and 10 per cent on electricity consumption.

Global initiatives elsewhere include conversion to LED lighting, installing variable speed drives on large electric motors, and improved operating practices to minimise the time equipment is idle.

### Greenhouse Gas Emissions

	Current reporting period (2015)	Prior year for comparison (2014)	Base year for comparison (2013)
Scope 1: Combustion of fuel and operation of facilities (tonnes CO <sub>2</sub> e)	208,610	221,420	221,076
Scope 2: Electricity, heat, steam and cooling purchased for own use (tonnes CO <sub>2</sub> e)	78,750	82,265	89,500
<b>Total Scope 1 and 2 (tonnes CO<sub>2</sub>e)</b>	<b>287,360</b>	<b>303,685</b>	<b>310,576</b>
Intensity ratio: Tonnes CO <sub>2</sub> e/tonne production	0.75	0.73	0.77
Supplementary intensity ratio: Kg CO <sub>2</sub> e/kWh energy consumed	0.26	0.27	0.27
Out of Scope: Biofuel tonnes CO <sub>2</sub> e	3,408	0	0

Note: CO<sub>2</sub>e values were derived using DEFRA published factors

In this third year of GHG emissions reporting, the table shows that the total Scope 1 and 2 CO<sub>2</sub>e emissions in 2015 decreased by 7 per cent compared to the base year and 5 per cent compared to 2014. In part the total is affected by changes in production volumes and product mix. However, a significant change in 2015 was in China. During the year the organoclay sites in China at Changxing and Anji switched from using coal to biomass, comprised of renewable organic material (bamboo and wood pellets), as an energy source. Following guidance from DEFRA, CO<sub>2</sub> emissions from biofuel use are excluded from the Scope 1 total to balance the CO<sub>2</sub> absorbed by fast growing bioenergy sources during their growth. However a CO<sub>2</sub>e allowance is included in the Scope 1 total to account for the small amount of methane and nitrous oxide GHG emissions, which are not absorbed during growth.

## 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 Elementis GHG emissions reporting process was audited by our internal auditors, PwC, in 2015. The internal audit report found the procedures to be appropriate and the data collection and conversion process to be robust and supportable.

The principal GHG due to operations at Elementis locations is carbon dioxide from energy use. GHG emissions are calculated from energy purchased. Energy units are converted into carbon dioxide equivalent ("CO<sub>2</sub>") using official data provided by the UK Department for Environment, Food and Rural Affairs ("Defra"). There are also GHG emissions from chemical reactions in production processes and carbon dioxide used for process cooling. Commencing in 2015 the report now includes an estimate of GHG emissions from onsite wastewater treatment plants at Elementis facilities. 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 CO<sub>2</sub>e emissions was deemed not to make a material contribution to the total.

Elementis is providing two intensity ratios: tonnes CO<sub>2</sub>e per tonne of production and tonnes CO<sub>2</sub>e per kWh of energy consumed.

Over a period of years both of these indicators should give an indication of energy efficiency improvements including cleaner fuels consumed.

Note that the intensity ratios are subject to variations due to changes in the mix of products manufactured, volumes and energy efficiency improvements.

GHG emissions are shown below.

During 2015, as in 2014, the Livingston facility in Scotland purchased electricity from 100 per cent renewable sources and therefore did not contribute to Scope 2 emissions.

Elsewhere 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 2.6 per cent in 2015 and now no longer in use).



## Health, safety and environment (continued)

### 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 but will be available on the Elementis corporate website. Any emission to air above regulatory permitted levels would normally 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 but will be available on our corporate website. However, any discharge to water above regulatory permitted levels would normally 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 2015 was a 2 per cent reduction.

#### Water consumption

	2015		2014		2013	
	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production	Absolute (000s)	Per tonne of production
Water consumed (m <sup>3</sup> )	1,778	6.93	1,811	7.08	1,908	7.48

### Solid and liquid waste

As part of the Group's 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 increased slightly while non-hazardous waste reduced slightly in 2015. The solid waste arising in 2015 is considered to be within the normal variability of operations.

#### Waste disposal

	2015		2014		2013	
	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)	0.94	3.68	0.79	3.09	0.93	3.64
Non-hazardous waste disposed (tonnes)	100	391	104	405	105	410

### R&D and sustainability

Our global R&D efforts continue to maintain focus on activity that supports and contributes to a more sustainable future. Examples of these include the following:

- ▶ Greenhouse gas mitigation through programmes aimed at VOC (volatile organic compound) reduction, as well as the conversion of solvent-borne to water-borne coatings.
- ▶ Reducing the energy demand in the manufacture of coatings.
- ▶ Expanded use of bio-based materials in our products.

Examples of some of our more significant new product developments in the past year that help demonstrate how our R&D efforts contribute to greater sustainability include the following:

- ▶ Rheology control additives for sealants and for marine and protective coatings that facilitate the manufacture of these coatings at lower temperatures, resulting in energy savings and increased productivity.
- ▶ New generation of wetting agents that accelerate the transition to water-borne coatings through enabling surface tension reduction of low energy substrates, without the negatives of, for example, foam generation.
- ▶ Technology that allows for the faster and safer removal of nail polish gels.

## Product stewardship

Elementis is passionate that our products are safe for their intended use to people and the environment throughout the product's life cycle and that our products help move all towards a more sustainable future.

The Group's activities in 2015 resulted in the successful implementation of the OSHA GHS (Globally Harmonised System) hazard communications standard in the US ahead of schedule. In addition, GHS implementation in Brazil, Singapore, Malaysia and Thailand was also successfully completed. New multi-language labels were deployed worldwide to reduce shipping costs and to facilitate product transport across borders.

The EU's REACH regulation continued to dominate Group preparations for the major registration effort for 2018. Due to the enormous complexity of registering over 100 substances for the next REACH deadline in 2018, the Group worked with a major software developer to create a specific cloud based REACH registration tool, called Euphor, to track, manage and document the multitude of tasks and costs associated with each substance's registration dossier. Euphor will allow for easy cross functional collaboration which provides greater coordination, transparency and costs tracking of the EU REACH programme, as well as subsequent programmes in other countries.

The Group continued to further enhance its compliance tools by utilising 'the Wercs' software platform to automate SVT (Substance Volume Tracking) to reduce the time and manpower needed to comply with various REACH programmes in Europe and Asia, and other substance volume reporting programmes like the forthcoming 2016 CDR (Chemical Data Reporting) in the US.

The Group has also began the deployment of its enhanced export control management system to its business in Asia last year. Export control measures to perform 'Denied Parties' screenings and sanctions notifications were boosted to ensure stronger compliance with export restriction programmes in the US and EU.

Efforts towards sustainability initiatives continue to be an important component of our product stewardship programme. In 2014 the Group obtained its RSPO certification for its Livingston production facility and several important personal care products. Preparations have begun to expand RSPO certification to other sites and products in 2016. The Group continued its sustainable supply chain programme through EcoVadis and began a new assessment that will be completed in the first quarter of 2016.

## 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, 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:

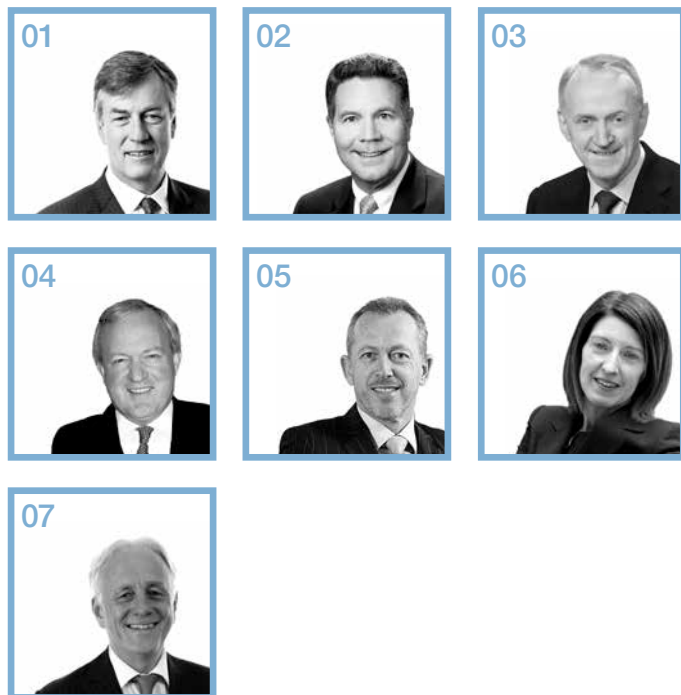
**Brian Taylorson**

**Finance Director**

1 March 2016



## Board of Directors as at 31 December 2015



## Key

A – Audit Committee

R – Remuneration Committee

N – Nomination Committee

(c) – Chairman of Committee

## Senior executives

**01. Andrew Duff, Chairman (Age 56)****Committee membership: N(c)**

Andrew Duff was appointed non-executive Chairman and Chairman of the Nomination Committee in April 2014. 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 from 2004 to 2013, where he was also the senior independent director and chairman of the remuneration committee. From 2003 to 2009, he was CEO 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 Earth Trust and a Fellow of the Energy Institute.

**2. David Dutro, Group Chief Executive (Age 60)**

David Dutro was appointed Group Chief Executive in January 2007 and retired from that role and the Board on 7 February 2016. 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 60)**

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 chartered accountant and a member of the Association of Corporate Treasurers. He was a non-executive director of Fiberweb plc from 2006 to 2012.

**4. Andrew Christie, Non-executive director (Age 59)****Committee membership: A, N, R(c)**

Andrew Christie was appointed a non-executive director in August 2008 and Chairman of the Remuneration Committee in October 2013. He has over 30 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 has been a non-executive director of Helios Underwriting plc since July 2013 and holds an MBA and a BSc degree in engineering.

**5. Steve Good, Non-executive director (Age 54)****Committee membership: A, N, R**

Steve Good was appointed a non-executive director in October 2014. He has been a non-executive director of Cape plc since July 2015 (where he is chairman of the remuneration committee), Anglian Water Services Limited since April 2015, and chairman-designate of Zotefoams plc since November 2015, having been a non-executive director since October 2014. He was CEO of Low & Bonar plc, the industrial textile manufacturing business, from 2009 to 2014. 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 has a BA degree in economics and finance and is a chartered accountant.

## 6. Anne Hyland, Non-executive director (Age 55)

### Committee membership: A(c), N, R

Anne Hyland was appointed a non-executive director in June 2013 and Chairman of the Audit Committee in August 2013. She is CFO of Kymab Ltd, a biopharmaceutical company specialising in advanced therapeutic antibody discovery and development. Previous to that, 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 63)

### Committee membership: A, N, R

Nick Salmon was appointed a non-executive director in October 2014 and Senior Independent Director in December 2014. He has been non-executive chairman of South East Water Limited since April 2015 and a non-executive director of Interserve plc since August 2014. He was a non-executive director of United Utilities Group plc from 2005 to 2014, where he also served as the senior independent director from 2007 to 2014. He was CEO of Cookson Group plc, the international materials technology business, from 2004 to 2012 when it demerged to create two new listed companies. He was formerly executive vice-president of Alstom S.A. and CEO of Babcock International Group plc. He holds a BSc degree in mechanical engineering and is a Fellow of the Royal Academy of Engineering.

## 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 two 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. Rob Sklans, Chief Human Resources Officer

Rob Sklans joined Elementis as Chief Human Resources Officer in July 2015. He has over 25 years of global human resource experience having worked for mid to large-sized corporations. Most recently, Rob held the position of vice president of human resources for North America at Royal DSM. He has held prior senior positions at Evonik Industries, Johnson & Johnson, Casio Inc. and L.A. Dreyfus Company. Rob actively serves the community and currently volunteers his time as the chief public information officer for the Middlesex County Office of Emergency Management in New Jersey. Rob holds an MA degree in organizational psychology from Columbia University and his BA degree from Connecticut College.

## 13. Wai Wong, Company Secretary

Wai Wong joined Elementis as 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"). 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 business studies and law from the University of Edinburgh and an LL.M degree in corporate and commercial law from Queen Mary College, University of London.

## Board addition in 2016



## 14. Paul Waterman, Group Chief Executive (Age 51)

Paul Waterman was appointed Group Chief Executive and joined the Board on 8 February 2016. Before joining Elementis he was global CEO of the BP lubricants business since July 2013 after having overseen the BP Australia/New Zealand downstream business and been country president of BP Australia since August 2010. Prior to that he was CEO of BP's global aviation, industrial, marine & energy lubricants businesses (2009 to 2010) and CEO of BP Lubricants Americas (2007 to 2009). He joined BP after it acquired Burmah-Castrol in 2000 having joined the latter in 1994 after roles at Reckitt Benckiser and Kraft Foods. Paul Waterman is an American national and has lived in Southern California, New Jersey, the UK and Australia. He holds a BSc degree in packaging engineering from Michigan State University and an MBA in finance and international business from New York University, Stern School of Business.

### Chairman's letter

2015 started with a visit by a number of non-executive directors (including recent joiners) to the Delden facility in the Netherlands. This was followed by a Board meeting held at our Livingston facility in March and then two more site visits to the Chromium facility in Castle Hayne and East Windsor in New Jersey in June. Suffice to say that one of the priorities has been to ensure newer members of the Board get as many opportunities as possible to see the business in operation, meet our people and get a proper sense of the culture within the organisation and the shared values that have underpinned the Group's strong performance in recent years. These trips also enable interpersonal relationships within the Board to be strengthened which contribute greatly to Board dynamics and effectiveness.

Earlier in the year Nick Salmon, the Senior Independent Director, and I undertook an investor roadshow to meet with a number of our major shareholders and shareholder representative bodies. It was reassuring to have it confirmed that so many of our shareholders are supportive of the Group's strategy and the executive team.

The Remuneration Committee presented a number of changes in our remuneration policy to shareholders at the 2015 AGM which were approved. The changes bring our variable remuneration structures and practices in line with best practice and are designed with the long term success of the Company in mind. I would like to express my own thanks (in addition to those of Andrew Christie our Remuneration Committee Chairman) to shareholders for your continuing support.

With a new looking Board comes the natural process of strategy review. That process started with a review of business and business segment strategies, our acquisition criteria and granular reviews of our business and strategic plans and major risks. The work on strategy is continuing but we anticipate good progress being made before the end of the year, led by our new CEO, Paul Waterman. The Board is cognisant of shareholders' views and pleased that work has been completed to align remuneration policy with our ambitious plans for the Company.

As planned previously, the Audit Committee initiated an audit tender process in 2015 and the result is that the Board is recommending the appointment of Deloitte LLP as the Company's next auditor, to shareholders at the forthcoming AGM. I would like to take this opportunity to thank KPMG LLP for their services to the Company over the past 12 years.

Another aspect of the Board's focus in 2015 was the application of the new Corporate Governance Code (the "Code") requirement to produce a statement on business viability. The Board received a number of briefings throughout the year to ensure it fully understood its responsibilities. The statement is set out in the Directors' report with supporting commentary in the Risk management report.

My final comments concern the work of the Nomination Committee. As referred to in other parts of this Annual Report, the Board initiated a search process to identify and appoint a successor to David Dutro as CEO. This is more fully described in the Nomination Committee report. The appointment of a CEO is one of the most critical decisions any board has to make and has lasting and far reaching consequences. The process from start to finish was very structured and I was well supported by my executive and non-executive colleagues who had good experience and helpful insights to share. As I previously said I was delighted to secure the services of Paul Waterman as our new CEO.

The Board decided it would carry out an external effectiveness evaluation. It could have been explained that the timing for a three yearly review might be inappropriate, with the transition to a new CEO in progress, but we took a different view. The benefit from having a refreshed cohort of non-executives who had already combined well presented an ideal opportunity for the Board to take stock and reflect on its structure, operation and performance. The outcome is a useful lens for both the Board and its new CEO to look through when considering priorities and improvements.

In summary, our focus has been on the Board, its composition, succession and performance; Group strategy, risks and opportunities; aligning remuneration policy and performance management with shareholder interests, and on audit and accountability. I anticipate that the Board's productivity will be no less intensive in 2016.

### Statement of compliance

The Board is of the view that it has applied fully throughout 2015 all of the provisions of the Code (2014 version).

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

**Andrew Duff**  
**Chairman**

1 March 2016

## Compliance with the Code

### Board composition

As identified on pages 26 and 27, the Board comprises two executive directors (Chief Executive and Finance Director) and five non-executive directors (including the Chairman and Senior Independent Director). The Chairman is responsible for leadership of the Board, whilst the Chief Executive is responsible for running the Group's businesses. The roles of Chairman and Chief Executive are separate, clearly defined and no individual has unfettered powers of decision making. The Chairman is supported by the Senior Independent Director who is available to shareholders if the normal channels for raising any concern prove to be ineffective or inappropriate.

The Chairman sets the style and tone in which the Board operates and ensures there is a forum for constructive discussion and challenge, as well as a framework and the conditions to enable the Board as a whole, and its individual directors, to contribute effectively in the performance of their roles. 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 three year terms that can be renewed by mutual agreement, subject to annual re-election by shareholders, satisfactory performance and meeting independence requirements.

Information about the Board's CEO recruitment process in 2015 is given in the Nomination Committee report.

### Board evaluation

The Board carried out an externally facilitated evaluation of its performance during the latter part of 2015. More details are set out in the Nomination Committee report.

Having carried out such an evaluation, the Board considers that its composition contains the appropriate balance of diversity of views, qualifications, skills, experience and personal attributes necessary to carry out its duties and responsibilities, although it will keep this under review as the process of strategy development under the new CEO progresses.

### Board diversity

The Board's policy is that appointments should be made on the basis of qualification and merit. The Board agrees that diversity, including gender diversity, is an important factor in Board effectiveness and supports the Code's principles and provisions on gender diversity. As part of its commitment, the Board insists that any recruitment adviser retained ensures female candidates are included in any long list presented for consideration and this was the case in respect of the CEO search process 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. Gender diversity below Board level is discussed in the Corporate responsibility report.

## Director attendance in 2015

	Board	Audit Committee	Nomination Committee	Remuneration Committee
Andrew Duff	8/8	–	6/6*	7/7
David Dutro*	8/8	–	–	–
Brian Taylorson	8/8	–	–	–
Andrew Christie	8/8	4/4	6/6	7/7*
Steve Good	8/8	4/4	6/6	7/7
Anne Hyland	8/8	4/4*	6/6	7/7
Nick Salmon	8/8	4/4	6/6	7/7

\* Chairman of Committee

+ retired from the Board on 7 February 2016

### Board independence

The Board considers all the non-executive directors to be independent in character and judgement throughout 2015 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. Eight formal meetings were held in 2015 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 for 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.

Board and committee dates are scheduled at least a year in advance, as are overseas site visits, and a 12 month forward planner helps to ensure that the Board spends an appropriate amount of its time focused on the strategic issues affecting the Group's businesses.

To assist the Board in carrying out its duties, information of an appropriate quality is issued in a timely manner ahead of Board and committee meetings. If there are any unresolved matters concerning Board decisions, of which there were none in 2015, these would be recorded in the minutes of meetings.

### **Induction, development and support**

All new directors participate in an induction programme that includes 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. Paul Waterman received a similar but more extensive and intensive induction programme which, in addition to the above, included a series of meetings with the Chairman, executive directors and Company Secretary, as well as attendance at Board and committee meetings held in December.

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.

### **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.

### **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**

1 March 2016



## NOMINATION COMMITTEE REPORT

The Chairman and members of the Nomination Committee (the "Committee") are shown on page 26, together with their biographical information. Six meetings were held during 2015 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 2015:

- ▶ Met in February to review disclosures in the 2014 Annual Report.
- ▶ Met in March as a meeting of non-executive directors only, to discuss (in general terms) strategy, management performance and succession planning.
- ▶ Met in May (following the announcement of David Dutro's intention to retire) to implement succession plans by: (i) confirming that Korn/Ferry Whitehead Mann ("Korn/Ferry"), who had worked with the Board in previous recruitment processes, would be assisting the Committee to identify appropriate candidates (internal and external); (ii) approving a CEO role specification; and (iii) agreeing other procedural matters, such as confidentiality and timetable.
- ▶ Met in June to: (i) discuss and agree format of Board evaluation; (ii) review and discuss progress in the CEO recruitment process and, in particular, consider long and short list candidates; and (iii) review business critical role succession plans with the CEO.
- ▶ Met in July (twice) to: (i) select four finalists from the six remaining short listed candidates for a second stage interview with a panel of Committee members (all six of whom had already been interviewed by Korn/Ferry and by the Chairman and Senior Independent Director); and (ii) select and recommend to the Board a preferred candidate from the four finalists to enter into discussions over terms.
- ▶ Towards the end of August, the Committee agreed that Boardroom Review Limited ("BRL") would be engaged to carry out an external Board effectiveness review that included individual interviews with Board members and the Secretary, as well as observing at a Board and committee meeting. (There are no connections between the Company and BRL other than the services provided in connection with the evaluation review.)

- ▶ Met in December to: (i) discuss the results of the externally facilitated Board evaluation exercise and agree actions arising therefrom; and (ii) review the Chairman's performance (last item was chaired by the Senior Independent Director with the Chairman absent from the discussions and both executive directors in attendance).
- ▶ Following the evaluation review, the Board is satisfied that all our directors, both executives and non-executives, contribute effectively and demonstrate appropriate commitment to their roles and, therefore, shareholders are asked to support their re-election at the AGM.
- ▶ A follow-up to our evaluation process is planned in the early part of this year for me to meet with each director to take soundings, review individual performance and discuss any specific training needs.
- ▶ In terms of the evaluation process, this focused on the following areas: Board basics (use of time, quality of information, operation, support); Board contribution (culture, dynamics, composition); and areas and depth of engagement (strategy, risk and control, performance management, stakeholder communications). A number of suggestions were made to help enhance the way the Board interacts, operates and manages its time, but no significant deficiency or weakness was identified. The main challenges were considered to be maintaining the relationships and dynamics within the Board during a CEO transition and accelerating the strategy development process. Other areas of focus for the Board included management succession planning, further development of the risk agenda (e.g. risk appetite) and keeping the Board's composition under review.

Shareholders may find the biographical information provided on pages 26 and 27 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 2016 AGM.

In connection with the retention of Korn/Ferry during 2015, the Board confirms it has no other relationship with the firm other than as recruitment adviser.

**Andrew Duff**  
**Chairman**  
 1 March 2016

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 2015. There were four 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 two 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: negotiating and approving their terms of appointment, fees, the scope, manner and programme of work; monitoring resourcing, performance and effectiveness, independence and objectivity; approving the policy on non-audit services; making recommendations to the Board for their dismissal or changes; and supervising any tender process.

The following is a description of the work of the Committee to show how it has discharged its responsibilities in 2015:

- ▶ Met in February to: (i) meet KPMG without management present; (ii) review in combination with KPMG’s audit report the 2014 Annual Report (and associated preliminary results statement), management representation letter to the auditors, internal control and going concern statements, tax, litigation and compliance reports (including whistleblowing arrangements) and the effectiveness, independence and objectivity of the auditors; (iii) approve the description of the work of Committee in the Annual Report; (iv) recommend to the Board the approval of the Annual Report as well as the reappointment of KPMG; (v) consider a proposal from management on non-audit services without KPMG being present; and (vi) discuss carrying out an external audit tender process during 2015.
- ▶ Met in June to: (i) receive and discuss KPMG’s audit strategy and plan for 2015; (ii) approve KPMG’s letter of engagement and proposed fee for the interim review; (iii) progress the discussion on audit tender and the market for the provision of non-audit services following EU regulations in this area; and (iv) discuss the FRC’s review of the 2014 Annual Report and the Company’s planned response.
- ▶ Met in July to: (i) review PwC’s H1 internal audit programme report and management’s responses to the audit findings; (ii) consider in combination with KPMG’s H1 review report the 2015 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; (iii) approve proposed fees for the Group year end audit; (iv) review and confirm the Company’s compliance programme; (v) consider briefings on the business viability statement requirement; (vi) discuss and approve the FRS disclosure framework (UK GAAP) to adopt for the UK parent company; and (vii) approve arrangements to implement an audit tender process.

- ▶ Met in December to: (i) review the effectiveness of the internal audit programme and PwC’s performance, supported by the results of survey questionnaire completed by finance staff; (ii) receive PwC’s H2 internal audit programme report; (iii) review the adequacy of resources made available to PwC and the arrangements they have in place to ensure they can deliver an effective internal audit service; (iv) approve the re-appointment of PwC as internal auditors, agree fees and a programme of work for 2016; (v) receive update report from KPMG on their audit plan and progress; (vi) discuss whether or not to continue publishing an interim management statement; (vii) discuss a briefing on dividend disclosures; and (viii) discuss progress on the audit tender process.

### External audit tender process

The Committee decided to implement a tender process involving only two firms: Deloitte and Ernst & Young. During various discussions, it became apparent that for a Group of our size and geographical spread, the auditor would have to be selected from one of the Big Four firms. We agreed that as KPMG has been external auditor since 2004, we would comply with the spirit of the audit rotation rules by not asking KPMG to seek to renew its mandate. In addition, as PwC are the internal audit service provider to the Group, it was also decided not to invite them to participate in the tender.

Over the summer, the Chairman of the Board, Finance Director and I met individually with partners from Deloitte and Ernst & Young to test our proposition that a two way tender would work and satisfy ourselves that both firms would be fully committed to the tender process.

In October, a request for proposal was issued to provide external audit and audit-related services in respect of the Group, parent company and certain subsidiary accounts (including review of preliminary results and interim financial statements and certain governance and remuneration disclosures in the Annual Report).

Both firms were required to submit their proposals against the following criteria:

- ▶ Organisation and capability – including the firm’s structure and global coverage, experience and service capability, technical knowledge and expertise, and culture and service philosophy.
- ▶ Staffing, resourcing and engagement – including experience, expertise and qualities of audit partners and senior team members in our key geographies, global team structure and coordination, partner rotation and succession plans, and client communication, service and reporting model.
- ▶ Audit approach and delivery – including knowledge of our business, induction and transition plan, audit planning process and approach, use of innovation and technology, scope of audit, management of global audits, and interaction with and reliance upon internal audit.
- ▶ Quality control and independence – including audit effectiveness and reporting, process improvement and added value, and independence and objectivity.
- ▶ Fees and terms of business.

As part of the tender process, an induction programme was organised for both firms which involved a series of meetings and interactions with head office staff, site visits to East Windsor in New Jersey to meet members of the management and business leadership teams and visits to/calls with our Asia management team. This was followed by written submission of audit tender proposals and a presentation to an audit selection panel comprising the Chairman of the Board, myself as Audit Committee Chairman, Finance Director, Group Financial Controller and the Company Secretary (the “Panel”). All Directors received a full copy of the tender proposals which were discussed in meetings of the Committee and the Board, prior to the Panel making its final selection of the firm the Committee should recommend to the Board for proposing to shareholders.



Both Deloitte and Ernst & Young met the criteria for appointment, however, the Panel concluded that Deloitte demonstrated better the organisational and personnel fit, resources, expertise and audit approach to deliver a high quality audit and service to Elementis. Accordingly, the Committee has recommended that the Board proposes that Deloitte be appointed the Company's auditors at the 2016 AGM.

### Competition & Markets Authority order – statement of compliance

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

### Significant accounting and other issues

The primary areas of accounting judgement considered by the Committee in relation to the 2015 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. The Committee also reviewed the discount rate used in calculating the provision balances and concluded that the rate should remain the same as the previous year's rate due to a stability in US borrowing rates.

#### ► Assumptions used to value pension scheme liabilities

The Committee reviewed the assumptions used to value the liabilities of the UK and US defined benefit pension schemes, as well as the US post retirement medical plan, which the Group's actuarial advisers considered to be appropriate given the characteristics of each plan.

#### ► Taxation

The Committee discussed the recoverability of its tax assets and reviewed the underlying assumptions to the Group's 2015 tax rate and noted that the underlying tax rate had declined versus the previous year, due to a change in the geographical mix of profits and also changes in provisions.

#### ► Non-recurring 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 and/or one time nature, 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 as 'non-recurring items'. The Committee also noted that, in previous years, items of this nature had been termed 'exceptional items' but concluded that the term 'non-recurring' was more appropriate going forward. Further details of these items are included in Note 5 to the Consolidated financial statements.

### Audit effectiveness, objectivity and independence

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

Since 2015 was KPMG's last audit, we decided not to undertake a questionnaire survey of the field locations but to review KPMG's performance by reference to the quality of its audit report and opinion, its engagement with management and its quality assurance procedures. The Committee concluded KPMG's performance to be satisfactory and that the audit is effective as measured against their letter of engagement and the scope of services agreed.

The Committee considers the auditors' 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 KPMG were objective and independent throughout the 2015 audit process notwithstanding the level of non-audit services provided.

### Non-audit services

In 2015, non-audit services of \$0.8 million from KPMG were approved by the Committee (2014: \$0.6 million). These services consisted mainly of tax advisory services in relation to the US, the UK, Netherlands, Germany, China and Taiwan. 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. Our policy will be reviewed during the year to ensure compliance with new EU rules on the provision of non-audit services by auditors.

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.

### Internal control and risk management system

The Committee's formal remit includes reviewing the effectiveness of the internal control, compliance and risk management systems which it carries out in support of the Board's formal review of significant risks and material controls, as summarised in the Risk management report. The focus of the Committee'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, 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.

### **Internal control and risk management system (continued)**

Set out below is a summary of the key features of the Group's internal control and risk management system.

#### **Control environment**

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

#### **Risk identification and review**

A formal risk review process exists at Board and management team levels for the identification, evaluation, mitigation and ongoing 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 three year operating plan which is approved by the Board. Thereafter a formal re-forecasting exercise is undertaken three 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. As well as conducting audits of operating facilities, sales offices and toller sites on a two to three year rotational basis, the internal audit programme includes reviews of Group functions and processes that in the past have included, for example, HR and payroll, legal expenditure, treasury, HSE and GHG reporting, as well as reviewing compliance with capital investment authorisations. In 2016, PwC has been asked to review our risk management and forecasting and budgeting processes.

### **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.
- ▶ Group Code of Business Conduct and Ethics on which all employees are given training and are required to self certify compliance with, supplemented by an online compliance training programme, an anti-bribery and corruption policy, which contractors are also required to sign up to, whistleblowing arrangements and an anti-retaliation policy.

### **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 2015, taken as a whole, to be fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

#### **Anne Hyland**

#### **Chairman, Audit Committee**

1 March 2016

## DIRECTORS' REMUNERATION REPORT

### Chairman's annual statement on remuneration

I am pleased to introduce the Directors' remuneration report for 2015 which has been prepared by the Remuneration Committee (the "Committee") and approved by the Board.

Having introduced a number of changes to our remuneration policy and practices over the previous two years, 2015 should have been a relatively quiet year, but this was not the case. The latest changes, which were described in my statement a year ago, received strong support from shareholders at last year's AGM and were implemented during 2015, as explained later in this report. I would like to express my thanks to shareholders for your continuing support.

The Company announced on 19 May 2015 the intended retirement of David Dutro which triggered our CEO succession plans to find a replacement. The Committee was responsible, working with the Chairman of the Board and its remuneration advisers, for structuring a remuneration package and agreeing terms of employment that secured the services of Paul Waterman as our next CEO. Related to these developments the Committee also reviewed remuneration arrangements following David Dutro's retirement, as well as target setting in the light of the Group's trading performance and in the context of the 2016 operating plan.

One of the Committee's objectives continues to be to rebalance the proportion of fixed to variable remuneration in favour of the latter. We have made progress in this respect in the year. Looking forward, the Committee is focused on the need in 2016 to incentivise our management team at a time of transition to a new CEO and with some very challenging external market conditions. We consider 2016 a year in which it is correct to modify the bonus metrics to reward actions that need to be taken to set Elementis up for a return to growth as well as financial achievements in excess of expectation. All such changes will be within the policy that was approved at the last AGM.

The process undertaken and outcome in these matters are summarised below.

### Variable remuneration outcome for 2015

As reported elsewhere in this Annual Report, the Group experienced difficult trading conditions, as a result of changes to our external markets. Consequently, as the Company is reporting performance that is below the minimum target thresholds, no bonus is payable in respect of 2015 performance.

Under the Long Term Incentive Plan ("LTIP"), the performance period for the 2013 awards ended in 2015. Neither of the threshold targets under the EPS and TSR conditions was met and, accordingly, none of the 2013 awards will vest in April 2016. Elementis delivered shareholder return over the three year period of 16 per cent, compared to 24 per cent from the FTSE All Share Index (excluding investment trusts). EPS\*\* for 2015 was 20.8 cents compared to 21.8 cents in 2012.

It is disappointing when incentive remuneration does not pay out because it means growth targets have not been achieved in increasingly difficult market conditions, despite the hard work and commitment of our employees.

### 2016 policy implementation

The following summarises the application of our remuneration policy in the current year.

The Committee awarded Brian Taylorson a salary increase of 2.87 per cent with effect from 1 January 2016, which is in line with the average increase in 2015 for the UK salaried workforce.

The changes to remuneration policy approved at the 2015 AGM included giving the Committee greater flexibility in setting bonus plan targets.

In respect of the 2016 bonus plan, in line with market practice, the Committee has introduced a non-financial component, with a weighting of 30 per cent of the bonus opportunity. In terms of the financial metrics (70 per cent of bonus opportunity), these will continue to be based on PBT and average working capital ("AWC") (split 80:20 as before). For the PBT condition, threshold, plan and stretch targets are set at levels the Committee considers to be appropriately challenging, after taking into account both the 2016 operating plan and consensus estimates. Bonus targets will be disclosed on a retrospective basis.

The Committee decided to introduce non-financial objectives and/or performance metrics to ensure that the bonus plan provides a tighter link to performance and strategy. Such non-financial criteria will be specific, measurable and objective and relate to Company specific business goals, although the Committee reserves discretion to modify the overall amount of bonus payable in exceptional circumstances and acting in the best interests of the Company. The actual criteria and weighting will be reviewed annually to ensure they remain appropriate and the details of the targets for 2016 will be disclosed in next year's report.

Turning to the long term incentive plan, the Committee reviewed the choice of broad equity index to use for setting TSR targets and concluded that there were no compelling reasons to change from the FTSE All Share index (excluding investment trusts) that is currently used. The Committee also reviewed the appropriateness of retaining reference to UK RPI when setting EPS growth targets for a highly international business which reports in US dollars and decided that, for 2016, a range of EPS growth targets would be set which the Committee is satisfied are no less challenging in the current environment. The Committee agreed it would keep its target setting under review, particularly as the inflationary environment changes over time.

The fee levels for all non-executive directors (Chairman's fee, basic fee and additional role fee) were reviewed in December and the outcome, which received the full support of the Board, was to retain fees at their existing levels.

\*\* diluted, before non-recurring items

**Chairman's annual statement on remuneration (continued)**

**CEO transition**

Paul Waterman

Paul Waterman's starting remuneration package is as follows:

- ▶ Basic salary: \$825,000 p.a.
- ▶ Benefits: as per policy.
- ▶ Bonus opportunity: 150 per cent of basic salary (with 50 per cent share based deferral).
- ▶ LTIP award: 200 per cent of basic salary.
- ▶ Pension: salary supplement of 20 per cent of basic salary plus employer matching contributions under the US pension plans (maximum limit of match: 8 per cent).

As previously stated, one of the Committee's objectives has been to rebalance the proportion of fixed to variable remuneration by increasing the latter, to provide a greater incentive to the executive directors to deliver strong, sustainable financial performance and enhanced returns to shareholders. This is reflected in Paul Waterman's salary level, taking other factors into consideration, and the higher LTIP award level.

Separately, buy out awards under the LTIP will be made to Paul Waterman to cover remuneration forfeited by him for leaving his previous employer to join Elementis, the value of which is approximately \$1.5 million. The LTIP awards will be made in two equal tranches with vesting periods of one and two years. Within each tranche there will be a portion that will be subject only to a service condition of one and two year(s) (reflecting a minimum vesting value of forfeited awards) and a portion that will be subject to performance metrics over a one or two year period, based on a combination of cash flow, safety and operational targets that are in nature similar and equivalently challenging to those awards being forfeited and a similar vesting profile. The buy out awards will be made on or around 7 March 2016.

Details of these awards will be disclosed in next year's Annual Report.

David Dutro

David Dutro has not and will not receive any payment for loss of office as a director of the Company or any other payments in relation to the cessation of his employment.

Since the 2013 LTIP awards will lapse in April 2016, the only unvested awards are those made in 2014 and 2015. The outstanding awards will remain subject to performance conditions and will ordinarily vest on the third anniversary of the award date. Recognising the circumstances of the departure, his flexibility in respect of his leaving date and in particular that there will be no payment in lieu of the remainder of the notice period, the Committee determined that the 2014 award should be able to vest in full, noting that there would need to be a very significant improvement in performance from present levels in order for this award to be capable of generating any value. The award granted in 2015 will be scaled back pro rata for the proportion of the time in office.

Under the rules of the US Sharesave plan, David Dutro is entitled to exercise a number of savings based options granted to him in 2014 within a 60 day period following his cessation of employment on 29 February 2016.

**Summary**

Global macroeconomic conditions in 2016 continue to be volatile which presents a challenge to the Committee to ensure appropriate incentives are set to balance risk taking and reward. This is on top of a CEO transition. The changes that the Committee are making in 2016 have been considered at length and the performance targets set are considered to be appropriately challenging for both short and long term incentives.

On behalf of the directors, I ask our shareholders to support the actions the Committee has taken.

Signed on behalf of the Board by:

**Andrew Christie**

**Chairman, Remuneration Committee**

1 March 2016

## Remuneration policy report

### Effective date and duration of remuneration policy

This part of the Directors' remuneration report (the "Remuneration policy report"), which is mostly restated for reference purposes only (and updated where appropriate), sets out the remuneration policy for the directors of the Company that was approved by shareholders at the 2015 AGM. The remuneration policy is effective for three years from 22 April 2015.

Where the text in this Remuneration policy report is in bold and underlined, this shows a change in implementation different from last year (but within the approved policy), or an update or re-wording of the text from last year.

### Policy table

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

Basic salary							
<b>Purpose and link to Company's strategy</b>	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.						
<b>How it operates in practice</b>	<p>Formal salary review normally every three 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>						
<b>Maximum potential value</b>	<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><b>Salaries for 2016:</b></p> <table> <tr> <td>Chief Executive</td><td>\$875,500 (<b>David Dutro</b>)</td></tr> <tr> <td></td><td><b>\$825,000 (Paul Waterman, from 8 February 2016)</b></td></tr> <tr> <td>Finance Director</td><td><b>£347,921</b></td></tr> </table>	Chief Executive	\$875,500 ( <b>David Dutro</b> )		<b>\$825,000 (Paul Waterman, from 8 February 2016)</b>	Finance Director	<b>£347,921</b>
Chief Executive	\$875,500 ( <b>David Dutro</b> )						
	<b>\$825,000 (Paul Waterman, from 8 February 2016)</b>						
Finance Director	<b>£347,921</b>						
Benefits							
<b>Purpose and link to Company's strategy</b>	<p>To aid retention and to remain competitive in the marketplace.</p> <p>Healthcare benefits in order to minimise business disruption.</p> <p>Executive directors may also participate along with other employees in the Group's HMRC approved SAYE, or other equivalent savings based, share schemes to share in the success of the Group.</p>						
<b>How it operates in practice</b>	<p>Life assurance and private medical health insurance are provided.</p> <p>Provision of either a company car (for business and personal purposes) or a car allowance, in both cases having a value that is consistent and commensurate with the executive's status and seniority.</p> <p>Participation in all employee/savings based share option schemes as above.</p> <p>In addition, benefits in the US, where it is standard, include cover for dental costs, accidental death and disablement, long term disability and club membership.</p>						
<b>Maximum potential value</b>	<p>SAYE/savings based schemes are subject to individual limits. These are \$2,000 per month in the US and in the UK up to the HMRC prescribed limit (£500 per month).</p> <p>Other benefits: the Committee will determine the level of benefit as it considers appropriate, taking into consideration local market practice.</p>						

## Remuneration policy report (continued)

Annual bonus scheme	
<b>Purpose and link to Company's strategy</b>	<p>To incentivise the senior management team to exceed the annual operating plans approved by the Board at the start of each financial year.</p> <p>To ensure that a significant proportion of an executive's total remuneration is based on corporate/business financial performance that is linked to the Company's annual operating plan.</p> <p>To enable incentive pay to help build and maintain meaningful executive shareholdings thereby providing greater long term focus.</p>
<b>How it operates in practice</b>	<p>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.</p> <p>Bonus payments are paid following the approval of full year results. Payments are based on salaries at the time of payment.</p> <p>Bonus deferral element: 50 per cent of any cash bonus payable must be awarded in shares and deferred for two 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).</p> <p>The Committee may seek recovery and/or withholding of bonuses paid that are later found to have been based on performance that was mis-stated or incorrectly calculated, or where the amount of any bonus may have been reduced or withheld due to reasons of gross misconduct. Recovery and withholding provisions will apply from awards made in 2015 and apply for a period of three years following payment of any bonus. Detailed provisions are incorporated into the rules of the various schemes which govern the terms of a bonus payment and or the making of any deferred share or conditional award.</p>
<b>Maximum potential value</b>	<p>Chief Executive: 150 per cent of basic salary. Finance Director: 125 per cent of basic salary.</p> <p>A higher annual bonus limit of 200 per cent of basic salary may apply for new recruits.</p>
<b>Framework used to assess performance</b>	<p>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.</p> <p>The financial elements of the bonus may include (but are not limited to) the Company's key performance indicators which include:</p> <ul style="list-style-type: none"> <li>► Profit before tax or other measures of profitability.</li> <li>► Group average trade working capital to sales ratio expressed as a percentage ("AWC") or other cash flow indicators.</li> </ul> <p>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.</p> <p>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.</p> <p>The Committee keeps performance metrics under review on an annual basis to ensure they continue to remain appropriate and has the discretion to introduce new metrics or remove existing ones and amend their relative weightings. As a result, the performance metrics and weightings may vary in line with the Company's evolving strategy during the life of the policy. The profit related element of annual bonus shall not be less than 50 per cent of the overall bonus opportunity.</p>



## 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 three years from, and within ten years of, the date of award. Share awards vest on the third anniversary of the date of award.

A post vesting holding period of two 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 onwards.

Dividend rights: dividends will accrue during the three 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.

### Maximum potential value

**Chief Executive: 200 per cent of basic salary at the time of the award.**

Finance Director: 175 per cent of basic salary 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 three 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.

## Remuneration policy report (continued)

Pension	
<b>Purpose and link to Company's strategy</b>	<p>To aid retention and remain competitive in the marketplace.</p> <p>To provide appropriate retirement benefits commensurate with local market practice, seniority of the role and tenure with the Company.</p>
<b>How it operates in practice</b>	<p>Policy for new recruits is a contribution to a non-company pension scheme and/or cash in lieu.</p> <p>The policy for the Chief Executive and Finance Director is set out below.</p> <p><b>Chief Executive</b>  <u>An annual salary supplement of 20 per cent of basic salary and, for US employees, participation in two 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 (2015: \$265,000). The employer match under these two plans includes a regular match of up to four per cent of total pensionable remuneration and a supplemental match of up to four per cent, based on age and length of service.</u></p> <p><b>Finance Director</b>  <u>Since 30 November 2015, Brian Taylorson receives an annual salary supplement in lieu of any other pension provision (other than pension previously accrued).</u></p>
<b>Maximum potential value</b>	<p>The policy for new executives is for a company contribution of up to 30 per cent of salary.</p> <p>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.</p> <p><u>The maximum for the Finance Director since 30 November 2015 is an annual salary supplement of 30 per cent of his basic salary.</u></p> <p>Legacy arrangements exist for existing employees.</p>
Share ownership guidelines	
<b>Purpose and link to Company's strategy</b>	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.
<b>How it operates in practice</b>	<p>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.</p> <p>Shares vesting from share awards, or transferred pursuant to an exercise of any option, granted under any share incentive or employee share saving scheme may not be sold (other than to meet a tax liability) until the above shareholding level has been met.</p> <p>The Committee monitors compliance with these guidelines and can make changes to them from time to time.</p>
Non-executive Chairman and directors' fees	
<b>Purpose and link to Company's strategy</b>	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.
<b>How it operates in practice</b>	<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> <p>Fees will be reviewed annually with changes taking effect from 1 January in the following year.</p> <p>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.</p>

### Link between policy, strategy and structure

**The remuneration policy is principally designed with the long term success of the Company in mind and to incentivise** the executive directors and other members of the management team 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 two 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).

### 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 14.

**In the annual bonus scheme**, PBT (defined as reported Group profit before tax, before any **non-recurring** 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 converted into cash. These metrics are aligned with the Company's objectives and strategy.

**Non-financial objectives and/or performance metrics will form a component from 2016, based on Company specific business objectives, such as the achievement of specific strategic or operational goals.**

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 Committee keeps the EPS target range under annual review, for each new award, to ensure it continues to remain appropriate.**

**The Committee has not previously incorporated corporate or business performance in environmental, social and governance matters when setting targets in the variable parts of remuneration. This will change this year with the introduction of a non-financial component to the bonus plan that may include HSE or related operational objectives.**

### 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, the 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.

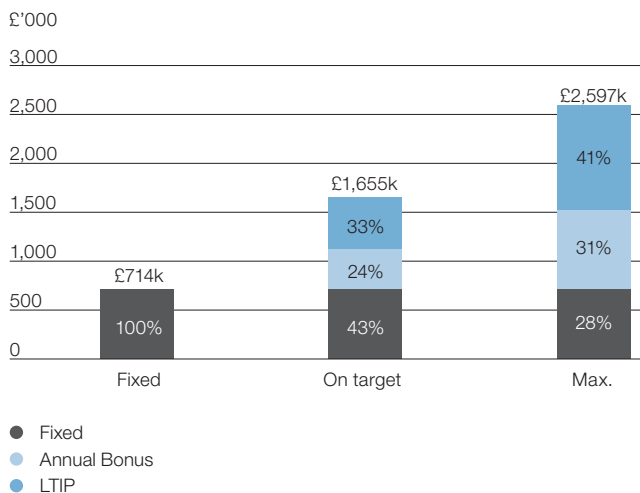
### How the views of employees are taken into account

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

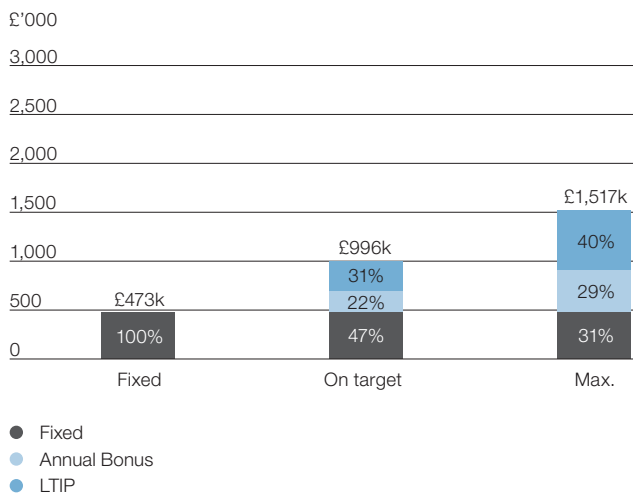
## Remuneration policy report (continued)

### Reward scenario analysis

#### Chief Executive Officer



#### Finance Director



The table above illustrates the potential pay opportunities for executive directors under three different scenarios for 2016. The CEO's remuneration has been converted into pounds sterling using the average exchange rate for 2015 (\$1.5326:£1.00).

1. Fixed: Comprises fixed pay being the value of salary, benefits and pension (benefits are included at the 2015 level and for the CEO, the employer's matching contributions to Defined Contribution plans are included at the maximum level of eight per cent of salary).
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 awards under the 'On target' and 'Maximum' scenarios, these are based on face value as a percentage of salary. The LTIPs also relate to awards to be made in 2016 rather than any awards vesting in 2016. For example, if the level of award for the CEO is 200 per cent of basic salary, then the 'On-target' scenario assumes that 50 per cent will vest and that value is included in the chart illustration. LTIPs exclude any dividend rights and for the CEO excludes buy out awards.**

### Recruitment policy

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

Element	Policy
<b>Basic salary</b>	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.
<b>Benefits</b>	<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>
<b>Pension</b>	<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>
<b>Annual bonus</b>	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.

Element	Policy
<b>Long term incentives</b>	<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>
<b>Buy out awards</b>	<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 he/she wish to take on an external board appointment, provided that there is no conflict of interest and the role does not interfere with the executive's commitment or duties. If an executive does take on an external appointment he/she 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
<b>Paul Waterman, CEO</b>	<b>6 November 2015</b>	<b>12 months</b>
Brian Taylorson, Finance Director	5 June 2005	12 months

\* **The date of the service contract is not the same as the date of appointment which for Paul Waterman was 8 February 2016 and Brian Taylorson 2 April 2002.**

### Policy on payment for loss of office

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

Payments in lieu of notice to both the Chief Executive and Finance Director may be reduced or ceased if either 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.

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 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

#### Chief Executive

**The maximum amount payable under Paul Waterman's contract is basic salary, benefits and pension for 12 months while he serves his notice period.**

**The Company may pay compensation in lieu of the notice period of his basic salary only, to be paid in monthly instalments (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 serves notice to terminate his contract in 12 months' time.**

**Any entitlement to a bonus for any part of a financial year worked (including any period of notice worked) prior to cessation of employment is subject to the rules of the scheme and subject to performance. No bonus is payable for any period of notice not worked.**

### 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 six months, subject to the Committee being satisfied that reasonable efforts to secure a new position have been made during the six 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.

**No bonus is payable for any period of notice not worked.**

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.

## Remuneration policy report (continued)

### Committee discretion with regard to incentive plans (continued)

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.

The Company operates an annual cash bonus scheme in which participation and payments are made subject to the discretion of the Committee. It is the Committee's 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 have been amended to incorporate the deferral requirement as well as recovery and withholding provisions as summarised in the remuneration policy table. The rules will include 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 two years and the date of specific events, such as a Good Leaver event or a change of control, although the Committee does have 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 tax 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

Legacy awards or other commitments **prior to the approval by shareholders of this policy report on 22 April 2015**, 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 three year term, subject to annual re-election by shareholders. For non-executive directors who have served for nine 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 six 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 2015.

Name	Date of appointment	Date of last re-appointment	Date of expiry
<i>Non-executive directors</i>			
A Duff	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	20/10/14	N/A	19/10/17

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 and shareholder representative bodies ahead of any significant future changes to remuneration policy.



## Annual report on remuneration

This Annual report on remuneration shows how the Company's policies and practices on directors' remuneration will be applied in 2016 and how they were applied in relation to payments in respect of the financial year ended 2015. This report and the Chairman's annual statement on remuneration will be put to an advisory shareholder vote at the 2016 AGM.

### Implementation of remuneration policy for 2016

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 2016.

#### Basic salaries

The Committee considered carefully salary increases for 2016 and decided to award Brian Taylorson a salary increase of 2.87% which is in line with the levels of increases for the UK salaried workforce in 2015.

	Salary as at 1 January 2016*	Salary as at 1 January 2015	Increase
Paul Waterman	<b>\$825,000</b>	n/a	–
Brian Taylorson	<b>£347,921</b>	£338,215	2.87%
<i>Past directors</i>			
David Dutro	<b>\$875,500</b>	\$875,500	–

\* or date of appointment if later

#### Pension and benefits

For the year to 31 December 2016, Paul Waterman and Brian Taylorson will receive the benefits set out in the Remuneration policy report.

#### David Dutro's remuneration in 2016

David Dutro received his basic salary, benefits and pension (pro rated) both up until his retirement as CEO at the end of 7 February 2016 and during the period when he was appointed Special Advisor to the Board (from 8 February to 29 February 2016 inclusive), to ensure a smooth handover to Paul Waterman. As explained elsewhere, he did not receive (and will not be receiving) any other payment, except for minor contractual payments, such as the reimbursement of expenses or accrued but unused holiday entitlements, or any payment made in accordance with the rules of any welfare or pension plan of which he may be a member as a former employee. The treatment of his share based awards are explained in the Annual statement on remuneration on page 36.

#### Annual bonus

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

Any bonus will be payable dependent on the achievement of financial and non-financial performance targets split 70:30. The financial performance targets will be further split between a PBT and AWC condition (weighted 80:20). PBT is defined as reported Group profit before tax, before non-recurring items, and AWC is the 12 month average working capital to sales ratio expressed as a percentage. For the PBT condition, the threshold, plan and stretch targets are set at levels considered to be sufficiently challenging and bonus accrual at these levels are 0 per cent, 50 per cent and 100 per cent, respectively, and linear in between. For the AWC condition, a single operating plan target must be met for the bonus to vest.

For Paul Waterman and Brian Taylorson, the non-financial performance measures, which will be specific, measurable and objective, are linked to the achievement of Company specific objectives.

The Committee has discretion to modify the overall amount of bonus payable in exceptional circumstances and acting in the best interests of the Company.

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

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

#### All employee share plans

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

## Annual report on remuneration (continued)

### Implementation of remuneration policy for 2016 (continued)

#### LTIP

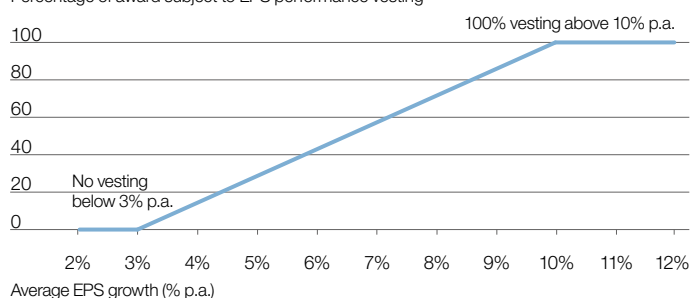
For the year to 31 December 2016, the CEO's and the Finance Director's awards will be 200 per cent and 175 per cent, respectively, of their basic salaries.

The performance targets that are intended to apply to the awards to be granted in the current year are the same as for 2015 in respect of the TSR condition and broadly similar in respect of the EPS condition.

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 3 per cent to 10 per cent, respectively (2015: RPI + 4 per cent to RPI + 10 per cent). The removal of the UK RPI benchmark is considered appropriate by the Committee in light of the global environment in which the Company operates and the population for LTIP awards. The EPS growth range has taken into account an assumption of the global inflationary environment and the range selected provides a strong link to the business strategy and is set at a level which the Committee is satisfied is no less challenging in the current environment than the target range set in previous years.

#### Vesting schedule: EPS performance condition

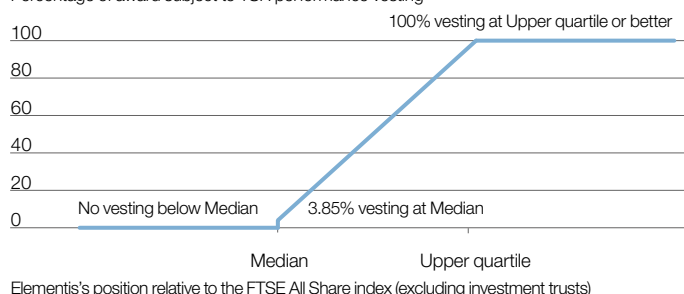
Percentage of award subject to EPS performance vesting



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).

#### Vesting schedule: TSR performance condition

Percentage of award subject to TSR performance vesting



### Buy out awards in respect of Paul Waterman's recruitment

As the LTIP awards will not be made until after the approval of this Directors' remuneration report, details will be disclosed in next year's Annual Report. A summary of the approach is given in the Annual statement on remuneration on page 36.

### Non-executive directors' remuneration

For the year to 31 December 2016, the fees payable to the Chairman and non-executive directors will be the same as for 2015, as shown below:

	2016 £	2015 £
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

## Remuneration payable to directors for 2015

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 2015 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 <sup>1</sup>	2015	571	25	167	763	–	–	–	763
	2014	515	22	155	692	265	584	849	1,541
Brian Taylorson <sup>2</sup>	2015	338	20	238	596	–	–	–	596
	2014	328	19	243	590	169	444	613	1,203
Non-executive directors									
Andrew Duff <sup>3</sup> (Chairman)	2015	175	–	–	175	–	–	–	175
	2014	123	–	–	123	–	–	–	123
Andrew Christie	2015	54	–	–	54	–	–	–	54
	2014	54	–	–	54	–	–	–	54
Steve Good <sup>4</sup>	2015	46	–	–	46	–	–	–	46
	2014	9	–	–	9	–	–	–	9
Anne Hyland	2015	54	–	–	54	–	–	–	54
	2014	54	–	–	54	–	–	–	54
Nick Salmon <sup>5</sup>	2015	54	–	–	54	–	–	–	54
	2014	9	–	–	9	–	–	–	9
Total	2015	1,292	45	405	1,742	–	–	–	1,742
Total	2014	1,092 <sup>6</sup>	41	398	1,531	434	1,028 <sup>7</sup>	1,462	2,993

### Notes

- David Dutro, who was Chief Executive, based in the US and paid in US dollars, received a salary of \$875,500 (2014: \$850,000). His pension comprises 20 per cent of his salary and employer contributions to defined contribution pension schemes.
- Brian Taylorson's pension in 2015 and 2014 comprises a salary supplement of 74 per cent of his salary, equivalent to the value of his previous pension arrangements, which decreased to 30 per cent from 30 November 2015.
- Andrew Duff received pro rated fees in 2014, reflecting when he joined the Board and was appointed Chairman.
- Steve Good received a pro rated fee in 2014, reflecting when he joined the Board.
- Nick Salmon received pro rated fees in 2014, reflecting when he joined the Board and was appointed Senior Independent Director.
- Including former directors who also served during 2014, this amount becomes £1,220k, as disclosed in the 2014 Annual Report. In addition, the stronger US dollar to pounds sterling exchange rate in 2015 compared to 2014 has impacted the salary comparison for David Dutro in the above table.
- As required by remuneration reporting regulations, the valuation of the executive directors' LTIP awards for 2014 has been restated using the actual share price on the date of vesting.

## Annual report on remuneration (continued)

### Determination of annual bonus outcome for performance in 2015

This section shows the performance targets set in respect of the 2015 annual bonus scheme, the level of performance achieved and the amount of bonus payable to directors. The maximum full year bonus opportunity was 150 per cent and 125 per cent of basic salary, respectively, for the Chief Executive and Finance Director.

Full year bonus	Relative weighting of performance conditions	FY 2015 bonus plan targets			Actual result	Bonus received as % of basic salary	
		Threshold	Plan	Stretch		Chief Executive	Finance Director
PBT (\$ million)	80%	141.9	149.3	154.2	<b>116.2</b>	nil %	nil %
AWC (%)	20%	–	20.6	–	<b>24.7</b>	nil %	nil %
Total full year payment	100%	–	–	–	–	nil %	nil %

### Directors' share based awards

#### Determination of 2013 LTIP awards

The awards made in 2013, shown in the table on page 49 headed Directors' scheme interests, have a vesting date of 2 April 2016. The performance conditions (EPS and TSR, split 50:50) relate to performance over the three financial years ended 31 December 2015. Under the EPS condition, all of the awards subject to that condition would have vested in full if EPS grew during the three financial years ended 2015 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 three financial years ended 31 December 2015 was at or above upper quartile. Over the performance period, the Company's EPS growth did not achieve the minimum growth threshold and its TSR performance was 16 per cent which placed it at the 27th percentile of companies in the FTSE All Share index. Accordingly, none of the 2013 awards will vest on 2 April 2016 and the LTIP component of the total remuneration figure in the table on page 47 are valued at nil.

#### LTIP awards granted in the year

LTIP awards made in 2015 are set out in the table below and are subject to EPS and TSR performance conditions (split 50:50) over the three years to 31 December 2017. For the EPS condition, the 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 10 per cent, respectively. For the TSR condition, the 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).

	Type of share award	Grant date	Number of awards	Face value of award at grant (£'000) <sup>1</sup>	Percentage that would vest at threshold performance	The end date of the performance period
David Dutro	Nil cost option (restricted stock unit)	27.04.15	324,230	1,010	0 per cent of the award subject to the EPS condition and 3.85 per cent of the award subject to the TSR condition	31.12.17
Brian Taylorson	Nil cost option	27.04.15	189,947	592		

<sup>1</sup> For both David Dutro and Brian Taylorson this equates to 175 per cent of their basic salary. The share price used to determine the number of awards granted was 311.60 pence being the average mid-market closing share price on the dealing day preceding the date of grant.

Details of awards in savings based share schemes are shown in the table (right).

### Sourcing shares for our share plans

Employee share plans comply with Investment Association 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 ten year period, with a further limitation of 5 per cent in any ten year period on discretionary plans. Based on the number of awards that remain outstanding as at the year end, the Company's headroom for all plans is 4.5 per cent and for discretionary plans 3.8 per cent of issued share capital.

## Directors' 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)	01.01.15	Granted during 2015	Exercised during 2015	Lapsed during 2015	31.12.15		
Executive directors									
David Dutro	A	23.08.2013	227.55	2,722	–	2,722	–	–	–
	A	22.08.2014	242.93	9,523	–	–	–	9,523	–
	B	26.06.2012	–	359,846	–	233,396	126,450	–	–
	B	02.04.2013	–	289,750	–	–	–	289,750*	–
	B	01.04.2014	–	267,507	–	–	–	267,507	–
	B	27.04.2015	–	–	324,230	–	–	324,230	–
Total scheme interests				929,348	324,230	236,118	126,450	891,010	Nil
Brian Taylorson	A	01.10.2014	216.58	8,311	–	–	–	8,311	–
	B	26.06.2012	–	273,693	–	–	96,176	177,517	177,517
	B	02.04.2013	–	214,398	–	–	–	214,398*	–
	B	01.04.2014	–	193,663	–	–	–	193,663	–
	B	27.04.2015	–	–	189,947	–	–	189,947	–
Total scheme interests				690,065	189,947	–	96,176	783,836	177,517

### Notes

\* As the performance conditions were not met, these awards will lapse in full on 2 April 2016.

- 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 three months thereafter. However, following his retirement, good leaver rules apply and he may exercise these options up until the end of April 2016 after which they will lapse.
- 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 2013, 2014 and 2015, 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. In respect of David Dutro's unvested LTIP awards, pro rating for time will only be applied to the 2015 awards (shown above before scaling back). Further details are explained in the Annual statement on remuneration on page 36.

## Directors' share interests

The interests of the directors (including any connected persons) during the year (and from the year end to 1 March 2016) in the issued shares of the Company were:

	Share interests				Shareholding requirement met as at 31.12.15
	01.01.15*	Acquired during 2015	Disposed during 2015	31.12.15	
Executive directors					
David Dutro <sup>1</sup> (retired as a director on 07.02.16)	312,343	208,475	–	520,818	Yes
Paul Waterman (appointed a director on 08.02.16)	–	–	–	–	N/A
Brian Taylorson <sup>2</sup>	443,778	–	3,000	440,778	Yes
Non-executive directors					
Andrew Duff	50,000	–	–	50,000	N/A
Andrew Christie	10,000	–	–	10,000	N/A
Steve Good	10,000	–	–	10,000	N/A
Anne Hyland	10,000	–	–	10,000	N/A
Nick Salmon	10,000	–	–	10,000	N/A

### Notes

\* Or from date of appointment if later.

- 1 The shares acquired by David Dutro comprise: (i) 2,722 shares retained following the exercise of savings based share options granted in 2013, which, valued at the share price on date of exercise of 233.10 pence, resulted in a notional gain of c.£150; (ii) 131,338 shares retained following the exercise and sale of 233,396 shares granted under the LTIP in 2012 (which partially vested) at a price of 241.73 pence, giving a pre-tax gain of c.£564k; and (iii) 74,415 shares allocated to him following further investments made by the Elementis Unitised Stock Fund in connection with the US 401k pension plan, as announced on 19 June 2015.
- 2 Brian Taylorson's daughter (who was a connected person when she first acquired the shares) sold 3,000 shares which was held beneficially on 14 May 2015, as announced on that date, at a price of 312.25 pence per share. She was no longer a connected person when she sold the shares.

The market price of ordinary shares at 31 December 2015 was 229.10 pence (2014: 261.80 pence) and the range during 2015 was 208.20 pence to 320.50 pence (2014: 227.60 pence to 297.80 pence).

As at 1 March 2016, the Trustee of the Company's ESOT held 160,000 shares (2014: nil). As executive directors, Paul Waterman 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 1 March 2016, 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 2015 and 1 March 2016 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.

## Annual report on remuneration (continued)

### Directors' share interests (continued)

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, accrued 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 2015. The amounts paid under these plans were £53,032 (2014: £52,206) equivalent to 9.3 per cent (2014: 6.0 per cent) of his total pensionable remuneration in 2015. The payment of a salary supplement is explained in the Remuneration policy report on page 40. 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 supplement		Defined benefit schemes	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	Accrued benefits 31.12.15 £'000	Accrued benefits 31.12.14 £'000
David Dutro	53	52	114	103	9	9
Brian Taylorson	–	–	238	243	57 <sup>1</sup>	56

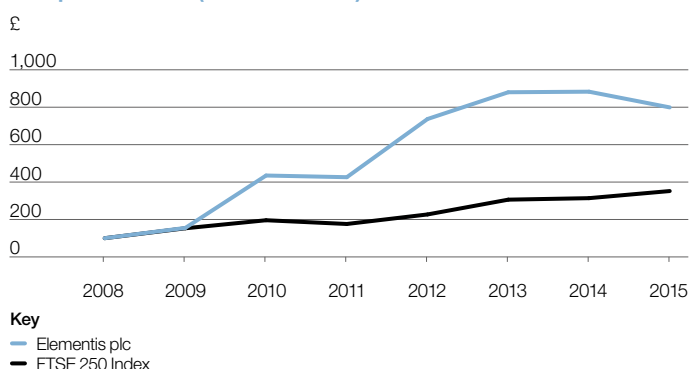
1. Brian Taylorson started drawing down his benefits from the UK defined benefit scheme with effect from his normal retirement date on 15 November 2015; the amount of £57k shown is therefore his accrued pension at his normal retirement date. The change in accrued benefit is due to statutory revaluation 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 seven years ended 31 December 2015, relative to the FTSE 250 Index (excluding investment trusts), 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 2015 of £100 invested in Elementis on 31 December 2008 compared with that of the total return of £100 invested in the FTSE 250 Index. This index was selected for the purpose of providing a relative comparison of performance because the Company is a member of it.

### TSR performance (rebased to 100)



	2009	2010	2011	2012	2013	2014	2015
CEO pay (total remuneration – £'000s)	576	1,031	2,964	3,560	2,252	1,573	763
Annual bonus award against maximum opportunity	0%	100%	100%	81%	56%	50%	0%
LTIP vesting against maximum opportunity	88%	0%	100%	100%	100%	65%	0%



### 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 2015 and the preceding financial year.

### Remuneration against distributions

£m	2015	2014	change
Remuneration paid to all employees (see Note 8 to the Consolidated financial statements) <sup>1</sup>	67.4	66.8	1%
Total dividends paid in the year <sup>2</sup>	46.0	38.0	21%

- 1 The amounts for 2015 and 2014 have been converted from dollars into pounds sterling using the average USD:GBP exchange rates for those years.  
 2 2015 and 2014 include a special dividend payment of \$32.1 million (£20.8 million) and \$27.1 million (£16.2 million) respectively.

### Percentage change in CEO's pay

The following table shows the change from 2014 to 2015 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 2014 to 2015*		
	Salaries	Benefits	Bonus**
CEO pay (total remuneration)	10.9%	13.6%	(100%)
All employees	2.0%	5.0%	(100%)

\* 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 2014 Directors' remuneration policy and Directors' remuneration report (excluding the remuneration policy) were passed on a poll at the Company's last AGM held on 22 April 2015. Set out in the table below are the votes cast by proxy in respect of those resolutions.

### Approval of 2014 Directors' remuneration resolutions

	Votes for	% for	Votes against	% against	Votes withheld
Policy	322,589,945	98.93	3,497,051	1.07	24,478,522
Report	343,998,197	99.01	3,429,828	0.99	3,134,493

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

### Other information about the Committee's membership and operation

#### Committee composition

The Chairman and members of the Committee are shown on page 26, together with their biographical information. Seven meetings were held during 2015 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. The 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.

The Committee receives information and advice from management from time to time when considering the implementation of remuneration policy, and so recognises the risk of potential conflicts of interest which it manages by ensuring that it meets without management present, when appropriate, and retains the services of external advisers (see right).

#### Terms of reference

A full description of the Committee's terms of reference 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 2015 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 or payable to NBS in respect of 2015 amount to c.£15,000 for advisory services mainly in connection with assisting in the implementation of the changes made to incentive plans last year, structuring a remuneration package for the new CEO and reviewing 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 2015; and tables headed LTIP awards granted in the year, Directors' scheme interests, Directors' share interests and Directors' retirement benefits.

### Andrew Christie

#### Chairman, Remuneration Committee

1 March 2016

**Report and financial statements**

The directors submit their report and the audited financial statements for the year ended 31 December 2015.

This Directors' report includes the Corporate governance reports from pages 28 to 51.

**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, which forms part of this Directors' report, also includes information 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 pages 26 and 27.

**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 the whole of 2015 were Andrew Duff, Andrew Christie, David Dutro, Steve Good, Anne Hyland, Nick Salmon and Brian Taylorson.

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 reasonable accommodation 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.

**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 2015 was \$74 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 considering all of the above, it is appropriate for the Group and the Company to adopt the going concern basis of accounting in preparing these Group and the parent company financial statements, and that there are no material uncertainties to the ability of the Group and Company to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

**Business viability statement**

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

A period of three years was chosen as being consistent with the Group's business and financial planning models, R&D plans, a number of key supply contracts and external borrowing facilities, and three years is the period used for mid-term business planning purposes. Whilst the directors have no reason to believe that the Group will not be viable over a longer period, a three year period allows the directors to make the viability statement with a reasonable degree of confidence whilst providing shareholders with an appropriate longer term outlook. The directors' viability assessment of the Group's prospects is based on reviews of annual operating and three year business plans, the Group's strategy, principal risks and how these are managed and mitigated. How these reviews were carried out, the principal risks and how they are being managed are more fully described and explained in the risk management section of the Strategic report on pages 15 to 19, together with relevant assumptions and qualifications.

## Share capital

The Company's share capital consists of ordinary shares, as set out in Note 10 to the Parent company financial statements on page 95. 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 2015 the ESOT held 160,000 shares in the Company (2014: nil). A dividend waiver is in place in respect of all shares that may become held by the Trust.

## 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.

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 1 March 2016 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 S.A.	47,357,924	10.23
Standard Life Investments Limited	29,345,109	6.34
APG Asset Management N.V.	23,136,223	5.01
Aberdeen Asset Managers Limited	23,089,702	5.00
Ameriprise Financial, Inc. and its group	22,776,706	4.92

## Auditors

As explained in the Audit Committee report, the Board initiated an audit tender process during 2015. Consequently, KPMG LLP, which has acted as the Company's auditors since June 2014, will be retiring at the AGM once the report and accounts for 2015 have been received. The statement of circumstances from KPMG on ceasing to hold office required by the Companies Act 2006 will be attached to the Notice of Meeting.

Following an audit tender process, the Board is recommending that Deloitte LLP be appointed the Company's auditors and a resolution to appoint Deloitte as the auditors of the Company will be proposed at the forthcoming AGM to be held on 27 April 2016. 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 (2014: nil). A resolution is being proposed at the 2016 AGM to renew the 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 2015 for another year. The terms of the conflict authorisation have remained unchanged since 2008.

## Other information

Information about financial risk management and exposure to financial market risks are set out in Note 21 to the financial statements on page 77.

## Annual General Meeting

The nineteenth AGM of the Company will be held on Wednesday 27 April 2016. The Notice of Meeting is included in a separate document sent to shareholders.

By order of the Board

**Wai Wong**  
**Company Secretary**  
 1 March 2016

## 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 judgements 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 pages 26 and 27, 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**

1 March 2016

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ELEMENTIS PLC ONLY

**1. Our opinion on the financial statements is unmodified**

We have audited the financial statements of Elementis plc for the year ended 31 December 2015 set out on pages 58 to 95. 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 2015 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, including FRS 101 Reduced Disclosure Framework; and
- ▶ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

**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 (unchanged from 2014):

Environmental provisions \$29.5 million (2014: \$31.7 million)

Refer to page 33 (Audit Committee report), page 62 (accounting policy) and page 74 (financial disclosures).

*The risk* – The Group has numerous operating and legacy sites worldwide and environmental issues and related legal proceedings is inherent within the chemicals industry. The amounts involved are 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 procedures included correspondence with the Group's external consultants on the current situation and risks regarding all identified significant environmental issues. We assessed the consistency of the forecast cash flows used as a basis for the provisions with previous estimates by comparing the most recent actual cash flows with the prior year external report. We compared the discount rate used with external market data. 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 \$29.0 million (2014: \$65.8 million)

Refer to page 33 (Audit Committee report), page 62 (accounting policy) and page 83 (financial disclosures).

*The risk* – Significant estimates are made in valuing the Group's post retirement defined benefit scheme obligation (before deducting scheme assets) and small changes in assumptions and estimates used would have a significant effect on the financial position of the Group.

*Our response* – Our audit procedures included, with the support of our own actuarial specialists, challenging the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy. This included a comparison of these key assumptions against externally derived data. We also considered the adequacy of the Group's disclosures in respect of the sensitivity of the deficit to these assumptions.

Tax asset recoverability \$48.2 million (2014: \$56.4 million)

Refer to page 33 (Audit Committee report), page 62 (accounting policy) and page 75 (financial disclosures).

*The risk* – The Group has 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 these assets are or are not recognised.

*Our response* – Our procedures included challenging the basis for key assumptions within the Group's taxable profit forecasts by performing sensitivity analysis on the key drivers of revenue. 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. We also considered the adequacy of the Group's disclosures in respect of the recognition of these tax assets.

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

Materiality for the Group financial statements as a whole was set at \$6 million (2014: \$7 million), determined with reference to a benchmark of Group profit before taxation, of which it represents 4.9% (2014: 4.7%).

We reported to the Audit Committee any corrected or uncorrected identified mis-statements exceeding \$0.3 million (2014: \$0.35 million), in addition to other identified mis-statements that warranted reporting on qualitative grounds.

Of the Group's 140 (2014: 139) reporting components, we subjected 13 (2014: 11) to audits for Group reporting purposes and 29 (2014: 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.

### 3. Our application of materiality and an overview of the scope of our audit (continued)

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	13	93%	89%	85%
Specified risk focused audit procedures	29	2%	9%	14%
<b>Total (2015)</b>	<b>42</b>	<b>95%</b>	<b>99%</b>	<b>99%</b>
Total (2014)	40	92%	97%	93%

The Group 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 team approved component materialities, which ranged from \$0.4 million to \$4.5 million (2014: \$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 14 of the 42 in scope components (2014: 9 of the 40 components) was performed by component auditors and the rest by the Group team. The Group team performed procedures on the items excluded from normalised Group profit before tax.

The Group team visited two (2014: two) 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 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 on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- ▶ the directors' Business viability statement on page 52, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the Group's continuing in operation over the three years to 2018; or
- ▶ the disclosures in Note 1 to the financial statements on page 62 concerning the use of the going concern basis of accounting.

### 6. 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 position and performance, business model and strategy; or
- ▶ the Audit Committee report does not appropriately address matters communicated by us to the Audit 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; or
- ▶ we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- ▶ the directors' statements, set out on page 52, in relation to going concern and longer term viability; and
- ▶ the part of the Corporate Governance Statement on pages 29 and 30 relating to the Company's compliance with the 11 provisions of the 2014 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' responsibilities statement set out on page 54, 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](http://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](http://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  
1 March 2016

**CONSOLIDATED INCOME STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Before non-recurring items \$million	Non-recurring items (Note 5) \$million	2015 After non-recurring items \$million	Before non-recurring items \$million	Non-recurring items (Note 5) \$million	2014 After non-recurring items \$million
Revenue	2	678.8	–	678.8	790.4	–	790.4
Cost of sales		(418.8)	–	(418.8)	(486.1)	–	(486.1)
Gross profit		260.0	–	260.0	304.3	–	304.3
Distribution costs		(85.8)	–	(85.8)	(92.3)	–	(92.3)
Administrative expenses		(51.7)	(11.4)	(63.1)	(61.9)	6.3	(55.6)
Profit on property disposal		–	17.0	17.0	–	–	–
Operating profit	2	122.5	5.6	128.1	150.1	6.3	156.4
Other expenses		(2.1)	–	(2.1)	(1.9)	–	(1.9)
Finance income	3	0.2	–	0.2	0.3	–	0.3
Finance costs	4	(4.4)	–	(4.4)	(6.6)	–	(6.6)
Profit before income tax		116.2	5.6	121.8	141.9	6.3	148.2
Tax	6	(19.3)	(7.2)	(26.5)	(26.3)	53.5	27.2
Profit for the year		96.9	(1.6)	95.3	115.6	59.8	175.4
Attributable to:							
Equity holders of the parent		96.9	(1.6)	95.3	115.6	59.8	175.4
		96.9	(1.6)	95.3	115.6	59.8	175.4
<b>Earnings per share</b>							
Basic (cents)	9			20.6			38.1
Diluted (cents)	9			20.4			37.7

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 \$million	2014 \$million
<b>Profit for the year</b>	<b>95.3</b>	175.4
<b>Other comprehensive income:</b>		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	17.4	(18.5)
Deferred tax associated with retirement benefit obligations	(6.6)	14.1
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(21.7)	(11.6)
Effective portion of changes in fair value of cash flow hedges	(0.9)	0.1
Fair value of cash flow hedges transferred to income statement	(0.1)	(0.3)
Tax benefit associated with exercise of share options	–	2.8
Other comprehensive income	(11.9)	(13.4)
Total comprehensive income for the year	83.4	162.0
Attributable to:		
Equity holders of the parent	83.4	162.0
Total comprehensive income for the year	83.4	162.0

**CONSOLIDATED BALANCE SHEET**

AT 31 DECEMBER 2015

	Note	2015 31 December \$million	2014 31 December \$million
<b>Non-current assets</b>			
Goodwill and other intangible assets	10	362.5	373.0
Property, plant and equipment	11	211.2	211.7
ACT recoverable	16	34.0	42.0
Deferred tax assets	16	14.2	14.4
<b>Total non-current assets</b>		<b>621.9</b>	<b>641.1</b>
<b>Current assets</b>			
Inventories	12	119.5	137.5
Trade and other receivables	13	103.8	121.4
Derivatives		–	0.7
Cash and cash equivalents	20	79.1	73.7
<b>Total current assets</b>		<b>302.4</b>	<b>333.3</b>
<b>Total assets</b>		<b>924.3</b>	<b>974.4</b>
<b>Current liabilities</b>			
Bank overdrafts and loans	19	(5.1)	(8.1)
Trade and other payables	14	(79.9)	(122.0)
Derivatives		(0.3)	(0.2)
Current tax liabilities		(0.6)	(5.1)
Provisions	15	(9.5)	(6.7)
<b>Total current liabilities</b>		<b>(95.4)</b>	<b>(142.1)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	19	–	(1.4)
Retirement benefit obligations	23	(29.0)	(65.8)
Deferred tax liabilities	16	(113.0)	(92.7)
Provisions	15	(28.9)	(28.3)
<b>Total non-current liabilities</b>		<b>(170.9)</b>	<b>(188.2)</b>
<b>Total liabilities</b>		<b>(266.3)</b>	<b>(330.3)</b>
<b>Net assets</b>		<b>658.0</b>	<b>644.1</b>
<b>Equity</b>			
Share capital	17	44.4	44.4
Share premium		20.2	18.7
Other reserves	18	93.0	116.4
Retained earnings		500.4	464.6
<b>Total equity attributable to equity holders of the parent</b>		<b>658.0</b>	<b>644.1</b>
<b>Total equity</b>		<b>658.0</b>	<b>644.1</b>

The financial statements on pages 58 to 89 were approved by the Board on 1 March 2016 and signed on its behalf by:

**Brian Taylorson**  
Finance Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 31 DECEMBER 2015

	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 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
<b>Balance at 1 January 2015</b>	<b>44.4</b>	<b>18.7</b>	<b>(40.3)</b>	<b>(6.9)</b>	<b>163.6</b>	<b>464.6</b>	<b>644.1</b>	<b>–</b>	<b>644.1</b>
Comprehensive income									
Profit for the year	–	–	–	–	–	95.3	95.3	–	95.3
Other comprehensive income									
Exchange differences	–	–	(21.7)	–	–	–	(21.7)	–	(21.7)
Fair value of cash flow hedges transferred to the income statement	–	–	–	(0.1)	–	–	(0.1)	–	(0.1)
Effective portion of changes in fair value of cash flow hedges	–	–	–	(0.9)	–	–	(0.9)	–	(0.9)
Remeasurements of retirement benefit obligations	–	–	–	–	–	17.4	17.4	–	17.4
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(6.6)	(6.6)	–	(6.6)
Transfer	–	–	–	–	(2.6)	2.6	–	–	–
Total other comprehensive income	–	–	(21.7)	(1.0)	(2.6)	13.4	(11.9)	–	(11.9)
Total comprehensive income	–	–	(21.7)	(1.0)	(2.6)	108.7	83.4	–	83.4
Transactions with owners									
Purchase of own shares	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Issue of shares by the Company	–	1.5	–	–	(0.2)	–	1.3	–	1.3
Share based payments	–	–	–	–	2.1	–	2.1	–	2.1
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Dividends paid	–	–	–	–	–	(71.1)	(71.1)	–	(71.1)
Total transactions with owners	–	1.5	–	–	1.9	(72.9)	(69.5)	–	(69.5)
<b>Balance at 31 December 2015</b>	<b>44.4</b>	<b>20.2</b>	<b>(62.0)</b>	<b>(7.9)</b>	<b>162.9</b>	<b>500.4</b>	<b>658.0</b>	<b>–</b>	<b>658.0</b>

**CONSOLIDATED CASH FLOW STATEMENT**  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 \$million	2014 \$million
<b>Operating activities:</b>			
Profit for the year		95.3	175.4
Adjustments for:			
Other expenses		2.1	1.9
Finance income		(0.2)	(0.3)
Finance costs		4.4	6.6
Tax charge/(credit)		26.5	(27.2)
Depreciation and amortisation		26.9	25.2
Decrease in provisions		(5.0)	(2.8)
Pension payments net of current service cost		(22.8)	(49.5)
Share based payments		2.1	2.5
Non-recurring items		(5.6)	(6.3)
Cash flow in respect of non-recurring items		(7.7)	(3.1)
Operating cash flow before movement in working capital		116.0	122.4
Decrease/(increase) in inventories		14.7	(12.7)
Decrease/(increase) in trade and other receivables		11.8	(0.1)
(Decrease)/increase in trade and other payables		(39.4)	17.1
Cash generated by operations		103.1	126.7
Income taxes paid		(12.7)	(12.0)
Interest paid		(1.2)	(1.6)
<b>Net cash flow from operating activities</b>		<b>89.2</b>	<b>113.1</b>
<b>Investing activities:</b>			
Interest received		0.2	0.3
Disposal of property, plant and equipment		24.0	0.9
Purchase of property, plant and equipment		(30.3)	(35.4)
Purchase of business		–	(4.1)
Acquisition of intangible assets		(1.1)	(0.4)
Net cash flow from investing activities		(7.2)	(38.7)
<b>Financing activities:</b>			
Issue of shares by the Company and the ESOT		1.4	2.1
Dividends paid		(71.1)	(64.7)
Receipt of unclaimed dividends		–	0.2
Purchase of shares by the ESOT		(0.6)	–
Decrease in borrowings		(3.9)	(0.3)
<b>Net cash used in financing activities</b>		<b>(74.2)</b>	<b>(62.7)</b>
<b>Net increase in cash and cash equivalents</b>		<b>7.8</b>	<b>11.7</b>
Cash and cash equivalents at 1 January		73.7	64.5
Foreign exchange on cash and cash equivalents		(2.4)	(2.5)
<b>Cash and cash equivalents at 31 December</b>	20	<b>79.1</b>	<b>73.7</b>

## **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 90 to 95.

### **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 52.

### **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, particularly when considering the size and timing of remediation spending, and more difficult to estimate when they relate to sites no longer directly controlled by the Group.

#### **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 IAS19 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.

In accordance with IAS19, for any pension plan in surplus, the amount recognised as an asset is limited to an asset ceiling, being the present value of any potential refund or a reduction in future contributions. Following the guidance in IFRIC 14, the Group has assessed the nature of the minimum funding requirement of the UK scheme alongside the unconditional right to a refund of any surplus under any winding up of the plan and concluded it is appropriate to recognise the full value of any pension surplus.

The Group recognises actuarial gains and losses in the period in which they occur through the statement of comprehensive income. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. Due to the size of the Group's pension scheme assets and liabilities, relatively small changes in the assumptions can have a significant impact on the expense recorded in the income statement and on the pension liability recorded in the balance sheet.

#### **c. Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. 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. In 2014, an asset of \$42.0 million was recognised relating to UK advance corporation credits which had previously been unrecognised because of uncertainty over the availability of UK taxable profits and hence a tax liability against which to utilise the credits. During 2014 the Group transferred some profitable product manufacturing to the UK from overseas, restructured the financing of an overseas subsidiary and gained greater certainty on future UK pension contributions, all of which led to a reasonable expectation that UK taxable profits would arise in the future and therefore that the tax credits should be recognised. 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.

#### d. Non-recurring items

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

#### 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 focuses 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

## **1. Accounting policies (continued)**

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 pure research is recognised in the income statement as an expense as incurred. Under IAS38, expenditure on development where research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process will give rise to future economic benefits and where the cost of the capitalised asset can be measured reliably. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation. The length of development lifecycles, broad nature of much of the research undertaken and uncertainty until a late stage as to ultimate commercial viability of a potential product can mean that the measurement criteria of IAS38 regarding the probability of future economic benefits and the reliability of allocating costs may not be met, in which case expenditure is expensed as incurred.

#### **c. 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.

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 that the significant risks and rewards of ownership have been transferred to the customer and where the collectability of revenue is reasonably assured. This may occur, depending on the individual customer relationship, when the product has been transferred to a freight carrier, when the customer has received the product or, for consignment stock held at customers' premises, when usage reports for the relevant period have been compiled.

### 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.

### 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.

## **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 2015, and have not been applied in preparing these consolidated financial statements, but that become mandatory for the Group's 2016 financial statements are as follows:

#### **Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation**

This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

#### **Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation**

In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

#### **Amendments to IAS 27, 'Separate financial statements' on the equity method**

These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

### **Annual improvements 2014**

This set of amendments impacts four standards:

- ▶ IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- ▶ IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- ▶ IAS 19, 'Employee benefits' regarding discount rates.
- ▶ IAS 34, 'Interim financial reporting' regarding disclosure of information.

#### **Amendment to IAS 1, 'Presentation of financial statements' on the disclosure initiative**

These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports.

The Group has not yet determined the potential impact of these new standards and interpretations on the 2016 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 2015

	2015					
	Specialty Products \$million	Surfactants \$million	Chromium \$million	Segment totals \$million	Central costs \$million	Total \$million
Revenue	453.2	53.8	182.7	689.7	–	689.7
Internal revenue	(0.1)	–	(10.8)	(10.9)	–	(10.9)
Revenue from external customers	453.1	53.8	171.9	678.8	–	678.8
Operating profit before non-recurring items	82.2	4.8	49.8	136.8	(14.3)	122.5
Head office cost allocations	(2.2)	(0.3)	(0.9)	(3.4)	3.4	–
Non-recurring items	(2.4)	(1.2)	12.0	8.4	(2.8)	5.6
Profit/(loss) before interest	77.6	3.3	60.9	141.8	(13.7)	128.1
Other expenses	–	–	–	–	(2.1)	(2.1)
Finance income	–	–	–	–	0.2	0.2
Finance expense	–	–	–	–	(4.4)	(4.4)
Taxation – pre non-recurring items	–	–	–	–	(19.3)	(19.3)
Taxation – non-recurring items	–	–	–	–	(7.2)	(7.2)
<b>Profit for the period</b>	<b>77.6</b>	<b>3.3</b>	<b>60.9</b>	<b>141.8</b>	<b>(46.5)</b>	<b>95.3</b>
Fixed assets	494.0	20.8	70.1	584.9	(11.2)	573.7
Inventories	71.1	4.6	43.7	119.4	0.1	119.5
Trade and other receivables	63.0	7.6	30.9	101.5	2.3	103.8
ACT recoverable	–	–	–	–	34.0	34.0
Deferred tax assets	–	–	–	–	14.2	14.2
Cash and cash equivalents	–	–	–	–	79.1	79.1
<b>Segment assets</b>	<b>628.1</b>	<b>33.0</b>	<b>144.7</b>	<b>805.8</b>	<b>118.5</b>	<b>924.3</b>
Trade and other payables	(47.2)	(9.8)	(17.1)	(74.1)	(5.8)	(79.9)
Operating provisions	(2.4)	(2.6)	(19.0)	(24.0)	(14.4)	(38.4)
Bank overdrafts and loans	–	–	–	–	(5.1)	(5.1)
Derivatives	–	–	–	–	(0.3)	(0.3)
Current tax liabilities	–	–	–	–	(0.6)	(0.6)
Retirement benefit obligations	–	–	–	–	(29.0)	(29.0)
Deferred tax liabilities	–	–	–	–	(113.0)	(113.0)
<b>Segment liabilities</b>	<b>(49.6)</b>	<b>(12.4)</b>	<b>(36.1)</b>	<b>(98.1)</b>	<b>(168.2)</b>	<b>(266.3)</b>
<b>Net assets</b>	<b>578.5</b>	<b>20.6</b>	<b>108.6</b>	<b>707.7</b>	<b>(49.7)</b>	<b>658.0</b>
Capital additions	16.1	4.6	10.5	31.2	0.2	31.4
Depreciation and amortisation	(16.2)	(1.8)	(7.9)	(25.9)	(1.0)	(26.9)

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	230.8	31.4	161.4	255.2	678.8
Non-current assets	442.3	40.0	35.6	55.8	573.7
Capital additions	20.6	1.4	6.7	2.7	31.4
Depreciation and amortisation	(18.6)	(1.3)	(2.8)	(4.2)	(26.9)

## 2. Operating segments (continued)

Segmental analysis for the year ended 31 December 2014

	2014					Total \$million
	Specialty Products \$million	Surfactants \$million	Chromium \$million	Segment totals \$million	Central costs \$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 non-recurring items	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	–
Non-recurring items	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 non-recurring items	–	–	–	–	(26.3)	(26.3)
Taxation – non-recurring items	–	–	–	–	53.5	53.5
<b>Profit for the period</b>	<b>100.1</b>	<b>8.2</b>	<b>56.8</b>	<b>165.1</b>	<b>10.3</b>	<b>175.4</b>
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
<b>Segment assets</b>	<b>660.1</b>	<b>34.4</b>	<b>155.5</b>	<b>850.0</b>	<b>124.4</b>	<b>974.4</b>
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)
<b>Segment liabilities</b>	<b>(71.3)</b>	<b>(12.0)</b>	<b>(47.5)</b>	<b>(130.8)</b>	<b>(199.5)</b>	<b>(330.3)</b>
<b>Net assets</b>	<b>588.8</b>	<b>22.4</b>	<b>108.0</b>	<b>719.2</b>	<b>(75.1)</b>	<b>644.1</b>
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)



### 3. Finance income

	2015 \$million	2014 \$million
Interest on bank deposits	0.2	0.3

### 4. Finance costs

	2015 \$million	2014 \$million
Interest on bank loans	1.2	1.6
Pension and other post retirement liabilities	1.8	3.1
Unwind of discount on provisions	1.4	1.9
	4.4	6.6

### 5. Non-recurring items

	2015 \$million	2014 \$million
Land sale	17.0	–
Restructuring	(4.2)	–
Post employment benefits	–	4.9
Environmental provisions	–	(1.9)
Other	(7.2)	3.3
	5.6	6.3
Tax charge in relation to non-recurring items	(2.5)	(0.8)
Recognition of further UK tax assets	–	12.3
Recognition of ACT	(4.7)	42.0
	(1.6)	59.8

A number of items have been recorded under “non-recurring items” in 2015 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 Group profit before tax for the year is a credit of \$5.6 million (2014: \$6.3 million). The items fall into four categories, as summarised below:

#### Land sale – net credit of \$17.0 million

On 26 July 2015, Chromium sold a non-operating portion of its site at Corpus Christi, US, for total proceeds of \$26.0 million. After transaction costs and deduction of the book value of the land, the net gain on the sale was \$23.8 million. The terms of the disposal crystallised certain future regulatory and monitoring obligations for the Group and the \$6.8 million one time cost of these has been deducted to arrive at a net profit on property disposal of \$17.0 million and added to the Group’s existing environmental provisions.

#### Restructuring – charge of \$4.2 million

In October 2015, the Group announced that it was taking certain actions to reduce costs by reducing its workforce and reorganising some parts of its management structure, including the recruitment of a new Group Chief Executive. The one time cost of this exercise including redundancy costs, as well as recruitment and other costs associated with changes in the management structure, was \$4.2 million. Anticipated annual savings from this exercise are approximately \$4.0 million and will largely be realised from 2016 onwards.

#### Other – charge of \$7.2 million

A provision has been set up within Chromium that relates to a legacy right of first refusal agreement with a third party. Under that agreement, Chromium pays a fixed annual fee in return for the right to acquire certain land in North Carolina for operating purposes. Payment of the fixed fee is also related to the continued use of certain disposal facilities. Based on the current operating plans of the Chromium business and the estimated value of this land, there is now a low likelihood that the Group will exercise this right of first refusal in the future. Hence a provision has been recorded for the remaining payments under that agreement in the amount of \$4.0 million.

Other items totalling \$2.2 million relate to the impairment of certain software licences, as well as due diligence and other costs associated with investment projects that were not successful. In addition, the Group has also recorded a provision of \$1.0 million for the potential outcome of a regulatory case in Europe.

#### Taxation – charge of \$7.2 million

Within non-recurring items there is a tax charge of \$7.2 million of which \$2.5 million relates to the net tax on the non-recurring items recorded in 2015 and a charge of \$4.7 million arising from a reassessment of the ACT and deferred tax assets established in 2014.

## 6. Income tax expense

	2015 \$million	2014 \$million
<b>Current tax:</b>		
Recognition of UK Advance Corporation Tax credits	–	(42.0)
UK Corporation tax	5.3	(6.0)
Overseas corporation tax	9.0	14.5
Adjustments in respect of prior years:		
United Kingdom	1.3	–
Overseas	(2.9)	–
Total current tax	12.7	(33.5)
<b>Deferred tax:</b>		
United Kingdom	2.4	(4.8)
Overseas	8.0	11.1
Adjustment in respect of prior years:		
United Kingdom	3.4	–
Total deferred tax	13.8	6.3
Income tax expense for the year	26.5	(27.2)
<b>Comprising:</b>		
Before non-recurring items	19.3	26.3
Non-recurring items*		
Overseas taxation on non-recurring items	2.5	0.8
Recognition of UK ACT and losses	–	(54.3)
UK ACT and deferred tax charge	4.7	–
Taxation on non-recurring items	7.2	(53.5)
	26.5	(27.2)

\* see Note 5 for details of non-recurring items

The tax charge on profit represents an effective tax rate on profit before non-recurring items for the year ended 31 December 2015 of 16.6 per cent (2014: 18.5 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:

	2015 \$million	2015 per cent	2014 \$million	2014 per cent
Profit before tax	121.8		148.2	
Tax on ordinary activities at 20.25 per cent (2014: 21.5 per cent)*	24.7	20.3	31.9	21.5
Difference in overseas effective tax rates	5.0	4.1	10.8	7.3
Income not chargeable for tax purposes	(5.0)	(4.1)	(6.8)	(4.6)
Expenses not deductible for tax purposes	0.4	0.3	–	–
Tax losses and other deductions	–	–	(9.2)	(6.2)
Tax rate adjustments to deferred tax	–	–	0.7	0.5
Adjustments in respect of prior years	(3.3)	(2.7)	(0.3)	(0.2)
Recognition of non-recurring tax items	4.7	3.9	(54.3)	(36.7)
Tax charge and effective tax rate for the year	26.5	21.8	(27.2)	(18.4)

\* tax rate reflects reduction in UK corporation tax rate from 21 per cent to 20 per cent with effect from April 2015. The UK corporation tax rate will reduce to 19 per cent from 1 April 2017 and 18 per cent from 1 April 2020; these reductions were substantively enacted on 26 October 2015.

## 7. Profit for the year

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

	2015 \$million	2014 \$million
Employee costs	103.3	110.3
Net foreign exchange gains	(3.5)	(1.7)
Research and development costs	7.8	8.0
Government grants	–	(0.2)
Depreciation of property, plant and equipment	23.6	21.8
Amortisation of intangible assets	3.3	3.6
Total depreciation and amortisation expense	26.9	25.4
Cost of inventories recognised as expense	323.7	385.3
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	0.6	0.5
Audit related assurance services (half year review)	0.1	0.1
Tax compliance services	0.3	0.2
Other tax advisory services	0.4	0.4

## 8. Employees

	2015 \$million	2014 \$million
Employee costs:		
Wages and salaries	90.8	97.1
Social security costs	7.4	8.4
Pension costs	5.1	4.8
	103.3	110.3

	Number	Number
Average number of FTE employees*:		
Specialty Products	999	983
Surfactants	149	150
Chromium	259	247
Central	14	14
Total	1,421	1,394

\* 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:

	2015 \$million	2014 \$million
<b>Earnings:</b>		
Earnings for the purpose of basic earnings per share	95.3	175.4
Non-recurring items net of tax	1.6	(59.8)
Adjusted earnings	96.9	115.6

	2015 \$million	2014 \$million
<b>Number of shares:</b>		
Weighted average number of shares for the purposes of basic earnings per share	462.2	460.7
Effect of dilutive share options	4.0	4.7
Weighted average number of shares for the purposes of diluted earnings per share	466.2	465.4

	2015 cents	2014 cents
<b>Earnings per share:</b>		
Basic	20.6	38.1
Diluted	20.4	37.7
Basic before non-recurring items	21.0	25.1
Diluted before non-recurring items	20.8	24.8

## 10. Goodwill and other intangible assets

	Goodwill \$million	Brand \$million	Other intangible assets \$million	Total \$million
<b>Cost:</b>				
At 1 January 2014	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
Exchange differences	(6.3)	(1.0)	(1.0)	(8.3)
Additions	–	–	1.1	1.1
<b>At 31 December 2015</b>	<b>324.7</b>	<b>22.1</b>	<b>35.3</b>	<b>382.1</b>

<b>Amortisation:</b>				
At 1 January 2014	–	–	12.7	12.7
Charge for the year	–	–	3.6	3.6
At 31 December 2014	–	–	16.3	16.3
Charge for the year	–	–	3.3	3.3
<b>At 31 December 2015</b>	<b>–</b>	<b>–</b>	<b>19.6</b>	<b>19.6</b>

<b>Carrying amount:</b>				
<b>At 31 December 2015</b>	<b>324.7</b>	<b>22.1</b>	<b>15.7</b>	<b>362.5</b>
At 31 December 2014	331.0	23.1	18.9	373.0
At 1 January 2014	335.1	24.4	22.6	382.1

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 (\$321.9 million) and Elementis Surfactants (\$2.8 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 8.0 per cent to 14.0 per cent (2014: 7.0 per cent to 8.5 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 17 years based on estimated growth rates of 0 per cent to 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 the value ascribed to customer lists, patents and non-compete clauses, which are being amortised over periods of five to ten years.

## 11. Property, plant and equipment

	Land and buildings \$million	Plant and machinery \$million	Fixtures, fittings and equipment \$million	Under construction \$million	Total \$million
<b>Cost:</b>					
At 1 January 2014	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
Additions	0.2	0.8	0.1	29.2	30.3
Exchange differences	(6.3)	(22.5)	(1.5)	(0.8)	(31.1)
Disposals	(1.0)	(3.5)	(1.4)	–	(5.9)
Reclassifications	7.5	35.3	1.3	(44.1)	–
<b>At 31 December 2015</b>	<b>151.5</b>	<b>547.4</b>	<b>47.5</b>	<b>16.5</b>	<b>762.9</b>
<b>Accumulated depreciation:</b>					
At 1 January 2014	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
Charge for the year	3.3	18.6	1.7	–	23.6
Exchange differences	(4.1)	(20.1)	(1.1)	–	(25.3)
Disposals	(0.1)	(3.0)	(1.4)	–	(4.5)
Reclassifications	0.2	(0.3)	0.1	–	–
<b>At 31 December 2015</b>	<b>98.6</b>	<b>416.1</b>	<b>37.0</b>	<b>–</b>	<b>551.7</b>
<b>Net book value:</b>					
<b>At 31 December 2015</b>	<b>52.9</b>	<b>131.3</b>	<b>10.5</b>	<b>16.5</b>	<b>211.2</b>
At 31 December 2014	51.8	116.4	11.3	32.2	211.7
At 1 January 2014	51.0	112.9	7.4	31.3	202.6

Group capital expenditure contracted but not provided for in these financial statements amounted to \$nil (2014: \$nil).

## 12. Inventories

	2015 \$million	2014 \$million
Raw materials and consumables	47.8	67.9
Work in progress	11.5	9.9
Finished goods and goods purchased for resale	60.2	59.7
	<b>119.5</b>	<b>137.5</b>

Inventories are disclosed net of provisions for obsolescence of \$5.1 million (2014: \$5.9 million).

## 13. Trade and other receivables

	2015 \$million	2014 \$million
Trade receivables	96.3	111.3
Other receivables	2.2	3.8
Prepayments and accrued income	5.3	6.3
	<b>103.8</b>	<b>121.4</b>

## 14. Trade and other payables

	2015 \$million	2014 \$million
Trade payables	51.1	73.6
Other taxes and social security	0.5	1.1
Other payables	8.0	7.0
Accruals and deferred income	20.3	40.3
	<b>79.9</b>	<b>122.0</b>

## 15. Provisions

	Environmental \$million	Self-insurance \$million	Restructuring \$million	Other \$million	Total \$million
At 1 January 2015	31.7	3.3	–	–	35.0
Charged/(credited) to the income statement:					
Non-recurring items	6.8	–	4.2	5.0	16.0
Set up/(release) of provisions	(0.3)	0.2	–	–	(0.1)
Unwinding of discount	1.4	–	–	–	1.4
Utilised during the year	(9.1)	(0.4)	(2.9)	(0.5)	(12.9)
Currency translation differences	(1.0)	–	–	–	(1.0)
<b>At 31 December 2015</b>	<b>29.5</b>	<b>3.1</b>	<b>1.3</b>	<b>4.5</b>	<b>38.4</b>
<b>Due within one year</b>	<b>6.5</b>	<b>0.2</b>	<b>1.3</b>	<b>1.5</b>	<b>9.5</b>
<b>Due after one year</b>	<b>23.0</b>	<b>2.9</b>	<b>–</b>	<b>3.0</b>	<b>28.9</b>

Environmental provisions relate to manufacturing and distribution sites including certain sites no longer owned by the Group. These provisions have been derived using a discounted cash flow methodology and reflect the extent to which it is probable that expenditure will be incurred over the next 20 years. Included within environmental provisions are amounts in respect of all anticipated costs related to the closure and remediation of the Chromium UK site at Eaglescliffe.

Of the \$16.0 million non-recurring items charged to provisions, \$6.8 million relates to future additional environmental costs following the sale of land at Corpus Christi in 2015. Of the \$5.0 million recorded within other provisions, \$4.0 million was associated with the remaining payments under a legacy right of first refusal agreement, which is now considered unlikely to be exercised, and \$1.0 million related to a regulatory case in Europe. Within the restructuring category, \$4.2 million resulted from actions taken to reduce the workforce and reorganise parts of the management structure. Further details on non-recurring items are included in Note 5.

Self insurance provisions at 31 December 2015 represent the aggregate of outstanding claims plus a projection of losses incurred but not reported. The self insurance provisions are expected to be utilised within five years.



**16. Deferred tax and ACT recoverable**

	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 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 1 January 2015	20.9	(23.6)	(94.4)	11.5	7.3	(78.3)
(Charge)/credit to the income statement	(4.1)	0.7	–	(3.2)	(7.2)	(13.8)
Charge to other comprehensive income	(6.6)	–	–	–	–	(6.6)
Charge to retained earnings	–	–	–	(1.2)	–	(1.2)
Currency translation differences	(0.3)	–	–	1.5	(0.1)	1.1
<b>At 31 December 2015</b>	<b>9.9</b>	<b>(22.9)</b>	<b>(94.4)</b>	<b>8.6</b>	<b>–</b>	<b>(98.8)</b>
<b>Deferred tax assets</b>	<b>11.2</b>	<b>–</b>	<b>–</b>	<b>3.0</b>	<b>–</b>	<b>14.2</b>
<b>Deferred tax liabilities</b>	<b>(1.3)</b>	<b>(22.9)</b>	<b>(94.4)</b>	<b>5.6</b>	<b>–</b>	<b>(113.0)</b>

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.

An asset of \$42.0 million was recognised in 2014 relating to UK advance corporation tax credits which had previously been unrecognised because of uncertainty over future UK taxable profits. During 2014 the Group made certain changes to its manufacturing and financing structures, which together with greater certainty over the funding of the UK pension deficit, led to the view that UK taxable profits would increase and therefore that the tax credits should be recognised. Movements in the ACT recoverable balance are shown below.

	2015 \$million	2014 \$million
At 1 January	42.0	–
Recognition of UK Advance Corporation Tax credits	(1.3)	42.0
Utilisation	(4.3)	–
Currency translation differences	(2.4)	–
<b>At 31 December</b>	<b>34.0</b>	<b>42.0</b>

**17. Share capital**

	2015 \$million	2014 \$million
At 1 January	44.4	44.1
Issue of shares	–	0.3
At 31 December	44.4	44.4

Details of share capital are set out in Note 10 to the Parent company financial statements.

## 18. Other reserves

	Capital redemption reserve \$million	Translation reserve \$million	Hedging reserve \$million	Share options reserve \$million	Total \$million
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)
At 1 January 2015	158.8	(40.3)	(6.9)	4.8	116.4
Share based payments	–	–	–	1.9	1.9
Exchange differences	–	(21.7)	–	–	(21.7)
Decrease in fair value of derivatives	–	–	(1.0)	–	(1.0)
Transfer	–	–	–	(2.6)	(2.6)
<b>Balance at 31 December 2015</b>	<b>158.8</b>	<b>(62.0)</b>	<b>(7.9)</b>	<b>4.1</b>	<b>93.0</b>

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

	2015 \$million	2014 \$million
Bank loans	5.1	9.5
The borrowings are repayable as follows:		
Within one year	5.1	8.1
In the second year	–	1.4
	5.1	9.5

The weighted average interest rates paid were as follows:

	2015 per cent	2014 per cent
Bank loans	1.2	1.2

Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Brazilian Real	Other	Total
Bank loans					
31 December 2014	2.7	5.5	1.0	0.3	9.5
<b>31 December 2015</b>	<b>1.7</b>	<b>3.3</b>	<b>–</b>	<b>0.1</b>	<b>5.1</b>

Of the US dollar borrowings, \$0.4 million was unsecured (2014: \$0.7 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:

	2015 \$million	2014 \$million
Cash and cash equivalents	79.1	73.7

## 21. Financial risk management

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

- ▶ Credit risk.
- ▶ Liquidity risk.
- ▶ Market risk.

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

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

### Credit risk

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

### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less of an influence on credit risk. No single customer accounts for a significant proportion of the Group's revenue.

Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

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

### Investments

The Group limits its exposure to credit risk through a treasury policy that imposes graduated limits on the amount of funds that can be deposited with counterparties by reference to the counterparties' credit ratings, as defined by Standard & Poor's or Moody's. Management does not expect any counterparty to fail to meet its obligations.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's funding policy is to have committed borrowings in place to cover at least 125 per cent of the maximum forecast net borrowings for the next 12 month period. At the year end the Group had \$115.1 million (2014: \$118.1 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.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily US dollar, but also euro and pounds sterling. This provides an economic hedge and no derivatives are entered into. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances. The Group's investment in overseas subsidiaries is hedged by US dollar denominated drawdowns under the syndicated facility, which mitigates the currency risk arising from the translation of a subsidiary's net assets.

## 21. Financial risk management (continued)

### 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 14. The Group's target is to achieve a ROCE (including goodwill) in excess of our weighted average cost of capital.

The Board encourages employees to hold shares in the Company through the Group's savings related share option schemes. At present, employees, including executive directors, hold 0.4 per cent (2014: 0.3 per cent) of ordinary shares, or 1.8 per cent (2014: 1.7 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 non-recurring 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.

	2015 \$million	2014 \$million
<b>Recognised in profit or loss</b>		
Interest income on bank deposits	0.2	0.3
Net change in fair value of cash flow hedges transferred from equity	2.6	1.9
Financial income	2.8	2.2
Interest on bank loan	(1.2)	(1.6)
Net pension interest	(1.8)	(3.1)
Financial costs	(3.0)	(4.7)
Net financial costs	(0.2)	(2.5)

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

	2015 \$million	2014 \$million
<b>Recognised directly in equity</b>		
Effective portion of changes in fair value of cash flow hedge	(0.9)	0.1
Fair value of cash flow hedges transferred to income statement	(0.1)	(0.3)
Effective portion of change in fair value of net investment hedge	(0.6)	(1.6)
Foreign currency translation differences for foreign operations	(21.1)	(9.9)
Recognised in		
Hedging reserve	(1.0)	(0.2)
Translation reserve	(21.7)	(11.5)

Derivatives used for hedging included within current assets amounted to \$nil at 31 December 2015 (2014: \$0.7 million) and \$0.3 million within current liabilities (2014: \$0.2 million).

## Loans and borrowings

	2015 \$million	2014 \$million
<b>Current liabilities</b>		
Unsecured bank loan	0.4	0.7
Secured bank loan	4.7	7.4
<b>Non-current liabilities</b>		
Secured bank loan	–	1.4

### Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Year of maturity	Face value \$million	2015 Carrying amount \$million	Face value \$million	2014 Carrying amount \$million
Unsecured bank loan	USD	2016	0.4	0.4	0.7	0.7
Secured bank loan	USD	2016–2017	1.3	1.3	2.0	2.0
Secured bank loan	TWD	2016	3.3	3.3	5.5	5.5
Secured bank loan	BRL	2016	–	–	1.0	1.0
Secured bank loan	EUR / JPY	2016	0.1	0.1	0.3	0.3
Total interest-bearing liabilities			5.1	5.1	9.5	9.5

The loans bear interest at interest rates of between 0.9 per cent and 2.7 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 \$1.6 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 2015 \$million	2014 \$million
Trade receivables	96.3	111.3
Other receivables	2.2	3.8
Cash and cash equivalents	79.1	73.7
	177.6	188.8

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

	Carrying amount 2015 \$million	2014 \$million
North America	26.2	42.1
Europe	31.6	26.9
Rest of the world	38.5	42.3
	96.3	111.3

### Impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2015 \$million	Impairment 2015 \$million	Gross 2014 \$million	Impairment 2014 \$million
Not past due	88.4	(0.3)	103.1	(0.4)
Past due 0–30 days	6.8	–	5.9	–
Past due 31–120 days	1.3	–	2.7	(0.1)
Past due > 121 days	0.4	(0.3)	0.4	(0.3)
Total	96.9	(0.6)	112.1	(0.8)

## 21. Financial risk management (continued)

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

	2015 \$million	2014 \$million
Balance at 1 January	0.8	0.7
Impairment movements	(0.2)	0.1
Balance at 31 December	0.6	0.8

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 2015				
	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	0.4	(0.4)	–	(0.4)	–
Secured bank loan	4.7	(4.7)	(4.6)	(0.1)	–
Trade and other payables*	59.6	(59.6)	(59.6)	–	–
	64.7	(64.7)	(64.2)	(0.5)	–

\* excludes derivatives

	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

Bank loans have been drawn under committed facilities and can be refinanced 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:

	2015			2014		
	USD \$million	Euro \$million	Other \$million	USD \$million	Euro \$million	Other \$million
Trade receivables	52.9	24.5	18.9	62.7	29.0	19.6
Trade payables	(26.7)	(11.3)	(13.1)	(35.4)	(20.1)	(18.1)
Gross balance sheet exposure	26.2	13.2	5.8	27.3	8.9	1.5
Forward exchange contracts	–	(39.1)	39.1	–	(24.7)	24.7
Net exposure	26.2	(25.9)	44.9	27.3	(15.8)	26.2

The main exchange rates relevant to the Group are set out in the Finance report on page 13.



### 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
<b>31 December 2015</b>		
GBP	(6.5)	2.3
Euro	(3.4)	(4.5)
RMB	(3.2)	(0.6)
TWD	(2.6)	(0.4)
<b>31 December 2014</b>		
GBP	(3.0)	2.3
Euro	(3.7)	(2.8)
RMB	(3.3)	(0.9)
TWD	(2.7)	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 2015 \$million	2014 \$million
<b>Variable rate instruments</b>		
Financial liabilities	(0.3)	(0.7)

### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	100bp increase \$million	2015 Profit or loss 100bp decrease \$million	100bp increase \$million	2014 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 2015		31 December 2014	
	Carrying amount \$million	Fair value \$million	Carrying amount \$million	Fair value \$million
Trade and other receivables	98.5	98.5	115.1	115.1
Cash and cash equivalents	79.1	79.1	73.7	73.7
Derivative contracts used for hedging:				
Assets	–	–	0.7	0.7
Liabilities	(0.3)	(0.3)	(0.2)	(0.2)
Unsecured bank facility	(0.4)	(0.4)	(0.7)	(0.7)
Secured bank loan	(4.7)	(4.7)	(8.8)	(8.8)
Trade and other payables*	(79.9)	(79.9)	(122.0)	(122.0)
	92.3	92.3	57.8	57.8
Unrecognised gain/(loss)	–	–	–	–

\* excludes derivatives

## **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:

	2015 per cent	2014 per cent
Borrowings	0.9–2.7	1.0–2.8

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 2014 and 31 December 2015 there was no difference between the carrying value and fair value of financial instruments.

## **22. Operating leases**

	2015 \$million	2014 \$million
Minimum lease payments under operating leases recognised as an expense in the year	5.4	3.7

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

	2015 \$million	2014 \$million
Within one year	0.4	0.4
In the second to fifth years inclusive	2.6	1.5
After five years	19.4	21.3
	22.4	23.2

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 2015 the main schemes in the UK and US were of the defined benefit type, the benefit being based on number of years of service and either the employee's final remuneration or the employee's average remuneration during a period of years before retirement. The assets of these schemes are held in separate trustee administered funds or are unfunded but provided for on the Group balance sheet. In 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 contracted with a new industry wide pension fund for 2015 onwards. As a result, the plan is now accounted for as a defined contribution plan.

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

#### Net defined benefit liability

The net liability was as follows:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Other \$million	Total \$million
<b>2015</b>					
Total market value of assets	732.8	108.1	–	–	840.9
Present value of scheme liabilities	(726.1)	(132.5)	(6.3)	(5.0)	(869.9)
Net liability recognised in the balance sheet	6.7	(24.4)	(6.3)	(5.0)	(29.0)

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Other \$million	Total \$million
<b>2014</b>						
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)

Employer contributions in 2015 were \$21.1 million (2014: \$41.9 million) to the UK scheme and \$2.7 million (2014: \$7.8 million) to US schemes. Contributions in 2016 are expected to be in the range \$10-\$15 million. Further details on agreed future payments to the UK pension scheme are included in the Finance report.

### 23. Retirement benefit obligations (continued)

#### Movement in net defined benefit liability

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

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million		Other \$million	Total \$million
<b>2015</b>						
Balance at 1 January	(28.4)	(23.7)	(7.4)		(6.3)	(65.8)
<b>Included in profit or loss</b>						
Current service cost	(0.8)	(0.6)	(0.1)		–	(1.5)
Running costs	(1.7)	(0.4)	–		–	(2.1)
Net interest expense	(0.6)	(0.8)	(0.2)		(0.2)	(1.8)
	(3.1)	(1.8)	(0.3)		(0.2)	(5.4)
<b>Included in other comprehensive income</b>						
Re-measurements:						
Return on plan assets excluding interest income	(40.3)	(4.3)	–		–	(44.6)
Actuarial gains/(losses) arising from demographic assumptions	7.3	(0.3)	–		–	7.0
Actuarial gains arising from financial assumptions	23.1	6.7	0.4		0.7	30.9
Actuarial gains/(losses) arising from experience adjustment	26.8	(2.8)	0.1		–	24.1
Exchange differences	0.2	–	–		0.6	0.8
	17.1	(0.7)	0.5		1.3	18.2
Contributions:						
Employers	21.1	1.8	0.9		0.2	24.0
<b>Deficit in schemes at 31 December</b>	<b>6.7</b>	<b>(24.4)</b>	<b>(6.3)</b>		<b>(5.0)</b>	<b>(29.0)</b>

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Other \$million	Total \$million
<b>2014</b>						
Balance at 1 January	(66.1)	(15.6)	(7.5)	(3.7)	(6.4)	(99.3)
<b>Included in profit or loss</b>						
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)
<b>Included in other comprehensive income</b>						
Re-measurements:						
Return on plan assets excluding interest income	68.7	3.0	–	19.8	–	91.5
Actuarial losses arising from demographic assumptions	–	(6.1)	–	–	–	(6.1)
Actuarial 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
<b>Deficit in schemes at 31 December</b>	<b>(28.4)</b>	<b>(23.7)</b>	<b>(7.4)</b>	<b>–</b>	<b>(6.3)</b>	<b>(65.8)</b>

## Plan assets

Plan assets comprise:

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Total \$million
<b>2015</b>				
Equities	290.6	69.6	–	360.2
Bonds	349.2	35.0	–	384.2
Cash/liquidity funds	93.0	3.5	–	96.5
	<b>732.8</b>	<b>108.1</b>	<b>–</b>	<b>840.9</b>

	UK pension scheme \$million	US pension schemes \$million	US PRMB scheme \$million	Netherlands pension scheme \$million	Total \$million
<b>2014</b>					
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
	<b>813.7</b>	<b>114.7</b>	<b>–</b>	<b>77.0</b>	<b>1,005.4</b>

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 40 per cent in a liability matching fund consisting of gilts (fixed interest and index linked), bonds, cash and swaps and 60 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 60 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.

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 schemes \$million	Total \$million
<b>2015</b>				
Opening fair value of plan assets	813.7	114.7	–	928.4
Expected return	26.8	4.1	–	30.9
Running costs	(1.7)	(0.4)	–	(2.1)
Actuarial loss	(40.3)	(4.3)	–	(44.6)
Contributions by employer	21.1	1.8	–	22.9
Contributions by employees	0.1	–	–	0.1
Benefits paid	(43.8)	(7.8)	–	(51.6)
Exchange differences	(43.1)	–	–	(43.1)
Closing fair value of plan assets	<b>732.8</b>	<b>108.1</b>	<b>–</b>	<b>840.9</b>

	UK pension scheme \$million	US pension schemes \$million	US PRMB schemes \$million	Netherlands pension scheme \$million	Total \$million
<b>2014</b>					
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	<b>813.7</b>	<b>114.7</b>	<b>–</b>	<b>77.0</b>	<b>1,005.4</b>

### 23. Retirement benefit obligations (continued)

#### 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 schemes \$million	Total \$million
<b>2015</b>				
Opening defined benefit obligation	(842.1)	(138.4)	(7.4)	(987.9)
Service cost	(0.8)	(0.6)	(0.1)	(1.5)
Interest cost	(27.4)	(4.9)	(0.2)	(32.5)
Contributions by employees	(0.1)	–	–	(0.1)
Actuarial gains	57.2	3.6	0.5	61.3
Benefits paid	43.8	7.8	0.9	52.5
Exchange differences	43.3	–	–	43.3
Closing defined benefit obligation	(726.1)	(132.5)	(6.3)	(864.9)

	UK pension scheme \$million	US pension schemes \$million	US PRMB schemes \$million	Netherlands pension scheme \$million	Total \$million
<b>2014</b>					
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)

#### Actuarial assumptions

A full actuarial valuation was carried out on 30 September 2014 for the UK scheme and at 31 December 2015 for the US schemes.

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

	UK per cent	US per cent	Netherlands per cent
<b>2015</b>			
Rate of increase in salaries	4.10	3.00/3.45	
Rate of increase in pensions in payment	3.00	N/A	
Discount rate	3.70	4.10	
Inflation	3.10	2.25	
<b>2014</b>			
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

The assumed life expectancies on retirement are:

	2015 years	UK 2014 years	2015 years	US 2014 years
Retiring at 31 December 2015				
Males	22	22	21	21
Females	25	24	23	22
Retiring in 20 years				
Males	25	25	22	21
Females	26	26	24	23

The main assumptions for the PRMB scheme are a discount rate of 4.1 per cent (2014: 3.65 per cent) per annum and a health care cost trend of 6.5 per cent (2014: 6.5 per cent) per annum for claims pre age 65 reducing to 4.5 per cent per annum by 2021 (2014: 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 2015, the weighted average duration of the defined benefit obligations for the major schemes was as follows:

UK: 13 years

US: 11 years

### Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increased/decreased by 0.5 per cent	Decreased/increased by 6 per cent
Rate of inflation	Increased/decreased by 0.5 per cent	Increased/decreased by 4 per cent
Rate of salary growth	Increased/decreased by 0.5 per cent	Increased/decreased by 0 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.

## 24. Share based payments

The Company has several share incentive schemes for certain directors and employees of the Group.

A Long Term Incentive Plan was adopted in 2008 (amended in 2010 and 2015) ("LTIP") for selected senior executives including the executive directors, business presidents and general counsel. 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 two times the CEO's basic salary. Awards vest after three years and are subject to EPS and TSR performance conditions over a three year period. Vested awards are then exercisable for up to seven years, subject to the rules of the plan. For US participants prior to 2015 (for tax reasons), the default practice is for options to be exercised at the date of vesting. From 2015, US participants received awards structured as restricted stock units.

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 three years and are subject to EPS and TSR performance conditions. Vested options are then exercisable for up to seven years, subject to the rules of the schemes. The Company operates two shadow executive share option schemes for a number of executives, who are employed or based in China, that are structured in almost all respects as the 2003 and 2012 ESOS.

The Company also operates a 2008 UK Savings Related Share Option Scheme, which is a save as you earn ("SAYE") scheme, under which UK employees can enter into contracts to save currently up to a maximum of £500 per month with a bank or building society for a period of three or five years and use the proceeds from their savings accounts to purchase shares in the Company on the exercise of their options. The option price is the average mid-market closing share price over the five working days preceding the invitation date, discounted by 20 per cent. Options may be exercised typically within six 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 two 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 three months following the end of the savings period. Options granted under the two savings based schemes are held subject to the rules of the schemes.



## 24. Share based payments (continued)

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:

	2015	2014
Fair value per option (pence)	136.8	154.0
Expected volatility (per cent)	27.0	33.4
Risk free rate (per cent)	0.9	1.5
Expected dividend yield (per cent)	1.1	2.0

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of \$2.1 million (2014: \$2.5 million) related to share based payment transactions during the year.

At 31 December 2015 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p)	Exercisable From	To	At 1 January 2015 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2015 '000
<b>UK savings related share option scheme</b>								
2010	121.66	01/10/14	01/04/15	1	–	(1)	–	–
2011	121.66	01/10/16	01/04/17	4	–	–	–	4
2012	168.06	01/10/15	01/04/16	61	–	(55)	–	6
2012	168.06	01/10/17	01/04/18	5	–	–	–	5
2013	206.14	01/10/16	01/04/17	44	–	–	(4)	40
2013	206.14	01/10/18	01/04/19	3	–	–	–	3
2014	216.58	01/10/17	01/04/18	108	–	–	(1)	107
2015	207.32	01/10/18	01/04/19	–	86	–	–	86
				226	86	(56)	(5)	251
<b>US savings related share option scheme</b>								
2013	227.55	23/08/15	23/11/15	237	–	(118)	(119)	–
2014	242.93	22/08/16	22/11/16	223	–	(5)	(71)	147
2015	201.79	24/08/17	24/11/17	–	327	(2)	(14)	311
				460	327	(125)	(204)	458
<b>Executive share option schemes/awards granted under the Long term incentive plan*</b>								
2010+	57.00	06/04/13	06/04/20	480	–	(173)	–	307
2011+	149.90	04/04/14	04/04/21	547	–	(228)	–	319
2012+	194.30	27/06/15	27/06/22	731	–	(141)	–	590
2012*	Nil	27/06/15	27/06/22	1,322	–	(680)	(464)	178
2013+	260.70	02/04/16	02/04/23	632	–	–	–	632
2013*	Nil	02/04/16	02/04/23	1,058	–	–	–	1,058
2014+	286.50	01/04/17	01/04/24	559	–	–	–	559
2014*	Nil	01/04/17	01/04/24	937	–	–	–	937
2015+	290.20	01/04/18	01/04/25	–	588	–	–	588
2015*	Nil	27/04/18	27/04/25	–	924	–	–	924
				6,266	1,512	(1,222)	(464)	6,092

+ 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, 2014 and 2015 options shown above include approximately 68,000, 54,000, 58,000, 68,000, 59,000 and 67,000 shadow options respectively. The liability for the shadow options and the amount that had vested at the end of the period was \$0.3 million.

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

	2015 Average exercise price (p)	2014 Average exercise price (p)
At 1 January	104.9	80.3
Granted	132.1	133.0
Exercised	77.8	45.8
Expired	71.4	235.8
At 31 December	121.4	104.9

The weighted average share price at the date of exercise of share options exercised during the year was 252 pence (2014: 278 pence).

## 25. Related party transactions

The Company is a guarantor to the UK pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105 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)

	2015 \$million	2014 \$million
Change in net cash resulting from cash flows:		
Increase in cash and cash equivalents	7.8	11.7
Decrease in borrowings repayable within one year	3.6	0.6
Decrease in borrowings repayable after one year	0.3	0.3
	11.7	12.6
Currency translation differences	(1.9)	(2.5)
Increase in net cash	9.8	10.1
Net cash at beginning of year	64.2	54.1
<b>Net cash at end of year</b>	<b>74.0</b>	<b>64.2</b>

## 27. Dividends

An interim dividend of 2.70 cents per share (2014: 2.70 cents) was paid on 2 October 2015 and the Group is proposing a final dividend of 5.75 cents per share (2014: 5.75 cents) for the year ended 31 December 2015 and a special dividend of 8.00 cents per share (2014: 6.95 cents). The total dividend for the year, excluding the special dividend, is 8.45 cents per share (2014: 8.45 cents) and 16.45 cents per share (2014: 15.40 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 \$63.7 million.

## 28. Key management compensation

	2015 \$million	2014 \$million
Salaries and short term employee benefits	3.0	4.0
Other long term benefits	0.7	0.7
Share based payments	1.3	1.5
	5.0	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 51.

## 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 2015.

## ELEMENTIS PLC

**Balance sheet**  
at 31 December 2015

	Note	2015 £million	2014 £million
<b>Fixed assets</b>			
Investments	7	766.2	764.8
<b>Current assets</b>			
Debtors	8	12.7	1.2
<b>Creditors: amounts falling due within one year</b>			
Creditors	9	(0.6)	(0.6)
<b>Net current assets</b>		12.1	0.6
<b>Total assets less current liabilities</b>		778.3	765.4
<b>Creditors: amounts falling due after more than one year</b>			
Amounts due to subsidiary undertakings		(215.8)	(384.4)
<b>Net assets</b>		562.5	381.0
<b>Capital and reserves</b>			
Called up share capital	10	23.1	23.1
Share premium account		11.5	10.5
Capital redemption reserve		83.3	83.3
Other reserves		250.5	81.5
Share option reserve		2.9	3.1
Profit and loss account		191.2	179.5
<b>Equity shareholders' funds</b>		562.5	381.0

The financial statements of Elementis plc on pages 90 to 95 were approved by the Board on 1 March 2016 and signed on its behalf by:

**Brian Taylorson**  
**Finance Director**

**Statement of changes in equity**

For the year ended 31 December 2015

	Share capital £million	Share premium £million	Capital redemption reserve \$million	Other reserves £million	Share options reserve £million	Retained earnings £million	Total £million
Balance at 1 January 2014	22.9	9.3	83.3	81.5	4.0	217.9	418.9
Comprehensive income							
Profit for the year	–	–	–	–	–	(2.2)	(2.2)
Total other comprehensive income	–	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	–	(2.2)	(2.2)
Transactions with owners							
Issue of shares by the Company	0.2	1.2	–	–	–	–	1.4
Share based payments	–	–	–	–	–	1.5	1.5
Deferred tax on share based payments recognised within equity	–	–	–	–	(0.9)	0.9	–
Dividends paid	–	–	–	–	–	(38.6)	(38.6)
Total transactions with owners	0.2	1.2	–	–	(0.9)	(38.6)	(38.6)
Balance at 31 December 2014	23.1	10.5	83.3	81.5	3.1	179.5	381.0
<b>Balance at 1 January 2015</b>	<b>23.1</b>	<b>10.5</b>	<b>83.3</b>	<b>81.5</b>	<b>3.1</b>	<b>179.5</b>	<b>381.0</b>
Comprehensive income							
Profit for the year	–	–	–	–	–	225.2	225.2
Other comprehensive income							
Transfer	–	–	–	169.0	–	(169.0)	–
Total other comprehensive income	–	–	–	169.0	–	(169.0)	–
Total comprehensive income	–	–	–	169.0	–	56.2	225.2
Transactions with owners							
Issue of shares by the Company	–	1.0	–	–	–	–	1.0
Share based payments	–	–	–	–	–	1.4	1.4
Transfer	–	–	–	–	(0.2)	0.2	–
Dividends paid	–	–	–	–	–	(46.1)	(46.1)
Total transactions with owners	–	1.0	–	–	(0.2)	(44.5)	(43.7)
Balance at 31 December 2015	<b>23.1</b>	<b>11.5</b>	<b>83.3</b>	<b>250.5</b>	<b>2.9</b>	<b>191.2</b>	<b>562.5</b>

The £169 million movement shown within other comprehensive income for 2015 is in respect of a re-presentation of prior years' impairment reversals. The above analysis is provided to demonstrate a greater level of transparency in relation to the Company's distributable reserves, which amount to £191.2 million at the end of the period.

## **1. General information**

Elementis plc is a public company limited by shares and is incorporated and domiciled in England. The address of its registered office is 1st Floor, Caroline House, 55-57 High Holborn, London, WC1V 6DX. The principal activity of the Company is to act as an investment and holding company.

## **2. Basis of preparation**

The Company's financial statements have been prepared in compliance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101- "Reduced disclosure framework - Disclosure exemptions from EU-adopted IFRS for qualifying entities" ("FRS 101"), and with the Companies Act. This is the first year the Company has presented its results under FRS 101. The last financial statements under the UK GAAP were for the year ended 31 December 2014.

## **3. Transition to FRS 101**

The date of transition to FRS 101 was 31 December 2013. Having considered the Company's ability to recover any deferred tax assets that might be associated with the share option reserve, it was determined that it would not be appropriate to recognise such an asset. As such, there are no reconciling items between the previously disclosed accounts for 2014 and the restated accounts prepared under FRS 101. The transition to FRS 101 has not affected the reported financial position and financial performance. As such no equity reconciliations between UK GAAP and FRS 101 at the transition and comparative dates have been presented.

As a qualifying entity whose results are consolidated in the Elementis plc consolidated financial statements on pages 58 to 89, the Company has taken advantage of the disclosure exemption requirements of FRS 101 regarding the requirement to prepare a statement of cash flows and certain financial instrument, share based pay and key management personnel compensation disclosures.

## **4. Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 101 in these financial statements.

### **Foreign currencies**

Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

### **Investments**

Investments in Group undertakings are included in the balance sheet at cost less impairment.

Dividends on shares presented within shareholders' funds Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company.

### **Pensions and other post-retirement benefits**

The Company participates in the Elementis Group defined benefit pension scheme. The assets of the scheme are held separately from those of the Company. Details of the latest actuarial valuation carried out as at September 2014 can be found in the 2015 Elementis plc Annual report and accounts. Following the introduction of the revised reporting standard, any surplus or deficit in the Elementis Group defined benefit pension scheme is to be reported in the financial statements of Elementis Holdings Ltd, which employs the majority of active members of the scheme and is responsible for making deficit contributions under the current funding plan.

### **Taxation**

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

### **Share based payments**

The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

### **Classification of financial instruments issued by the Company**

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

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

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

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

## **5. Profit for the financial year attributable to shareholders**

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. A profit of £225.2 million (2014: £2.2 million loss), including dividend income of £216.7 million (2014: £nil) is dealt with in the financial statements of the Company.

## **6. Directors' remuneration**

Details of directors' remuneration for the Company are included in the Directors' remuneration report within the Elementis plc Annual report and accounts on pages 35 to 51.

## 7. Investments

	Unlisted shares at cost £million	Unlisted loans £million	Capital contributions £million	Total £million
Cost at 1 January 2015	0.1	759.0	5.7	764.8
Additions	–	–	1.4	1.4
<b>Net book value 31 December 2015</b>	<b>0.1</b>	<b>759.0</b>	<b>7.1</b>	<b>766.2</b>
Net book value 31 December 2014	0.1	759.0	5.7	764.8

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 Overseas 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
Deuchem Co., Ltd	Additives and resins	Taiwan
Deuchem (HK) Trading Co Ltd	Additives and resins	People's Republic of China Hong Kong Special Administrative Region
Deuchem (Shanghai) Chemical Co. Ltd	Additives and resins	People's Republic of China
Elementis Chromium Inc	Chromium chemicals	United States of America
Elementis Chromium LLP	Chromium chemicals	United Kingdom
Elementis Deuchem (Shanghai) Chemical Ltd	Additives and resins	People's Republic of China
Elementis LTP Inc	Chromium chemicals	United States of America
Elementis Specialties (Anji) Ltd	Organoclays	People's Republic of China
Elementis Specialties (Changxing) Ltd	Organoclays	People's Republic of China
Elementis Specialties do Brasil Quimica Ltda	Coatings additives	Brazil
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America
Elementis Specialties Netherlands BV	Surfactants and coatings additives	The Netherlands
Elementis UK Limited trading as: Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom

## 7. Investments (continued)

Non-trading and dormant subsidiaries of Elementis plc, all of which are wholly owned within the group, are as follows:

Agrichrome Ltd	Dormant	United Kingdom
American Chrome & Chemicals Inc	Dormant	United States of America
Deuchem Holding Inc	Dormant	Samoa
Deuchem International Inc	Dormant	Samoa
Elementis America Shared Services Inc	Dormant	United States of America
Elementis Australia Ltd	Dormant	United Kingdom
Elementis Benelux NV	Non-trading (in liquidation)	Belgium
Elementis BV	Dormant	Netherlands
Elementis Catalysts Inc	Dormant	United States of America
Elementis Chemicals Inc	Dormant	United States of America
Elementis Chromium America Inc	Dormant	United States of America
Elementis Finance (Australia) Ltd	Dormant	United Kingdom
Elementis Finance (Germany) Ltd	Dormant	Germany
Elementis Finance (Ireland) Ltd	Non-trading	Ireland
Elementis Finance (US) Ltd	Non-trading	United Kingdom
Elementis Germany GmbH	Dormant	Germany
Elementis Germany Ltd	Dormant	United Kingdom
Elementis Global LLC	Non-trading	United States of America
Elementis GmbH	Non-trading	Germany
Elementis Group (Finance) Ltd	Non-trading	United Kingdom
Elementis Group BV	Non-trading	Netherlands
Elementis Group Ltd	Non-trading	United Kingdom
Elementis Holdings Ltd	Non-trading	United Kingdom
Elementis London Ltd	Dormant	United Kingdom
Elementis Nederland BV	Non-trading	Netherlands
Elementis New Zealand Ltd	Dormant	United Kingdom
Elementis NZ Ltd	Dormant	New Zealand
Elementis Overseas Investments Ltd	Non-trading	United Kingdom
Elementis Pigments Inc	Dormant	United States of America
Elementis S.E.A. (Malaysia) Sdn Bhd	Non-trading	Malaysia
Elementis Securities Ltd	Non-trading	United Kingdom
Elementis Service Centre NV	Non-trading	Belgium
Elementis Services GmbH	Non-trading	Germany
Elementis Specialties (India) Private Ltd	Non-trading	India
Elementis US Holdings Inc	Non-trading	United States of America
Elementis US Ltd	Non-trading	United Kingdom
H & C Acquisitions Ltd	Dormant	United Kingdom
H & C Lumber Inc	Dormant	United States of America
Harcros Chemicals Canada Inc	Dormant	Canada
Iron Oxides s.a.de. CV	Dormant	Mexico
NB Chrome Ltd	Dormant	United Kingdom

### Notes:

Other than Elementis Group BV and Elementis Overseas Investments Ltd, 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, with the exception of Elementis Specialties (India) Private Ltd for which the relevant date is 31 March, have accounting periods ending 31 December. Undertakings operating in the United Kingdom are incorporated in England and Wales. In the case of corporate undertakings other than in the United Kingdom their country of operation is also their country of incorporation.

All undertakings listed above have been included in the consolidated financial statements of the Group for the year.



**8. Debtors**

	2015 £million	2014 £million
Group relief receivable	12.7	1.2

**9. Creditors: amount falling due within one year**

	2015 £million	2014 £million
Accruals and deferred income	0.6	0.6

**10. Called up share capital**

	2015 Number '000	2015 £million	2014 Number '000	2014 £million
<b>Called-up allotted and fully paid:</b>				
Ordinary shares of 5 pence each				
At 1 January	461,637	23.1	458,831	22.9
Issue of shares	1,339	–	2,806	0.2
At 31 December	462,976	23.1	461,637	23.1

During the year a total of 1,338,974 ordinary shares with an aggregate nominal value of £66,949 were allotted and issued for cash to various employees at subscription prices between nil 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 £1.1 million. The holders of ordinary shares are entitled to receive dividends and entitled to one vote per share at meetings of the Company.

**11. Related party transactions**

The Company is a guarantor to the Elementis Group defined benefit pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105 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

<b>ACC</b>	American Chemistry Council	<b>HSE</b>	Health, safety and environment
<b>ACT</b>	Advance Corporation Tax	<b>IFC</b>	Inside front cover
<b>AGM</b>	Annual General Meeting	<b>IFRS</b>	International Financial Reporting Standards
<b>AWC</b>	Average working capital	<b>IA</b>	Investment Association
<b>Board</b>	Board of Directors of Elementis plc	<b>ISS</b>	Institutional Shareholder Services
<b>CEO</b>	Chief Executive Officer	<b>KPI</b>	Key performance indicator
<b>CO<sub>2</sub></b>	Carbon dioxide	<b>kWh</b>	Kilowatt hour
<b>Company</b>	Elementis plc	<b>LTA</b>	Lost time accident
<b>CR</b>	Corporate responsibility	<b>LTIP</b>	Long term incentive plan
<b>DB Scheme</b>	Defined benefit scheme	<b>MNE</b>	Multinational enterprise
<b>Defra</b>	Department for Environment and Rural Affairs	<b>NIC</b>	National Insurance Contributions
<b>EBITDA</b>	Earnings before interest, tax, non-recurring items, depreciation and amortisation	<b>OSHA</b>	Occupational Safety and Health Administration
<b>EPS</b>	Earnings per share	<b>P.A.</b>	Per Annum
<b>ERM</b>	Enterprise risk management	<b>PBT</b>	Group profit before tax before non-recurring items
<b>ESOS</b>	Executive share option scheme	<b>REACH</b>	Registration, Evaluation, Authorisation and restriction of Chemicals
<b>ESOT</b>	Employee share ownership trust	<b>ROCE</b>	Return on capital employed
<b>EU</b>	European Union	<b>RPI</b>	Retail Price Index
<b>FRC</b>	Financial Reporting Council	<b>SAYE</b>	Save as you earn
<b>GAAP</b>	Generally Accepted Accounting Principles	<b>SID</b>	Senior Independent Director
<b>GDP</b>	Gross domestic product	<b>TSR</b>	Total shareholder return
<b>GHG</b>	Greenhouse gases	<b>UK</b>	United Kingdom
<b>GJ</b>	Gigajoule	<b>UN</b>	United Nations
<b>Group</b>	Elementis plc and its subsidiaries	<b>US</b>	United States
<b>HMRC</b>	HM Revenue and Customs	<b>VOC</b>	Volatile organic compound

## FIVE YEAR RECORD

	2015 \$million	2014 \$million	2013 \$million	2012 restated** \$million	2011 \$million
<b>Turnover</b>					
Specialty Products	453.1	519.7	502.8	458.7	449.9
Surfactants	53.8	66.9	72.2	72.5	94.3
Chromium	171.9	203.8	201.8	225.8	216.3
	678.8	790.4	776.8	757.0	760.5
<b>Operating profit before non-recurring items</b>					
Specialty Products	80.0	98.5	99.1	90.1	89.7
Surfactants	4.5	4.9	5.6	4.8	5.4
Chromium	48.9	58.3	55.1	62.8	56.1
Central costs	(10.9)	(11.6)	(13.2)	(13.8)	(14.1)
	122.5	150.1	146.6	143.9	137.1
Non-recurring items	5.6	6.3	(1.7)	–	27.5
<b>Profit before interest</b>	128.1	156.4	144.9	143.9	164.6
Other expenses	(2.1)	(1.9)	(2.0)	(2.5)	–
Net interest payable	(4.2)	(6.3)	(8.6)	(8.0)	(2.6)
<b>Profit before tax</b>	121.8	148.2	134.3	133.4	162.0
Tax	(26.5)	27.2	(27.6)	(33.1)	(37.9)
<b>Profit attributable to equity holders of the parent</b>	95.3	175.4	106.7	100.3	124.1
	2015 \$million	2014 \$million	2013 \$million	2012 restated** \$million	2011 \$million
<b>Basic</b>					
Earnings per ordinary share (cents)	20.6	38.1	23.3	22.2	27.8
Earnings per ordinary share before non-recurring items (cents)	21.0	25.1	23.3	22.2	21.2
<b>Diluted</b>					
Earnings per ordinary share (cents)	20.4	37.7	23.0	21.8	27.2
Earnings per ordinary share before non-recurring items (cents)	20.8	24.8	23.0	21.8	20.8
<b>Dividend per ordinary share (cents)</b>	16.45	15.40	13.93	12.56	7.0
<b>Interest cover (times)*</b>	122.5	115.5	63.7	55.3	41.5
<b>Equity attributable to equity holders of the parent</b>	658.0	644.1	543.9	479.2	449.2
<b>Net cash</b>	74.0	64.2	54.1	44.0	26.2
<b>Weighted average number of ordinary shares in issue during the year (million)</b>	462.2	460.7	456.9	451.8	446.5

\* Ratio of operating profit before non-recurring items to interest on net borrowings.

\*\* Restated following the adoption of IAS 19 Employee Benefits standard.

## SHAREHOLDER SERVICES

### Internet

The Group operates a website which can be found at [www.elementisplc.com](http://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: 0371 384 2379 or +44 (0) 121 415 7043

Website: [www.shareview.co.uk](http://www.shareview.co.uk)

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: 0371 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](http://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 0345 603 7037 between 8.30 a.m. and 4.30 p.m. and for internet sales please visit: [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing).

**CORPORATE INFORMATION****Company Secretary**

Wai Wong

**Registered office**

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London  
WC1V 6DX  
UK

**Registered number**

3299608

**Auditors**

KPMG LLP (retiring on 27 April 2016)

Deloitte LLP (subject to shareholder approval, from 27 April 2016)

**Joint Corporate Brokers**

UBS Investment Bank  
N+1 Singer

**FINANCIAL CALENDAR**

1 March 2016	Preliminary announcement of final results for the year ended 31 December 2015
27 April 2016	Annual General Meeting and First Interim Management Statement
28 April 2016	Ex-dividend date for final and special dividend for 2015 payable on ordinary shares
29 April 2016	Record date for final and special dividend for 2015 payable on ordinary shares
27 May 2016	Payment of final and special dividend for 2015 on ordinary shares
2 August 2016	Interim results announcement for the half year ending 30 June 2016
8 September 2016*	Ex-dividend date for interim dividend for 2016 payable on ordinary shares
9 September 2016*	Record date for interim dividend for 2016 payable on ordinary shares
30 September 2016*	Payment of interim dividend for 2016 on ordinary shares
28 October 2016*	Second Interim Management Statement

\* provisional date

**ANNUAL GENERAL MEETING**

The Annual General Meeting of Elementis plc will be held on 27 April 2016 at 9.30 a.m. at the offices of UBS Investment Bank, Meeting Room 29, 7th Floor, 1 Finsbury Avenue, London, EC2M 2PP. 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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[www.elementischromium.com](http://www.elementischromium.com)  
(Chromium)





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