ELEMENTIS

A global specialty chemicals company

5 March 2019

ELEMENTIS plc

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Robust 2018 performance and continued positive momentum against strategy

- Revenue from continuing operations up 5% from $783m to $822m, driven by extra contribution from SummitReheis and Mondo. Underlying revenue progress in Personal Care, stable Coatings and declines in Chromium and Energy.
- Adjusted operating profit increased 8% to $133m with improved profitability in Personal Care and Chromium. Group adjusted operating margin up 40bps to 16.1%. Statutory operating profit down 7% to $85m[4].
- Net debt to adjusted pro forma EBITDA 2.5x (1.9x at 31 December 2017) following Mondo acquisition; on track to reduce leverage to around 2.0x by end of 2019. Working capital reduction target increased from $18m to $25m by 2020.
- Ordinary dividend up 4% to 8.4c per share.

Portfolio transformation creating a higher quality, higher margin group

- Completed acquisition of Mondo; performance strong and in line with expectations, $2m cost synergies identified and full integration expected by end of 2019.
- Portfolio transformation has created a platform for improved returns and future growth, with c. 80% of pro forma earnings collectively from:
  — A substantial, high margin **Personal Care** business
  — A focused **Coatings** business delivering operational improvement, and
  — A well-positioned, high margin **Talc** business with significant growth potential under Elementis ownership

In 2019 expect good progress led by self-help initiatives

- Whilst global market conditions remain challenging, expect good progress with focus on Talc integration, self-help initiatives and deleveraging.
- Investor day planned for November 2019.

FINANCIAL SUMMARY

	2018	2017	% Change
Revenue	**$822m**	$783m	+5%
Statutory profit for the period	**$41m∆**	$118m∆	-65%
Statutory basic earnings per share[2]	**7.9c∆**	23.3c∆^	-66%
Adjusted operating profit[1]	**$133m**	$123m	+8%
Adjusted profit before tax[1]	**$113m**	$110m	+3%
Adjusted diluted earnings per share[2]	**16.9c**	17.0c^	-1%
Adjusted operating cash flow[3]	**$78m**	$107m	-27%
Net debt[3]	**$498m**	$291m	+71%
Ordinary dividend per share	**8.4c**	8.1c^	+4%

Unless otherwise stated, KPIs refer to continuing operations only.

∆ – Total operations (both continuing and discontinued operations).
^ – Rebased for bonus element of rights issue.
1 – See note 5.
2 – See note 7.
3 – See Finance Report.
4 – Operating profit impacted by non-recurring items. See note 5.

Commenting on the results, CEO, Paul Waterman said:
"Elementis delivered good overall results for 2018 in a challenging operating environment, with adjusted operating profit rising by 8% to $133m.

The acquisition of Mondo in 2018 is a major step to further improve the quality of our portfolio. Elementis today is increasingly focused on three highly profitable businesses of scale in Personal Care, Coatings and Talc that each have attractive growth prospects.

In 2019, whilst global market conditions remain challenging, particularly in coatings, we will seek to capture synergies as we integrate Mondo, transform Coatings and grow Personal Care. This will reduce leverage via the Group's inherently strong cash generation. We are confident of making further progress in the year ahead and over the longer term."

Business performance overview

- **Personal Care** revenue up 17% to $210m driven by an extra quarter of SummitReheis. Organic* revenue growth of 1%. Adjusted operating profit up 17%; adjusted operating margin of 24.8%.
  - After a subdued H1 in cosmetics and AP actives due to distributor de-stocking and raw material price inflation, improved H2 revenue performance with 6% and 5% organic* growth respectively. Cosmetics and AP actives represent c.90% Personal Care profits.
  - Operating profit improvement driven by pricing actions and synergy delivery. Margin solid despite significant price inflation of two key raw materials, aluminium and zirconium.
- **Coatings** revenue $362m with flat organic* growth. Adjusted operating profit $53m, representing 7% organic* growth.
  - Revenue growth* in Americas, but subdued H2 demand in Asia and EMEA.
  - Excluding the impact of business disposals and FX, adjusted operating profit up 7% with early benefits from Coatings transformation programme; more to come in 2019.
- **Talc** performance in line with expectations. In two months of ownership revenue of $22m, adjusted operating profit $4m and strong margin of 18%.
  - As expected at the time of the acquisition, full year constant currency revenue up 10% to $158m and adjusted operating profit up 26% to $25m due to continued momentum in industrial business and monetisation of other minerals.
  - Integration plan in place and progressing well. Cost synergy opportunities of $2m identified.
- **Chromium** revenue down 1% to $184m; adjusted operating profit up 10% to $33m.
  - Volumes down 6% due to weather related production outages, partially offset by improved pricing.
  - Impact of outages on adjusted operating profit largely mitigated by insurance cover. Adjusted operating profit up 10% due to pricing benefit resulting from tightening market.
- **Energy** constant currency revenue down 7%; adjusted operating profit of $7m.
  - Volumes impacted by lower drilling due to infrastructure constraints in North America.
  - Adjusted operating profit down 27% to $7m on lower volumes and weaker mix.

Further information
A presentation for investors and analysts will be held at 09:30 GMT on 5 March 2019. The presentation will be webcast on www.elementisplc.com. Conference call dial in details:

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Notes:

* Adjusted for constant currency (where constant currency reflects prior year results translated at current year exchange rates) and the impact of acquisitions (SummitReheis and Mondo) and business disposals (US Colourants business and Surfactants, Coatings and Personal Care portfolio elimination following the Delden asset sale). See Finance Report.

– ENDS –

Chairman's statement

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

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

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

FINANCIAL RESULTS

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

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

MONDO

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

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

BREXIT

Whilst the timing and impact of the United Kingdom's exit from the EU (Brexit) remains uncertain, Elementis is well prepared to react to the potential outcome of a 'no deal' Brexit. Of Elementis' 21 manufacturing sites, one is located in the UK, and 96% of Group revenue is from outside of the UK. We recognise that there may be short term disruption to logistics, however steps have been taken to pro-actively manage our supply chain to mitigate any potential impact. This includes ensuring sufficient raw materials are held at our production site in Livingston, Scotland as well as having sufficient finished goods throughout our global distribution network.

BALANCE SHEET

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

DIVIDEND POLICY

Under the dividend policy introduced in 2018, it is our intention to pay progressive ordinary dividends, normally with a dividend cover of at least 2 times adjusted earnings, and to seek to make additional returns to shareholders when net debt is structurally below one times earnings (EBITDA).

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

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

GOVERNANCE AND BOARD

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

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

PEOPLE AND CULTURE

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

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

SUMMARY

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

Andrew Duff
Chairman
5 March 2019

Chief Executive Officer's overview

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

RESULTS

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

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

SAFETY

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

CSR AND SUSTAINABILITY

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

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

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

PEOPLE

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

After a career in the chemicals industry of 23 years, and with Elementis for ten years, Ken Smith, VP Technology retired at the end of 2018. Technology is a cornerstone of what we do and I would like to thank Ken for the huge contribution he has made to Elementis – his impact on the business will be felt for years to come. Whilst it is sad to see Ken go, I am pleased to welcome Joe Lupia to Elementis as his successor. Joe has a career of more than 30 years in the chemicals industry and joins Elementis from BASF where he most recently held the position of director, Technical Innovations and Customer Support – Care Chemicals USA.

MONDO

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

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

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

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

REIGNITE GROWTH

In November 2016, we launched our Reignite Growth strategy. In the second year of strategic implementation we have made significant progress against our four priorities.

1) Pursue best growth opportunities

Coatings Asia

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

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

Personal Care global growth

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

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

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

Global key account management

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

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

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

Address disadvantaged assets
In 2018, we exited two significant assets. In February, we completed the sale of our Surfactants business, including the Delden production site, for EUR 39m and in August we agreed to sell the Jersey City site, previously home to the US Colourants business, for $17m. Exiting these assets has generated cash, simplified our supply chain, significantly reduced ongoing maintenance capex and allowed the re-allocation of capital to higher margin growth opportunities. In November, we closed our organoclay site in Changxing. In 2019, we will continue to focus on continuous improvement of our assets across sectors and geographies.

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

3) Innovate for high margins and distinctiveness
Deliver new product pipeline
Our innovation pipeline contains many new projects coming to market in 2019. In Personal Care, natural functional ingredients are in demand, and consumers also want products that have great application aesthetics. Our new Bentone Hydroclay™ product line delivers these requirements, enabling cosmetic formulators to create natural skin care products that also deliver novel sensory experiences.

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

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

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

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

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

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

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

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

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

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

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

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

Paul Waterman
CEO
5 March 2019

Business Commentaries

Revenue

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

Adjusted operating profit

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

$^{\Delta}$ After adjusting items – see note 5.

Personal Care

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

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

Coatings

In Coatings, revenue declined 3% to $362.2m primarily driven by portfolio elimination following the Surfactants business sale and the continued upgrading of the product portfolio, in line with the value over volume strategy of our global Coatings transformation programme. Excluding the impact of FX and business disposals, Coatings revenue was flat on 2017 at $362.2m. Whilst Coatings America performed well with organic revenue* growth of 3% due to customer wins and positive momentum with direct customers, the rest of the world experienced tougher trading conditions. Revenue in Coatings Asia finished the year flat*, with a managed decline in low value resins and lower

overall activity levels, primarily in China, offset by improved pricing and mix. Coatings EMEA finished down 2%* as a result of a deterioration in demand, particularly in the fourth quarter.

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

Talc

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

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

Chromium

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

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

Energy

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

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

* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates) and the impact of M&A.
** M&A impact includes the impact of business acquisitions (SummitReheis in Personal Care and Mondo) and business disposals (US Colourants business and Surfactants, Coatings and Personal Care portfolio elimination following the Delden asset sale).
*** See pro forma information.

Finance report

Revenue

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

Operating profit

	2018 Operating profit $m	Adjusting items $m	2018 Adjusted operating profit[1] $m	2017 Operating profit $m	Adjusting items $m	2017 Adjusted operating profit[1] $m
Personal Care	40.4	11.8	52.2	29.2	15.4	44.6
Coatings	57.6	(5.1)	52.5	54.6	0.1	54.7
Talc	(0.2)	4.1	3.9	–	–	–
Chromium	15.8	17.2	33.0	28.8	1.3	30.1
Energy	7.1	–	7.1	9.7	–	9.7
Central costs	(35.8)	19.7	(16.1)	(30.9)	14.5	(16.4)
Operating profit from continuing operations	**84.9**	**47.7**	**132.6**	91.4	31.3	122.7
Discontinued operations – Surfactants	(10.4)	9.8	(0.6)	5.8	(0.4)	5.4
Operating profit from continuing and discontinued operations[Δ]	**74.5**	**57.5**	**132.0**	97.2	30.9	128.1

[Δ] Total operations (both continuing and discontinued).
[1] After adjusting items – see note 5.

Group results

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

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

Adjusting items

In addition to the statutory results the Group uses alternative performance measures such as adjusted operating profit and adjusted diluted earnings per share to provide additional useful analysis of the performance of the business. The Board considers these non-GAAP measures as an alternative way to measure the Group's performance so it is comparable to the prior year. Adjusting items in 2018 resulted in a charge of $57.5m before tax, an increase of $26.6m against last year. The key categories of adjusting items are summarised below, for more information on adjusting items and the Group's policy for adjusting items please see Note 5 and Note 1 to the financial statements respectively.

Credit/(charge)	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Central Costs $m	Continuing operations $m	Discontinued operations $m	Total
Restructuring	–	–	–	–	–	(0.2)	(0.2)	–	(0.2)
Business transformation	–	(5.6)	–	–	–	–	(5.6)	–	(5.6)
Environmental provisions	–	–	–	(17.0)	–	0.5	(16.5)	–	(16.5)
Costs related to acquisition activities	(0.2)	–	–	–	–	(16.3)	(16.5)	–	(16.5)
Uplift due to fair value of Mondo inventory	–	–	(2.9)	–	–	–	(2.9)	–	(2.9)
Sale of Colourants business and closure of Jersey City site	–	12.7	–	–	–	–	12.7	–	12.7
Sale of Surfactants business	–	–	–	–	–	(0.5)	(0.5)	–	(0.5)
Amortisation of intangibles arising on acquisition	(11.6)	(2.0)	(1.2)	(0.2)	–	–	(15.0)	–	(15.0)
GMP pension	–	–	–	–	–	(3.2)	(3.2)	–	(3.2)
Surfactants commercial settlement	–	–	–	–	–	–	–	(9.8)	(9.8)
Total	**(11.8)**	**5.1**	**(4.1)**	**(17.2)**	**–**	**(19.7)**	**(47.7)**	**(9.8)**	**(57.5)**

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

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

Environmental provisions
The Group's environmental provision is calculated on a discounted cash flow basis, reflecting the time period over which spending is estimated to take place. Assessments with our external advisers at the end of 2018 have resulted in a $16.5m provision increase. As these costs relate to non-operational facilities the costs associated are classed as adjusting items.

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

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

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

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

Amortisation of intangibles arising on acquisition
Amortisation of $15.0m (2017: $11.8m) represents the charge in respect of the Group's acquired intangible assets. As in previous years these are included in adjusting items in order to present a more reflective view of the Group's overall performance and the key business drivers that underpin it.

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

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

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

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

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

Net finance costs

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

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

Taxation

Tax charge

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

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

Earnings per share

To better understand the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as adjusting and includes profits from both continuing and discontinued operations.

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

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

Note 7 provides disclosure of earnings per share calculations both including and excluding the effects of adjusting items and the potential dilutive effects of outstanding and exercisable options.

Distributions to shareholders

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

Δ Total operations (both continuing and discontinued).
† Rebased for the effects of the rights issue.
1 After adjusting items – see note 5.

Adjusted cash flow

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

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

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

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

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

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

*** See pro forma information on page 32.

Balance sheet

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

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

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

Working capital comprises inventories, trade and other receivables, trade and other payables and derivatives. Working capital increased by $38.0m driven primarily by underlying growth of the business, the acquisition of Mondo and raw material planning decisions. Inventories rose from $143.6m in 2017 to $188.7m in 2018 as a result of procurement decisions to purchase raw material inputs for Chromium and antiperspirant actives businesses in advance. Trade and other receivables and trade and other payables have increased by $14.8m and $22.9m respectively primarily due to inclusion of Mondo.

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

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

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

	2018 Year end	2018 Average	2017 Year end	2017 Average
Pounds sterling	**0.79**	**0.75**	0.74	0.78
Euro	**0.87**	**0.84**	0.83	0.89

Provisions

The Group records a provision in the balance sheet when it has a present obligation as a result of past events, which is expected to result in an outflow of economic benefits in order to settle the obligation. The Group calculates provisions on a discounted basis. At the end of 2018, the Group held provisions of $48.8m (2017, excluding provisions within liabilities classified as held for sale: $32.7m), consisting of environmental provisions of $43.3m (2017: $27.8m), self insurance provisions of $1.5m (2017: $2.2m) and restructuring and other provisions of $4.0m (2017: $2.7m).

Environmental provisions have increased by $18.8m in 2018, with $16.5m taken through adjusting items and $2.3m capitalised within fixed assets. The increase of $16.5m is due to the results of assessments carried out during the year at our legacy sites which indicated that remedial activities would be required over a longer time horizon than previously forecast. The self-insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme. Within the restructuring and other provisions categories, the $4.0m balance includes the remaining liability under a right of first refusal agreement and costs of adjusting head

count, training, relocation and other costs of restructuring where a need to do so has been identified by Management.

Pensions and other post retirement benefits

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

UK plan

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

US plans

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

Other plans

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

FINANCIAL LIABILITIES

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

BREXIT

Our assessment of the impact of Brexit on our business and customers has been monitored throughout the year and whilst the specific details and timing of Brexit remain unclear, we have proactively managed our supply chain in order to minimise the impact on our customers. In addition, we continue to monitor the impact of sterling in respect of interest rate and cost of capital and are taking steps to ensure there is continuity in the REACH registrations which apply to our manufactured and imported products. The Board's assessment remains that the impact of Brexit on the Group is expected to be of low materiality, however, we will continue to monitor political developments and modify plans accordingly. Further information on how we have assessed and are mitigating the risks associated with Brexit can be found in the principal risks section of the 2018 Annual Report.

Events after the balance sheet date

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

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

Consolidated income statement for the year ended 31 December 2018

	2018 $m	2017 $m
Revenue	**822.2**	782.7
Cost of sales	**(516.6)**	(487.6)
Gross profit	**305.6**	295.1
Distribution costs	**(111.6)**	(98.0)
Administrative expenses	**(109.0)**	(105.6)
Net impairment losses on financial assets	**(0.1)**	(0.1)
Operating profit	**84.9**	91.4
Other expenses[1]	**(1.6)**	(1.2)
Finance income	**0.3**	0.2
Finance costs	**(18.2)**	(11.9)
Profit before income tax	**65.4**	78.5
Tax	**(15.6)**	34.2
Profit from continuing operations	**49.8**	112.7
Profit/(loss) from discontinued operations	**(8.4)**	4.9
Profit for the year	**41.4**	117.6
Attributable to:		
Equity holders of the parent	**41.4**	117.6
	41.4	117.6
Earnings per share		
From continuing operations		
Basic (cents)[2]	**9.5**	22.3
Diluted (cents)[2]	**9.5**	22.0
From continuing and discontinued operations		
Basic (cents)[2]	**7.9**	23.3
Diluted (cents)[2]	**7.9**	23.0

1 Other expenses comprise administration expenses for the Group's pension schemes.
2 2017 earnings per share amounts restated to reflect adjustments associated with the rights issue (see Note 7).

Consolidated statement of comprehensive income for the year ended 31 December 2018

	2018 $m	2017 $m
Profit for the year	**41.4**	117.6
Other comprehensive income:		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	**5.3**	18.1
Deferred tax associated with retirement benefit obligations	**0.7**	(7.3)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	**0.5**	(0.2)
Effective portion of change in fair value of net investment hedge	**(20.5)**	22.9
Recycling of deferred foreign exchange losses on disposal	**4.2**	–
Effective portion of changes in fair value of cash flow hedges	**1.4**	0.1
Fair value of cash flow hedges transferred to income statement	**(0.1)**	0.3
Exchange differences on translation of share options reserves	**(0.4)**	0.1
Other comprehensive income	**(8.9)**	34.0
Total comprehensive income for the year	**32.5**	151.6
Attributable to:		
Equity holders of the parent	**32.5**	151.6
Total comprehensive income for the year	**32.5**	151.6

Consolidated balance sheet as at 31 December 2018

	2018 31 December $m	2017 31 December $m
Non-current assets		
Goodwill and other intangible assets	**976.6**	717.2
Property, plant and equipment	**478.2**	219.5
ACT recoverable	**9.8**	16.2
Deferred tax assets	**24.4**	0.2
Total non-current assets	**1,489.0**	953.1
Current assets		
Inventories	**188.7**	143.6
Trade and other receivables	**139.4**	124.6
Derivatives	**2.0**	0.9
Current tax assets	**3.0**	4.3
Cash and cash equivalents	**96.1**	55.0
Total current assets	**429.2**	328.4
Assets classified as held for sale	**–**	58.2
Total assets	**1,918.2**	1,339.7
Current liabilities		
Bank overdrafts and loans	**(2.8)**	(2.7)
Trade and other payables	**(140.6)**	(117.7)
Financial liabilities	**(0.1)**	–
Current tax liabilities	**(17.1)**	(14.1)
Provisions	**(7.3)**	(10.8)
Total current liabilities	**(167.9)**	(145.3)
Non-current liabilities		
Loans and borrowings	**(591.4)**	(343.4)
Retirement benefit obligations	**(9.9)**	(10.5)
Deferred tax liabilities	**(151.7)**	(93.4)
Provisions	**(41.5)**	(21.9)
Financial liabilities	**(40.2)**	–
Total non-current liabilities	**(834.7)**	(469.2)
Liabilities classified as held for sale	**–**	(22.9)
Total liabilities	**(1,002.6)**	(637.4)
Net assets	**915.6**	702.3
Equity		
Share capital	**52.1**	44.4
Share premium	**237.6**	21.9
Other reserves	**85.5**	99.0
Retained earnings	**540.4**	537.0
Total equity attributable to equity holders of the parent	**915.6**	702.3
Total equity	**915.6**	702.3

Consolidated statement of changes in equity for the year ended 31 December 2018

	Share capital $m	Share premium $m	Translation reserve $m	Hedging reserve $m	Other reserves $m	Retained earnings $m	Total equity $m
Balance at 1 January 2017	**44.4**	**20.9**	**(79.9)**	**(7.3)**	**162.4**	**486.6**	**627.1**
Comprehensive income							
Profit for the year	–	–	–	–	–	117.6	117.6
Other comprehensive income							
Exchange differences	–	–	22.7	–	0.1	–	22.8
Fair value of cash flow hedges transferred to the income statement	–	–	–	0.1	–	–	0.1
Effective portion of changes in fair value of cash flow hedges	–	–	–	0.3	–	–	0.3
Remeasurements of retirement benefit obligations	–	–	–	–	–	18.1	18.1
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(7.3)	(7.3)
Transfer	–	–	–	–	(2.2)	2.2	–
Total other comprehensive income	–	–	22.7	0.4	(2.1)	13.0	34.0
Total comprehensive income	–	–	22.7	0.4	(2.1)	130.6	151.6
Transactions with owners							
Purchase of own shares	–	–	–	–	–	(2.4)	(2.4)
Issue of shares by the Company	–	1.0	–	–	–	–	1.0
Share based payments	–	–	–	–	2.8	–	2.8
Dividends paid	–	–	–	–	–	(77.8)	(77.8)
Total transactions with owners	–	1.0	–	–	2.8	(80.2)	(76.4)
Balance at 31 December 2017	**44.4**	**21.9**	**(57.2)**	**(6.9)**	**163.1**	**537.0**	**702.3**
Balance at 1 January 2018	**44.4**	**21.9**	**(57.2)**	**(6.9)**	**163.1**	**537.0**	**702.3**
Impact following adoption of IFRS 15	–	–	–	–	–	**(0.9)**	**(0.9)**
Revised at 1 January 2018	**44.4**	**21.9**	**(57.2)**	**(6.9)**	**163.1**	**536.1**	**701.4**
Comprehensive income							
Profit for the year	–	–	–	–	–	41.4	41.4
Other comprehensive income							
Exchange differences	–	–	(20.0)	–	(0.4)	–	(20.4)
Recycling of deferred foreign exchange losses on disposal	–	–	4.2	–	–	–	4.2
Fair value of cash flow hedges transferred to the income statement	–	–	–	(0.1)	–	–	(0.1)
Effective portion of changes in fair value of cash flow hedges	–	–	–	1.4	–	–	1.4
Remeasurements of retirement benefit obligations	–	–	–	–	–	5.3	5.3
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	0.7	0.7
Transfer	–	–	–	–	(1.5)	1.5	–
Total other comprehensive income	–	–	(15.8)	1.3	(1.9)	7.5	(8.9)
Total comprehensive income	–	–	(15.8)	1.3	(1.9)	48.9	32.5
Transactions with owners:							
Purchase of own shares	–	–	–	–	–	(0.3)	(0.3)
Issue of shares by the Company[1]	7.7	215.7	–	–	–	–	223.4
Share based payments	–	–	–	–	2.9	–	2.9
Deferred tax on share based payments recognised within equity	–	–	–	–	–	(2.4)	(2.4)
Dividends paid	–	–	–	–	–	(41.9)	(41.9)
Total transactions with owners	7.7	215.7	–	–	2.9	(44.6)	181.7
Balance at 31 December 2018	**52.1**	**237.6**	**(73.0)**	**(5.6)**	**164.1**	**540.4**	**915.6**

1 The rights issue raised gross proceeds of $232.7m. The total amount capitalised to share capital and share premium was $222.2m ($232.7m less issuance costs of $10.5m).

Consolidated cash flow statement for the year ended 31 December 2018

	2018 $m	2017 $m
Operating activities:		
Profit for the year	**41.4**	117.6
Adjustments for:		
Other expenses	**1.6**	1.2
Finance income	**(0.2)**	(0.2)
Finance costs	**18.2**	11.9
Tax charge	**13.6**	(33.3)
Depreciation and amortisation	**45.9**	39.7
Decrease in provisions	**9.2**	(8.5)
Pension payments net of current service cost	**1.9**	(6.3)
Share based payments	**2.8**	2.8
Profit on disposal of business	**(12.1)**	–
Operating cash flow before movement in working capital	**122.3**	124.9
Increase in inventories	**(24.6)**	(2.2)
Increase in trade and other receivables	**(2.8)**	(2.4)
Increase in trade and other payables	**10.6**	11.5
Cash generated by operations	**105.5**	131.8
Income taxes paid	**(6.9)**	(9.1)
Interest paid	**(14.3)**	(8.0)
Net cash flow from operating activities	**84.3**	114.7
Investing activities:		
Interest received	**–**	0.1
Disposal of property, plant and equipment	**0.6**	3.3
Purchase of property, plant and equipment	**(50.0)**	(43.2)
Purchase of business net of cash acquired	**(484.7)**	(361.8)
Disposal of business	**58.0**	–
Acquisition of intangible assets	**(1.4)**	(1.7)
Net cash flow from investing activities	**(477.5)**	(403.3)
Financing activities:		
Issue of shares by the Company and the ESOT net of issue costs	**223.3**	1.0
Dividends paid	**(41.9)**	(77.8)
Purchase of shares by the ESOT	**(0.3)**	(2.4)
Proceeds on issue of debt	**554.7**	336.0
Repayment of debt	**(296.7)**	–
Net cash used in financing activities	**439.1**	256.8
Net increase in cash and cash equivalents	**45.9**	(31.8)
Cash and cash equivalents at 1 January	**55.0**	82.6
Foreign exchange on cash and cash equivalents	**(4.8)**	4.2
Cash and cash equivalents at 31 December	**96.1**	55.0

No cash or cash equivalents were included in assets held for sale as at 31 December 2017.

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 2018 or 2017 but is derived from those accounts. Statutory accounts for 2017 have been delivered to the Registrar of Companies, and those for 2018 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 5 March 2019.

2. Basis of preparation

Elementis plc (the “Company”) is incorporated in the UK. The information within this document has been prepared based on the Company’s consolidated financial statements which are prepared in accordance with International Financial Reporting Standards as adopted by the EU (adopted IFRS) and consistent with the accounting policies as set out in the previous consolidated financial statements.

The Group’s financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date.

The Group’s accounting policies have been updated following the adoption of a number of new standards and amendments to standards that have been issued and are now effective for the Group. The most significant of these, and their impact on the Group's accounting, are set out below:

IFRS 9 Financial Instruments (effective from 1 January 2018)

IFRS 9 ‘Financial Instruments’ has been implemented by the Group from 1 January 2018. The Standard replaces the provisions of IAS 39 that relate to the recognition, classification, measurement and de-recognition of financial instruments, impairment of financial assets and hedge accounting. The financial impact of the new standard on the measurement of, and provisioning for, the Group's financial assets is immaterial at both period opening and closing dates. The comparative financial information has not been restated, with this change applied retrospectively from 1 January 2018. The Group applied the IFRS 9 simplified approach to measuring expected credit loss which uses a life time expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis Group determined loss allowance for trade receivables as at 1 January 2018 will not give rise to an additional loss allowance under IFRS 9.

IFRS 15 Revenue from Contracts with Customers (effective from 1 January 2018)

The standard is based on the principle that revenue is recognised when performance obligations within a customer contract are fulfilled rather than when risk, reward and control passes to a customer. There has been no material impact of the new standard to the Group’s recognition of revenue. The comparative financial information has not been restated with this change applied prospectively from 1 January 2018.

In addition, "Amendments to IFRS 2 Share Based Payments" was effective from 1 January 2018. The impact on the Group from adopting this is immaterial.

Going concern

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 at least a period of 12 months from the date of approval of the financial statements. An explanation of the directors’ assessment of using the going concern basis is given in the Directors’ report in the Annual Report and Accounts 2018 which will be made available to shareholders on 22 March 2019.

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

	2018 $m	2017 $m
Interest on bank deposits	**0.3**	0.2

4. Finance costs

	2018 $m	2017 $m
Interest on bank loans	**16.8**	9.7
Pension and other post retirement liabilities	**0.4**	1.1
Unwind of discount on provisions	**1.0**	1.1
	18.2	11.9

5. Adjusting items and alternative performance measures

	2018 $m	**Adjusting items on discontinued operations $m**	**2018 $m**	2017 $m	Adjusting items on discontinued operations $m	2017 $m
Restructuring	**0.2**	**–**	**0.2**	0.6	–	0.6
Business transformation	**5.6**	**–**	**5.6**	3.4	–	3.4
Environmental provisions						
Increase in provisions due to additional remediation work identified	**16.5**	**–**	**16.5**	2.1	–	2.1
Costs related to acquisition activities	**16.5**	**–**	**16.5**	9.7	–	9.7
Uplift due to fair value of SummitReheis inventory	**–**	**–**	**–**	4.0	–	4.0
Uplift due to fair value of Mondo inventory	**2.9**	**–**	**2.9**	–	–	–
Sale of Colourants business and closure of Jersey City site	**(12.7)**	**–**	**(12.7)**	(2.5)	–	(2.5)
Release of legal provision	**–**	**–**	**–**	–	(0.7)	(0.7)
Sale of Surfactants business	**0.5**	**–**	**0.5**	–	–	–
Disposal costs	**–**	**–**	**–**	2.2	0.3	2.5
Amortisation of intangibles arising on acquisition	**15.0**	**–**	**15.0**	11.8	–	11.8
GMP Pension	**3.2**	**–**	**3.2**	–	–	–
Surfactants commercial settlement	**–**	**9.8**	**9.8**	–	–	–
	47.7	**9.8**	**57.5**	31.3	(0.4)	30.9
Tax credit in relation to adjusting items	**(11.5)**	**(1.7)**	**(13.2)**	(5.7)	–	(5.7)
Tax arising on the restructuring of German operations	**2.7**	**–**	**2.7**	–	–	–
Adjusting tax item (US tax reform)	**–**	**–**	**–**	(51.0)	–	(51.0)
	38.9	**8.1**	**47.0**	(25.4)	(0.4)	(25.8)
Cashflows relating to adjusting items	**(21.8)**			(10.5)		

A number of items have been recorded under ‘adjusting items’ in 2018 by virtue of their size and/or one time nature in, in line with our accounting policies, in order to provide a better understanding of the Group’s results. The net impact of these items on the Group profit before tax for the year is a debit of $57.5m (2017: debit of $30.9m). The items fall into a number of categories, as summarised below:

Restructuring – in 2016 this related to the appointment of a new CEO, CFO and costs associated with reorganising the management structure. In subsequent years, the cost relates to the IFRS 2 cost of buyouts associated with the new CEO and CFO.

Business transformation – the costs incurred in 2017 relate to delivery of the global key account management, and working capital improvement phases of the transformation commenced in 2016. In 2018 a programme to transform the Coatings segment has been implemented focusing on re-engineering our approach to markets (direct vs distributor), our underlying asset base and our product offerings in order to leverage our international networks and key account management. It is anticipated this will continue through 2019 driving a step change in the Coatings segment.

Increase in environmental provisions due to additional remediation work identified – assessments at the end of both 2017 and 2018 have resulted in an increased provision required at a number of our legacy sites. As these costs relate to non-operational facilities the costs associated are classed as adjusting items.

Acquisition costs – these are one-off costs predominantly associated with the acquisition of Mondo in 2018 and SummitReheis in 2017 – primarily the write off of the set-up costs of the previous financing syndicate, now replaced by a new facility, bank and lawyers fees and retention bonuses for key employees.

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

Uplift due to fair value of SummitReheis inventory – in accordance with IFRS 3, inventory held within SummitReheis was revalued to fair value on acquisition, representing an uplift of $4m over the book value. As all stock acquired with SummitReheis was sold by the year end, the additional expense recognised in cost of sales due to this fair value uplift has been classed as an adjusting item.

Sale of Colourants business and closure of Jersey City site – in March 2017, Elementis disposed of its US Colourants business and closed the Jersey City site. The profit on sale of the business and costs associated with the closure of the site are classed as adjusting item. In 2018 the site was disposed of and the profit on disposal has been treated as an adjusting item due to its size and one-off nature relating to the sale of land.

Release of legal provision – during 2017 the Group released $0.7m from a provision set up in 2015 relating to a regulatory case in Europe.

Sale of Surfactants business / Disposal costs – in 2017 Elementis incurred a number of costs associated with the sale of the Delden facility and Surfactants business. The profit on sale of the assets and business has been treated as an adjusting item in 2018 and the one-off associated costs were classed similarly in 2017.

Amortisation of intangibles arising on acquisition – these costs are excluded from operating profit to provide readers of the accounts with a better understanding of the Group’s results on its operating activities. In 2018 this item includes amortisation on intangibles acquired as part of the Mondo transaction that completed in October 2018.

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

Surfactants commercial settlement – these are costs incurred in settlement of a commercial dispute relating to the Surfactants business disposed of in 2018.

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

Tax arising on the restructuring of German operations – during the year an internal restructuring exercise was undertaken in order to optimise the future operational efficiency of the Group. This restructuring resulted in a one-off tax charge.

Adjusting tax item (US tax reform) – In 2017 the Group recognised a reduction in the net deferred tax liability arising from timing differences and US goodwill amortisation recognised in the US for tax purposes. Given the one-off nature of the reduction to future tax liabilities, this was recognised as an adjusting item.

To support comparability with the financial statements as presented in 2018, the reconciliation to the adjusted consolidated income statement is shown below.

	2018 Profit and loss on continuing operations $m	**2018 Adjusting items on continuing operations $m**	**2018 Profit and loss after adjusting items on continuing operations $m**	**2018 Profit and loss on discontinued operations $m**	**2018 Adjusting items on discontinued operations $m**	**2018 Profit and loss after adjusting items on discontinued operations $m**	**2018 Profit and loss after adjusting items on total operations $m**
Revenue	**822.2**	**–**	**822.2**	**4.8**	**–**	**4.8**	**827.0**
Cost of sales	**(516.6)**	**–**	**(516.6)**	**(4.3)**	**–**	**(4.3)**	**(520.9)**
Gross profit	**305.6**	**–**	**305.6**	**0.5**	**–**	**0.5**	**306.1**
Distribution costs	**(111.6)**	**–**	**(111.6)**	**(0.8)**	**–**	**(0.8)**	**(112.4)**
Administrative expenses	**(109.0)**	**47.7**	**(61.3)**	**(10.1)**	**9.8**	**(0.3)**	**(61.6)**
Net impairment losses on financial assets	**(0.1)**	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Operating profit	**84.9**	**47.7**	**132.6**	**(10.4)**	**9.8**	**(0.6)**	**132.0**
Other expenses	**(1.6)**	**–**	**(1.6)**	**–**	**–**	**–**	**(1.6)**
Finance income	**0.3**	**–**	**0.3**	**–**	**–**	**–**	**0.3**
Finance costs	**(18.2)**	**–**	**(18.2)**	**–**	**–**	**–**	**(18.2)**
Profit before income tax	**65.4**	**47.7**	**113.1**	**(10.4)**	**9.8**	**(0.6)**	**112.5**
Tax	**(15.6)**	**(8.8)**	**(24.4)**	**2.0**	**(1.7)**	**0.3**	**(24.1)**
Profit for the year	**49.8**	**38.9**	**88.7**	**(8.4)**	**8.1**	**(0.3)**	**88.4**
Attributable to:							
Equity holders of the parent	**49.8**	**38.9**	**88.7**	**(8.4)**	**8.1**	**(0.3)**	**88.4**
Earnings per share							
Basic (cents)	**9.5**	**7.5**	**17.0**	**(1.6)**	**1.6**	**–**	**17.0**
Diluted (cents)	**9.5**	**7.4**	**16.9**	**(1.6)**	**1.6**	**–**	**16.9**

	2017 Profit and loss on continuing operations $m	2017 Adjusting items on continuing operations $m	2017 Profit and loss after adjusting items on continuing operations $m	2017 Profit and loss on discontinued operations $m	2017 Adjusting items on discontinued operations $m	2017 Profit and loss after adjusting items on discontinued operations $m	2017 Profit and loss after adjusting items on total operations $m
Revenue	782.7	–	782.7	47.6	–	47.6	830.3
Cost of sales	(487.6)	–	(487.6)	(32.8)	–	(32.8)	(520.4)
Gross profit	295.1	–	295.1	14.8	–	14.8	309.9
Distribution costs	(98.0)	–	(98.0)	(6.3)	–	(6.3)	(104.3)
Administrative expenses	(105.6)	31.3	(74.3)	(2.7)	(0.4)	(3.1)	(77.4)
Net impairment losses on financial assets	(0.1)	–	(0.1)	–	–	–	(0.1)
Operating profit	91.4	31.3	122.7	5.8	(0.4)	5.4	128.1
Other expenses	(1.2)	–	(1.2)	–	–	–	(1.2)
Finance income	0.2	–	0.2	–	–	–	0.2
Finance costs	(11.9)	–	(11.9)	–	–	–	(11.9)
Profit before income tax	78.5	31.3	109.8	5.8	(0.4)	5.4	115.2
Tax	34.2	(56.7)	(22.5)	(0.9)	–	(0.9)	(23.4)
Profit for the year	112.7	(25.4)	87.3	4.9	(0.4)	4.5	91.8

	2017 Profit and loss on continuing operations $m	2017 Adjusting items on continuing operations $m	2017 Profit and loss after adjusting items on continuing operations $m	2017 Profit and loss on discontinued operations $m	2017 Adjusting items on discontinued operations $m	2017 Profit and loss after adjusting items on discontinued operations $m	2017 Profit and loss after adjusting items on total operations $m
Attributable to:							
Equity holders of the parent	112.7	(25.4)	87.3	4.9	(0.4)	4.5	91.8
Earnings per share restated†							
Basic (cents)	22.3	(5.1)	17.2	1.0	(0.1)	0.9	18.1
Diluted (cents)	22.0	(5.0)	17.0	1.0	(0.1)	0.9	17.9
Earnings per share (as reported in 2017)							
Basic (cents)	24.3	(5.5)	18.8	1.1	(0.1)	1.0	19.8
Diluted (cents)	24.0	(5.4)	18.6	1.0	(0.1)	0.9	19.5

To support comparability with the financial statements as presented in 2018, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

	2018									
	Personal Care $m	Coatings $m	Talc $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total $m
Reported operating profit/(loss)	**40.4**	**57.6**	**(0.2)**	**15.8**	**7.1**	**120.7**	**(35.8)**	**84.9**	**(10.4)**	**74.5**
Adjusting Items										
Restructuring	**–**	**–**	**–**	**–**	**–**	**–**	**0.2**	**0.2**	**–**	**0.2**
Business Transformation	**–**	**5.6**	**–**	**–**	**–**	**5.6**	**–**	**5.6**	**–**	**5.6**
Increase in environmental provisions due to additional remediation work identified	**–**	**–**	**–**	**17.0**	**–**	**17.0**	**(0.5)**	**16.5**	**–**	**16.5**
Costs related to acquisition activities	**0.2**	**–**	**–**	**–**	**–**	**0.2**	**16.3**	**16.5**	**–**	**16.5**
Uplift due to fair value of Mondo inventory	**–**	**–**	**2.9**	**–**	**–**	**2.9**	**–**	**2.9**	**–**	**2.9**
Sale of Colourants business and closure of Jersey City site	**–**	**(12.7)**	**–**	**–**	**–**	**(12.7)**	**–**	**(12.7)**	**–**	**(12.7)**
Sale of Surfactants business	**–**	**–**	**–**	**–**	**–**	**–**	**0.5**	**0.5**	**–**	**0.5**
Amortisation of intangibles arising on acquisition	**11.6**	**2.0**	**1.2**	**0.2**	**–**	**15.0**	**–**	**15.0**	**–**	**15.0**
GMP Pension	**–**	**–**	**–**	**–**	**–**	**–**	**3.2**	**3.2**	**–**	**3.2**
Surfactants commercial settlement	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**9.8**	**9.8**
Adjusted operating profit /(loss)	**52.2**	**52.5**	**3.9**	**33.0**	**7.1**	**148.7**	**(16.1)**	**132.6**	**(0.6)**	**132.0**
Other expenses	**–**	**–**	**–**	**–**	**–**	**–**	**(1.6)**	**(1.6)**	**–**	**(1.6)**
Finance income	**–**	**–**	**–**	**–**	**–**	**–**	**0.3**	**0.3**	**–**	**0.3**
Finance costs	**–**	**–**	**–**	**–**	**–**	**–**	**(18.2)**	**(18.2)**	**–**	**(18.2)**
Adjusted profit before income tax	**52.2**	**52.5**	**3.9**	**33.0**	**7.1**	**148.7**	**(35.6)**	**113.1**	**(0.6)**	**112.5**

† Rebased for the effects of the rights issue.

2017	Personal Care $m	Coatings $m	Chromium $m	Energy $m	Segment totals $m	Central costs $m	Total of continuing operations $m	Discontinued operations $m	Total $m
Reported operating profit/(loss)	29.2	54.6	28.8	9.7	122.3	(30.9)	91.4	5.8	97.2
Adjusting Items									
Restructuring	–	(0.3)	–	–	(0.3)	0.9	0.6	–	0.6
Business Transformation	–	–	–	–	–	3.4	3.4	–	3.4
Increase in environmental provisions due to additional remediation work identified	–	–	1.1	–	1.1	1.0	2.1	–	2.1
SummitReheis acquisition costs	2.6	–	–	–	2.6	7.1	9.7	–	9.7
Uplift due to fair value of SummitReheis inventory	4.0	–	–	–	4.0	–	4.0	–	4.0
Sale of Colourants business and closure of Jersey City site	–	(2.5)	–	–	(2.5)	–	(2.5)	–	(2.5)
Release of legal provision	–	–	–	–	–	–	–	(0.7)	(0.7)
Disposal costs	–	0.1	–	–	0.1	2.1	2.2	0.3	2.5
Amortisation of intangibles arising on acquisition	8.8	2.8	0.2	–	11.8	–	11.8	–	11.8
Adjusted operating profit /(loss)	44.6	54.7	30.1	9.7	139.1	(16.4)	122.7	5.4	128.1
Other expenses	–	–	–	–	–	(1.2)	(1.2)	–	(1.2)
Finance income	–	–	–	–	–	0.2	0.2	–	0.2
Finance costs	–	–	–	–	–	(11.9)	(11.9)	–	(11.9)
Adjusted profit before income tax	44.6	54.7	30.1	9.7	139.1	(29.3)	109.8	5.4	115.2

A reconciliation from reported profit for the year to earnings before interest, tax, depreciation and amortisation (EBITDA) is provided to support understanding of the summarised cash flow included within the Finance report.

	2018 Profit and loss on continuing operations $m	**2018 Profit and loss on discontinued operations $m**	**2018 Profit and loss on total operations $m**	2017 Profit and loss on continuing operations $m	2017 Profit and loss on discontinued operations $m	2017 Profit and loss on total operations $m
Profit for the year	**49.8**	**(8.4)**	**41.4**	112.7	4.9	117.6
Adjustments for						
Finance income	**(0.3)**	**–**	**(0.3)**	(0.2)	–	(0.2)
Finance costs and other expenses after adjusting items	**19.8**	**–**	**19.8**	13.1	–	13.1
Tax charge	**15.6**	**(2.0)**	**13.6**	(34.2)	0.9	(33.3)
Depreciation and amortisation	**45.6**	**0.3**	**45.9**	38.0	1.7	39.7
Excluding intangibles arising on acquisition	**(15.0)**	**–**	**(15.0)**	(11.8)	–	(11.8)
Adjusting items impacting profit before tax	**47.7**	**9.8**	**57.5**	31.3	(0.4)	30.9
EBITDA	**163.2**	**(0.3)**	**162.9**	148.9	7.1	156.0

There are also a number of key performance indicators (KPIs) used in this report. The reconciliations to these are given below.

Operating cash flow
Operating cash flow is defined as the net cash flow from operating activities less net capital expenditure but excluding income taxes paid or received, interest paid or received, pension contributions net of current service cost and adjusting items.

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

	2018 $m	2017 $m
Revenue	**827.0**	830.3
Variable costs	**(444.2)**	(437.4)
Non variable costs	**(76.7)**	(50.2)
Cost of sales	**(520.9)**	(487.6)

Adjusted Group profit before tax
Adjusted Group profit before tax is defined as the Group profit before tax on total operations (both continuing and discontinued) after adjusting items, excluding adjusting items relating to tax.

Return on operating capital employed
The return on operating capital employed ('ROCE') is defined as operating profit after adjusting items divided by operating capital employed, expressed as a percentage. Operating capital employed comprises fixed assets (excluding goodwill), working capital and operating provisions. Operating provisions include self insurance and environmental provisions but exclude retirement benefit obligations.

Average trade working capital to sales ratio
The trade working capital to sales ratio is defined as the 12 month average trade working capital divided by sales, expressed as a percentage. Trade working capital comprises inventories, trade receivables (net of provisions) and trade payables. It specifically excludes repayments, capital or interest related receivables or payables, changes due to currency movements and items classified as other receivables and other payables.

Adjusted operating profit/operating margin
Adjusted operating profit is the profit derived from the normal operations of the business. Adjusted operating margin is the ratio of operating profit, after adjusting items, to sales.

6. Income tax expense

	2018 $m	2017 $m
Current tax on continuing operations:		
Recognition of UK Advance Corporation Tax credits	**–**	–
UK Corporation tax	**8.1**	6.9
Overseas corporation tax on continuing operations	**11.7**	16.0
Adjustments in respect of prior years:		
United Kingdom	**(0.9)**	–
Overseas	**(0.2)**	–
Total current tax	**18.7**	22.9
Deferred tax:		
United Kingdom	**(1.4)**	1.0
Overseas	**3.8**	(59.3)
Adjustment in respect of prior years:		
United Kingdom	**(0.4)**	0.3
Overseas	**(5.1)**	0.9
Total deferred tax	**(3.1)**	(57.1)
Income tax (credit)/expense for the year	**15.6**	(34.2)
Comprising:		
Income tax expense for the year	**15.6**	(34.2)
Adjusting items [1]		
Overseas taxation on adjusting items	**6.6**	5.7
UK taxation on adjusting items	**2.2**	–
Recognition of change in rate of tax (US)	**–**	51.0
Taxation on adjusting items	**8.8**	56.7
Income tax expense for the year after adjusting items	**24.4**	22.5

[1] See Note 5 for details of adjusting items.

The tax charge on profits represents an effective rate after adjusting items for the year ended 31 December 2018 of 21.6% (2017: 20.5%). The Group is international. It has operations in several jurisdictions and benefits from cross border financing arrangements. Accordingly, tax charges of the Group in future periods will be affected by the profitability of operations in different jurisdictions, changes to tax rates and regulations in the jurisdictions within which the Group has operations, as well as the ongoing impact of the Group's funding arrangements. The medium term expectations for the Group's effective tax rate is around 22.0%.

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

	2018 $m	2018 per cent	2017 $m	2017 per cent
Profit before tax on continuing operations	**65.4**		78.5	
Tax on ordinary activities at 19.00 per cent (2017: 19.25 per cent)[1]	**12.4**	**19.0**	15.1	19.2
Difference in overseas effective tax rates	**1.5**	**2.3**	(1.2)	(1.5)
Income not taxable and impact of tax efficient financing	**(6.8)**	**(10.5)**	(4.3)	(5.5)
Expenses not deductible for tax purposes	**16.6**	**25.4**	6.0	7.6
Adjustments in respect of prior years	**(6.6)**	**(10.2)**	1.2	1.5
Tax rate changes	**(1.3)**	**(2.0)**	–	–
Movement in unrecognised deferred tax	**(0.2)**	**(0.3)**	–	–
Recognition of adjusting tax items	**–**	**–**	(51.0)	(64.9)
Tax charge and effective tax rate for the year	**15.6**	**23.9**	(34.2)	(43.6)

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

The tax charge related to discontinued operations is $2.0m (2017: $0.9m).

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:

	Continuing operations 2018 $m	**Discontinued Operations 2018 $m**	**Total of all operations 2018 $m**	Continuing operations 2017 $m	Discontinued operations 2017 $m	Total of all operations 2017 $m
Earnings:						
Earnings for the purpose of basic earnings per share	**49.8**	**(8.4)**	**41.4**	112.7	4.9	117.6
Adjusting items net of tax	**38.9**	**8.1**	**47.0**	(25.4)	(0.4)	(25.8)
Adjusted earnings	**88.7**	**(0.3)**	**88.4**	87.3	4.5	91.8

		Rebased	Reported
	2018 m	2017 m	2017 m
Number of shares:			
Weighted average number of shares for the purposes of basic earnings per share	**520.9**	506.1	463.2
Effect of dilutive share options	**5.4**	6.9	6.3
Weighted average number of shares for the purposes of diluted earnings per share	**526.3**	513.0	469.5

				Rebased			Reported		
	Continuing operations 2018 cents	**Discontinued operations 2018 cents**	**Total of all operations 2018 cents**	Continuing operations 2017 cents	Discontinued operations 2017 cents	Total of all operations 2017 cents	Continuing operations 2017 cents	Discontinued operations 2017 cents	Total of all operations 2017 cents
Earnings per share:									
Basic	**9.5**	**(1.6)**	**7.9**	22.3	1.0	23.3	24.3	1.1	25.4
Diluted	**9.5**	**(1.6)**	**7.9**	22.0	1.0	23.0	24.0	1.0	25.0
Basic after adjusting items	**17.0**	**–**	**17.0**	17.2	0.9	18.1	18.8	1.0	19.8
Diluted after adjusting items	**16.9**	**–**	**16.9**	17.0	0.9	17.9	18.6	0.9	19.5

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.

In 2013 the British Government (through HMRC) introduced a UK tax incentive for certain group financing arrangements. In October 2017, the European Commission opened a State aid investigation into the rules relating to this incentive under the UK controlled foreign company regime. HMRC has provided certain information and maintains that the exemption and the way it is applied does not represent unfair State aid. Elementis could be impacted by the outcome of this investigation as it has, along with many other UK based multinationals, benefited from the arrangements. No provision for this potential liability has been provided in these financial statements as the final outcome remains uncertain.

Unaudited pro forma information

To better understand the full year performance of the business segments operated by the Group as at 31 December 2018 the information below includes the results for the Talc segment for the 10 months prior to acquisition.

Group Performance	Continuing operations 2018 $m (1)	Talc 1 Jan to 22 Oct $m (2)	Pro forma continuing operations $m
Revenue	**822.2**	**136.9**	**959.1**
Adjusted operating profit	**132.6**	**20.7**	**153.3**
Adjusted operating margin	**16.1%**	**15.1%**	**16.0%**
Adjusted EBITDA	**163.2**	**36.6**	**199.8**
Net Debt	**498.1**		**498.1**
Net Debt / EBITDA *			**2.49**

External revenue by business segment	Continuing operations 2018 $m (1)	Talc 1 Jan to 22 Oct $m (2)	Pro forma continuing operations $m	%
Personal Care	**210.3**	**136.9**	**210.3**	**21.9%**
Coatings	**362.2**	**–**	**362.2**	**37.8%**
Talc	**21.5**	**136.9**	**158.4**	**16.5%**
Chromium	**173.3**	**–**	**173.3**	**18.1%**
Energy	**54.9**	**–**	**54.9**	**5.7%**
	822.2	**136.9**	**959.1**	**100.0%**

External revenue by geography	Continuing operations 2018 $m (1)	Talc 1 Jan to 22 Oct $m (2)	Pro forma continuing operations $m	%
North America	**290.3**	**6.0**	**296.3**	**30.9%**
Europe	**233.2**	**116.1**	**349.3**	**36.4%**
Rest of World	**298.7**	**14.8**	**313.5**	**32.7%**
	822.2	**136.9**	**959.1**	**100.0%**

Mondo performance	12 months to 31 Dec 2018 €m (2)	12 months to 31 Dec 2017 €m (2)
Revenue	**134.3**	**122.2**
Adjusted operating profit	**20.8**	**16.5**

* Net Debt/ EBITDA where EBITDA is the Adjusted EBITDA on continuing operations of the Group and including full prior months of Mondo is the definition of Net Debt / EBITDA for Elementis' core banking covenants.

(1) Source - Elementis annual accounts.
(2) Source - Mondo management accounts for the relevant period.

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Annual Financial Report

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 2018 Annual report and accounts that is to be published on 22 March 2019, 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 2018 Annual report and accounts.

Risk management

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

The Board has overall responsibility for risk management in the Company and sets the Group's policies, culture and tone on risk, as well as providing support and oversight to management. The Audit Committee plays an important role in supporting the work of the Board and has specific responsibility for monitoring financial reporting, as well as the internal and external audit programmes, one of the primary purposes of which is to provide assurance on financial, operational and compliance controls.

The CEO, supported by the Executive Leadership Team (ELT), is responsible for implementing Group policies, risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation. Each ELT member is responsible for identifying, assessing and monitoring their respective business and functional risks as well as measuring the impact and likelihood of the risk to the business. On an annual basis, the ELT reviews operational risks and the Board carries out a review of the principal risks and uncertainties.

Principal risks and uncertainties

The following is a summary of the principal risks agreed by the Board: uncertain global economic conditions and competitive pressure in the marketplace (including from currency movement); business interruption as a result of a major event (e.g. operations/ HSE, IT, transport or workplace incident caused by process/ system failure and/or human error, or by fire, storm and/or flood), or a natural catastrophe); business interruption as a result of supply chain failure of key raw materials and/or third party service provision); increasing regulatory and product stewardship challenges; major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations; intellectual property and know-how; portfolio innovation and technology; talent management and succession planning; IT, cyber and GDPR. A full description of these risks and the mitigating actions taken by the Company will appear in the 2018 Annual report and accounts.

Emerging risks

Brexit risks

The impact of Brexit has been kept under review by the Board since 2016. In 2018 in response to the growing political uncertainty, a cross-functional working group was established to focus on a 'no deal' outcome. Analysis included; supply chain footprint, regulatory & export controls, VAT, international trade compliance and customs, financial and people/communications. Our UK manufacturing site, Livingston receives raw materials and manufactures goods for onward transport to EU customers. In the short to medium term and in the event of a 'no deal' Brexit, our supply chain is well positioned to mitigate the potential impact to customers. This includes ensuring sufficient raw materials are held at Livingston as well as having adequate finished goods throughout our global distribution network. Steps are being taken to ensure continuity in the REACH registrations which apply to our manufactured and imported products. Management remain of the view that the impact of Brexit on the Group is expected to be of low materiality, however, we will continue to monitor political developments and modify plans.

Climate change

There is a growing trend around climate related risk relating to supply chain disruption, policy, regulatory developments and sustainable solutions for our customers. During 2018, our Chromium operations suffered from two distinct climate related weather events; sustained freezing and winter conditions and Hurricane Florence which resulted in property damage and business interruption. In 2019, we will conduct a specific climate change risk assessment and develop mitigation plans and internal controls. In addition, we will continue to ensure our operations are protected and have sufficient business interruption plans in place to deal with these types of events as and when they occur. We recognise that our customers continue to look for sustainable product solutions which reduce their carbon footprint, our R&D and Product Stewardship teams work closely with customers to achieve this.

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 2018. The full text of the Directors’ responsibility statement will appear in the 2018 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 relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The 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.