ELEMENTIS

A global specialty chemicals company

29 July 2021

ELEMENTIS plc
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

Strong financial performance improvement, profit before tax up 165%

- Revenue up 17% (up 12% on an underlying basis*) from COVID-19 impacted H1 2020 ($387m) to $452m driven by improved industrial demand, customer restocking and currency tailwinds.
- Adjusted operating profit up 29% (21% on an underlying basis*) to $54m with strong operational performance and underlying revenue growth partially offset by cost increases. Profit after tax of $28m, up from a loss of $51m in the prior year period due to performance improvement and a $66m reduction in adjusting items[1].
- Net debt[4] ($415m) in line with 31 December 2020 ($408m) as earnings growth and disciplined working capital management offset $20m EU state aid payment. Leverage ratio[5] (3.0x net debt/EBITDA) declining and forecast to reduce further during the second half.

Further strategic progress, well positioned for sustainable growth and value creation

- Coatings revenue up 15% on an underlying basis* with adjusted operating margins increasing to 17% - reflective of a more efficient and higher quality business with attractive growth potential.
- Good progress on Innovation, Growth and Efficiency strategy to deliver medium term Group performance objectives. Delivered $25m of revenue from new business opportunities, 12 new product launches and increased new products** from 11% to 13% of sales.
- On course for targeted $10m underlying cost savings in 2021, offset by the reversal of $10m of temporary COVID-19 related savings in 2020. India plant on track to start up in Q3 with efficiency benefits in 2022 and beyond.

Outlook unchanged, in line with expectations; multi-year recovery in progress

- Full year outlook positive and unchanged, with the Group expected to deliver an improved financial performance and a reduction in leverage, in line with expectations.
- The second half of the year is expected to follow a normal level of seasonality, with continued demand recovery and self-help actions offset by short term margin headwinds from accelerating cost inflation and supply chain constraints.
- While the pace of recovery depends on COVID-19 developments, a continued strengthening of demand combined with further strategic progress are expected to drive a material multi-year performance improvement and delivery of the Group's medium term financial objectives.

FINANCIAL SUMMARY

	Six months ended 30 June 2021	Six months ended 30 June 2020	% Change
Revenue	**$452m**	**$387m**	+17%
Adjusted operating profit[1]	**$54m**	**$42m**	+29%
Adjusted profit before tax[1]	**$40m**	**$28m**	+41%
Adjusted diluted earnings per share[2]	**5.5c**	**3.5c**	+57%
Adjusted operating cash flow[3]	**$30m**	**$28m**	+8%
Net debt[4]	**$415m**	**$453m**	-8%
Ordinary dividend per share	**–**	**–**	**–**
Reported results			
Profit/(loss) for the period	**$28m**	**$(51)m**	+154%
Basic earnings/(loss) per share[2]	**4.8c**	**(8.8)c**	+155%

Business performance overview

- **Personal Care** revenue down 5% on an underlying basis* (down 1% on a reported basis) at $89m. Adjusted operating profit down 8% on an underlying basis* (down 4% on a reported basis) to $19m, representing a 21.6% margin, modestly down on the prior year (22.4%).
  - Pace of category demand recovery for cosmetics and anti-perspirant deodorants uncertain due to ongoing COVID-19 related social and travel restrictions.
  - Margins resilient at 21.6%, with cost savings offset by product mix and lower volumes.

- **Coatings** revenue, which now includes the Energy business, up 15% on an underlying basis* (21% on a reported basis), from $162m to $197m. Adjusted operating profit of $33m significantly up on prior year ($21m), with adjusted operating profit margins up from 12.7% to 16.7%.
  - Strong industrial coatings volume recovery across all geographies and continued resilience in decorative demand.
  - Margin improvement reflective of improved product portfolio, new business wins and fixed cost savings from Charleston/St Louis consolidation, partially offset by accelerating raw material cost inflation.

- **Talc** revenue up 14% on an underlying basis* to $77m (26% on a reported basis). Adjusted operating profit up 18% on underlying basis (27% on a reported basis) to $8m, with margins in line with the prior year (10.2%) at 10.3%.
  - Strong industrial talc growth driven by automotive production recovery, new business wins and geographic expansion, partially offset by continued weak paper demand.
  - Margins stable with improved volumes offset by temporary weather-related cost increases.

- **Chromium** revenue up 16% to $90m. Adjusted operating profit up 48% to $5m.
  - Revenue improvement driven by demand recovery across industrial end markets, including metal plating and construction applications, partially offset by weaker year on year pricing.
  - Margins up from 4.0% to 5.1% with improved fixed cost absorption due to higher volumes offset by pricing and supply chain bottlenecks.

Commenting on the results, CEO, Paul Waterman said:

"We have made a strong start to the year benefiting from the combination of focused strategy execution and improved industrial demand. While the significant demand recovery has triggered ongoing supply chain challenges and accelerating cost inflation across the globe, we are well positioned to manage these impacts. Overall, the Group has encouraging trading momentum and is on track to deliver an improved financial performance and a reduction in leverage, in line with expectations.

Elementis is focused on developing high quality businesses that have enduring competitive advantages in structural growth markets. In the coming years, as end markets continue to recover and our Innovation, Growth and Efficiency strategy continues to be successfully executed, we are well positioned for material performance improvement that will support the delivery of our medium term financial ambitions."

Notes:

* Adjusted for constant currency. Previously referred to as ‘organic’. See Finance Report
** New products defined as products launched within the last 5 years, patented and protected products (excluding Chromium)
1 - See note 5
2 - See note 9
3 - See Finance report
4 - See note 12
5 - See unaudited information

Further information

A virtual presentation for investors and analysts will be held at 09:00 BST on 29 July 2021. The presentation will be webcast on www.elementis.com. Conference call dial in details:

UK: 020 3936 2999   Other locations: +44 20 3936 2999
Participant access code: 537261

Enquiries
Elementis
James Curran, Investor Relations   020 7067 2994

Tulchan
Martin Robinson   020 7353 4200
Olivia Peters

– ENDS –

Business review

CEO's report

I am pleased with our performance in the first six months of 2021, which shows not only in the improved financial results but also in the operational progress demonstrated throughout the business. While industrial demand has improved, COVID-19 continues to impact many of our end markets and has created global supply challenges ranging from accelerating raw material inflation to logistical disruptions. Our performance reflects the strong positioning of our products and the importance of our self-help agenda, and we see scope for multi-year performance improvement as the macro-economic environment improves and we execute against our strategic priorities.

Group performance

Personal Care

In the six months to 30 June 2021, Personal Care revenue declined 5% on an underlying basis* (down 1% on a reported basis) due to continued demand weakness in our two key end markets, colour cosmetics and anti-perspirant deodorants. As a result of the impact of COVID-19 related social and travel restrictions, retail sales of cosmetics and deodorants fell 11% and 15% respectively in Europe in the first quarter. While there were early signs of improvement in the second quarter, demand in these end markets remains below pre-pandemic levels, and future recovery will be influenced by COVID-19 developments and the global measures taken to mitigate its impact.

Adjusted operating profit for Personal Care declined 8% on an underlying basis* (down 4% on a reported basis) to $19m, with adjusted operating margin modestly down on the prior year (22.4%) at 21.6%. The decline in adjusted operating profit was primarily driven by weaker volumes and product mix partially offset by tight cost management.

Coatings

In Coatings, revenue rose 15% on an underlying basis* to $197m due to strong market demand, particularly in industrial coatings, new business wins and customer restocking. Revenue from the Energy business, now reported as part of Coatings, was broadly flat on the prior year at $15m. Including currency translation impacts, Coatings revenue rose 21% on a reported basis. All regional performance commentary is on an underlying basis* unless otherwise stated.

- **EMEA** revenue rose 29% on the prior year period as decorative activity remained buoyant and industrial demand recovered across all geographies. Decorative coatings demand increased significantly driven by strong DIY demand. Industrial coatings volumes rose double digits, reflective of new business success, particularly for our Thixatrol® (organic thixotrope) products, improved activity across automotive and industrial machinery end markets, and customer restocking.

- In **Asia**, where over 80% of our sales come from industrial coatings, revenue rose 15% driven by volume growth as industrial activity rebounded, particularly in China in areas such as marine and protective coatings, and new business wins across our waterborne industrial additives platform. Outside of China, demand was mixed due to a resurgence of COVID-19 cases in South East Asia and raw material shortages at customers.

- **Americas** revenue rose 6% on the back of good decorative and industrial demand. In the US, decorative demand remained solid, driven by healthy construction and residential property activity, and continued new business momentum for our Rheolate® HX rheology series. Revenue from industrial coatings was higher than the prior year period as underlying demand improved, in areas such as automotive and protective coatings, and customers rebuilt inventories. Sales in Latin America rose modestly as the spread of COVID-19 continues to hold back the demand recovery.

Adjusted operating profit rose 48% on an underlying basis* (60% on a reported basis) from $21m to $33m with volume growth, improved price/mix and cost savings from the Charleston plant closure and St Louis capacity consolidation partially offset by accelerating raw material cost inflation. As a result, adjusted

operating profit margins increased from 12.7% (restated to include the Energy business) to 16.7%. The Coatings transformation programme has created an integrated and more customer centric organisation that is well positioned for future success.

Talc

In Talc, revenue rose 14% on an underlying basis* from $61m to $77m with strong industrial demand more than offsetting continued weak demand from paper applications. Including the impact of currency translation, revenue rose 26% in the first half.

Revenue from industrial talc (representing over 85% of total Talc revenue) rose 22% on an underlying basis*, driven by demand recovery in key end markets, new business wins and geographic expansion. Long life plastics and technical ceramics applications both experienced strong growth in the first half as automotive production recovered, albeit somewhat impacted by semi-conductor related OEM production issues. Sales to coatings customers grew double digits on the prior year period, reflective of market share gains as we gained new customers and entered new geographies. Talc sales to customers in Asia and Americas rose 19% and 60% respectively as the business executed on the strategy to grow and gain market share beyond of its core European market.

Outside of industrial talc, sales to the graphic paper market declined as expected by over 30% driven by the ongoing shift to digital media. This market now represents only 8% of total Talc revenue.

Adjusted operating profit rose 18% on an underlying basis* from $6m to $8m, with adjusted operating margins of 10.3% in line with prior year as volume growth was offset by temporary weather related cost increases.

Chromium

Revenue in the period was $90m, up 16% from $78m in 2020 with double digit volume growth partially offset by weaker year on year average pricing and supply chain bottlenecks. Due to the rebound in industrial activity, demand for chromium chemicals increased across a range of end markets including automotive, leather tanning and protective applications. While average unit pricing decreased on the prior year period, pricing was sequentially stable on Q4 2020 levels. As a result of demand improvements and industry supply chain challenges, we estimate global chromium industry capacity utilisation rose from approximately 75% in 2020 to 80% in the first half of 2021. If sustained, it is anticipated this will result in spot market price increases that should benefit our performance in 2022 as they feed through to realised pricing.

Adjusted operating profit for the first six months of the year was $5m, up 48% on the prior year period with volume growth partially offset by weaker pricing. Adjusted operating profit margin rose from 4.0% to 5.1%.

Net debt and leverage

At the end of June 2021 net debt fell $38m on the prior year period (30 June 2020: $453m) to $415m as a result of underlying cash generation, representing a net debt to adjusted EBITDA ratio** of 3.0x (3.1x at 30 June 2020). Net debt was broadly in line with December 2020 ($408m) as earnings growth and disciplined working capital management offset a (previously announced) $20m tax cash outflow following the European Commission’s State Aid investigation into the UK Finance Company Exemption (‘FCE’) regime.

Strong underlying cash generation and (last twelve months) earnings growth are expected to drive a reduction in leverage in the second half of 2021.

Interim dividend

We recognise the importance of a dividend to our shareholders. However, given the elevated financial leverage and continued COVID-19 related macroeconomic uncertainty the Board has decided it is prudent to preserve cash and will not be declaring an interim dividend for 2021. The Board will keep future dividends under review and will restart payments as soon as it is appropriate to do so.

Strategic progress
In the last few years, we have made significant progress re-positioning Elementis as a premium performance additives company, based on unique assets and value chains, and with clear opportunities for growth. Our strategic pillars of Innovation, Growth and Efficiency are designed to leverage this differentiated portfolio and the execution of our strategic priorities will deliver our medium term performance objectives of:

- **17% adjusted operating profit margin:** driven by Innovation, Growth, Efficiency and COVID-19 demand recovery
- **90% plus operating cash conversion:** consistent with 5 year average historical performance
- **Leverage under 1.5x net debt / EBITDA:** consistent with debt reduction track record

1. Innovation

We are a global leader in performance-driven additives and are focused on delivering innovative solutions to our customers that drive product performance improvements, efficiency gains and enhanced sustainability credentials. While COVID-19 limited the opportunity to be in laboratories with our customers in 2020, the time and effort spent delivering virtual support has put us in a good position as working practices start to normalise, customers return to their laboratories and new product launches increase.

Our innovation priorities are clear. Firstly, we want to create distinctive new technologies that deliver both improved performance and sustainability benefits. At present, just over 50% of our revenue is from products that are natural or naturally derived, building on our progress in recent years. Platforms such as our castor wax based organic thixotropes for high performance adhesives and hectorite derived skin care ingredients provide a great foundation from which to drive this higher.

Secondly, we are focused on the material innovation challenges that face our customers and the industries in which they operate, and we want to deliver solutions at speed. In Personal Care, increased cleansing and sanitising due to COVID-19 has exacerbated irritation to sensitive skin. As a result, consumers want skin care products in a variety of application formats – creams, lotions, bars, concealers and make up – that is non-irritating to the skin. In June, as part our growing skin care offering, we launched Bentone® Luxe XO, an emulsifying gel that provides superior application flexibility for skin care formulators when responding to the ‘new normal’ skin care scenario. Customer uptake and feedback has been strong and is helping to deliver our target of $10m incremental skin care sales over the medium term.

Open innovation is also an important enabler of our strategic ambitions. Our new partnership with AQDOT, a supramolecular chemtech company, is combining novel odour capture and smart fragrance release with our leading APDO formulation capabilities to enhance our customer value proposition. In addition, with NXTLEVVEL Biochem we are currently launching two bio-based coalescing agents derived from levulinic acid, an exciting addition to our Coatings platform that also brings potential technology transfer opportunities to our other business segments.

As a result, in the first half of 2021 our revenue from new products*** rose from 11% in the prior interim period to 13%, progressing towards our goal of 17% by 2025. Our innovation pipeline is well positioned and in 2021 we are on track to bring more than 20 new products to the market.

2. Growth

Today over 90% of Elementis’ earnings are generated by Personal Care, Coatings and Talc. The value chains across these segments are similar, transforming natural and long life resources into high value additives through distinctive processing and formulation. While industrial demand improved in the first half of the year, we see clear medium term structural growth opportunities across these businesses representing in total over $100m of incremental revenue.

In Coatings, growth opportunities exist where our technologies play into specific market needs or trends with clear sustainability benefits – areas such as premium decorative coatings and waterborne (as opposed to solvent based) industrial additives. In aggregate, such growth platforms represent roughly one third of our Coatings revenue and in the first half of 2021 they grew 34% driven by $10m of new business wins. Technologies such as our powdered NiSATs for premium decorative paints and castor wax based rheology modifiers for adhesives and sealants all gained further traction at customers and will be supported by the

launch of over 7 new products in second half. Combined with expansion in regions such as South East Asia and continued close collaboration with global key accounts, we are well positioned for further profitable, high margin growth in our differentiated technology areas.

In Personal Care, we continue to see significant high margin growth opportunities. Despite strong recent performance in Asia, it represents under 20% of our Personal Care sales, and our medium term aim is to double our cosmetics sales in the region. In January we opened our first Personal Care technical service center in Asia, located in Shanghai. Combined with investments in sales and marketing resources, we are enhancing our ability to serve the local market and grow our presence - in the first half of 2021 we grew 15% in Asia. Likewise, our new AP Actives plant in India, will help us grow in the region while also creating a highly advantaged global supply chain. Construction of this plant has continued at pace and is planned to start up in the third quarter of 2021. Finally, in skin care, we aim to deliver $10m of incremental sales over the medium term. In the first half of 2021 we launched two products (Bentone® Luxe XO and Hydroclay™ 2100) building out our product portfolio and helping deliver 13% skin care revenue growth in the first half of the year.

In Talc we are the second largest global producer, serving high value industrial applications. Our growth strategy is based on leveraging our global scope and scale, synergistically expanding into new geographies and market sectors. In the first half of 2021, we grew 19% in Asia and 60% in Americas driven by $6m of new business wins across long life plastics, technical ceramics and coatings applications. Despite this success, we remain materially underweight in these regions and with considerable runway for long term growth. We also remain on track for our ultimate goal of $20-25m of revenue synergies by 2023. Sales of talc to coatings customers rose 11% in the first six months of 2021, leveraging Elementis' global key account network and strong presence in the coatings market. We have also continued to develop new products and applications. A new pre-dispersed product combines our talc and dispersant technologies to create a more effective solution for coatings customers. Barrier coating solutions for recyclable food packaging is also showing encouraging early progress, with 30 customer projects in progress and over 50% volume growth in the first half.

3. Efficiency

Improving efficiency is an ongoing focus at Elementis. We are always seeking to improve our organisation, drive ongoing efficiency gains and become more agile. In the short term, due to the impact of COVID-19 on global logistics and raw materials we are experiencing mid-to-high single digit cost inflation across the Group in 2021. While we anticipate a short term margin headwind in the second half, through pricing actions, agile supply chain management and progress towards our $20m savings by 2023, we are confident of protecting and improving margins.

This year our aim is to deliver $10m of supply chain savings as part of our medium term efficiency programme. In late 2020 we closed our Charleston, West Virginia, production plant and consolidated capacity at our St Louis, Missouri, site. This step has improved our efficiency and utilisation levels across our North American organoclay operations, and returned the Energy business to profitability. In addition, process and procurement excellence across value chains are generating over $3m of savings in 2021. For instance, enhanced temperature controls in our talc operations and switching to water based quaternary amines (from solvent based) at our Anji site are reducing both our costs and environmental impact. These steps will offset $10m of temporary COVID-19 related cost savings made in 2020 which have, as expected, returned to the business in 2021 as the impact of COVID-19 has receded.

Sustainability and the reduction of our environmental footprint are at the forefront of all operational decisions. A significant enabler of an additional $10m of supply chain savings for delivery by 2023 is our new AP Actives plant in India, which is on track for start up in the third quarter. This facility will create a cost advantaged, resilient, and as a closed water system, more environmentally friendly global supply chain. Throughout our operations we have identified over 60 projects that are beneficial from both an efficiency and environmental perspective, and their implementation will drive delivery of our 2030 sustainability targets.

Another key enabler of our efficiency and simplification drive is our digital implementation programme. In July our global business management software went live in Asia, bringing the region in line with Europe and the Americas and improving the flow of data across the organisation. We also started the roll out of fully online

lead-to-order fulfillment cycles for customers. The onboarding of customers to digital ordering systems will continue throughout the year and is already resulting in an improved customer experience, enhanced new business success and more efficient resource management.

Chromium

While our Chromium business does not have the same growth characteristics as the rest of the Group, it holds significant competitive advantages. We are the only producer of chromium chemicals in North America and we utilise a proprietary delivery system that eliminates both operational and safety risks associated with handling these chemicals. This has resulted in a very high and resilient market share accompanied by attractive cash flows and returns on capital. As the pandemic abates, we expect a continued volume recovery to drive higher pricing and in turn ultimately improve earnings and operating cash flows; a key attribute as the Group focuses on quickly reducing debt levels.

Outlook

We will continue to maintain our focus on delivering our Innovation, Growth and Efficiency strategy. In 2021 we are on track to deliver more than $35m of new business opportunities, over 20 new products and $10m of cost savings which will offset the reversal of $10m of 2020 temporary COVID-19 savings. For the full year this is anticipated to drive an improved financial performance and a reduction in leverage, in line with expectations. In the second half of the year, we expect a normal level of seasonality (first half weighted) as continued underlying demand recovery and self-help actions are offset by short term margin headwinds from accelerating cost inflation and supply chain constraints.

Looking ahead, we continue to see significant potential for Elementis. We have a clear, focused strategy and will pursue our key growth and efficiency initiatives, continuing to innovate for high margins and distinctiveness. We are confident that our strategy, alongside a continued demand recovery, linked to COVID-19 developments, will drive a material multi-year performance improvement, the delivery of our medium term Group financial objectives and generate significant shareholder value.

Notes:

Where we refer to adjusted performance measures (e.g. adjusted operating profit), see note 5.
* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates). Previously referred to as ‘organic’. See Finance report.
** Excluding the impact of IFRS 16.
*** New products defined as products launched within the last 5 years, patented and protected products (excluding Chromium).

Finance report

Revenue for the six months ended 30 June	Revenue 2020 $m	Effect of exchange rates $m	(Decrease)/ increase 2021 $m	**Revenue 2021 $m**
Personal Care	89.8	3.2	(4.2)	**88.8**
Coatings	162.2	8.2	26.2	**196.6**
Talc	60.9	6.5	9.1	**76.5**
Chromium	77.5	–	12.7	**90.2**
Inter-segment	(3.9)	–	3.9	**–**
Revenue	386.5	17.9	47.7	**452.1**

Adjusted operating profit for the six months ended 30 June	Adjusted operating profit* 2020 $m	Effect of exchange rates $m	(Decrease)/ increase 2021 $m	**Adjusted operating profit* 2021 $m**
Personal Care	20.1	0.8	(1.7)	19.2
Coatings	20.6	1.6	10.7	32.9
Talc	6.2	0.5	1.2	7.9
Chromium	3.1	–	1.5	4.6
Central costs	(8.0)	0.1	(2.4)	(10.3)
Adjusted operating profit	42.0	3.0	9.3	54.3

* See note 5

Group results

Group revenue for the first six months of 2021 was $452.1m, compared to $386.5m in the same period last year, an increase of $65.6m (17.0%). Excluding the impact of currency, Group revenue rose by 11.8%, driven by a rebound in industrial demand, as the impact of COVID-19 recedes, and new business wins.

Group adjusted operating profit was $54.3m, compared to $42.0m in the same period last year, an increase of 29.3%, and 20.7% excluding currency movements with underlying** revenue growth partially offset by cost increases. Operating profit increased from a loss of $35.2m in the prior year period to a profit of $45.1m as a result of improved underlying** earnings and $68.0m lower adjusting items.

Central costs

Central costs are costs that are not identifiable as expenses of a particular business and comprise the global corporate offices in the UK and US which include the Board of Directors, executive and senior management. Central costs increased by $2.3m in the first half of 2021 as part of the reversal of $10m of temporary cost savings made in 2020 in response to COVID-19.

Adjusting items

In calculating the profitability measures by which management assesses the performance of the Group a number of items are excluded from operating profit as reported in accordance with IFRS. The Board believes that the adjusted measures assist shareholders in better understanding the underlying performance of the business.

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Charge/(credit)			
Adjusting items:			
Restructuring	**–**	–	0.9
Business transformation	**2.7**	2.2	22.7
Environmental provisions	**(1.5)**	4.0	6.7
M&A and disposal costs	**–**	1.1	3.7
Amortisation of intangibles arising on acquisition	**8.0**	9.6	15.5
Impairment of goodwill	**–**	60.3	60.3
Total charge to operating profit	**9.2**	77.2	109.8
Sale of business	**1.1**	–	(0.3)
Charges to finance costs:			
Mark to market of derivatives	**(5.0)**	2.6	10.2
Currency hedge due to dividend cancellation	**–**	1.8	1.8
Tax credit in relation to adjusting items	**(0.6)**	(10.5)	(16.0)
Total adjusting items	**4.7**	71.1	105.5

In the first half of 2021, $9.2m of charges to operating profit were classified as adjusting items. Of these items, $8.0m relate to the amortisation of intangibles arising on acquisitions. Business transformation costs of $2.7m represent costs relating to previously initiated programmes to optimise our supply chain and manufacturing footprint. A credit of $2.0m and a charge of $0.5m relate to the impact of a change in discount rates on the environmental provision and additional remediation work identified respectively.

The charges to finance costs includes $5.0m for movements in market to market valuation of financial instruments which are not in hedging relationships.

An explanation of other adjusting items relating to the previous period can be found within the Finance report of the 2020 Annual report and accounts.

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 $1.0m in the period compared to $0.9m in the previous year.

Net finance costs

	30 June 2021 $m	30 June 2020 $m
Finance income	**0.3**	0.3
Finance cost of borrowings	**(12.1)**	(11.5)
	(11.8)	(11.2)
Net pension finance expense	**(0.3)**	(0.3)
Unwind of discount on provisions	**(0.6)**	(0.6)
Fair value movement on derivatives	**5.0**	(2.6)
Dividend currency hedge cancellation	**–**	(1.8)
Interest on lease liabilities	**(0.8)**	(0.8)
Net finance costs	**(8.5)**	(17.3)

Net finance costs for the first six months of the year of $8.5m were $8.8m lower than the same period last year. Within this total, net interest costs were $0.6m higher at $11.8m due to higher rate of interest payable on borrowings. Net pension

finance costs, the unwind of discount on provisions and interest on lease liabilities in the period remained in line with the previous year. The fair value movement on derivatives which are not in hedging relationships is credited to finance costs.

Tax

The Group reports an adjusted tax charge for the first half of 2021 of $7.5m (2020: $8.0m); giving rise to an adjusted effective tax rate of 18.7% (2020: 28.5%). The adjusted effective tax rate is lower than the prior year due to the one-off impact of withholding taxes incurred on the repatriation of profits from China in 2020.

Tax on adjusting items for the first half of 2021 amounts to a credit of $0.6m (2020: $10.5m); resulting in a total statutory tax charge for the period of $6.9m (2020 credit of $2.5m) and a reported effective tax rate of 19.9% (2020: 4.6%).

For the full year 2021, we currently forecast an adjusted effective tax rate of around 22-23%.

Earnings per share

Statutory basic earnings per share were 4.8 cents for the period compared to basic losses per share of 8.8 cents in the prior interim period.

Basic adjusted and diluted adjusted earnings per share for the first half of 2021, calculated on the adjusted earnings of $32.3m (2020: $20.2m), were 5.6 cents and 5.5 cents respectively compared to 3.5 cents and 3.5 cents for the same period last year.

Note 9 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.

Adjusted cash flow

Cash flow is summarised below:

	30 June 2021 $m	30 June 2020 $m
Profit before interest, tax, depreciation and amortisation (Adjusted EBITDA)*	**80.2**	67.2
Change in working capital	**(26.5)**	(23.5)
Capital expenditure	**(24.2)**	(15.5)
Other	**0.6**	(0.3)
Adjusted operating cash flow	**30.1**	27.9
Pension contribution net of current service cost	**0.5**	0.3
Interest	**(11.8)**	(11.7)
Tax	**(24.0)**	(3.9)
Adjusting items	**(5.5)**	(7.0)
Payment of lease liabilities	**(3.3)**	(3.0)
Free cash flow	**(14.0)**	2.6
Dividends	**–**	–
Acquisitions and disposals	**1.9**	–
Currency fluctuations	**4.9**	(1.6)
(Increase)/decrease in net debt	**(7.2)**	1.0
Net debt at start of period	**(408.1)**	(454.2)
Net debt as at end of period	**(415.3)**	(453.2)

* See alternative performance measures on page 33.

Net debt in the first six months of $415.3m, was broadly stable on the 2020 year end position of $408.1m, and down $37.9m on 30 June 2020. Adjusted operating cash flow in the period rose from $27.9m to $30.1m with higher earnings partially offset by increased capital expenditure and a working capital outflow as a result of double digit revenue growth.

Capital expenditure in the period was $24.2m, $8.7m higher than the previous year. Capital spending for the whole year is expected to be $45-50m, with around 50% of the total spend allocated to our new plant in India, on course for a Q3 start up, and our St Louis plant, where capacity from the recently closed Charleston is being consolidated.

There were no pension deficit payments in the period (2020: nil), a result of the September 2017 triennial review of the UK pension scheme completed in 2018. Under this agreement top up contributions are no longer required until at least 2021. The 2020 triennial review is ongoing and is expected to complete later this year.

Tax payments in the period were $20.1m higher than the previous year due to a one off $20m payment in respect of EU state aid which we expect to be repaid in due course.

Dividend payments were zero in the first six months of 2021 (zero in the prior year period), following the Board's decision to suspend dividends in light of the macroeconomic uncertainties associated with COVID-19 and a desire to preserve cash.

Overall the Group had a net debt position on its balance sheet of $415.3m, representing a net debt/EBITDA ratio (pre IFRS 16) of 3.0x (3.1x at December 2020). A reduction in leverage is expected by the year end, driven by improved trailing twelve month earnings and robust cash conversion.

Working capital

Working capital days	**30 June 2021**	30 June 2020	31 December 2020
Inventory	**96**	105	107
Debtors	**44**	50	38
Creditors	**66**	79	72
Average working capital to sales (%)	**21.7**	23.2	23.8

Total working capital for the Group was $25.2m higher than at December 2020 driven by higher trade receivables in response to increased customer demand. Inventory days reduced from 107 (Dec 20) to 96 days and debtor days increased from 38 (Dec 20) to 44 days, both reflective of higher levels of demand for our products. Creditor days decreased from 72 to 66 days due to the timing of raw material purchases and payments.

Balance sheet

	30 June 2021 $m	30 June 2020 $m	31 December 2020 $m
Property, plant and equipment	**506.5**	502.4	516.0
Other net assets	**832.6**	784.2	752.5
Net debt	**(415.3)**	(453.2)	(408.1)
Equity	**923.8**	833.4	860.4

Property, plant and equipment decreased by $9.5m compared to the value at 31 December 2020, $8.1m as a result of currency translation and depreciation of $25.6m for the 6 months running ahead of capital expenditure of $24.2m. Other net assets increased by $80.1m as a result of the $46.0m increase in retirement benefit scheme net surplus, an increase in working capital of $25.2m due to seasonality of trading patterns, an increase in recoverable tax assets of $20.1m and small movements in lease liabilities and deferred tax assets.

Equity increased by $63.4m compared to the value at 31 December 2020 as a result of statutory profit in the period of $27.6m, actuarial gains on pensions of $48.5m offset by deferred tax on actuarial movements of $11.8m and a loss of $4.8m due to foreign exchange impact on other comprehensive income. The remainder of the movement relates primarily to share based payment provisions and movements in derivatives.

The main dollar currency exchange rates as at 30 June 2021 and average rates in the period were:

	2021 30 June	**2021 Average**	2020 30 June	2020 Average
Sterling	**0.72**	**0.72**	0.81	0.79
Euro	**0.84**	**0.83**	0.89	0.91

Pensions and post retirement plans

	UK $m	US $m	Other $m	**Total $m**
Movement in net deficit				
Net surplus/(deficit) in schemes at 1 January 2021	7.9	(18.3)	(9.8)	**(20.2)**
Current service cost	(0.4)	(0.4)	(0.2)	**(1.0)**
Contributions	–	0.2	0.4	**0.6**

Administration costs	(0.8)	(0.2)	–	**(1.0)**
Net interest expense	0.1	(0.2)	(0.1)	**(0.2)**
Actuarial (loss)/gain	39.4	9.1	–	**48.5**
Currency translation difference	(1.0)	–	0.1	**(0.9)**
Net surplus/(deficit) in schemes at 30 June 2021	**45.2**	**(9.8)**	**(9.6)**	**25.8**

During the period the deficit, under IAS 19, on the Group's pension and post-retirement medical plans improved by $46.0m to a net surplus of $25.8m. During the first six months of 2021 the UK scheme had an annualised return on scheme assets of (2.1)% (2020: 14%), liabilities decreased by 8% (2020: increase by 8%) and the net surplus increased by $37.3m. This movement was driven by actuarial changes due predominantly to an increase in the discount rate which more than offset a decrease in scheme assets over the period. Within the US schemes the net deficit decreased by $8.5m mainly due to an increase in the discount rate. Contributions in the period totalled $0.6m (2020: $0.6m), remaining low following the funding agreement reached with the UK Trustees after the September 2017 triennial valuation which concluded in 2018. Under this agreement top up contributions are no longer required until at least 2021. The 2020 triennial review is ongoing and is expected to complete later this year.

Related party transactions

There were no material related party transactions entered into during the first half of the year and there have been no material changes to the related party transactions disclosed in the Company's 2020 Annual report and accounts on page 171.

Notes:

** Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates). Previously referred to as 'organic'.

Cautionary statement

The Elementis plc interim results announcement for the half year ended 30 June 2021, which comprises the CEO's report, Finance report and the Directors' responsibility statement (which taken together constitute the Interim management report) and the interim financial statements and accompanying notes (incorporating a Condensed consolidated balance sheet at 30 June 2021, Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated cash flow statement and Condensed consolidated statement of changes in equity, each for the six months ended 30 June 2021) (altogether 'Half yearly financial report'), contains information which viewers or readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Half yearly financial report should be construed as a profit forecast.

Directors' responsibility statement

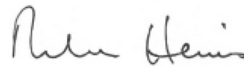
A full list of the Directors can be found on the Elementis corporate website at: www.elementis.com.

The Directors confirm that to the best of their knowledge:

- The condensed set of financial statements set out in this Half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the United Kingdom.
- The condensed set of consolidated financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R; and
- The interim management report contained in this Half-yearly financial report includes a fair review of the information required by:
  - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.
  - DTR 4.2.8R of the Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in related party transactions described in the 2020 Annual report and accounts that could have a material effect on the financial position or performance of the entity during the first six months of the current financial year.

Approved by the Board on 29 July 2021 and signed on its behalf by:

Paul Waterman
CEO
29 July 2021



Ralph Hewins
CFO
29 July 2021

INDEPENDENT REVIEW REPORT TO ELEMENTIS PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
London, United Kingdom
29 July 2021

Condensed consolidated income statement for the six months ended 30 June 2021

	Note	**2021 Six months ended 30 June $m (unaudited)**	2020 Six months ended 30 June $m (unaudited)	2020 Year ended 31 December $m (audited)
Revenue	4	**452.1**	386.5	751.3
Cost of sales		**(283.8)**	(254.9)	(494.0)
Gross profit		**168.3**	131.6	257.3
Distribution costs		**(73.9)**	(55.3)	(112.6)
Administrative expenses		**(49.3)**	(111.5)	(172.9)
Operating profit/(loss)	4	**45.1**	(35.2)	(28.2)
(Loss)/profit on disposal	15	**(1.1)**	–	0.3
Other expenses		**(1.0)**	(0.9)	(1.6)
Finance income	6	**0.3**	0.3	0.3
Finance costs	7	**(8.8)**	(17.6)	(39.6)
Profit/(loss) before tax	4	**34.5**	(53.4)	(68.8)
Tax (charge)/credit	8	**(6.9)**	2.5	1.8
Profit/(loss) for the period		**27.6**	(50.9)	(67.0)
Attributable to:				
Equity holders of the parent		**27.6**	(50.9)	(67.0)
Earnings/(loss) per share				
Basic (cents)	9	**4.8**	(8.8)	(11.5)
Diluted (cents)	9	**4.7**	(8.7)	(11.3)

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2021

	2021 Six months ended 30 June $m (unaudited)	2020 Six months ended 30 June $m (unaudited)	2020 Year ended 31 December $m (audited)
Profit/(loss) for the period	**27.6**	(50.9)	(67.0)
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on pension and other post retirement schemes	**48.5**	2.9	(0.3)
Deferred tax associated with pension and other post retirement schemes	**(11.8)**	(0.3)	(0.3)
	36.7	2.6	(0.6)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(16.7)**	19.5	25.0
Effective portion of change in fair value of net investment hedges	**12.3**	(39.6)	(3.6)
Recycling of deferred foreign exchange losses on disposal	**(0.4)**	–	(0.2)
Effective portion of changes in fair value of cash flow hedges	**1.5**	(2.7)	(1.4)
Fair value of cash flow hedges transferred to income statement	**(0.2)**	0.1	0.9
Exchange differences on translation of share options reserves	**0.1**	(3.7)	(2.7)
	(3.4)	(26.4)	18.0
Other comprehensive income, net of tax	**33.3**	(23.8)	17.4
Total comprehensive income/(loss) for the period	**60.9**	(74.7)	(49.6)
Attributable to:			
Equity holders of the parent	**60.9**	(74.7)	(49.6)
Total comprehensive income/(loss) for the period	**60.9**	(74.7)	(49.6)

Condensed consolidated balance sheet at 30 June 2021

	2021 30 June $m (unaudited)	2020 30 June $m (unaudited)	2020 31 December $m (audited)
Non-current assets			
Goodwill and other intangible assets	**882.9**	870.0	892.6
Property, plant and equipment	**506.5**	502.4	516.0
ACT recoverable	**–**	2.0	0.6
Tax recoverable	**20.1**	–	–
Deferred tax assets	**26.3**	28.2	26.3
Retirement benefit surplus	**45.2**	19.4	7.9
Total non-current assets	**1,481.0**	1,422.0	1,443.4
Current assets			
Inventories	**160.9**	172.0	164.3
Trade and other receivables	**155.2**	123.5	108.3
Derivatives	**1.5**	0.1	1.4
Current tax asset	**7.2**	2.5	7.2
Cash and cash equivalents	**93.6**	102.0	111.0
Total current assets	**418.4**	400.1	392.2
Total assets	**1,899.4**	1,822.1	1,835.6
Current liabilities			
Bank overdrafts and loans	**–**	(2.0)	(3.7)
Trade and other payables	**(152.9)**	(123.2)	(132.6)
Financial liabilities	**(11.5)**	(7.2)	(17.3)
Current tax liabilities	**(27.1)**	(22.5)	(23.2)
Lease liabilities	**(7.3)**	(6.3)	(7.2)
Provisions	**(6.2)**	(6.1)	(9.6)
Total current liabilities	**(205.0)**	(167.3)	(193.6)
Non-current liabilities			
Loans and borrowings	**(505.2)**	(548.6)	(510.6)
Retirement benefit obligations	**(19.4)**	(35.3)	(28.1)
Deferred tax liabilities	**(151.1)**	(142.5)	(143.1)
Lease liabilities	**(34.2)**	(38.0)	(37.2)
Provisions	**(47.2)**	(44.9)	(49.2)
Financial liabilities	**(13.5)**	(12.1)	(13.4)
Total non-current liabilities	**(770.6)**	(821.4)	(781.6)
Total liabilities	**(975.6)**	(988.7)	(975.2)
Net assets	**923.8**	833.4	860.4
Equity			
Share capital	**52.2**	52.1	52.1
Share premium	**240.5**	237.7	237.7
Other reserves	**104.8**	66.6	108.6
Retained earnings	**526.3**	477.0	462.0
Equity attributable to equity holders of the parent	**923.8**	833.4	860.4
Total equity and reserves	**923.8**	833.4	860.4

Condensed consolidated cash flow statement for the six months ended 30 June 2021

	2021 Six months ended 30 June $m (unaudited)	2020 Six months ended 30 June $m (unaudited)	2020 Year ended 31 December $m (audited)
Operating activities:			
Profit/(loss) for the period	**27.6**	(50.9)	(67.0)
Adjustments for:			
Other expenses	**1.0**	0.9	1.6
Finance income	**(0.3)**	(0.3)	(0.3)
Finance costs	**8.8**	17.6	39.6
Tax	**6.9**	(2.5)	(1.8)
Depreciation and amortisation	**33.9**	34.8	66.7
Impairment loss on property, plant and equipment	**–**	–	11.7
(Decrease)/increase in provisions	**(6.1)**	–	3.7
Pension contributions net of current service cost	**0.5**	0.3	1.1
Share based payments	**2.5**	1.9	3.5
Impairment of Goodwill	**–**	60.3	60.3
Loss/(profit) on disposal of business	**1.1**	–	(0.3)
Operating cash flows before movements in working capital	**75.9**	62.1	118.8
Decrease/(increase) in inventories	**3.0**	(5.6)	7.8
(Increase)/decrease in trade and other receivables	**(46.8)**	(8.0)	13.3
Increase/(Decrease) in trade and other payables	**17.3**	(9.9)	(0.6)
Cash generated by operations	**49.4**	38.6	139.3
Income taxes paid	**(24.0)**	(3.9)	(8.5)
Interest paid	**(12.1)**	(12.0)	(23.7)
Net cash flow from operating activities	**13.3**	22.7	107.1
Investing activities:			
Interest received	**0.3**	0.3	0.3
Disposal of property, plant and equipment	**–**	0.1	1.8
Purchase of property, plant and equipment	**(24.3)**	(15.4)	(41.5)
Disposal of business	**1.9**	–	0.5
Acquisition of intangibles	**(0.1)**	(0.2)	(0.3)
Net cash flow from investing activities	**(22.2)**	(15.2)	(39.2)
Financing activities:			
Issue of shares by the Company and the ESOT net of issue costs	**–**	0.1	0.1
Dividends paid	**–**	–	–
Outflow of cancelled dividend hedge	**–**	(1.8)	(1.8)
Net movement on existing debt	**(3.7)**	(2.9)	(56.3)
Payment of lease liabilities	**(3.3)**	(3.1)	(6.7)
Net cash used in financing activities	**(7.0)**	(7.7)	(64.7)
Net (decrease)/increase in cash and cash equivalents	**(15.9)**	(0.2)	3.2
Cash and cash equivalents at beginning of period	**111.0**	103.9	103.9
Foreign exchange on cash and cash equivalents	**(1.5)**	(1.7)	3.9
Cash and cash equivalents at end of period	**93.6**	102.0	111.0

Condensed consolidated unaudited statement of changes in equity for the six months ended 30 June 2021

	Share capital $m	Share premium $m	Translation reserve $m	Hedging reserve $m	Other reserves $m	Retained earnings $m	Total equity $m
At 1 January 2021	**52.1**	**237.7**	**(48.9)**	**(8.9)**	**166.4**	**462.0**	**860.4**
Profit for the period	–	–	–	–	–	27.6	27.6
Other comprehensive income:							
Exchange differences	–	–	(4.4)	–	0.1	–	(4.3)
Recycling of foreign exchange gains on disposal	–	–	(0.4)	–	–	–	(0.4)
Movement in cash flow hedges	–	–	–	1.3	–	–	1.3
Actuarial gain on pension scheme						48.5	48.5
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(11.8)	(11.8)
Transactions with owners:							
Issue of shares	0.1	2.8	–	–	(2.9)	–	–
Share based payments	–	–	–	–	2.5	–	2.5
At 30 June 2021	**52.2**	**240.5**	**(53.7)**	**(7.6)**	**166.1**	**526.3**	**923.8**

	Share capital $m	Share premium $m	Translation reserve $m	Hedging reserve $m	Other reserves $m	Retained earnings $m	Total equity $m
At 1 January 2020	52.1	237.7	(69.0)	(8.4)	168.5	525.3	906.2
Profit for the period	–	–	–	–	–	(50.9)	(50.9)
Other comprehensive income:							
Exchange differences	–	–	(20.1)	–	(3.7)	–	(23.8)
Movement in cash flow hedges	–	–	–	(2.6)	–	–	(2.6)
Actuarial gain on pension scheme	–	–	–	–	–	2.9	2.9
Deferred tax adjustment on pension scheme deficit	–	–	–	–	–	(0.3)	(0.3)
Transactions with owners:							
Share based payments	–	–	–	–	1.9	–	1.9
At 30 June 2020	**52.1**	**237.7**	**(89.1)**	**(11.0)**	**166.7**	**477.0**	**833.4**

Notes to the interim financial statements for the six months ended 30 June 2021

1. General Information

Elementis plc (the 'Company') and its subsidiaries (together, the 'Group') manufactures specialty chemicals. The Group has operations in the US, UK, Brazil, Germany, Finland, The Netherlands, China, Taiwan, Malaysia and India. The Company is a limited liability company incorporated and domiciled in England, UK and is listed on the London Stock Exchange.

2. Accounting policies

Basis of preparation
This condensed set of financial statements (also referred to as 'interim financial statements' in this announcement) has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the United Kingdom.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the same accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2020.

The information for the year ended 31 December 2020 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

3. Going concern

Given the continuing uncertainties resulting from the impact of COVID-19 on the economic environment in which the Group operates, the directors have placed a particular focus on the appropriateness of adopting the going concern basis in preparing the condensed consolidated financial statements for the six months ended 30 June 2021.

The Group's going concern assessment covers the period of at least 12 months from the date of authorisation of these consolidated half year financial statements (the "going concern period"), and takes into account its substantial liquidity, committed expenditure, and likely ongoing levels of costs. In preparing the assessment, alongside the most likely "base case" forecast, the Board has considered a "reverse stress test case" which flexes sales and costs to determine what circumstances would be required to breach banking covenants.

This assessment shows the Group has sufficient liquidity to discharge its liabilities as they fall due throughout the going concern period under the base case, assuming continued access to our revolving credit facilities. Access to these credit facilities is dependent on the group operating within its financial covenants. The Group agreed covenant relaxations with our lenders in March and September 2020, the revised provision in our banking arrangements is for the net debt/EBITDA covenant to step down from 3.75x at present to 3.25x in June 2022. Testing up to 30 June 2021 confirmed that the Group operated within these covenants and under the base case the Group is expected to remain within its financial covenants throughout the going concern period and the conditions necessary for the reverse stress scenario to be applicable were deemed remote.

The Directors also considered factors likely to affect its future performance and development, the Group's financial position, current excess liquidity position, high level of cash conversion and the principal risks and uncertainties facing the Group, including the Group's exposure to credit, liquidity and market risk and the mechanisms for dealing with these risks.

In conclusion, after reviewing the base case and considering the remote likelihood of the scenario in the reverse stress test case occurring as well as having considered the uncertainty relating to COVID-19 and the mitigating actions available, the Directors have formed the judgement that, at the time of approving the consolidated financial statements, there are no material uncertainties that cast doubt on the Group's going concern status and that it is appropriate to prepare the consolidated accounts on the going concern basis.

4. Segment reporting

Personal Care – production of rheological modifiers and compounded products, including active ingredients for AP deodorants, for supply to Personal Care manufacturers.
Coatings – production of rheological modifiers and additives for decorative and industrial coatings. The Energy segment has been amalgamated into the Coatings segment with effect from 1st January 2021 because this is the basis on which the chief operating decision maker views the business and the basis on which capital allocation decisions are made owing to the shared asset base.
Talc – production and supply of talc for use in plastics, coatings, technical ceramics and paper sectors.
Chromium – production of chromium chemicals.

	Six months ended 30 June 2021			Six months ended 30 June 2020 (restated*)			Year ended 31 December 2020 (restated*)		
	Gross $m	**Inter-segment**	**External $m**	Gross $m	Inter-segment	External $m	Gross $m	Inter-segment $m	External $m
Revenue									
Personal Care	**88.8**	**–**	**88.8**	89.8	–	89.8	160.8	–	160.8
Coatings	**196.6**	**–**	**196.6**	162.2	–	162.2	319.1	–	319.1
Talc	**76.5**	**–**	**76.5**	60.9	–	60.9	132.5	–	132.5
Chromium	**90.2**	**–**	**90.2**	77.5	(3.9)	73.6	146.9	(8.0)	138.9
Total revenue	**452.1**	**–**	**452.1**	390.4	(3.9)	386.5	759.3	(8.0)	751.3

All revenues relate to the sale of goods

	Notes	**2021 Six months ended 30 June $m**	2020 Six months ended 30 June $m (restated*)	2020 Year ended 31 December $m (restated*)
Adjusted operating profit				
Personal Care		**19.2**	20.1	33.6
Coatings		**32.9**	20.6	41.4
Talc		**7.9**	6.2	16.6
Chromium		**4.6**	3.1	5.6
Central costs		**(10.3)**	(8.0)	(15.6)
Adjusted operating profit		**54.3**	42.0	81.6
Adjusting items	5	**(9.2)**	(77.2)	(109.8)
Operating profit/(loss)		**45.1**	(35.2)	(28.2)
(Loss)/profit on disposal		**(1.1)**	–	0.3
Other expenses		**(1.0)**	(0.9)	(1.6)
Finance income		**0.3**	0.3	0.3
Finance costs		**(8.8)**	(17.6)	(39.6)
Profit/(loss) before tax		**34.5**	(53.4)	(68.8)

* Restated for the amalgamation of the Energy business into the Coatings segment.

5. Adjusting items and alternative performance measures

In calculating the profitability measures by which management assesses the performance of the Group a number of items are excluded from operating profit as reported in accordance with IFRS. The Board believes that the adjusted measures assist shareholders in better understanding the underlying performance of the business.

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Operating profit/(loss)	**45.1**	(35.2)	(28.2)
Adjusting items:			
Restructuring	**–**	–	0.9
Business transformation	**2.7**	2.2	22.7
Environmental provisions			
Increase in provisions due to additional remediation work identified	**0.5**	0.9	5.6
Increase in provisions due to change in discount rate	**(2.0)**	3.1	1.1
M&A and disposal costs	**–**	1.1	3.7
Impairment of goodwill	**–**	60.3	60.3
Amortisation of acquired intangibles	**8.0**	9.6	15.5
Net adjusting items	**9.2**	77.2	109.8
Adjusted operating profit	**54.3**	42.0	81.6

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m (restated*)	2020 Year ended 31 December $m (restated*)
Adjusted operating profit			
Personal Care	**19.2**	20.1	33.6
Coatings	**32.9**	20.6	41.4
Talc	**7.9**	6.2	16.6
Chromium	**4.6**	3.1	5.6
Central costs	**(10.3)**	(8.0)	(15.6)
Adjusted operating profit	**54.3**	42.0	81.6
Other expenses	**(1.0)**	(0.9)	(1.6)
Finance income	**0.3**	0.3	0.3
Finance costs[1]	**(13.7)**	(13.2)	(27.6)
Adjusted profit before tax	**39.9**	28.2	52.7

* Restated for the amalgamation of the Energy business into the Coatings segment.
[1] Adjusted finance costs of $13.7m excludes the mark to market on derivatives of $5.0m.

Adjusting items in the period fall into the following categories:

Restructuring
In 2020, restructuring costs relate to the organisational efficiency programme commenced in late 2019, which eliminated duplicate roles, reduced management layers and increased spans of control in order to realise cost savings and efficiencies across the Group.

Business transformation
In November 2020, the closure of the Charleston plant was announced. Costs of $2.3m in 2021 associated with the closure of the site are classed as an adjusting item and the site is planned to be disposed of in the future. Further charges of $0.4m relates to the optimisation of the supply chain footprint across our Chromium business.

Environmental provision
Of the $1.5m, a credit of $2.0m relates to the impact of changes in discount rates and a charge $0.5m relates to extra remediation work identified.

M&A and disposal costs
Charges of $3.7m for the year to 31 December 2020 represent costs relating to the disposal of small, non-core businesses in the Personal Care business segment and advisory fees incurred in response to an unsolicited takeover approach received in the year.

Amortisation of intangibles arising on acquisition
These costs total $8.0m in the 6 months to 30 June 2021 and, as in prior periods, are excluded from operating profit to provide readers of the report with additional useful analysis of the performance of the business.

An explanation of other adjusting items relating to the full year 2020 can be found within the 2020 Annual Report and Accounts.

6. Finance income

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Interest on bank deposits	**0.3**	0.3	0.3

7. Finance costs

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Interest on bank loans	**12.1**	11.5	22.6
Unwind of discount on provisions	**0.6**	0.6	2.7
Pension and other post-retirement liabilities	**0.3**	0.3	0.6
Fair value movement on derivatives	**(5.0)**	2.6	10.2
Dividend currency hedge cancellation	**–**	1.8	1.8
Interest on lease liabilities	**0.8**	0.8	1.7
	8.8	17.6	39.6

8. Tax

The charge for tax on profits of $6.9m or 19.9% (2020: credit of $2.5m, or 4.6%) is based on the probable tax charge in those jurisdictions where profits arise. Within this figure is a tax credit of $0.6m (2020: $10.5m) in respect of adjusting items.

9. Earnings per share

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Earnings/(Loss) for the purposes of basic earnings per share	**27.6**	(50.9)	(67.0)
Adjusting items net of tax	**4.7**	71.1	105.5
Adjusted earnings	**32.3**	20.2	38.5

	Number(m)	Number(m)	Number(m)
Weighted average number of shares for the purposes of basic earnings per share	**580.6**	579.9	580.1
Effect of dilutive share options	**8.7**	4.3	13.6
Weighted average number of shares for the purposes of diluted earnings per share	**589.3**	584.2	593.7

	2021 Six months ended 30 June cents	2020 Six months ended 30 June cents	2020 Year ended 31 December cents
Earnings/(Loss) per share:			
Basic	**4.8**	(8.8)	(11.5)
Diluted	**4.7**	(8.7)	(11.3)
Adjusted earnings per share:			
Basic	**5.6**	3.5	6.6
Diluted	**5.5**	3.5	6.5

10. Dividends

The following dividends were declared and paid by the Group:

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Dividends paid on ordinary shares	**–**	–	–

11. Pension

Valuations for IAS 19 purposes were conducted as of 30 June 2021. The Group is reporting a surplus on its UK scheme of $45.2m (30 June 2020: $19.4m) and a deficit on all other schemes of $19.4m (30 June 2020: deficit of $35.3m) at the end of June 2021. Additional commentary is included in the Finance report.

12. Movement in net cash/(borrowings)

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Change in net cash/(borrowings) resulting from cash flows			
(Decrease)/increase in cash and cash equivalents	**(15.9)**	(0.2)	3.2
Decrease in borrowings	**3.7**	2.9	56.3
	(12.2)	2.7	59.5
Currency translation differences	**5.0**	(1.7)	(13.4)
(Increase)/decrease in net debt	**(7.2)**	1.0	46.1
Net debt at beginning of period	**(408.1)**	(454.2)	(454.2)
Net debt at end of period	**(415.3)**	(453.2)	(408.1)

	Bank and other borrowings $m	**Lease liabilities $m**	**Total financing liabilities $m**	**Cash and cash equivalents $m**	**Net debt and lease liabilities $m**
At 1 January 2020	**(558.1)**	**(46.9)**	**(605.0)**	**103.9**	**(501.1)**
Exchange rate adjustments	–	0.2	0.2	(1.7)	(1.5)
Cash flows from financing activities	2.9	3.1	6.0	(2.9)	3.1
Other movements	–	(0.7)	(0.7)	2.7	2.0
At 30 June 2020	**(555.2)**	**(44.3)**	**(599.5)**	**102.0**	**(497.5)**
Exchange rate adjustments	(17.3)	(1.3)	(18.6)	5.6	(13.0)
Business disposed (see note 15)	–	–	–	0.5	0.5
Cash flows from financing activities	53.4	1.9	55.3	(53.4)	1.9
Other movements	–	(0.7)	(0.7)	56.3	55.6
At 31 December 2020	**(519.1)**	**(44.4)**	**(563.5)**	**111.0**	**(452.5)**
Exchange rate adjustments	6.5	0.4	6.9	(1.5)	5.4
Business disposed (see note 15)	–	–	–	1.9	1.9
Cash flows from financing activities	3.7	3.3	7.0	(3.7)	3.3
Other movements	–	(0.8)	(0.8)	(14.1)	(14.9)
At 30 June 2021	**(508.9)**	**(41.5)**	**(550.4)**	**93.6**	**(456.8)**

13. Financial risk management

The Group has exposure to the following financial risks:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's Audit Committee, assisted by Internal Audit, oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. These interim financial statements do not include all the financial risk management information and disclosures that are required in the Annual report and accounts and should be read in conjunction with the financial statements for the year ended 31 December 2020. The Group's risk management policies have not changed since the year end.

The Group measures fair values in respect of financial instruments in accordance with IFRS 13, using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly or indirectly.

Level 3: Valuation techniques using significant unobservable inputs.

The Group carried its trade and other receivables and payables, excluding derivatives, at amortised cost and consider fair value approximates carrying value. Derivatives are categorised within level 2. All other financial instruments, including cash and loans are categorised within level 1.

14. Contingent liabilities

As is the case with other chemical companies, the Group occasionally receives notice 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 UK Government (through HMRC) introduced the UK Finance Company Exemption ('FCE') regime. Elementis entered into the FCE regime during 2014. In October 2017 the European Commission opened a State Aid investigation into the regime. In April 2019 the European Commission concluded that the FCE regime constituted State Aid in circumstances where Groups had accessed the regime using a financing company with UK significant people functions; the European Commission therefore instructed the UK Government to collect any relevant State Aid amounts. The UK government and other UK-based international companies, including Elementis, appealed to the General Court of the European Union against the decision in 2019.

In Spring 2020 HMRC requested that affected Groups submit their UK significant people function analysis. The deadline for submission of these analyses was delayed due to the impact of COVID-19 and Elementis submitted its analysis to HMRC in July 2020. In December 2020 the UK government introduced legislation to commence collection proceedings.

Elementis received a charging notice from HMRC on 5 February 2021 which assessed for the maximum exposure of $19m (excluding interest). This was paid to HMRC on 5 March 2021. A charging notice for associated interest of $1m was received on 24 June 2021 and paid on 7 July 2021. Whilst Elementis has lodged an appeal against the charging notice this does not defer the payment of the tax assessed. As Elementis considers that the appeal will ultimately be successful, at 30 June 2021 an asset has been recorded within non current assets in the accounts on the expectation that the charge will be repaid in due course.

15. Business exit

On 21 June the Group disposed of Eisenbacher Dentalwaren ED GmbH and Adentatec GmbH, the dental alloys businesses located in Worth, Germany for consideration of €4.6m ($5.7m).

The results of Eisenbacher Dentalwaren ED GmbH and Adentatec GmbH, which have been included in the consolidated income statement were as follows:

	2021 Six months ended 30 June $m
Revenue	**3.1**
Cost of sales	**(2.0)**
Gross profit	**1.1**
Distribution costs	**–**
Administrative expenses	**(0.8)**
Operating profit	**0.3**
Finance costs	**–**
Profit before income tax	**0.3**
Tax	**–**
Net profit	**0.3**

Revenue includes $nil related to inter-segment sales in 2021 (2020: $nil)

The Group recognised a total loss on current year disposal of:

	30 June 2021 $m
Consideration received	**5.7**
Net assets disposed of (see table below)	**(6.2)**
Disposal costs	**(1.0)**
Recycling of deferred foreign exchange gains	**0.4**
Loss on disposal	**(1.1)**

Details of assets and liabilities at the date of disposal are provided in the following table:

	30 June 2021 $m
Goodwill	**1.0**
Property, plant and equipment	**0.1**
Inventory	**1.5**
Trade and other receivables	**0.5**
Cash and bank balances	**3.4**
Trade and other payables	**(0.1)**
Income tax payable	**(0.2)**
Total net assets disposed of	**6.2**

Principal risks and uncertainties

The Group has policies, processes and systems in place to help identify, evaluate and manage risks throughout the organisation that may have a material effect on its business operations and delivery of strategic objectives including its business model, future performance, solvency, liquidity and/or reputation. The Board continues to take a proactive approach to recognising and mitigating risk with the aim of protecting its employees and safeguarding the interests of the Group, its shareholders, employees, customers, suppliers and all other stakeholders.

The principal risks and uncertainties facing the Group have not substantively changed from those set out in the Annual Report and Accounts for the 12 months ended 31 December 2020 (pages 59 to 62), however, the following principal risks and uncertainties are trending upwards as the global economy recovers from the impact of COVID-19 in 2020; 'Business interruption as a result of supply chain failure of key raw materials and/or 3rd party service provision', and 'IT, Cyber and GDPR'.

COVID-19 pandemic risk strategy and actions in 2021

Employees

In 2020 a COVID-19 response team was established to co-ordinate and focus action on the health and safety of our employees using local, national and federal governmental guidance and public health guidance. This team have continued to lead our response into 2021. Led by Executive Leadership Team members, the team direct the activities in respect of identifying, co-ordinating and mitigating potential impacts in respect of COVID-19 with a primary focus on the health and safety of employees – both at manufacturing sites and those working in the home environment. Our response team provides employees with policies, procedures and checklists, both at site level and for home working and oversaw the deployment of a dedicated micro-site where employees could access relevant health & safety guidance and other information. We continue to run our TogetherSafe initiative launched in 2020 with a focus on demonstrating our commitment to safety and our team ethos into a culture of shared responsibility by building a global network of Safety Champions. A series of all employee and leadership townhalls have also been held during the period offering a feedback loop and shared understanding of how the Group continues to navigate the pandemic. Our compliance framework and attention to cyber risk has been re-emphasised in recognition of increasing risk trends in these areas, particularly in a time of global crisis.

Supply Chain

Our supply chain remains in a state of heightened business continuity awareness. Our plant managers and their teams continue to play a key role in local information gathering which has proved highly valuable and our supply chain team have continued to focus on ensuring continuity of supply and operational reliability. PPE, social distancing and hygiene guidance is regularly reviewed at all sites in light of local regulations and guidance. Raw materials availability is regularly assessed and alternative suppliers engaged where necessary. Management of pricing, demand planning and inventory has been managed well during the period. We continue to maintain a raised frequency of our supply and demand planning processes to ensure a reliable, cost effective supply of products. Production supply plans have been adjusted to meet changes in demand whilst optimising overall cost to serve our customers.

Customers, distributors and suppliers

To support the recovery of our business performance, our senior business leaders, customer accounts, R&D and supply chain teams continue to understand the evolving impacts of the COVID-19 recovery on our customers, distributors and suppliers and the economic environments in which they operate. This is then utilised in our response planning. We continue to monitor credit risk and viability of customer and distributor relationships and seek to ensure fair trading terms for both parties. Notwithstanding the COVID-19 impact on demand, new business opportunities continue to come on-stream and we continue to monitor consumer behaviour and sentiment.

Profitability and liquidity

In 2020 the Board took action to suspend the 2019 final dividend and 2020 dividends and secured a relaxation of the key net debt/EBITDA banking covenant from 3.25 to 3.75 for four testing periods in response to the uncertainties associated with the duration and impact of COVID-19. In 2021, whilst trading conditions improve, Management continue to actively scenario plan based on latest forecasts and oversee regular response plan updates with a particular focus on controlling working capital and capital expenditure.

Operational effectiveness

The impact of employees working from home has validated the resiliency of our business continuity plans and our investment in tools and technology. However, we continue to closely monitor the security infrastructure and 3rd party systems to ensure ongoing business continuity of systems and processes. Awareness campaigns relating to malware and phishing attacks have been circulated to mitigate the risk of these type of attacks and security measures have been put in place.

In summary, the Group continues to maintain appropriate mitigation strategies to minimise any potential business disruption and will continue to carry out a regular and robust assessment and management of the Group's risks.

Alternative performance measures

A reconciliation from reported profit for the year to earnings before interest, tax, depreciation and amortisation (EBITDA) is provided to support understanding of the summarised cash flow included within the finance report on pages 9 to 13.

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Profit/(loss) for the period	**27.6**	(50.9)	(67.0)
Adjustments for:			
Finance Income	**(0.3)**	(0.3)	(0.3)
Finance costs and other expenses after adjusting items	**9.8**	18.5	41.2
Tax charge/(credit)	**6.9**	(2.5)	(1.8)
Depreciation and amortisation	**33.9**	34.8	66.7
Excluding amortisation of intangibles arising on acquisition	**(8.0)**	(9.6)	(15.5)
Adjusting items before interest	**10.3**	77.2	109.5
EBITDA	**80.2**	67.2	132.8

Adjusted operating cash flow

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

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Net Cash flow from operating activities	**13.3**	22.7	107.1
Less:			
Capital expenditure	**(24.2)**	(15.5)	(40.0)
Add:			
Income tax paid or received	**24.0**	3.9	8.5
Interest paid or received	**11.8**	12.0	23.7
Pension contributions net of current service cost	**(0.5)**	(0.3)	0.1
Adjusting items – non cash	**0.2**	–	(1.8)
Adjusting items - cash	**5.5**	5.1	12.2
Adjusted operating cash flow	**30.1**	27.9	109.8

Operating cash conversion

Operating cash conversion is defined as operating cash flow (as defined above) excluding payments for provisions and share based pay, divided by operating profit from total operations after adjusting items

	2021 Six months ended 30 June $m	2020 Six months ended 30 June $m	2020 Year ended 31 December $m
Operating profit from total operations after adjusting items	**54.3**	42.0	81.6
Operating cash flow	**30.1**	27.9	109.8
Add:			
Provisions and share based pay	**(0.6)**	0.3	1.7
	29.5	28.2	111.5
Operating cash flow conversion	54%	67%	137%

Unaudited information

To support a full understanding of the performance of the Group, the information below provides the calculation of Net Debt/EBITDA as per our banking covenants.

	$m
EBITDA for the last twelve months to 30 June 2021	145.8
IFRS 16 adjustment	(6.9)
Adjusted EBITDA pre IFRS 16	138.9
Net Debt	415.3
Net Debt / EBITDA*	2.99x

* Net Debt/EBITDA, where EBITDA is the Adjusted EBITDA on continuing operations of the Group on a pre IFRS 16 basis, is the definition of Net Debt/ EBITDA for Elementis' core banking covenants.

- ENDS -