APPROVED BY SHAREHOLDERS - APRIL 2018

Remuneration policy report

EFFECTIVE DATE AND DURATION OF REMUNERATION POLICY

The Company's Remuneration policy was approved by shareholders at the Company's 2018 AGM and took effect from 26 April 2018.

As detailed in the Chairman's annual statement on remuneration, since the remuneration policy approved by shareholders at our 2015 AGM is considered to be working effectively, the current policy is being renewed on broadly the same terms. However, to enable the Committee to take account of the progress we are making against our Reignite Growth strategy, additional flexibility is being included in our policy renewal in a small number of areas. These are explained in the Chairman's annual statement and include: (i) the ability to introduce strategic targets into future long term incentive awards and (ii) the ability to grant awards to Executive Directors under the LTIP at up to 250% of salary. Other changes include: (i) reducing the notice periods for Non-Executive Directors (other than the Chairman) from 6 months to 30 days (with the ability to set notice periods of up to 3 months to be retained within policy) and reducing the maximum Company pension contribution for new joiners to 25% of salary (from 30% of salary).

POLICY TABLE

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

Basic salary	
Purpose and link to Company's strategy	Targeted at a level to attract and retain world class executives who are essential to drive the business forward and deliver the Company's strategic goals.
How it operates in practice	Annual salary increases that are broadly in line with the local workforce (in percentage of salary terms), subject to Committee approval. Increases beyond the average of those granted to the local workforce (in percentage of salary terms) may be awarded in certain circumstances, such as where there is a material change in responsibility or experience of the individual, to recognise exceptional performance over a sustained period or a significant increase in the complexity, size or value of the Company. Where new joiners or recent promotions have been placed on a below market rate of pay initially, a series of increases above those granted to the local workforce (in percentage of salary terms) may be given over the following few years subject to individual performance and development in the role. Salaries are normally reviewed in December and any changes are effective from 1 January in the following year.
Maximum potential value	There is no prescribed maximum for salary increases. The Committee will be guided by the general increase for the local workforce and/or broader workforce as a whole, as well as the circumstances listed above.

Benefits	
Purpose and link to Company's strategy	To aid retention and to remain competitive in the marketplace. Healthcare benefits in order to minimise business disruption. Executive Directors may also participate along with other employees in the Group's HMRC approved SAYE or other equivalent savings based share schemes to share in the success of the Group.
How it operates in practice	Life assurance and private medical health insurance are provided. Provision of either a company car (for business and personal purposes) or a car allowance. Payments in connection with an international assignment and payments in connection with a relocation, which would typically be paid for a transitionary period only, tailored to the location of each executive. The benefits may include provision of tax advice where, at the Company's request, the international location (or balance of time spent in different locations) is changed. Participation in all employee/savings based share option schemes as above. In addition, benefits in the US, where it is standard, include cover for dental costs, accidental death and disablement, long term disability and club membership.
Maximum potential value	SAYE/savings based schemes are subject to individual limits. These are $2,000 per month in the US and in the UK up to the HMRC prescribed limit (£500 per month). Other benefits: the Committee will determine the level of benefit as it considers appropriate, taking into consideration local market practice.

Annual bonus scheme	
Purpose and link to Company's strategy	To incentivise the senior management team to exceed the annual operating plan approved by the Board at the start of each financial year. To ensure that a significant proportion of an executive's total remuneration is based on corporate/business financial performance that is linked to the Company's annual operating plan. Through the part deferral of bonuses into deferred shares this enables incentive pay to help executives build and maintain meaningful shareholdings and thereby providing a long term focus.
How it operates in practice	An annual bonus is based on over performance against selected performance measures which are linked to the Company's key performance indicators, or the achievement of strategic and/or operational objectives. Bonus payments are paid following the approval of full year results. Payments are based on salaries at the time of payment. Bonus deferral element: 50% of any cash bonus payable must be awarded in shares and deferred for 2 years. Dividends accrue on deferred shares (which are normally structured as nil cost options or conditional share awards) that vest during the vesting period. Deferred shares are forfeitable for gross misconduct (dismissal for cause). The Committee may seek recovery and/or withholding of bonuses paid that are later found to have been based on performance that was mis-stated or incorrectly calculated, or where the amount of any bonus may have been reduced or withheld due to reasons of gross misconduct. Recovery and withholding provisions will apply for a period of 3 years following payment of any bonus. Detailed provisions are incorporated into the rules of the various schemes which govern the terms of a bonus payment and/or the making of any deferred share or conditional award.
Maximum potential value	CEO: 150% of basic salary. CFO: 125% of basic salary. A higher annual bonus limit of 200% of basic salary may apply for new recruits.
Framework used to assess performance	Performance measures will be mainly financial measures. The Committee reserves the right to select other non-financial targets (including the basis of their measurement) as appropriate considering the Company's strategic objectives for the year ahead. The financial element of the bonus may include (but is not limited to) the Company's key performance indicators which include: Profit before tax or other measures of profitability. Group average trade working capital to sales ratio expressed as a percentage ('AWC') or other cash flow indicators. For any profit related metric, targets will be set at threshold, plan and stretch levels and the amount payable for threshold performance is 0% for financial targets rising on a graduated basis through to 100% becoming payable at the stretch performance level. With regards to non-financial targets, it is not always practicable to set targets on a sliding scale and so targets may be set based on the achievement of specific milestones and/or on a graduated scale. The Committee will consider the bonus outcome each year based on the Company's performance against the measures set at the start of the year. If it considers the quantum to be inconsistent with the Company's overall performance during the year it can override the result of the performance test. For the avoidance of doubt this can be to zero and bonuses may not exceed the maximum levels detailed above. Any use of such discretion would be detailed in the Annual report on remuneration. The Committee keeps performance metrics under review on an annual basis to ensure they continue to remain appropriate and has the discretion to introduce new metrics or remove existing ones and amend their relative weightings. As a result, the performance metrics and weightings may vary in line with the Company's evolving strategy during the life of the policy. The profit related element of annual bonus shall not be less than 50% of the overall bonus opportunity.

Long term incentives	
Purpose and link to Company's strategy	The LTIP is the sole long term incentive mechanism for Executive Directors and is intended to align the interests of the executives and shareholders in growing the value of the Group over the long term. When granting awards under the LTIP the Committee generally takes into consideration the need to motivate and retain the Executive Directors and other participants.
How it operates in practice	Awards are normally structured as either nil cost options or conditional share awards which are eligible to be granted annually. Options may be exercisable 3 years from, and within 10 years of, the date of award. Share awards normally vest on the third anniversary of the date of award. A post-vesting holding period of 2 years will apply to annual awards. Recovery and withholding provisions similar to those described in respect of annual bonus payments but relating to the vesting of LTIP awards will apply to awards. Dividends may accrue on shares that vest during the vesting period (and during the post-vesting holding period where awards are structured as nil-cost options) and may be paid in cash or shares.
Maximum potential value	The maximum award limit is set at 250% of basic salary. Current practice is as follows: – CEO: 200% of basic salary – CFO: 175% of basic salary
Framework used to assess performance	Awards are subject to achievement of financial (e.g. EPS) and/or relative TSR performance conditions, measured over a minimum of 3 financial years beginning with the financial year in which the award is made. The Committee also retains flexibility to introduce strategic targets as a performance measure for a minority of an award. For any financial performance condition, threshold vesting will start from 0% and this will increase on a graduated basis with 100% vesting for achieving the stretch targets. TSR will be measured against the constituents of a broad equity index, or a bespoke group of appropriate comparator companies. For any relative TSR performance condition, threshold vesting will start at 3.85% and this will also increase on a graduated basis with 100% vesting for achieving the stretch targets, which for the TSR performance condition will require at least upper quartile performance. In relation to strategic targets, the structure of the target will vary based on the nature of target set (i.e. it will not always be practicable to strategic targets using a graduated scale and so vesting may take place in full if specific criteria are met in full). The metrics and their weighting and targets within the LTIP will be reviewed each year. The Committee will consider the LTIP vesting outcomes for awards granted from 2018 based on applying the performance conditions and if it considers the level of vesting to be inconsistent with the Company's overall performance during the performance period (including its underlying financial performance) it can override the result of the performance test. For the avoidance of doubt this can be to zero. Any use of such discretion would be detailed in the Annual report on remuneration.

Pension	
Purpose and link to Company's strategy	To aid retention and remain competitive in the marketplace. To provide appropriate retirement benefits commensurate with local market practice, seniority of the role and tenure with the Company.
How it operates in practice	Policy for the CFO and new recruits is a contribution to a non-Company pension scheme and/or cash in lieu. The policy for the CEO is set out below. CEO An annual salary supplement of 20% of basic salary and, for US employees, participation in 2 defined contribution schemes being: (i) a US 401(k) Plan, where employee contributions are from pre-tax earnings which is capped at 8% up to a maximum of $270,000 (the compensation limit set by the US Internal Revenue Service (IRS) for 2017). (ii) a Non-Qualified Deferred Compensation Plan (together, the 'Defined Contribution plans'). This plan mirrors the 401(k) Plan except employee contributions are in respect of pensionable remuneration over the limit set by the IRS. The employer match under these 2 plans includes a regular match of up to 4% of total pensionable remuneration and a supplemental match of up to 4%, based on age and length of service.
Maximum potential value	The policy for new executives is to limit Company pension contributions to the rates currently provided to comparable roles in the organisation and, in all cases, to a maximum of 25% of salary. Under the policy the maximum for the CEO is 20% of his salary and up to 8% of pensionable remuneration depending on the amount of personal contributions made into the Defined Contribution plans. The maximum for the CFO is an annual salary supplement of 25% of his basic salary.
Share ownership guidelines	
Purpose and link to Company's strategy	To align an executive's interests with those of shareholders and to encourage executives to participate and share in the long term success of the Group.
How it operates in practice	Executive Directors are expected to build up a shareholding in the Company that is equal in value to 200% of their basic annual salaries. Shares vesting from share awards, or transferred pursuant to an exercise of any option, granted under any share incentive or employee share saving scheme may not be sold (other than to meet a tax liability) until the above shareholding level has been met. In exceptional circumstances the Committee may allow the Director to sell some, or all, shares received from a share incentive scheme even if the individual has not met the share ownership guidelines, provided they are satisfied that shareholder interests are adequately aligned. The Committee monitors compliance with these guidelines and can make changes to them from time to time.
Non-Executive Chairman and Directors' fees	
Purpose and link to Company's strategy	To attract individuals with the relevant skills, knowledge and experience that the Board considers necessary in order to maintain an optimal mix that ensures the effectiveness of the Board as a whole in carrying out its duties and responsibilities.
How it operates in practice	Non-Executive Directors' fees are determined by the Chairman and the Executive Directors, having regard to fees paid to Non-Executive Directors in other UK quoted companies and the time commitment and responsibilities of the role. In the case of the Chairman, the fee level is determined by the Committee. As well as taking into consideration the above factors, the Committee sets the fee at an appropriate level necessary to attract a role holder qualified to effectively lead the board of a company of a similar size and prestige as Elementis. Fees are payable in cash and Non-Executive Directors are not eligible to participate in any pension, bonus or share incentive schemes. All Non-Executive Directors are reimbursed for travel and related business expenses reasonably incurred in performing their duties so that they are fully recompensed on a pre-tax basis for undertaking Company business. No individual is allowed to vote on his/her own remuneration.
Maximum opportunity	Fees will be reviewed annually with changes taking effect from 1 January in the following year. It is the Company's policy (other than where there is a step change in the time commitment required of the Non-Executives Directors) that fees paid to the Chairman and other Non-Executive Directors are increased annually in line with the average increase awarded to the UK salaried workforce.

LINK BETWEEN POLICY, STRATEGY AND STRUCTURE

The remuneration policy is principally designed to attract, motivate and retain the Executive Directors and other members of the Executive Leadership team (senior management team) to execute the Company's corporate and business strategies in order to deliver the annual operating plan and sustainable year on year profitable growth, as well as to generate and preserve value for shareholders over the longer term, without encouraging excessive levels of risk taking. The principles and values that underpin the remuneration strategy are applied on a consistent basis for all Group employees.

The remuneration structure for Executive Directors is made up of 2 elements: fixed remuneration (consisting of basic salary, benefits including for example non-contributory health insurance and life assurance and pension provision), and variable remuneration (annual bonus scheme and long term share incentives).

It is Company policy to reward all employees fairly, responsibly and by reference to local market practices, by providing an appropriate balance between fixed and variable remuneration.

CHOICE OF PERFORMANCE MEASURES AND APPROACH TO TARGET SETTING

The performance metrics that are used for annual bonus and long term incentive plans are drawn from a suite of Company KPIs monitored by the Board that are closely linked to the financial KPIs.

In the annual bonus scheme, the financial measures currently used are adjusted Group profit before tax and AWC. Adjusted Group profit before tax is a clear measure of the Company's trading performance and AWC encourages the most efficient use of working capital and is how earnings are converted into cash. These metrics are aligned with the Company's objectives and strategy.
In addition, non-financial criteria also form part of the targets set in the bonus scheme and these are based on Company specific business objectives, such as the achievement of specific strategic or operational goals including metrics that take account of business or corporate performance in environmental, social and governance areas and typically incorporate specific HSE related targets or objectives.

With regard to long term performance targets, EPS is currently used since it is aligned with the Company's strategy of delivering profitable growth and creating long term shareholder returns. Use of relative TSR also further aligns shareholders and executives.

Targets for financial metrics are set relative to internal planning expectations after having regard to general economic conditions, external market data, current and past performance of the business and any organic or acquisitive growth plans.

Where appropriate, targets are set based on sliding scales. Only very modest rewards are available for delivering performance at threshold levels or above with maximum rewards requiring outperformance of our challenging plans approved at the start of each year.

The Committee keeps the choice of metrics and targets under review for the both the annual and long term incentive plans each year to ensure they are appropriate in light of the Company's current circumstances. The Committee retains discretion to revise the choice of metric and weightings within the incentives as detailed above. Should the Committee make material changes to the application of remuneration policy (e.g. introduce a strategic target into a future long term incentive award), appropriate consultation with the Company's major shareholders would take place.

DIFFERENCES IN EXECUTIVE REMUNERATION POLICY COMPARED TO OTHER EMPLOYEES

The Committee is informed of pay structures across the wider Group when setting the remuneration policy for Executive Directors. The Committee considers the general basic salary increase for the broader Group and, in particular the employees based in the US, UK and Europe, when determining salary increases for the Executive Directors.

The same principles and values behind the design of remuneration for the Executive Directors apply to other members of the Executive Leadership team and employees throughout the rest of the Group, with modifications to reflect local market practice (see below in relation to the introduction of restricted shares below the Board level) and the level of seniority and ability to influence Group performance. Overall, the remuneration policy for Executive Directors is more heavily weighted towards variable pay than for other employees. This ensures that there is a clear link between the value created for shareholders and the remuneration received by the Executive Directors given it is the Executive Directors who are considered to have the greatest potential to influence shareholder value creation.

The level of variable pay varies by level of employee within the Group and is informed by the specific responsibilities of each role and local market practice as appropriate.

One change that is to be made below the Board level in 2018 is to introduce the ability to grant restricted shares into the new LTIP. The majority of the senior executive population at Elementis is based in the US where it is common market practice to grant restricted shares. It is considered that the ability to grant restricted shares in tandem with performance related share awards enables the Company to compete for the best talent. Where restricted shares are used, the award levels will be lower than if performance shares were granted since restricted share awards are more valuable to a recipient given there is no performance requirement attached to the vesting of the award. Restricted shares will not be granted to Executive Directors.

RECRUITMENT POLICY

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

Element	Policy
Basic salary	Basic salary levels will be set in accordance with the Company's remuneration policy, taking into account the experience and calibre of the individual (e.g. typically around market rates prevalent in companies of comparable size and complexity) or salary levels may be set below this level (e.g. if the individual was promoted to the Board). Where it is appropriate to offer a below market rate of pay initially, a series of increases to the desired salary positioning may be given over the following few years subject to individual performance and development in the role.
Benefits	New Directors may be entitled to benefits such as life assurance, private medical health insurance, cover for dental costs, accidental death and disablement, long term disability and provision of either a company car (for business and personal purposes) or a car allowance, club membership or any other appropriate benefit as the Committee reasonably determines. Where necessary the Committee may approve the payment of reasonable relocation expenses to facilitate recruitment for a maximum period of 12 months.
Pension	A Company contribution into a pension plan and/or cash supplement of up to a maximum limit of 25% of salary. Legacy pension arrangements for promotees which may include defined benefit or US style arrangements may continue to operate on their existing terms.
Annual bonus	The annual bonus would operate as outlined for current Executive Directors but where necessary to aid recruitment the maximum bonus opportunity is 200% of basic salary for the life of this policy. Bonus will be pro-rated for the proportion of the year served. Depending on the timing and responsibilities of the appointment it may be necessary to set different performance measures and targets initially.
Long term incentives	Awards under the LTIP will be granted in line with the policy outlined for the current Executive Directors on an annual basis but where necessary to aid recruitment the maximum award is 250% of basic salary for the life of this policy. An award may be made shortly after an appointment (subject to the Company not being in a prohibited period). For an internal hire, existing awards would continue over their original vesting period and remain subject to their terms as at the date of grant. In addition, if the grant of awards for that individual precedes his or her appointment as a Board Director for that financial year, the Committee's policy would include flexibility to top up awards for that year (subject to the overall individual salary limit) based on the executive's new salary.
Buyout awards	In the case of an external hire, if it is necessary to buy out incentive pay or benefit arrangements (which would be forfeited on leaving the previous employer), this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. Replacement share awards may be granted using the Company's LTIP (up to the individual limit) or outside of the LTIP if necessary and as permitted under the Listing Rules.
Interim appointments	Where a Director is appointed on an interim basis (e.g. to cover a role until a permanent successor is appointed), the Company may pay additional remuneration to an individual in line with the policy for the role.

SHARE OWNERSHIP GUIDELINES

Executive Directors are expected to build up a shareholding in the Company that is equal in value to 200% of their basic annual salaries.

Shares vesting from share awards, or transferred pursuant to an exercise of any option, granted under any share incentive or employee share saving scheme may not be sold (other than to meet a tax liability) until the above shareholding level has been met.