

POLICY ON NON-AUDIT SERVICES FROM EXTERNAL AUDITORS

The Audit Committee recognises that:

- the independence of the external auditors is a fundamental safeguard to the interests of the Company's shareholders; and
- it is important the external auditors' independence and objectivity is not impaired through the provision of non-audit services.

Accordingly, the Audit Committee has adopted this Non-Audit Services ("NAS") Policy to regulate the provision of non-audit services by the external auditors.

There are three general parts to this NAS Policy:

- Services which are prohibited.
- Services which are pre-approved subject to limits.
- Services which require specific approval on a case-by-case basis.

Services which are prohibited

Set out in Appendix A is a list of the types of services that are prohibited to be carried by the external auditors.

Examples of such work include the following:

- Tax compliance advice and assistance with tax return submissions (unless falls under an inconsequential exemption – see Appendix A).
- Management consulting work that could result in a material change in strategy or redesign of a significant process.
- M&A advisory work that involves the recommendation of a specific transaction.
- Any advisory work where there is a material "success component" in the fee structure.
- Interim management assignments or secondments.
- Where the auditor may be required to audit their own work.

Services which are pre-approved subject to limits

Set out in Appendix B is a list of the types of services that are pre-approved (subject to limits) to be carried by the external auditors.

Examples of such work include the following:

- Due diligence related to mergers and acquisitions.
- Completion statements.
- Opinions or reports on information required by third parties for prospectuses, working capital reports, comfort letters.
- Certification of compliance with contractual obligations for bank covenants, royalty or deferred consideration payments.
- Advice on the application of accounting standards (including IFRS), company and tax law or development of accounting policies and technical opinions on accounting for complex transactions, treasury instruments and the taxation implications thereof.
- The audit of financial statements for pension or other benefit plans.

Such services provided to the Company are subject to a 70% cap and so require approval by the Audit Committee in accordance with the procedures set out below. The 70% cap on non-audit fees is in relation to the annual Group audit fee (defined below) and based on the 3 year average commencing from the year ending 2017.

Procedural process for authorising pre-approved non-audit services subject to a limit:

- Where an individual non-audit engagement has a fee of not greater than 15% of the annual Group audit fee¹, and the total cost of non-audit engagements in the current financial year do not exceed 50% of the same annual Group audit fee, the Audit Committee have delegated their approval to the Chief Financial Officer.
- For all other engagements, the external auditors may be appointed provided that the engagement is approved in advance by the Audit Committee. However, in circumstances where the timing of Audit Committee meetings is inconvenient, the Chairman of the Audit Committee may decide that the appointment can be approved in advance by both the Chief Financial Officer and the Chairman of the Audit Committee and ratified at the next Audit Committee meeting. Engagements will be subject to competitive tender only when the Audit Committee, or Chief Financial Officer, or the Chairman of the Audit Committee and the Chief Financial Officer, consider(s) it to be appropriate.
- The Audit Committee will be advised periodically of the cost and nature of non-audit work performed by the external auditors.

¹ Annual Group audit fee means total audit fees payable to the external auditors for audit services globally, excluding the half year review of Elementis PLC, in respect of the current financial year.

Services which require specific approval on a case-by-case basis

Within the list of prohibited services in Appendix A (extracted below), there is an exemption for the following services:

- a) tax services relating to:
 - (i) preparation of tax forms;
 - (iv) identification of public subsidies and tax incentives unless support from the auditors in respect of such services is required by law;
 - (v) support regarding tax inspections by tax authorities unless support from the auditors in respect of such inspections is required by law;
 - (vi) calculation of direct and indirect tax and deferred tax;
 - (vii) provision of tax advice;
- f) valuation services, including valuations performed in connection with actuarial services or litigation support services...

... which may be provided if the following requirements are complied with:

- they have no direct or, in the view of an objective, reasonable and informed third party, would have an inconsequential effect, separately or in the aggregate on the audited financial statements;
- the estimation of the effect on the audited financial statements is comprehensively documented and explained to the Audit Committee; and
- for the purposes of the statutory audit of the financial statements, the external auditors would not place significant reliance on the work performed by the external auditors in performing these services.

In addition, there are other services which may not be prohibited that the auditors may be considered for where the threats to auditor independence are not clearly insignificant. These are set out in Appendix C.

General provisions

In determining whether to approve the appointment of the external auditors to non-prohibited non-audit work, the Audit Committee will consider:

- Whether the skills, experience and resources of the audit firm are sufficient for the engagement.
- Whether the services in question will risk jeopardising the objectivity and independence of the audit, particularly:
 - if they will lead to the auditors auditing their own firm's work
 - if the auditors will make management decisions
 - if the auditors are put in the role of advocate for the Company
 - if a mutuality of interest is created
- Whether the fee level for the engagement in question is significant in relation to the audit fee or contains a significant "success component".

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Schedule A – List of prohibited non-audit services

- a) tax services relating to:
 - (i) preparation of tax forms*;
 - (ii) payroll tax;
 - (iii) customs duties;
 - (iv) identification of public subsidies and tax incentives unless support from the auditors in respect of such services is required by law*;
 - (v) support regarding tax inspections by tax authorities unless support from the auditors in respect of such inspections is required by law*;
 - (vi) calculation of direct and indirect tax and deferred tax*;
 - (vii) provision of tax advice*;
- b) services that involve playing any part in the management or decision-making of the Company;
- c) book-keeping and preparing accounting records and financial statements;
- d) payroll services;
- e) designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;
- f) valuation services, including valuations performed in connection with actuarial services or litigation support services*;
- g) legal services, with respect to:
 - (i) the provision of general counsel;
 - (ii) negotiating on behalf of the Company; and
 - (iii) acting in an advocacy role in the resolution of litigation;
- h) services related to the Company's internal audit function;
- i) services linked to the financing, capital structure and allocation, and investment strategy of the Company, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the Company;
- j) promoting, dealing in, or underwriting shares in the Company;
- k) human resources services, with respect to:
 - (i) management in a position to exert significant influence over the preparation of the accounting records or financial statements which are the subject of the statutory audit, where such services involve:
 - searching for or seeking out candidates for such position; or
 - undertaking reference checks of candidates for such positions;
 - (ii) structuring the organisation design; and
 - (iii) cost control.

* These services may be subject to an available exemption from the general prohibition if certain requirements are met. These are set out in the second half of page 2.

Schedule B – List of pre-approved non-audit services subject to limits

The list of pre-approved audit related services (shown below) are those non-audit services where appointing the external auditors to perform non-audit work is appropriate and advantageous, eg when the work is audit related or when a detailed understanding of the Company's business is important. Such services are appropriate where the work involved is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied.

Audit related services are:

- Reporting required by law or regulation to be provided by the auditor;
- Reviews of interim financial information;
- Reporting on regulatory returns;
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation; and
- Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

Schedule C – List of other non-audit services that may be considered on a case by case basis

There are services other than audit related services for which it is generally accepted under the FRC's Ethical Standard that the auditors of the Company is an appropriate provider. However the threats to independence arising from such services are not necessarily clearly insignificant and the Company considers whether such services give rise to threats to independence and, where appropriate, the need to apply safeguards. Such services include:

- Reports, that are not 'audit related services', required by the competent authorities / regulators supervising the Company, where the authority / regulator has either specified the auditor to provide the service or identified to the Company that the auditor would be an appropriate choice for service provider. These might include, for example:
 - in relation to entities regulated under the Financial Services and Markets Act 2000 (FSMA), reports under s166 and s340 of FSMA; and
 - other reports provided for under the rules of a competent authority / regulator.
- Audit and other services provided as auditor of the Company, or as *reporting accountant*, in relation to information of the Company for which it is probable that an objective, reasonable and informed third party would conclude that the understanding of the Company obtained by the auditor for the audit of the financial statements is relevant to the service, and where the nature of the service would not compromise independence. These might include, for example:
 - audit and other services relating to public reporting as *reporting accountant* on financial or other information of the Company in a prospectus or circular (including reports that may be required by the Prospectus Rules, the Listing Rules and the Take Over Code);
 - services, including private reporting, that are customarily performed by the *reporting accountant* to support statements made by the directors, disclosures in a prospectus or circular or, in the case of premium listed issuers, to support confirmations provided by the sponsor to the FCA;
 - audit and other assurance services relating to public reporting on other information issued by the entity, such as reports on information in the front of annual reports not covered by the auditor's report on the financial statements.