ELEMENTIS

**PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2014**

Elementis plc (ELM.L), a global specialty chemicals company, announces its results for the year ended 31 December 2014.

**HIGHLIGHTS**

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

**FINANCIAL SUMMARY**

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

* before exceptional items

Commenting on the results, Group Chief Executive, David Dutro said:

"Elementis delivered another year of solid financial performance. The Group continues to benefit from its strategy of creating its own growth opportunities through innovation and investment to support our strong and diverse market positions. This has been central to our ability to deliver a fifth consecutive year of EPS* growth, a further improvement in our year end net cash balance and a material increase in the total dividend. This continuous improvement has been achieved despite uneven regional and market growth, which further validates our strategy and underlines the resilience of Elementis.

Elementis Specialty Products delivered excellent growth in its North America coatings additives business (+7 per cent) where we recently completed our new coatings additives facility in New Martinsville, which has helped us to launch further new products into the decorative coatings market. In fact, new products as a percentage of sales achieved a record high of 9 per cent in 2014. Asia Pacific coatings also delivered good growth (+5 per cent) reflecting our strong market position in that region. In oilfield drilling, after a slower start to the year, second half sales grew by 9 per cent compared to the same period last year as our newly established management team in Houston, Texas, made good progress in targeting key customer accounts. Finally, following a strong 2013, personal care continued to deliver attractive growth with an 8 per cent improvement in sales.

The Chromium business has once again delivered a good financial performance in line with its strategy of producing stable earnings and cash flow. This was achieved by operating at consistently high rates of capacity utilisation and serving a diverse range of customers, geographies and applications, allowing it to quickly shift products and resources towards those areas with the greatest opportunities.

Cash generation was again a strong feature of our overall performance in 2014 with the Group increasing its net cash balance at the end of the year by $10.1 million to $64.2 million. We are continuing with our dividend policy of paying approximately one third of earnings each year as the combined interim and final dividend, plus a special dividend of up to 50 per cent of the year end net cash balance. As a result our shareholders will receive a 19 per cent increase in the special dividend and an 11 per cent increase in total dividends for the year.

Although economic uncertainties in Europe and evolving dynamics in the oilfield sector remain evident, the current year has started on a solid footing and we are confident that the Group will make further progress in the coming year. We are fully committed and well positioned to maintain our record of delivering profitable growth and industry leadership and would like to thank our shareholders and customers for their continued confidence and support."

**ENDS**

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**Elementis**
David Dutro, Group Chief Executive
Brian Taylorson, Finance Director

**FTI Consulting**
Deborah Scott
Matthew Cole

## Chairman's statement

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

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

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

### Balance sheet

One of the Group's core strengths is its strong balance sheet, supported by positive cash flow generation. In 2014 this was once again demonstrated with the Group's net cash position increasing from $54.1 million at the end of 2013 to $64.2 million at the end of 2014. This was achieved despite financing a robust capital expenditure programme and an additional one time UK pension contribution. Under our current dividend policy, this increase in net cash results in a similar increase in the special dividend.

Once again the deficit on Group retirement plans, under IAS 19, improved in 2014, going from $99.3 million at the end of 2013 to $65.8 million at the end of 2014. The improvement was largely the result of favourable asset returns and Company contributions.

### Dividends

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

### Health, safety and the environment

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

### Board changes

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

* before exceptional items

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

**Governance**

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

**People**

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

**Outlook**

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

Andrew Duff
Chairman
24 February 2015

**Group Chief Executive's overview**

Dear Shareholders,

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

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

2014 highlights:

- Another strong financial performance:
    - 5th consecutive year of EPS* growth.
    - Stable operating margin* at 19 per cent.
    - Strong cash flow from operations saw net cash increase by $10.1 million.
    - Final dividend increased by 5 per cent.
    - Special dividend paid for the 3rd successive year and increased by 19 per cent.
- Specialty Products:
    - North America coatings up 7 per cent, driven in part by sales of innovative products from the newly commissioned decorative coatings facility.
    - Asia Pacific coatings up 5 per cent with sales and profits from Chinese manufactured organoclays reaching their highest levels to date.
    - Good international sales growth from Hi-Mar, our recently acquired US based defoamer business.
- Chromium:
    - Optimising product and sales mix to produce stable earnings and cash flow.
    - Cash generation was 117 per cent of operating profit*.
- Maintaining a strong focus on improving our excellent health and safety performance.

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

- Achieved a record level of new products as a percentage of sales, with new products accounting for 9 per cent of total revenue in the Specialty Products business.
- Opened a new sales office in Houston, Texas, led by a new business director and sales team in order to focus more intensely on oilfield customers.
- Prepared Watercryl, our recently acquired coatings additives company in Brazil, to begin exporting throughout Latin America, which included the installation of a comprehensive ERP system.
- Expanded the scope of the New Martinsville project to broaden its product range capabilities for US decorative coatings. All 3 phases of construction are now successfully completed and customer approvals are ramping up quickly.
- Our manufacturing facility in Livingston, Scotland, achieved certification for RSPO (Roundtable for Sustainable Palm Oil) and CGMP (consumer good manufacturing practices), further differentiating and protecting our line of proprietary personal care products.

The Specialty Products business provides high value functional additives used in coatings, oilfield and personal care applications that improve the physical properties and performance of our customers' products or production processes. The business provides a strong growth platform with its balanced geographic exposure across both mature and emerging economies, strong technology base and strategic market diversification. Specialty Products has a significant technical service and application support presence in its chosen markets that is built on long term relationships of trust, collaboration and technical expertise.

* before exceptional items

We help our customers improve the performance of their products, lower costs or improve regulatory compliance by introducing additives that represent a low percentage of the formula cost but are critical to product performance. Our differentiated, innovative product offering is supported by excellent process technology and tightly held manufacturing know how. The majority of our new products are covered by intellectual property and, with over 2,500 products in our portfolio, the business is well positioned to be the industry's "one stop solution provider".

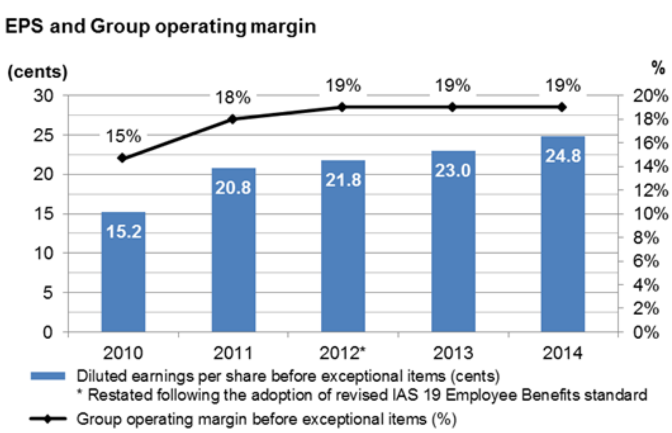
The strategy of our Chromium business is focused on reducing cyclical fluctuations and consistently delivering predictable and therefore higher quality earnings and cash flow. The business operates at consistently high rates of capacity utilisation and serves a diverse number of customers, geographies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

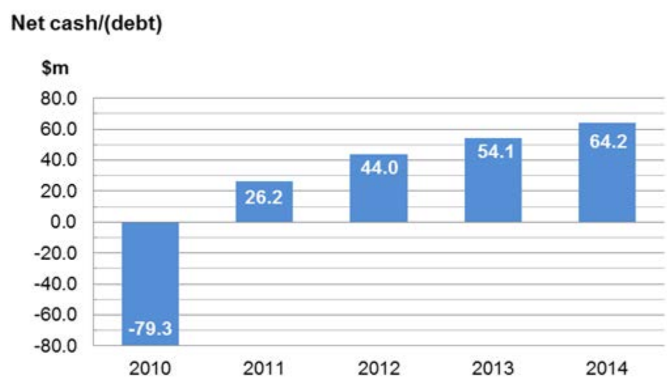
As the only locally based manufacturer of chromium chemicals, the business is able to provide its North American customers with a differentiated and highly valued closed loop delivery model which offers them significant advantages and benefits. This model would be extremely difficult for a non-domestic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

Regardless of the overall global economic conditions, Elementis will continue its focus on driving continuous improvement in the areas we can control, including sustainable operating improvements, market share gains, the introduction of innovative new products and expansion into new geographic markets. We are positive about our future, due in large part to the hard work, ingenuity and unbounded energy of the global Elementis team. Every day, throughout the year, our people deliver the quality and service that builds customer loyalty and market strength.

Although economic uncertainties in Europe and evolving dynamics in the oilfield sector remain evident, the current year has started on a solid footing and we are confident that the Group will make further progress in the coming year. We are fully committed and well positioned to maintain our record of delivering profitable growth and industry leadership and would like to thank our shareholders and customers for their continued confidence and support.

David Dutro
Group Chief Executive
24 February 2015



## Business commentaries

Revenue

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

Operating profit

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

* before exceptional items

### Elementis Specialty Products

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

In North America, sales of coatings additives improved by 7 per cent compared to the previous year. The business experienced good sales growth throughout the year due, in part, to new innovative products introduced into the decorative coatings market, utilising the recently completed facility in New Martinsville, US, and solid industrial activity from the underlying economy.

In Europe, coatings additives sales improved by 2 per cent over the previous year as the business made good progress despite a more challenging economic environment. The period saw a marked reduction in demand in the final 3 months of the year as European economic concerns resurfaced. Overall, the business continued to benefit from strong customer relationships, new product sales and additional sales into the Middle East and Eastern Europe.

Sales of coatings additives in Asia Pacific improved by 5 per cent as the business benefited from its strong position in China and expanding sales in the rest of Asia Pacific, driven by a differentiated product offering, exemplary customer service and high quality technical support.

In Latin America, coatings additives sales were 3 per cent lower than the previous year as good progress in expanding sales outside Brazil was offset by weak underlying economic activity and adverse currency movements.

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

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

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

**Elementis Chromium**

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

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

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

**Elementis Surfactants**

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

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

* before exceptional items

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

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

### Group results

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

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

### Currency hedging

Although a large proportion of the Group's business is transacted in US dollars, the Group also transacts in other currencies, in particular euros, pounds sterling and Chinese renminbi. In order to reduce earnings volatility from these currency exposures, the Group takes out cash flow hedges each year where these are readily available. In 2014, overall currency movements were such that the net impact of these hedge transactions was a credit to operating profit of $1.9 million, while in 2013 there was no material impact.

### Central costs

Central costs are those costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of directors and the corporate office. In 2014 central costs* were $11.6 million, which was lower than the previous year by $1.6 million due to a reduction in the cost of variable compensation plans and other central provisions which offset an increase of $0.6 million due to currency movements.

* before exceptional items

## Exceptional items

A number of items have been recorded under 'exceptional items' in the 2014 Consolidated income statement by virtue of their size and/or one time nature, in order to provide a better understanding of the Group's results. The net impact of these items on the Group profit before tax for the year is a credit of $6.3 million. The before tax items fall into 3 categories, as summarised below.

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

**Post employment benefits – net credit of $4.9 million**

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

**Environmental provisions – charge of $1.9 million**

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

**Other adjustments – net credit of $3.3 million**

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

**Taxation – net credit of $53.5 million**

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

## Other expenses

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

**Net finance costs**

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

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

**Taxation**

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

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

**Earnings per share**

Note 7 to the Consolidated financial statements sets out a number of calculations of earnings per share. To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as exceptional.

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

**Distributions to shareholders**

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

**Cash flow**
The cash flow is summarised below.

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

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

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

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

## Balance sheet

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

Group equity increased by $98.6 million in 2014 (2013: $64.7 million) consistent with the profit for the year, dividends paid and changes in pension liabilities. Intangible fixed assets declined by $9.1 million due mostly to a currency translation cost of $6.6 million and amortisation charges of $3.6 million. Tangible fixed assets increased by $9.1 million in the year, largely as a result of capital spending for the year exceeding the depreciation charge by $13.6 million, while currency translation reduced the year on year balance by $5.5 million. Working capital decreased by $6.3 million, with an increase in Specialty Products' inventories of $10.5 million to assist stock availability being offset by an overall increase in trade and other payables of $10.9 million and reduced trade and other debtors of $4.8 million. Net tax liabilities decreased by $57.9 million, driven by the recognition of UK advance corporation tax credits and deferred tax assets. Movements in provisions and retirement benefit obligations are discussed elsewhere in this report. Net cash increased by $10.1 million as described in the previous section.

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

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

## Provisions

The Group records a provision in the balance sheet when it has a present obligation as a result of past events, which is expected to result in an outflow of economic benefits in order to settle the obligation. The Group calculates provisions on a discounted basis. At the end of 2014 the Group held provisions of $35.0 million (2013: $38.1 million), consisting of environmental provisions of $31.7 million (2013: $34.9 million) and self insurance provisions of $3.3 million (2013: $3.2 million). In 2014 environmental provisions reduced by $3.2 million as a result of spending of $5.1 million (2013: $5.2 million) and favourable currency movements of $1.3 million (2013: unfavourable $0.3 million). These were partly offset by increases in the provision due to a time value of money charge of $1.9 million (2013: $1.8 million) and a structural charge of $1.9 million to reflect a change in the underlying discount rate. This latter charge is treated as an exceptional item in the Group results as described earlier in this report. The self insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme.

## Pensions and other post retirement benefits

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

**UK plan**

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

| Year payable | Amount (£million) |
|---|---:|
| **2015** | 14.9 |
| **2016** | 11.0 |
| **2017** | 9.8 |
| **2018** | 9.8 |

**US plans**

In the US, the Group reports two post retirement plans under IAS 19: a defined benefit pension plan with a deficit value at the end of 2014 of $23.7 million (2013: $15.6 million); and a post retirement medical plan with a liability value of $7.4 million (2013: $7.5 million). The US pension plan is smaller than the UK plan and is closed to future accruals. In 2014 the overall deficit value increased by $8.0 million (2013: decreased by $28.2 million) due to the anticipated financial cost of the liabilities of $5.6 million (2013: $5.1 million) and actuarial increases of $16.9 million (2013: decrease of $11.5 million). Other liability increases consisted mostly of a revision to mortality assumptions costing approximately $5.8 million and a decline in real corporate bond yields of 55 basis points (2013: increase of 80 basis points). These increases in the liability were offset by positive asset returns of 7 per cent (2013: 22 per cent) and employer contributions of $7.8 million (2013: $2.9 million).

**Other plans**

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

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

## Consolidated income statement
## for the year ended 31 December 2014

| | Note | 2014 Before exceptional items $million | 2014 Exceptional items (note 5) $million | 2014 After exceptional items $million | 2013 Before exceptional items $million | 2013 Exceptional items (note 5) $million | 2013 After exceptional items $million |
|---|---|---|---|---|---|---|---|
| Revenue | | **790.4** | **-** | **790.4** | 776.8 | - | 776.8 |
| Cost of sales | | **(486.1)** | **-** | **(486.1)** | (487.7) | - | (487.7) |
| Gross profit | | **304.3** | **-** | **304.3** | 289.1 | - | 289.1 |
| Distribution costs | | **(92.3)** | **-** | **(92.3)** | (83.6) | - | (83.6) |
| Administrative expenses | | **(61.9)** | **6.3** | **(55.6)** | (58.9) | (1.7) | (60.6) |
| Operating profit | | **150.1** | **6.3** | **156.4** | 146.6 | (1.7) | 144.9 |
| Other expenses | | **(1.9)** | **-** | **(1.9)** | (2.0) | - | (2.0) |
| Finance income | 3 | **0.3** | **-** | **0.3** | 0.2 | - | 0.2 |
| Finance costs | 4 | **(6.6)** | **-** | **(6.6)** | (8.8) | - | (8.8) |
| Profit before income tax | | **141.9** | **6.3** | **148.2** | 136.0 | (1.7) | 134.3 |
| Tax | 6 | **(26.3)** | **53.5** | **27.2** | (29.4) | 1.8 | (27.6) |
| Profit for the year | | **115.6** | **59.8** | **175.4** | 106.6 | 0.1 | 106.7 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | **115.6** | **59.8** | **175.4** | 106.6 | 0.1 | 106.7 |
| | | **115.6** | **59.8** | **175.4** | 106.6 | 0.1 | 106.7 |
| Earnings per share | | | | | | | |
| Basic (cents) | 7 | | | **38.1** | | | 23.3 |
| Diluted (cents) | 7 | | | **37.7** | | | 23.0 |

## Consolidated statement of comprehensive income
## for the year ended 31 December 2014

| | 2014 $million | 2013 $million |
|---|---|---|
| Profit for the year | **175.4** | 106.7 |
| Other comprehensive income: | | |
| Items that will not be reclassified subsequently to profit and loss: | | |
| Remeasurements of retirement benefit obligations | **(18.5)** | 19.3 |
| Deferred tax associated with retirement benefit obligations | **14.1** | (10.3) |
| Items that may be reclassified subsequently to profit and loss: | | |
| Exchange differences on translation of foreign operations | **(11.6)** | (1.2) |
| Effective portion of changes in fair value of cash flow hedges | **0.1** | 0.3 |
| Fair value of cash flow hedges transferred to income statement | **(0.3)** | 0.5 |
| Tax benefit associated with exercise of share options | **2.8** | 4.4 |
| Other comprehensive income | **(13.4)** | 13.0 |
| Total comprehensive income for the year | **162.0** | 119.7 |
| Attributable to: | | |
| Equity holders of the parent | **162.0** | 119.7 |
| Total comprehensive income for the year | **162.0** | 119.7 |

**Consolidated balance sheet**
**as at 31 December 2014**

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

## Consolidated statement of changes in equity

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

## Consolidated cash flow statement
## for the year ended 31 December 2014

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

## Notes to the financial statements

### 1 Preparation of the preliminary announcement

The financial information in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2014 or 2013 but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies, and those for 2014 will be delivered in due course. The auditor has reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This preliminary announcement was approved by the Board of Directors on 24 February 2015.

### 2 Basis of preparation

Elementis plc (the "Company") is incorporated in the UK. The information within this document has been prepared under International Financial Reporting Standards as adopted by the EU (adopted IFRS).

The Group's 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 have been consistently applied across group companies to all periods presented.

The Group and Company financial statements have been prepared on the going concern basis, as the directors are satisfied that the Group and Company have adequate resources to continue to operate for the foreseeable future as going concerns. An explanation of the directors' assessment of using the going concern basis is given in the Directors' report in the Annual Report and Accounts 2014 which will be made available to shareholders on 19 March 2015.

**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.

### 3 Finance income

| | **2014 $million** | 2013 $million |
|---|---|---|
| Interest on bank deposits | **0.3** | 0.2 |

### 4 Finance costs

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

### 5 Exceptional items

| | **2014 $million** | 2013 $million |
|---|---|---|
| Post employment benefits | **4.9** | 0.1 |
| Environmental provisions | **(1.9)** | (0.2) |
| Other | **3.3** | (1.6) |

| | | |
|---|---|---|
| | **6.3** | (1.7) |
| Tax (charge)/credit in relation to exceptional items | **(0.8)** | 1.8 |
| Recognition of further UK tax assets | **12.3** | - |
| Recognition of ACT | **42.0** | - |
| | **59.8** | 0.1 |

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

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

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

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

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

## 6 Income tax expense

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

* exceptional debit of $0.8 million included within overseas corporation tax and overseas deferred tax
** see Note 5 for details of exceptional items

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

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

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

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

## 7 Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent is based on the following:

| | **2014 $million** | 2013 $million |
|---|---|---|
| Earnings: | | |
| Earnings for the purpose of basic earnings per share | **175.4** | 106.7 |
| Exceptional items net of tax | **(59.8)** | (0.1) |
| Adjusted earnings | **115.6** | 106.6 |

| | **2014 million** | 2013 million |
|---|---|---|
| Number of shares: | | |
| Weighted average number of shares for the purposes of basic earnings per share | **460.7** | 456.9 |
| Effect of dilutive share options | **4.7** | 6.8 |
| Weighted average number of shares for the purposes of diluted earnings per share | **465.4** | 463.7 |

| | **2014 cents** | 2013 cents |
|---|---|---|
| Earnings per share: | | |
| Basic | **38.1** | 23.3 |
| Diluted | **37.7** | 23.0 |
| Basic before exceptional items | **25.1** | 23.3 |
| Diluted before exceptional items | **24.8** | 23.0 |

## 8 Contingent liabilities

As is the case with other chemical companies, the Group occasionally receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where it is deemed that an obligation is merely possible and that the probability of a material outflow is not remote, the Group would disclose a contingent liability. No contingent liability was considered to be reportable at 31 December 2014.

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<u>Annual Financial Report</u>

In accordance with Disclosure and Transparency Rule 6.3.5, the following additional information is required to be made through a Regulatory Information Service ("RIS"): Principal risks and uncertainties; and Directors' responsibility statement. The information below, which is summarised and extracted from the 2014 Annual report and accounts that is to be published on 19 March 2015, is included solely for the purpose of complying with DTR 6.3.5(2) and the requirements it imposes on issuers on what material is to be communicated to the media in unedited full text through a RIS. A fuller description is set out in the 2014 Annual report and accounts.

**Risk management**
Our risk management process follows an Enterprise Risk Management model comprising the following steps:

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

The management of risk is a responsibility that is incorporated into the general management function and shared between the different levels of management, at the site, business and corporate level. Certain risks or risk areas are managed by more specialised teams or functions.

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

The principal risks and uncertainties identified by the management team and approved by the Board are listed below.

**Principal risks and uncertainties**
The following is a summary of the principal risks agreed by the Board: global economic conditions and competitive pressure in the marketplace; growth opportunities and product innovation may not materialise; raw materials and supply chain; major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations; UK pension fund; regulation/technological advances; major event or catastrophe (eg IT failure or operations incident); major disruption to global or regional banking systems; and increasing scrutiny of corporate tax affairs due to the current political and financial environment. A full description of these risks and the mitigating actions taken by the Company will appear in the 2014 Annual report and accounts.

**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.

**Directors' responsibility statement**

The following is an extract of the full statement prepared in connection with the Company's Annual Report and Accounts (comprising both consolidated and parent company financial statements) for the year ended 31 December 2014. The full text of the Directors' responsibility statement will appear in the 2014 Annual report and accounts.

The Directors of the Company 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.

**ENDS**