

ELEMENTIS

# Resilience, recovery, progress

Annual Report and Accounts 2021

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A14 31/05/2022 #116  
COMPANIES HOUSE

Elementis is a global specialty chemicals company. We deliver Enhanced Performance Through Applied Innovation; our products make our customers' formulations look, feel and perform at their best.

## P30

Sustainability –  
integrated into all that we do

## P20

Innovation, Growth & Efficiency –  
our strategic progress

## P14

Global supply  
chain challenges –  
our response

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For more information  
[www.elementis.com](http://www.elementis.com)

## Strategic report 2021 Highlights

# Resilience, recovery, progress

Elementis is a global specialty chemical company, delivering Enhanced Performance Through Applied Innovation. Our solutions make our customers' products easier to manufacture and perform better, with enhanced sustainability credentials.

### Operational highlights

Following the significant impact of COVID-19 in 2020, strong demand recovery in 2021 triggered ongoing supply chain challenges and cost inflation across the globe. In response, we focused on maintaining reliable supply to our customers and the execution of our self-help agenda via proactive cost and pricing actions.

### Strategic highlights

The implementation of our Innovation, Growth and Efficiency strategy continued at pace in 2021 with the launch of 21 new products, generation of \$50m of new business opportunities, delivery of \$10m of cost savings and the start-up of our new anti-perspirant actives plant in India. The Group is well positioned to grow and deliver our medium term financial objectives.

### Our year in numbers

#### Revenue

**\$880m**

2020: \$751m  
2019: \$874m

#### Adjusted operating profit<sup>1</sup>

**\$107m**

2020: \$82m  
2019: \$123m

#### Adjusted operating margin<sup>1</sup>

**12.1%**

2020: 10.9%  
2019: 14.1%

#### Operating profit/(loss)

**\$26m**

2020: \$(28)m  
2019: \$101m

#### Profit/(loss) before tax

**\$6m**

2020: \$(69)m  
2019: \$61m

#### Net debt<sup>2</sup>

**\$401m**

2020: \$408m  
2019: \$454m

#### Diluted earnings per share

**0.4c**

2020: (11.3)c  
2019: 7.9c

#### Adjusted diluted earnings per share<sup>1</sup>

**10.6c**

2020: 6.5c  
2019: 12.4c

#### Ordinary dividend per share

**0.0c**

2020: 0.0c  
2019: 8.55c

#### Total recordable incident rate (TRIR)

**0.90**

2020: 0.68  
2019: 0.48

#### Lost time accidents (LTA)

**4**

2020: 3  
2019: 2

#### Environmental incidents

**0**

2020: 0  
2019: 0

<sup>1</sup> After adjusting items – see Note 5

<sup>2</sup> Please see the Alternative Performance Measures section on page 193

### Cautionary statement

The Annual Report and Accounts for the financial year ended 31 December 2021, as contained in this document ('Annual 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 Annual Report should be construed as a profit forecast.

## Strategic report

### Our business at a glance

# Working with our customers across the world to solve their product performance and sustainability challenges

## Who we are

Elementis is a specialty chemicals company with around 1,400 employees, operating at 22 manufacturing sites across the globe.

Founded in 1844, we are listed on the London Stock Exchange and are a constituent of the FTSE 250 index.

## What we do

We create specialty chemicals that deliver crucial end product attributes across a range of industries including cosmetics, coatings and long life plastics. Innovation is at the heart of what we do; our focus is on creating solutions that deliver performance improvements and enhanced sustainability credentials.

## How we do it

Combining our leading positions in rheology\*, surface modification and formulation, access to unique natural materials and global footprint, we deliver Enhanced Performance Through Applied Innovation to our customers around the world.

## Personal Care Overview

We are a leading global supplier of rheology\* modifiers and anti-perspirant actives to personal care product manufacturers. Our products help make skin creams smooth, nail polish glow and anti-perspirants work.

## Coatings Overview

We supply rheology\* modifiers and other complementary specialty additives to manufacturers of industrial coatings and decorative paints. Our products help make industrial coatings last longer, decorative paints more stain resistant and sealants apply evenly.

## Talc Overview

We are the second largest global supplier of talc based additives to industrial end markets including long life plastics, technical ceramics and packaging manufacturers. Talc helps to make long life plastics stronger and lighter, gasoline particulate filters work and food packaging recyclable.

### Sales

**\$175m**

### Adjusted operating profit

**\$37m**

[Read more on page 60](#)

### Sales

**\$384m**

### Adjusted operating profit

**\$62m**

[Read more on page 61](#)

### Sales

**\$150m**

### Adjusted operating profit

**\$14m**

[Read more on page 62](#)

\* Learn more about rheology and our technical expertise on page 12.

## Where we operate

Total number of sites

12

7 Personal Care and Coatings  
5 Chromium

6

2 Personal Care and Coatings  
4 Talc

4

4 Personal Care and Coatings

### Chromium Overview

We are the only producer of chromium chemicals in North America and supply our products to a broad range of industrial applications including metal plating, wood treatment and leather tanning. Chromium chemicals are essential to extending the life and improving the performance of many industrial components such as wind turbines, telegraph poles and jet engines.

Sales

**\$171m**

Adjusted operating profit

**\$14m**

Read more on page 63

### Sales

20%

Personal Care

44%

Coatings

17%

Talc

19%

Chromium

### Adjusted operating profit

29%

Personal Care

49%

Coatings

11%

Talc

11%

Chromium

## Strategic report

## Chairman's statement

## A resilient business recovering strongly

It is a great honour to be serving as Elementis' new Chair and to be working with a strong Board, an impressive team of leaders, and many hugely dedicated and talented people all around the world. Since joining the Board in 2020, I have found a group with a clear strategy built on Innovation, Growth and Efficiency. It is well managed and run by people who are hardworking, engaged and enthusiastic. Elementis has significant potential and, having witnessed the resilience of the business model over the last two years, I am encouraged about its prospects.

**John O'Higgins**  
Chairman

**Business performance**

In 2021, our financial performance was much improved compared to the prior year. Sales increased 17% to \$880m, driven by strong new business momentum, targeted pricing actions to offset inflationary cost increases and volume recovery across most of our end markets.

While this demand recovery is welcome, it has triggered well documented supply chain challenges and accelerating cost inflation across the globe. In response, the Group has demonstrated the resilience and agility of its business model, the strength of its global supply chain and the importance of its efficiency improvement projects. In such an environment, I am encouraged by the Group's performance and look forward to further improvement as end markets continue to recover and we make further strategic and operational progress.

**Strategic priorities**

The Group's strategic priorities are clear and consistent. Innovation, Growth and Efficiency are the pillars of our strategic agenda. Execution of our priorities in these areas will drive the delivery of our medium term financial ambitions, namely a 17% adjusted operating profit margin, 90% operating cash conversion and net debt/EBITDA of under 1.5x.

This year our strategic progress has been encouraging. We launched 21 new products, all of which deliver enhanced product performance, manufacturing efficiency and sustainability credentials to our customers. The start-up of our new anti-perspirant actives plant in India and the delivery of \$10m of cost savings were key efficiency milestones, and the achievement of \$50m of new business opportunities is a clear sign that our growth platforms are well positioned for future success.

Although Talc recognised a \$53m non-cash goodwill impairment, linked primarily to delays in the recovery of automotive markets, your Board believe the fundamentals of the business remain strong, built on a fully integrated value chain supported by unique processing and formulation capabilities. There are attractive long-term opportunities to grow in Asia and the Americas, increase market share in high value Industrial applications and deliver \$20-25m of revenue synergies by 2023.

**Balance sheet and shareholder returns**

Net debt of \$401m was broadly unchanged on the prior year (\$408m). Net cash flow from operating activities reduced from \$107m in the prior year to \$67m in 2021, primarily due to \$32m working capital outflow to support growth and a \$20m one off EU state aid tax payment. The recovery in earnings resulted in the reduction of our financial leverage ratio from 3.2x net debt to EBITDA (31 December 2020) to 2.6x. The Board and management remain focused on reducing leverage as quickly as possible towards the medium term target of 1.5x net debt to EBITDA.

In 2020, at the height of COVID-19 related uncertainty, the Group took several steps to provide additional financial headroom and preserve cash, one of which was the suspension of the dividend. The Board recognises the value of dividends to shareholders and will look to reinstate the dividend in the medium term, conditional upon further financial deleveraging progress.

**Governance and Board**

During 2021 Andrew Duff stepped down as Chairman and as a Director. I would like to thank Andrew for his strong leadership and guidance of the Board throughout his tenure. He left a Group with high quality businesses, good market positions, and a strong Board and Company leadership.

**"Elementis' core asset is its people and 2021 has showcased the importance of this"**

This year we completed an externally facilitated Board evaluation. The overall result was positive, concluding that the Board continues to perform effectively with good leadership, competent and engaged members, and with the appropriate focus on both in-year performance and strategy for the future.

Board succession planning is critical to ensure we have the right skills and capabilities to support strategic delivery. In the coming year, given the current Board size, we will look to appoint two additional members to the Board who can help us achieve our strategy and growth ambitions.

## Our people

Elementis' core asset is its people and 2021 has once again showcased the importance of this. Our colleagues around the world have gone above and beyond to support our customers and provide reliable supply. We value our people and have sought to recognise their dedication throughout the year.

Employee engagement activities are crucial to understand what we are doing well and where we can improve. I am pleased to report positive trendlines, with our key engagement score rising from 55% in 2020 to 63% in 2021. This is reflective of recent improvements to digital communications, flexible working and an enhanced overall engagement agenda, which included our inaugural Women in Leadership forum led by Christine Soden, our Designated Non-Executive Director for workforce engagement.

Talent is a key focus for the Board and during 2021 we continued to monitor and track our talent development programmes, focusing on ensuring that we have the right capabilities for the future and a strong succession pipeline across leadership positions. The Group is further developing its diversity programmes with unconscious bias training initiatives launched across the globe. Whilst gender is not the only focus for diversity, encouragingly the number of women in the senior leadership team has increased from 24% in 2018 to 31% this year, and women currently represent over 40% of the Board. We are committed to further developing programmes to support a diverse workforce.

## Sustainability

For consumers the COVID-19 pandemic has brought the environmental footprint of products and services into sharp focus. With 53% of our revenue generated from naturally derived products that are also closely aligned to megatrends such as the switch to natural personal care ingredients, water based industrial coatings and vehicle weight reduction, we are strategically aligned for the future and our innovation pipeline is positioned to further increase this number.

We also recognise the importance of reducing the impact of our global supply chain on the environment. This year we have made good progress towards our 2030 targets thanks to multiple efficiency initiatives throughout our operations. You can read more about our sustainability agenda on page 30.

## Stakeholder engagement

As a new Chair, I have sought to meet and get the views of our shareholders and other stakeholders. This engagement is a valuable way of assessing the success of our strategic delivery and where we can improve. During the year we received another unsolicited takeover offer, which we concluded significantly undervalued Elementis and its prospects, and therefore rejected. The Board appreciates the support of our shareholders and accepts the continued performance expectations that come with that support.

## Looking to the future

Elementis is well positioned; we have differentiated assets, market leading positions and clear strategic priorities for growth. We remain mindful of the continued uncertain external environment and the ongoing challenges that the COVID-19 pandemic brings, but we know that Elementis is heading in the right direction and well positioned to take advantage of the opportunities we see.

The Board and I are thankful to all our people for their hard work, commitment and passion in driving our business recovery and positioning Elementis for future progress.

**John O'Higgins**  
Chairman

## Our People in Action in 2021

1

### Colleagues

Elementis' people have been on the front line during the COVID-19 pandemic, ensuring crucial supply chains continue to operate. The Group has taken appropriate measures to keep colleagues safe and ensure their outstanding efforts are rewarded.

2

### Customers

Elementis' colleagues have gone above and beyond to support our customers during the pandemic and associated supply chain challenges. They have worked tirelessly to source and qualify alternative raw material suppliers, book alternative transportation modes, and support our customers' product innovation efforts around the world.

3

### Communities

Elementis' businesses support the local communities in which they operate in various ways. Examples include financial donations in Brazil and India to support the local response to COVID-19, volunteering days in Cologne, London, New Jersey and Shanghai, and the sponsorship of local amateur sports teams in Finland and the UK.

## Strategic report

## Chief Executive Officer's review

## Progress in a challenging environment

While the impact of COVID-19 has started to recede, 2021 was, in many ways, as challenging as 2020. Strong and sharp demand recovery across multiple end markets triggered significant global supply chain challenges and material cost inflation. In such an environment, the delivery of results modestly ahead of expectations is testament to the resilience of our business model, the commitment of our people and the importance of our self-help agenda. This performance, combined with our continued strategic progress, gives me confidence in our prospects and the delivery of our medium term financial objectives.

**Paul Waterman**  
CEO

## Performance

2021 saw an improved financial performance due to good new business success and end market recovery from the weak demand levels of the prior year, resulting in 17% sales growth. Coatings, our biggest business, benefitted from strong new business activity, continued growth in decorative paint and a recovery in industrial coatings demand. In Personal Care, we saw a modest increase in performance as improved demand for lipsticks, mascaras and anti-perspirants was somewhat constrained by continued restrictions on travel and social interaction. In Talc, sales grew 14%, reflective of good strategic progress and a well positioned business, but adjusted operating profit declined 16% due to weak automotive production and accelerating second half cost inflation ahead of pricing actions taken towards the end of the year. While these near term headwinds resulted in a \$53m non-cash Talc goodwill impairment, the strong fundamentals of the business are unchanged and there is scope for material performance improvement from price actions, continued strategic momentum and market share gains, along with the latent demand recovery in automotive markets. Finally in Chromium, the business benefitted from stronger volumes linked to the rebound in industrial activity.

While this demand recovery is welcome, it has created supply challenges including raw material availability, logistical disruptions and accelerating inflation. In response, we qualified alternative suppliers, extended production runs and pursued alternative transportation options. In addition we were able to put through price increases to fully offset material cost inflation. These actions, combined with our ongoing

self-help agenda on costs and cash management, resulted in an adjusted operating profit of \$107m, modestly ahead of expectations. You can read more about our financial performance in the CFO review on pages 54 to 59.

## Safety

Safety is the foundation of our business and at the heart of our culture. This year we continued the TogetherSAFE safety campaign roll out and held our inaugural global safety week, including webinars from external speakers and multiple activities at our sites around the world. Although our safety performance has been somewhat disappointing with 12 recordable injuries, I am confident that the steps we have taken mean we are positioned for future improvement.

Many sites achieved notable milestones during the year, and while I cannot mention them all, let me highlight a few. In Mumbai, our team working on the new anti-perspirant actives plant reached over one million hours of safe working, overcoming multiple obstacles including COVID-19 lockdowns and monsoons. Congratulations also to our Corpus Christi and Milwaukee teams for 18 and nine years of safe working respectively – I am sure there are many more to come.

## Our people

Key to the strength of Elementis is the quality and commitment of our people. Ongoing engagement surveys and outreach programmes reflect a motivated and loyal workforce with improving engagement metrics. During the COVID-19 pandemic, given the increased prevalence of home working, one key

**TOGETHERSAFE**  
*Our team in Mumbai, India recorded over one million hours of safe working in 2021*

**INNOVATION**  
*In 2021 our R&D and commercial teams launched 21 new products*



area of focus has been global communications. We have invested in digital capabilities, improved our engagement activities, and increased our employee recognition and reward schemes.

Elementis aims to be an open and inclusive workplace. This year our Diversity and Inclusion Council continued to move forward in shaping our culture for success through Women in Leadership events, unconscious bias training and expert speakers addressing inclusive leadership and active cultural advocacy skills.

I am incredibly proud of how strong our team is, both in the care our people have shown each other, our customers, suppliers and communities, and how they have responded so positively in such a difficult environment.

## Sustainability

Sustainability is a key focus at Elementis and I am pleased to report further progress. This year we launched 21 new products, all of which have clear sustainability credentials, including hectorite clay based additives that are 100% natural and castor wax derived rheology modifiers for marine and protective coatings that are 75% bio based. In addition, we have made good progress towards our 2030 environmental targets including significant reductions in GHG (-25%) and water withdrawal (-26%) intensity versus the prior year.

This progress has been recognised by external agencies. MSCI, Sustainalytics, CDP and EcoVadis all raised their ESG ratings of Elementis this year. I am also pleased we have been recognised with the Responsible Chromium label, awarded by the International Chromium Development Association (ICDA). As the only chromium chemicals holder of this award, it highlights the market leading standards of our operations in areas such as safety and safeguarding of the environment.

While this progress and recognition are encouraging, it is only the start of our journey. To accelerate our future progress, I am pleased to welcome Phil Blakeman to Elementis as our first Global Head of Sustainability. You can read more about our sustainability activities on pages 30 to 40.

## Innovation, Growth & Efficiency

In the last few years, we have made significant progress positioning Elementis as a premium performance additives company, based on unique assets and value chains, and with clear opportunities for growth. Innovation, Growth and Efficiency represent our strategic pillars, and the delivery of our priorities in each of these areas will ensure we create significant value for all our stakeholders.

At Elementis, everything starts with innovation. We create distinctive solutions that increase the performance of our customers' products, improve their manufacturing efficiency, and deliver enhanced sustainability credentials. While the spread of

## Sustainability progress at a glance

### Why sustainability matters

Making profit and generating shareholder returns is only the beginning. We recognise the importance of making a positive impact in the world and are committed to creating a sustainable future through innovative products that enhance the health and wellbeing of society and promote efficient use of resources. We are also focused on reducing the impact of our operations and are working towards the delivery of our sustainability targets.

### Progress made in the year

In 2020, we set specific environmental targets for delivery by 2030, and this year we have made good progress towards these goals, thanks to multiple efficiency initiatives throughout our supply chain. For example, three manufacturing sites switched to 100% green electricity, Newberry Springs lowered the energy intensity of its clay purification processes and our Talc operations in Finland materially reduced their water usage thanks to increased water recycling.

We have also put in place additional projects to help us move faster towards the targets and address our slower progress on waste reduction. You can read more about our performance on pages 30 and 31.

GHG emissions	Energy efficiency	Water usage	Waste
Target	Target	Target	Target
25%	20%	10%	10%
reduction	reduction	reduction	reduction
Progress	Progress	Progress	Progress

Note: 2030 Targets are volume based intensity metrics (e.g. joules/tonnes of production vs 2019 baseline).

### Priorities for 2022 and beyond

We are conscious that there is a lot more we need to do. In 2022 and beyond our focus will be on expanding our climate risk management efforts by continuing to embed the Task Force for Climate Related Financial Disclosures (TCFD) framework across the organisation and fully quantifying our Scope 3 emissions. These steps will help us to develop our pathway to carbon neutrality and support the development of a Net Zero transition plan. In addition, we plan to introduce a new target for water usage reduction, having already achieved our initial goal, and to conduct a materiality assessment of non-financial topics throughout the organisation.

## Strategic report

## Chief Executive Officer's review continued

COVID-19 limited the time spent in laboratories with our customers, we have continued to support their innovation needs. In 2021 we opened two new Personal Care laboratories in Brazil and China, launched 21 new products and doubled our number of open innovation partnerships. Innovation excellence is critical for any specialty chemicals company, and targeted innovation optimises our growth and efficiency. To read more about our innovation efforts, please see pages 22 and 23.

Today, around 90% of Group earnings are generated by Personal Care, Coatings and Talc. These segments are innovation led, competitively advantaged and with clear opportunities for growth as a result of structural megatrends. Across our growth platforms we see approximately \$100m of incremental revenue opportunities in areas such as natural skin care, waterborne industrial additives and talc barrier coatings. The delivery of \$50m of new business opportunities this year demonstrates that our products are well positioned and have encouraging momentum.

Improving efficiency is an ongoing focus at Elementis. In 2021 we delivered \$10m of supply chain savings as part of our medium term efficiency programme, driven largely by the closure of our Charleston, West Virginia, production plant and consolidation of capacity at our St Louis, Missouri, site. This has 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. An additional milestone was the start-up of our new anti-perspirant actives plant in India, which will create an advantaged global supply chain that is well positioned to support our growth ambitions and drive a material AP Actives performance improvement.

You can read more about our efficiency gains and examples of operational flexibility in my interview opposite and on pages 26 to 27.

The Group has demonstrated its resilience during the demand downturn in 2020 and subsequent supply chain and inflation challenges of 2021. We have a strong base from which to progress and deliver our medium term financial objectives of a 17% adjusted operating profit margin; 90% plus operating cash conversion; and a reduction in leverage to 1.5x net debt/EBITDA.


#### Outlook

While the last 12 months have been extremely challenging, the Group has again demonstrated its resilience and responded with speed and agility. The fundamentals of the business remain strong, with high quality assets, differentiated technologies and a clear strategy. We will continue to maintain our focus on Innovation, Growth and Efficiency and in 2022 expect to deliver \$50m of new business opportunities, over 20 new products and progress towards \$10m of additional efficiency savings by 2023.

We have made an encouraging start to the year, although the external environment remains challenging due to global supply constraints and the impact of accelerating cost inflation. For the year ahead, we are confident that with further steady demand improvement, supported by our self-help actions, we will deliver an improved financial performance and a reduction in leverage.

**Paul Waterman**  
CEO

"In response to global supply chain challenges, we have demonstrated the resilience of our business and the commitment of our people"

 Read more on pages 14 and 15

**74%**

Of manufacturing sites with no recordable employee injuries in 2021 (74% in 2020)

**63%**

Employee engagement score (55% in 2020)

## An interview with our CEO

**Q** How has the Company responded to the global supply chain challenges?

**A** Strong demand recovery in 2021 required fast action and flexibility to increase production at a number of our sites. We hired extra workers, increased batch sizes and increased production runs. Like many industries, we experienced raw material shortages and cost inflation, which required rapid qualification of alternative suppliers and price increases. And we faced various logistics challenges due to limited container availability, congestion at key ports and driver shortages. We responded by using air freight, booking shipping far in advance and implementing surcharges. The Elementis global supply chain responded well, and the resilience is clear in our performance. However, with the path of COVID-19 remaining somewhat uncertain, we expect these supply chain challenges to continue for the foreseeable future.

**Q** Does the Company invest enough resources on innovation?

**A** This year we spent \$15m on global innovation and technical support, which, excluding Chromium (a cash focused business) represents approximately 2% of Group revenue. If attractive opportunities arise that require more resources, we will, of course, carefully consider pursuing them. However, our immediate focus is not on how much we spend, but rather how we spend it; that is why our innovation culture and focus is so important. We are focused on solving our customers' biggest problems, with clear sustainability credentials and doing so at speed. With 14% of our revenue today coming from new products vs 10% in 2017, we are well on our way to delivering our target of 17% by 2025.

**Q** How is sustainability linked to your innovation efforts?

**A** This year, to optimise our innovation efforts, we launched a sustainability scorecard based on defined factors. All new product launches and innovation pipeline projects must have clear sustainability credentials; this ensures we deliver innovation that benefits our customers and the wider society. For example, we recently launched Thixatrol® AS 8053, a rheology modifier for high performance adhesives and sealants. In addition to fantastic performance credentials, this product has clear sustainability benefits. It is derived from castor wax, resulting in a product that is over 75% bio based. It also requires minimal heat activation, saving our customers energy and, being a 100% active ingredient with no water content, it reduces transportation emissions.

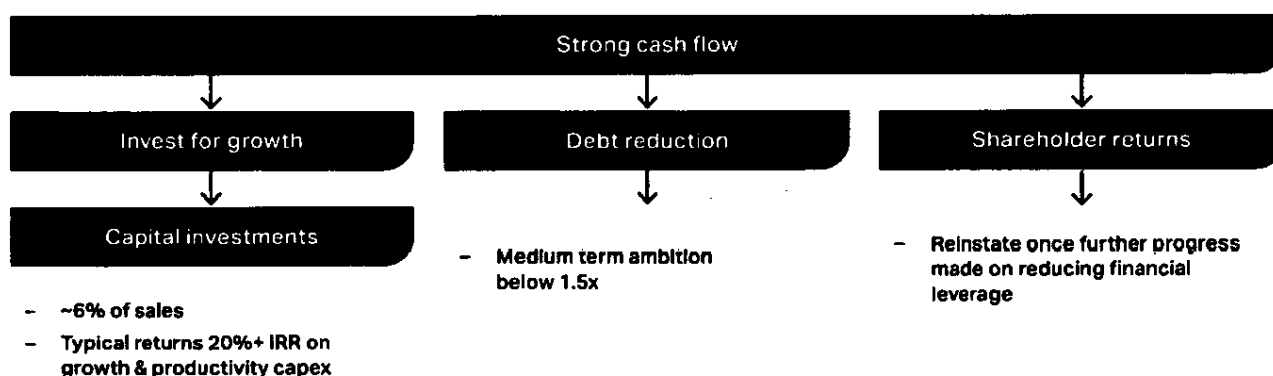
**Q** How will the Company reach its medium term target of a 17% adjusted operating profit margin?

**A** Broadly, we see two legs to reach our 17% margin target. First, we see approximately \$100m of incremental revenue opportunities across our growth platforms such as natural skin care and premium decorative paints. Second, we are targeting a further \$10m of savings for delivery by 2023 driven by the start up of our new plant in India, procurement excellence and manufacturing process improvements. We are confident that this focus on growth and efficiency, combined with continued recovery in certain end markets and targeted pricing actions, will allow us to deliver our ambition.

**Q** What are your capital allocation priorities and when will dividends return?

**A** Elementis has a strong track record of cash generation and our immediate focus is to use this capital to fund organic growth and reduce our financial leverage. The Board also recognises the value of dividends to shareholders and, dependent on further balance sheet deleveraging, will look to reinstate the dividend in the medium term.

### Disciplined capital allocation



Strategic report

Our investment case

## Reasons to invest

Elementis is a global specialty chemicals business providing innovative solutions for some of the biggest challenges facing industries and companies today. Our business model is built on differentiated premium assets, an innovation focus, clear growth opportunities and strong cash generation.

1

### Differentiated premium assets

The fundamentals of our business are strong, focused on high quality, high margin activities in Personal Care, Coatings and Talc. These premium performance additives businesses are centred on long duration and differentiated resources, including the only hectorite clay mine in the world in California, and high quality talc deposits in Finland. Combined with unique technology and market leading formulation capabilities these businesses have enduring competitive advantages.

Read more about our business model on pages 18 and 19

*The world's largest known source of high quality hectorite clay in California, with over 50 years estimated resource life*

2

### Innovation focus

Innovation is at the heart of what we do. Leveraging our capabilities in rheology, surface chemistry and formulation, we help our customers respond to their biggest challenges through deep partnerships, ongoing technical support and consistent quality, service and delivery. We are customer driven, solutions focused and fast moving. This focus drives our growth and returns.

Read more about our innovation focus on pages 22 and 23

3

### Growth opportunities supported by structural growth trends

Across our premium performance additive businesses, we see over \$100m of revenue growth opportunities supported by structural megatrends. In Personal Care, we are well positioned to serve the growth of premium cosmetics in Asia and demand for natural skin care ingredients. In Coatings, our technologies enable the creation of more environmentally friendly industrial coatings and higher performance decorative paints. In addition, the need to reduce vehicle emissions and single use plastic consumption will drive strong demand for our Talc based additives.

# 4

## Strong cash generation

Strong cash generation is a hallmark of Elementis. Looking forward, we target operating cash conversion of at least 90%, and supported by our Innovation, Growth and Efficiency priorities, this will facilitate sustained reinvestment for organic growth, financial deleveraging and, in due course, the reinstatement of dividend payments to shareholders. Our medium term financial leverage target is under 1.5x net debt/EBITDA, compared with 2.6x today, and delivery of this target is anticipated to drive significant shareholder returns.

Read more on pages 54-59

## How we engage with investors

We run a dedicated investor relations programme to promote proactive communications with existing and potential investors around the world. This engagement involves a calendar of events for both institutional and retail investors including results presentations, roadshows, investor conferences and seminars on specific business topics. In addition, the Board, senior management and Director of Investor Relations are available to shareholders to discuss governance, strategy and performance as appropriate.

Read more on page 87

# 150+

Investor meetings during 2021

*In November, Joe Lupia (SVP Technology) held an Innovation webinar showcasing our innovation strategy, and recent and future product launches*

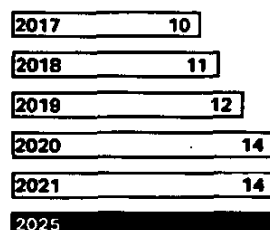
## Strategic report

## Innovation at Elementis

## Global reach, local presence

There are three pillars to our innovation strategy. First, we want to create technologies that align with our growth platforms and deliver sustainability benefits to the biggest challenges our customers face. Second, our innovation culture is about being customer driven, solutions focused and fast moving. And finally, we have a clear understanding of what success looks like – our target is for 17% of our revenue to come from new products by 2025.

## New products as % of sales



Base business rebound  
post 2020 COVID-19  
demand trough

## Global technology sites

7

Technology centres

~\$15m

Annual R&amp;D and technical spend

100

Scientists

## Complementary capabilities

## Rheology

Rheology is the science behind the flow of materials. For instance, how a paint is applied to a wall or a cream spreads when applied to skin.

## Surface chemistry

Surface chemistry is the ability to modify a surface's properties to change the way it reacts to external stimuli. For instance, modifying hectorite clay to work in both solvent and waterborne systems.

## Formulation

Formulation is about how different additives and chemistries interact. In a formulation, every chemical is added, in measured amounts, to interact and achieve a specific purpose.

## The employee voice: Research & Development

**Kim Burch**

Global Technical Applications Director – Personal Care

**Q** What do you enjoy most about the working in innovation at Elementis?

**A** I've worked at Elementis for nearly ten years, helping to develop new products for the Personal Care market. We've got a fantastic group of highly qualified scientists around the world, advanced technologies and, of course, access to unique raw materials, so we're in a good position to help solve our customers' problems. I enjoy the partnerships we have with our customers and the sheer variety of work. In the morning, I could be testing an anti-ageing skin cream for the North American market, and in the afternoon developing a halal colour cosmetic product for the Indonesian market. It really is a dynamic place to work, with a lot of potential.

### Innovation in action

#### Barrier coatings

Regulation and consumer behaviour are driving demand away from single use oil based plastics in areas such as food packaging and coffee cups.

To help solve this problem, we developed Finntalc C15B2, a talc based additive that provides effective barrier properties. Within food packaging, talc prevents gases entering and liquids escaping. And being a natural material, it is fully compostable and recyclable.

With an estimated addressable market of \$50m, growing 10% a year, barrier coatings offer attractive potential to our talc business.

#### Bentone Hydroclay™ 2100

The market need for natural Personal Care ingredients is well understood – customers prefer natural ingredients to synthetics and they are cleaner and better for the environment.

This year we launched Bentone Hydroclay™ 2100 to develop our presence in the large and growing rheology market for skin care. Based on our hectorite clay, it delivers multiple benefits to customers.

It has great touch and feel, and its rheology profile means it is easily spreadable. It is cold processable, so it doesn't require heat activation, thereby delivering energy and emission savings to customers. And it is 100% natural, microplastic free and certified by key eco labelling standards such as COSMOS.

## Strategic report

## Supply chain in action

## Responding to global supply chain challenges

In 2021, global supply chains were tested to their limit, hit by problems including the Suez Canal blockage and associated port congestion, Hurricane Ida and HGV driver shortages. These events, combined with the rebound in demand following a heavily COVID-19 impacted 2020, tested the resilience of our global operations and supply chain.

1

### Demand

The surge in demand across industrial end markets required fast action to increase production at several of our most important sites. We hired extra workers, increased batch sizes and extended production runs. We also needed to be flexible, prioritising orders and providing clear and consistent communication to our customers.

#### Record monthly production at Livingston, Scotland

Our manufacturing facility in Livingston, Scotland produces multiple additives for the Coatings market. In 2021, robust demand for decorative paint, as consumers undertook DIY projects during social and travel restrictions, was complemented by a sharp recovery in industrial coatings demand. In response, our Livingston team hired additional staff, implemented 24-hour production schedules and swiftly reallocated engineers to critical pinch points, while also juggling COVID-19 related staff shortages. The team's prompt actions delivered record monthly production volumes, 30% above the previous record for some product categories, while maintaining safe working practices.

2

### Raw materials

Surging demand combined with supply curtailments due to events such as the Texas winter storm, Hurricane Ida and ongoing COVID-19 outbreaks, resulted in raw material shortages and significant cost inflation during the year. In response, we rapidly qualified alternative suppliers, increased our strategic global purchasing and, where necessary, implemented price increases.

#### Manufacturing flexibility at New Martinsville, US

In New Martinsville, US we manufacture specialty rheology additives, wetting agents and dispersants for water based coatings. Molten bulk polyethylene glycol is an important raw material for our chemical processes. In 2021, several suppliers experienced production outages, resulting in market shortages. In response, within one month the New Martinsville team safely adapted their systems and operating procedures to switch from liquid to solid polyethylene glycol, reducing our bulk transportation needs and ensuring continuity of supply to customers in the North American coatings market.



## 3

**Logistics**

We faced a range of logistical challenges during the year, including limited container availability, congestion at key ports and driver shortages. As a result, transportation options narrowed, and associated costs increased significantly. In response, we installed dedicated overland transportation capacity where possible, used air freight where needed, booked shipping far in advance and implemented surcharges.

**Dedicated logistics in North America**

During the year logistical challenges in North America included the limited availability of bulk trailers and a shortage of truck drivers. These issues, combined with strong demand for our Rheolate® HX rheology additives for premium decorative paints, little on site storage at key customers and high cleaning requirements for transportation equipment (to avoid cross contamination), resulted in potential delays to customer deliveries. To overcome these issues, our supply chain team, working with our logistics provider, established a dedicated pool of drivers and truck trailers. As a result, we maintained customer service and secured additional volumes for 2022.

## 4

**Energy**

Surging industrial demand, rebounding consumer activity and supply constraints resulted in rising energy prices around the globe. For instance, in 2021 European natural gas prices reached a record peak at €180/MWh (Dutch TTF) on 21 December, 1877% above the average price in 2020. While effective hedging policies limited the immediate business impact, the efforts of our global process improvement teams to reduce our energy intensity have also helped greatly.

**Reducing energy needs at Newberry Springs, US**

At our Newberry Springs site in California, our team operates a hectorite beneficiation process whereby hectorite clay is passed through a centrifuge process, leaving a purified wet clay slurry that is then dried. During the year our team implemented several mechanical improvements, increasing the solid clay content in the slurry entering the drying process without sacrificing product quality. As a result, our production yields increased, with a 10% reduction in the plant's natural gas requirements.

## Strategic report

### Our market environment

# A sustainable future

## Demographics

### Trend

The UN expects the world's population to increase by 2 billion in the next 30 years, to 9.7 billion people.

Most of this increase will be in the developing world, driving further urbanisation and investment in infrastructure.

Economic development, an expanding middle class and growing levels of western style consumerism will generate demand for products that improve living standards in these markets.

### What this means for our industry

- ① Increasing demand for construction and infrastructure related solutions
- ② Rising demand for personal care products such as colour cosmetics and skin creams
- ③ Increased demand for longer lasting and more technologically advanced products

### Our opportunities

- New geographic markets for consumer and industrial products that require premium performance additives
- Opportunities to innovate and serve local market needs

### Our response

- ✓ Capital investment in manufacturing assets in India to enhance our efficiency and bring our products closer to our customers in high growth geographies
- ✓ Investment in new technical service centres in Brazil and China to enhance our regional technical support and help to capture new business opportunities
- ✓ Increased sales and marketing resources in Asia to support growth in the region

## Premiumisation

### Trend

Premiumisation is bridging the gap between luxury and mass market – offering all consumers access to unique or innovative products that promise more.

Consumers are willing to pay premium prices on value added products with real benefits.

Premium is not just about price. It is the promise of exceptional quality and experience, fuelling the growth of unique, value added products.

As a result, the premium segment is experiencing strong growth, outpacing total category sales in many markets.

### What this means for our industry

- ① Demand for products that make consumers' lives easier
- ② Demand for products with feel good and premium characteristics
- ③ Demand for natural or naturally derived products

### Our opportunities

- Higher demand for additives that deliver premium product performance characteristics
- Opportunities for natural or naturally derived ingredients (e.g. hectorite, talc or castor wax based additives) which represent 53% of our total sales

### Our response

- ✓ Focused innovation targeting technologies that deliver improved product performance, lower operational costs and enhanced sustainability claims
- ✓ The launch of 21 new products in areas such as premium decorative paints, natural skin care ingredients and high efficacy anti-perspirant actives

## Sustainability

### Trend

The most often quoted definition of sustainability comes from the UN World Commission on Environment and Development: "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Sustainability presumes that resources are finite and should be used conservatively and wisely, with a view to long term priorities and consequences in the ways in which resources are used. Simply put, sustainability is about our children and our grandchildren, and the world we will leave them.

### What this means for our industry

- ① Increased desire for solutions that contribute positively to the health and wellbeing of society
- ② Demand for solutions that increase production yields and contribute towards the circular economy
- ③ Pressure to minimise social and environmental impact of production throughout supply chains

### Our opportunities

- Increase the penetration of our naturally derived chemistries and materials for pollution control systems
- Demand for our technology solutions that lower our customers' environmental footprint

### Our response

- ✓ Introduction of a sustainability scorecard for all new product launches and innovation pipeline projects
- ✓ The launch of dry powder additives that reduce transportation emissions, additives that lower customers' energy requirements and enable food packaging recycling
- ✓ Progress towards our 2030 environmental targets

## Transparency

### Trend

In an ever more connected world, customers and employees want more transparency from the organisations that serve and employ them.

Consumers and stakeholders want to know how goods and services are delivered to their door, how items are manufactured and what happens to their personal data.

A word on Twitter, right or wrong, and the world will know. Instantly.

Organisations of all kinds must establish and maintain trust, as the basis for successful collaboration and innovation.

### What this means for our industry

- ① Consistent and transparent communication of activities throughout the value chain
- ② Clear evidence of ethical and social considerations in decision making
- ③ Open and frequent consultation with all stakeholders

### Our opportunities

- Help customers make informed purchasing decisions through clear scientific evidence
- Improved reporting and disclosure of corporate activities

### Our response

- ✓ Further investment in digital capabilities including online customer ordering, tracking and fulfilment, along with access to product safety data
- ✓ Implementation of TCFD and increased sustainability resources including the hiring of a Global Sustainability Director
- ✓ Verification against demanding labelling standards such as ISO, COSMOS and Ecolabel to highlight the credentials of our products

## Strategic report

### Our business model

## Creating long term value

### We have the resources...

#### People

Our engaged and skilled workforce is focused on innovation, customer service and delivering our strategy.

**~1,400**

skilled employees located around the world

**4,500+**

employee training hours delivered in 2021

#### Expertise

Our technical experts deliver unique and superior additives to a wide range of end markets.

**100**

scientists working across 7 innovation and technical support centres

**\$15m**

spend on R&D and technical support in 2021

#### Supply chain

Our global manufacturing footprint allows us to be flexible and resilient, and deliver high value innovation solutions to customers in all geographies

**22**

manufacturing sites in 7 countries around the world

**950**

employees working in manufacturing roles across the globe

#### Relationships

We have close long term relationships with customers, suppliers and other stakeholders, centred on trust and collaboration.

**47**

joint product development projects with customers in 2021

**146**

online technical support seminars delivered to customers in 2021

#### Assets

We combine competitively advantaged positions in hectorite, talc and chromium, with our distinctive technologies, to create value added customer solutions.

**50**

years of estimated resource life at our hectorite mine in California; the world's largest known source of high quality rheology grade hectorite clay

**1**

we are the only domestic producer of chromium chemicals in North America, supported by a proprietary delivery system that reduces customer handling risks

#### Capital

A highly cash generative business model and disciplined capital allocation framework that enables us to invest in growth, deliver our strategy, and repay debt.

**111%**

average three year operating cash conversion

**\$53m**

capital expenditure in 2021, of which 51% was directed to growth and productivity investments

### ...to create market leading innovative solutions...

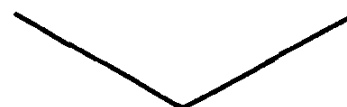
We collaborate with our customers



We develop innovative solutions



We manufacture safely, responsibly and effectively



We deliver to our customers globally

Underpinned by our culture and values

**Safety – our way of life**  
We are committed to providing a safe environment for all

**Solutions – creating value for our customers**  
We make a difference through our expertise, responsiveness and focus on quality

...which, combined with our strategy... ...benefits all of our stakeholders

## Innovation

## Growth

## Efficiency

### Shareholders

Elementis seeks to generate appreciable returns for shareholders over time through sustained earnings growth and, subject to capital constraints, progressive dividend payments.

**\$245m**

dividend payments since 2016

**\$97m**

debt reduction since 2018

See pages 54-59

### Employees

Elementis promotes equality and diversity throughout the organisation and has policies and procedures that allow our employees to meet their training needs and maximise their potential.

**\$131m**

employee wages and salaries in 2021

**63%**

employee engagement score

See pages 38-40

### Customers

Providing value enhancing products and building relationships with our customers ensure we are better placed to solve their biggest challenges.

**21**

new products launched in 2021

**\$50m**

new business opportunities captured in 2021

See pages 22-24

### Suppliers

We value our supplier relationships and take a long term strategic approach to ensure a mutually beneficial and supportive relationship.

**600+**

raw material suppliers used in 2021

**~75%**

raw materials are sourced from more than one supplier

See page 40

### Environment

Through product innovation and operational improvements, we are reducing the environmental impact of both our activities and our customers' products.

**25%**

reduction in our scope 1 and 2 (market-based) GHG emissions intensity in 2021

**4**

upgrades from ESG ratings agencies in 2021

See pages 34 - 37

**Ambition – passion for excellence**

We are innovative, courageous and driven in everything we do

**Respect – we do the right things**

We care for our colleagues, customers, communities and environment

**Team – the power of collaboration**

We work, grow and succeed together

## Strategic report

### Strategy at a glance

# Clear strategic priorities and progress

## Our strategy

With strong positions in attractive markets, we see clear growth and margin improvement opportunities and expect to deliver strong, sustainable returns. The execution of our Innovation, Growth and Efficiency strategy will address our customers' most challenging problems whilst driving sustained value creation.

### Our purpose

To achieve sustainable progress across the world through innovative specialty chemicals products that deliver cleaner, better and more sustainable performance.

### Our vision

We aim to be a growing specialty chemicals business that creates sustainable value for all our stakeholders.

### Our values

Safety, Solutions, Ambition, Respect and Team are core to our high performance culture and reflected in everything that we do.

### Innovation

We are a global leader in performance-driven additives that help create innovative solutions for our customers. Leveraging our capabilities in rheology, surface chemistry and formulation, we help our customers create better products.

Read more on pages 22 and 23

### Our sustainable approach

All new product launches and pipeline projects must have clear sustainability credentials, whether it is a natural skin care ingredient, bio based coating additive or talc for recyclable food packaging. We also bring our innovative approach to our own operations, for example recycling key raw materials and finding value adding outlets for waste products.

### Growth

Around 90% of our earnings are generated from Personal Care, Talc and Coatings – businesses with enduring competitive advantages and clear growth opportunities – supported by market megatrends, such as demand for natural ingredients in skin care or more environmentally friendly coatings.

Read more on pages 24 and 25

### Our sustainable approach

As the world looks to sustainably use materials, we help our customers to maximise yields from materials such as wood and animal hide. We add to the health and well being of society with natural personal care products, non-hazardous coatings additives and materials for pollution control systems. We also contribute to our customers sustainability goals via the delivery of additives that can lower processing energy requirements, reduce transportation emissions and improve safety handling.

### Efficiency

We constantly seek to be a fit for purpose and more efficient business, agile and growing, with our impact on the environment and the communities in which we operate at the forefront of our minds.

Read more on pages 26 and 27

### Our sustainable approach

Our products help to make infrastructure, buildings and consumer products more durable, thereby extending their lifetimes. We also strive to make our own operations more efficient and reduce their environmental impact by increasing our use of renewable energy, recycling water and reducing waste.

## Innovation

### Overview

- Launched 21 new products
- Opened new Personal Care labs in China and Brazil
- New and protected products 14% of sales vs 10% in 2017
- 53% of revenue from natural or naturally derived products
- Launched new products with open innovation partners AQDOT and NXTLEVVEL

### Priorities

- Launch of 20 new products
- Increase new and protected products to 17% of sales by 2025
- Drive strategic joint customer development projects for each global key account
- Continue to roll out digital pipeline management tools throughout the innovation organisation

### Link to KPIs

Please refer to pages 28 – 29

### Link to risks

Please refer to pages 64 – 72

## Growth

### Overview

- Captured \$50m of new business opportunities
- 37% growth in Coatings technology platforms
- Personal Care: successful roll out of new skin care ingredients (sales up 41%) and Asia growth (sales up 44%)
- Expansion of Talc in Asia (sales up 24%) and the Americas (sales up 62%)
- Delivery of \$16m of Talc revenue synergies partially offset by weak long life plastics and paper markets

### Priorities

- Investment to support cosmetics growth in Asia
- Drive further penetration of new hectorite based skin care products
- Ramp up of anti-perspirant actives plant in India
- Drive market share gains for Coatings and Talc
- Delivery of \$20-25m of Talc revenue synergies by 2023

### Link to KPIs

Please refer to pages 28 – 29

### Link to risks

Please refer to pages 64 – 72

## Efficiency

### Overview

- Delivered \$10m of cost savings
- Started up new anti-perspirant actives plant in Q3 2021
- Closed Charleston, West Virginia plant and transferred capacity to St Louis site
- New enterprise resource planning (ERP) tool installed in Asia
- Progress towards 2030 environmental targets and recruitment of our first Global Sustainability Director

### Priorities

- Ramp up new India anti-perspirant actives plant
- Delivery of \$10m of global supply chain savings by 2023
- Progress towards \$10m of working capital savings by 2023
- Implement over 60 operational improvement projects in the supply chain to drive lower cost to serve and reduced environmental impact

### Link to KPIs

Please refer to pages 28 – 29

### Link to risks

Please refer to pages 64 – 72

Strategic report

Strategy in action

**Case Study – Thixatrol® PM 8058 for protective coatings**

The protective coatings market is focused on enhancing the durability and product lifetime of structures and equipment, such as bridges, ships and machinery. Given environmental considerations, the coatings industry is looking to replace existing technologies with materials that are better for the environment, safer to handle and easier to apply. With the protective coatings market worth \$7bn and growing at approximately 5% per annum, there is significant market opportunity.

In response, in 2021, we launched Thixatrol® PM 8058, offering multiple customer benefits. On performance, it delivers enhanced 'sag resistance' – meaning it does not drip down a surface resulting in uneven coverage. On efficiency, it can be incorporated into a range of high solid systems and has a much lower temperature activation, meaning customers can save time and energy, and reduce emissions. And finally, being naturally derived from castor wax, it is over 75% bio based and with clear sustainability credentials.



# Innovation

## "Innovation at the heart of value creation"

We are a global leader in performance driven additives and are focused on creating solutions for our customers that deliver product performance improvements, efficiency gains and enhanced sustainability credentials. While customers have returned to their laboratories, conditions are far from normalised, and so we continued to leverage our relationships and digital capabilities to drive the launch of 21 new products in 2021.

Our innovation focus is clear. We want to create solutions for the biggest challenges that our customers face; and, in turn, these are reflected in our growth platform focus. In Personal Care, consumers want natural ingredients that deliver superior performance to synthetic alternatives. In response, in 2021 we launched Bentone Hydroclay™ 2100, a hectorite based rheology modifier that is 100% natural, delivers improved touch and feel, and simplifies customer processing requirements. Likewise, the Coatings industry wants additives that deliver enhanced one coat hide and stain resistance for decorative paints. Our Rheolate HX® series, which we expanded this year, delivers up to 50% better hide than competitors, has helped our customers win awards and is now the industry gold standard.

Innovation is interwoven with sustainability; all our new product launches and pipeline projects must have clear sustainability credentials. At present 53% of our revenue (up from 45% last year) is from natural or naturally derived chemistries – for example, castor wax based organic thixotropes. In addition, we are conscious of the need for our products to contribute to the overall wellbeing of society, whether it is through dry powder additives that reduce transportation emissions or barrier coatings that enable 100% recyclable food packaging.

We are also focused on the speed of innovation. The integration of our R&D and technical support teams, along with fast prototyping and technology transfers across segments, means we are increasing our speed of innovation. In 2021, our average time from concept to launch was 1.8 years – 30% faster than in 2016.

And finally, we value the role of open innovation in providing differentiation and increased speed to market. During the year we developed our partnerships with AQDOT and NXTLEVVEL Biochem, rolling out novel odour capture technologies and biomass based solvents for coatings. In addition, we have established cooperation arrangements with Evolved by Nature, working on activated silk technology to replace potentially toxic chemicals, and Allied Microbiota, to enable advanced microbes to clean up environmental contamination.

As result of this progress, our revenue from new products was 14% in 2021, up from 10% in 2017, and in line with 2020 as our base business rebounded from the initial impact of COVID-19. Our innovation pipeline is well positioned, with 60 projects in the pipeline, of which approximately 20 are scheduled to launch in the next 12 months, and this will support reaching our Group adjusted operating profit margin target of 17%.

\$150m

Target protective coatings rheology market for Thixatrol® PM 8058

75%

Renewable/Bio Based content of Thixatrol® PM 8058

Strategic report

Strategy in action

"Solutions for market needs and trends"

Around 90% of Elementis' earnings are generated by Personal Care, Coatings and Talc. The value chains across these markets are similar, transforming natural resources into high value additives through distinctive science. Across these businesses we see clear medium term structural growth opportunities, representing in total over \$100m of incremental revenue opportunities.

In Coatings, opportunities exist where our additives solve specific market needs with clear sustainability credentials, for instance waterborne industrial additives and premium decorative paints. Such growth areas represent roughly one third of our Coatings sales, and in 2021 they grew 37%, driven by \$23m of new business wins. Products such as our castor wax based organic thixotropes for adhesives and sealants and non-ionic associative thickeners (NiSATs) for premium decorative paints saw notable

# Growth

growth and market share gains. Geographic expansion is an important growth pillar in Coatings, and following recent sales and marketing hires in South East Asia, we grew 30% compared to the prior year.

In Personal Care, there are significant high margin growth opportunities. While Asia represents 40% of the personal care market, it represents under 20% of our sales, and our medium term aim is to double our cosmetics sales in the region. In 2021, we grew sales 44% in Asia versus the prior year, and to help drive future growth we made several targeted investments. We opened our first Personal Care technical service centre in Asia, located in Shanghai, and more than doubled our local sales and marketing team. Our new AP Actives plant in India will create a highly advantaged global supply chain, help us grow in the region and drive a material performance improvement in the business. The plant started up in the third quarter and will ramp up production over the next 12 months. In skin care, a new application for our hectorite clay, we aim to deliver \$10m of incremental sales over the medium term. In 2021, we launched

three products building out our product portfolio and helping deliver 41% skin care revenue growth.

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 2021, we grew 24% in Asia and 62% in the Americas versus the prior year, driven by \$13m of new business wins across long life plastics, technical ceramics and coatings applications. Despite this success, we remain materially underweight in these regions, with considerable runway for long term growth. We are on track for our goal of \$20-25m of revenue synergies by 2023, with \$16m realised to date. Sales of talc to coatings customers rose 8% in 2021, leveraging Elementis' global key account network and strong presence in the coatings market. We have also continued to develop new products and applications. For example, barrier coating solutions for recyclable food packaging is showing encouraging early progress, with 27 production and pilot scale trials and a \$5m new business pipeline.

### Case Study – skin care

Historically, the focus of our Personal Care business has been oilbased colour cosmetics, such as lipsticks, mascaras and foundations. However, our key natural resource, hectorite clay, is perfectly suited to waterbased applications such as skin creams and lotions. To develop our presence in this sector of the \$500m skin care rheology market, we recently launched a range of new products, including Bentone Hydroclay™ 2100 and Bentone Luxe® WN.

These products deliver compelling customer benefits. They provide great touch and feel, are cold processable so don't require heat activation, saving customers energy and emissions and, being 100% natural, are microplastic free and certified by key eco labelling standards.

Initial customer reaction has been strong and we have good growth momentum. In 2021, we grew our skin care sales 41% and with a new business pipeline of \$14m we are well on the way to our medium term target of \$10m incremental sales.

# 3

New skin care product launches in 2021

# \$14m

Skin care new business pipeline

## "Improving our cost to serve and reducing our environmental impact"

We are always seeking to improve our organisation, drive ongoing efficiency gains and become more resilient. The 2021 demand rebound unleashed significant global supply chain challenges resulting in material cost inflation. We do not expect these pressures to abate in 2022 but, through a mixture of price actions, agile supply chain management and continued efficiency focus, we are confident of protecting and improving margins moving forward.

In 2021, as part of our medium term efficiency programme, we delivered \$10m of supply chain savings, offsetting \$10m of temporary cost savings made last year which have, as expected, returned to the business as the impact of COVID-19 has receded. A significant driver of our \$10m savings was the closure of our Charleston, West Virginia, production plant and consolidation of capacity at our St Louis, Missouri site. This improved efficiency and utilisation levels across our North American organoclay operations. Another notable milestone this year was the start-up of our anti-perspirant actives plant in India, which will be a significant enabler of an additional \$10m of savings by 2023. Following completion of the approximate 12 month production ramp up and customer qualification period, this will create a cost advantaged and resilient global supply position.

Sustainability and the reduction of our environmental footprint are at the forefront of all operations decisions, and this year we made considerable progress across our supply chain. Enhanced temperature controls in our talc operations reduced our energy consumption. Automatic sensors at our Newberry Spring processing plant increased production yields and reduced waste, while switching to water based quaternary amines (from solvent based) at our Anji site reduced both our costs and environmental impact. Throughout our operations, our global process excellence teams have identified over 60 projects that are beneficial from both an efficiency and environmental perspective. Their implementation will drive delivery of both our cost saving ambitions and our 2030 sustainability targets.

Another key enabler of our efficiency and simplification drive is our digital implementation programme. In 2021, our global standard 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 fulfilment cycles for customers. The onboarding of customers to digital ordering systems will continue in 2022 and it is already resulting in an improved customer experience, enhanced new business success and more efficient resource management.

### Case Study – India AP Actives plant

In Q3 2021 our team in India overcame several obstacles, including COVID-19 lockdowns and monsoons, to commence production at our new manufacturing facility in Mumbai. This \$20m investment is focused on the production of anti-perspirant actives; the ingredients that help to reduce sweat production and provide odour control.

The site is now undergoing a 12 month production ramp up and customer qualification period, and when complete will deliver multiple benefits. Firstly, it will create a cost advantaged and resilient global supply network, contributing significantly to our \$10m of cost savings targeted for 2023. Secondly, it will position our business to serve the fast-growing markets in West Asia. And finally, as a closed water production system, it will create an environmentally friendly production site.

~\$20m

Capital investment in new India plant

Q3 2021

India plant start-up

## Strategic report

## Key performance indicators

## Measuring our progress

## Adjusted operating cash flow (\$m)

## Definition

Adjusted operating cash flow is defined as the net cash flow from adjusted EBITDA plus changes in working capital, provisions and share based payments, less net capital expenditure.

## Performance

Further information can be found on page 58.

## Remuneration linkage

No direct linkage with remuneration.

## Link to Strategy

## Adjusted Group profit before tax (\$m)

## Definition

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

## Performance

Further information can be found on pages 153-156.

## Remuneration linkage

Adjusted Group profit before tax is a key element of the bonus plan for the Executive Directors. Further information can be found within the Directors' Remuneration report on page 119.

## Link to Strategy

## Contribution margin (%)

## Definition

Contribution margin is defined as total revenue less all variable costs, divided by total revenue and expressed as a percentage.

## Performance

Further information can be found on page 193.

## Remuneration linkage

No direct linkage with remuneration.

## Link to Strategy

## Adjusted operating profit/adjusted operating margin (\$m)

## Definition

Adjusted operating profit is the profit derived from the continuing operations of the business after adjusting items. Adjusted operating margin is the ratio of adjusted operating profit to total revenue.

## Performance

Further information can be found on page 194.

## Remuneration linkage

No direct linkage with remuneration.

## Link to Strategy

## Average trade working capital to sales ratio (%)

## Definition

The trade working capital to total revenue ratio is defined as the 12 month average trade working capital divided by total revenue, expressed as a percentage. Trade working capital comprises inventories, trade receivables and trade payables. It specifically excludes prepayments, capital or interest related receivables or payables, changes due to currency movements and items classified as other receivables and other payables.

## Performance

Further information can be found on page 194.

## Remuneration linkage

Average trade working capital is a key element of the bonus plan for the Executive Directors. Further information can be found within the Directors' Remuneration report on page 119.

## Link to Strategy

### Adjusted return on operating capital employed (ROCE) (%)

#### Definition

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

#### Performance

Further information can be found on page 194.

#### Remuneration linkage

ROCE is an underpin for the long term incentive plan. ROCE including goodwill was 7.4% (2020: 5%).

#### Link to Strategy

### Total recordable incident rate (TRIR)

#### Definition

We use the US Occupational Safety and Health Administration (OSHA) definition for recordable injuries and illnesses. TRIR is the total number of recordable incidents multiplied by 200,000 divided by total hours worked by all employees during the year.

#### Performance

Further information can be found on page 32.

#### Remuneration linkage

Non-financial targets within the Executive Directors' annual bonus structure typically include a component of individual objectives relating to safety performance. Refer to page 120.

#### Link to Strategy

### Total Lost time accidents (LTA)

#### Definition

An LTA is an injury or illness that requires time away from work not including the day of incident.\*

\* We have tightened this indicator. In prior years we reported only LTAs with three days or greater lost time.

#### Performance

Further information can be found on page 32.

#### Remuneration linkage

Non-financial targets within the Executive Directors' annual bonus structure typically include a component of individual objectives relating to safety performance. Refer to page 120.

#### Link to Strategy

### Environmental incidents

#### Definition

We record and categorise environmental incidents into tiers based on the severity or actions taken by regulatory authorities. Tier 3 incidents are those that have a significant impact on the environment and require reporting to an external authority and where enforcement action is likely. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal action by the authorities.

#### Performance

Further information can be found on page 34.

#### Remuneration linkage

Non-financial targets within the Executive Directors' annual bonus structure include a component of individual objectives relating to safety performance. Refer to page 120.

#### Link to Strategy

1 There were no Tier 3 or Tier 2 environmental incidents in 2021.

## Strategic report

## Sustainable business

## Sustainable business

At Elementis, we recognise the importance of creating value for all our stakeholders. Our contribution to a more sustainable society is also crucial for the resilience of our business. We are committed to actively addressing the negative impacts created by our operations and activities.

Globally, events in 2021 continued to highlight the importance of progressing the United Nations Sustainable Development Goals (UN SDGs) to address global challenges, including those related to inequality, climate change and responsible consumption and production. We continue to support the UN SDGs and are committed to maintaining responsible business operations which underpin these principles.

We also have opportunities to help our customers reduce their negative impacts through the products that we manufacture and sell to our customers. Many of our chemical products and performance additives extend the lifetime and durability of end-use products, minimising material and energy demands (see side panel).

## Linking our strategy to the SDGs

Health & Safety, page 32	DE&I, page 38
Product stewardship, page 33	
Water, page 36	Growth, page 24
Responsible Mining, page 37	Financial performance, pages 54-59
	Employee wages, page 158
Innovation, page 23	GHG, page 34
Efficiency, page 26	Energy, page 36
Product benefits, page 23	

## 2021 Progress

In 2021 we have made good progress towards our 2030 environmental targets, as described in the following pages. We implemented the Task-Force for Climate-Related Financial Disclosure Framework (TCFD, page 42) to better understand our climate risks and opportunities. We strengthened our commitment to water stewardship, issuing a public statement outlining our plans. Our leadership team was strengthened by appointing our first Global Head of Sustainability tasked with taking forward our sustainable business agenda. We also launched new products with enhanced sustainability features (page 13). Our efforts have also resulted in improved third-party

## Long-lasting products

Our Chromium chemical ingredients help extend durability of materials, for example high-performance metal products and construction wood

## Product efficiency

Our Coatings additives enable high performance paints to protect using one layer of paint instead of multiple layers

## Resource efficiency

Our talc additives strengthen the plastics used to light-weight vehicles, helping to increase vehicle range per charge or tank. Talc additives also help lower plastic content in packaging for liquid products.

## Healthy society

Our natural additives ingredients enhance the function of personal care products and pharmaceutical applications

## 2021 Sustainable business recognition

2021: Gold  
2020: Silver

2021: B-  
2020: C

2021: Medium  
2020: High

2021: Constituent  
2020: Constituent

sustainability assessments, including gaining EcoVadis gold (up from silver in 2020), putting us in the top 5% of EcoVadis company ratings and helping our diverse customer base understand our impacts and activities. We also remained a constituent of the FTSE4Good index.

## Focus for 2022

We will conduct a materiality assessment of non-financial topics. This will ensure we focus resources on topics of importance to our stakeholders and where our capabilities can deliver the most impact. Relating to climate change, in 2022 we will quantify the greenhouse gas emissions across our value chain (Scope 3 emissions). This will enable us to define additional KPIs and actions that decrease climate risks and identify opportunities within our value chains. This is a critical understanding that will help us define our pathway to carbon neutrality and supports the development of a Net Zero transition plan.

## Human rights

As part of our ongoing commitment to support the United Nations Global Compact (UNGC), we update our communication on progress every August. Our latest UNGC communication detailing the steps we have taken relating to human rights, labour, environment and anti-bribery and corruption is available on our website. Our Board of Directors annually approves our Modern Slavery transparency statement. This is available on our website and describes the steps that we have taken to prevent modern slavery and human trafficking in our business and supply chain.

## 2030 Targets\*

# 25%

Reduction in GHG  
Scope 1 + Scope 2  
(market-based) emissions

-25%

2021 change vs 2020

# 10%

Reduction in water  
withdrawn

-26%

2021 change vs 2020

# 20%

Reduction in energy  
from fuels

-2%

2021 change vs 2020

# 10%

Reduction in waste sent  
for third party treatment

+13%

2021 change vs 2020

\* All targets are per tonne produced and use a 2019 baseline

## Q&A with Phil Blakeman, Global Sustainability Director

**Q** You joined just a few months ago. What attracted you to Elementis?

**A** Initially it was the people I met. I found a passionate, knowledgeable and supportive group of people keen to contribute to an enhanced sustainability agenda. As I look deeper into the company, the opportunities to accelerate progress are becoming clearer and I remain excited about the company's sustainability focus.

**Q** Where are your initial focus areas?

**A** It is important to the Board and management that our sustainability agenda reflects a broad range of perspectives and is authentic to Elementis. That helps gain commitment and helps inspire people to be creative. To that end, I am leading the materiality assessment process, as this helps provide the foundation for choices we make and the rationale for specific actions. Of course, a robust climate change response is necessary, as we define our path to carbon neutrality. Finally, in my role as Chair of the Environmental Sustainability Council, I help ensure the Company delivers cross-functional projects and embeds sustainability ever more strongly into our business processes.

**Q** How do you feel about the future of sustainability in Elementis?

**A** I'm excited – there are many initiatives in place in the company, from new operational projects to reduce our greenhouse gas emissions, a strong diversity focus, and the development of new, more sustainable products. I'm looking forward to contributing to these activities and providing the approaches to help unlock even more of our sustainable business potential.



Strategic report  
Sustainable business

## Health and Safety

Safety is a core value at Elementis and our focus is on keeping our employees safe, protecting people, and operating responsibly. We believe no one should go home injured, hurt or sick from working at any of our locations.

Accountability for health and safety is held by our Chief Executive Officer, supported by the SVP Global Supply Chain and Manufacturing and the Global Director for HSE. Our Board receive a detailed update on our health and safety performance at each meeting and the ELT receive updates monthly as part of the review of overall Group performance. Providing a safe working environment from which our employees return home safely is a key priority for the Board and the Group as a whole.

Our Health and Safety (H&S) programme reflects how we turn that focus into action. Our objective is to maintain a world class H&S programme that delivers excellence in performance and drives continuous improvement. A copy of our Health, Safety and Environmental (HSE) policy is available on our website.

Our TogetherSAFE commitment promotes our safety culture to all employees. TogetherSAFE means considering how every decision and action may affect others. It guides our behaviours; it follows our products into the marketplace; and it protects our facilities, the environment and nearby communities. TogetherSAFE is helping us advance our ambition of safety excellence and zero injuries across every corner of our organisation.

We operate a comprehensive management system that supports our values and the delivery of TogetherSAFE. We continuously develop key parts of the management system – this year we have introduced a safety leadership program for 20 plant managers and senior leaders, which will complete in 2022. Another focus has been communication and engagement, with regular safety webinars covering a range of topics, a monthly newsletter, information on our dedicated H&S intranet site and video messages from leadership and employees. At our first safety week in April, we encouraged employees to engage their families in TogetherSAFE with a children's drawing contest which had over 40 entries.

Each manufacturing site has developed safety improvement action plans. These have helped identify hazard recognition as a group-wide focus area for next year. Each manufacturing site also operates a safety committee where concerns can be raised. Our corporate HSE team conduct regular audits against to determine compliance with our policies, completing 12 audits (48%) of our manufacturing sites despite COVID-19 disruptions.

Employees and contractors are given training to understand their roles and responsibilities to ensure compliance with our safe work procedures. Employee training is tailored to the specific job requirements and consists of both in-person and on-line training, with each site maintaining a training plan. Each site also has context-specific contractor training, covering hazard communications, work permit processes, site rules and incident reporting.

Our site at Castle Hayne, USA has our largest number of employees in a single location and provides an on-site nurse to support occupational health. Our other sites ensure local clinic support is available. The Group also retains the services of a medical consultant for remote support as required.

### Health and Safety performance

Our total recordable injury & illness rate (TRIR) was 0.90, compared to 0.68 in 2020. There were 12 employee recordable injuries (nine in 2020). Most of our employee injuries were lacerations (33%) and sprains (25%). There were four lost-time accidents (LTAs), including a fractured finger and wrist strain (three LTAs in 2020). We had seven contractor recordable injuries in 2021 (one in 2020). Key improvement opportunities identified from these incidents are better hazard recognition, greater use of the stop work authority given to all employees, and improved management of change. There were zero fatalities in the Group in 2021 (zero in 2020).

Last year, we started to track process safety events and this year we established metrics based on that tracking. We also defined corporate standards for process safety and have a plan to complete process hazard analyses (PHAs) for all our processes by 2025. We had one process safety event in 2021 (three in 2020). This incident involved damage to a finished package drum, which caused an oxidising chemical to contact with lubricant on the packing line rollers and resulted in a small fire. There was no damage to people or equipment. Corrective actions implemented include improvements to the drum handler equipment and operating procedures.

Good management of process and equipment changes are key to minimising safety risk, and this was a key learning from incidents during 2021. In 2021, we introduced a new digital platform to help our management of change (MOC) processes. The new tool will help us conduct such changes in a more controlled way.

### Performance

#### Process safety incidents

2021      2020

1      3

In 2022, we will continue our TogetherSAFE commitment and address 2021 incident learnings by implementing hazard recognition plus (HRP) training for all employees, including implementing HRP into our work planning processes in order to minimise human error, and with training to reinforce our stop work authority.

### Product stewardship

Our products are fundamental components of society, and we are committed to making sure any hazards inherent in our products are minimised by design wherever possible, and remaining hazards are fully understood by our customers. This helps ensure no harm comes to people or the environment during manufacture, use and disposal.

We monitor evolving ingredient safety or product safety concerns and work with customers, industry associations and other stakeholders to understand if and how they might impact our products and their use. We have comprehensive product safety and product stewardship processes in place to ensure that any hazards relating to our products are fully understood and communicated to our customers, supporting the highest levels of product safety and regulatory compliance. Potential new products are risk assessed by our in-house product stewardship team at every stage of their development through to launch. This assessment is incorporated as a key requirement in our recently upgraded R&D project management system. Product changes post-launch are also reviewed by product stewardship.

We work actively with our customers to help them manage and minimise risks. For example, we have developed a unique delivery system for our chromium compounds that minimises handling and exposure risks at our customers' facilities. This system is also scaled, from rail car tanker size down to small containers, making it a solution for a wide range of end customers who need safe access to chromium compounds to make their products.

We provide safety data sheets and labels in multiple local languages for our customers so they can safely use and dispose of our products. Our goal is to ensure that anyone handling our products can do so with full knowledge of potential hazards and safe handling requirements regardless of country or language. Safety data sheets for our products are also available on our website. We align with the Globally Harmonized System of Classification and Labelling of Chemicals (GHS).

Elementis seeks to avoid animal testing whenever possible. If we are required by regulation to do so (for example, under EU REACH requirements) we engage third parties to conduct the tests in the least impactful way possible. Our animal testing policy is available on our website.

We obtain various certifications for certain products, and these are listed on our website.

### Together Safe

In 2021, several of our sites celebrated extended periods of safe operation.

Corpus Christi achieved 18 years without a recordable employee injury, showing strong employee engagement in driving continuous improvements in safety culture and taking responsibility for their own and others safety, even through various organisational changes in that time period.

Other sites also celebrated significant milestones without a recordable injury: Amarillo and Katwijk (10 years); Milwaukee Specialties (9 years); Newberry mine (6 years); Middletown, Dakota City, and New Martinsville (5 years); Ludwigshafen and Livingston (4 years); our new Taloja site (one million safe hours).

The dedication and commitment of all our employees and contractors to looking after both themselves and each other is a strong reflection of our culture and values in practice.

### Staying safe in the ongoing COVID-19 pandemic

We have continued to work hard to ensure our employees remain safe during 2021 through the different COVID-19 waves. Our global COVID-19 Task force has met weekly, ensuring consistency of policy and actions in response to the local conditions at our sites. Wherever possible, we have supported flexible working from home and minimised unnecessary travel. Our site leadership teams ensure a safe working environment in line with the local conditions, including social distancing, mask-wearing and ventilation for those employees whose role requires them to be on site. Our teams have worked hard to successfully minimise the health risks and manage the business disruption.

### Safety metric methodology

We use the US Occupational Safety and Health Administration (OSHA) Regulation definition for a recordable injury:

- a work-related accident or illness that results in one or more of: death; loss of consciousness; absence of more than one day; medical treatment beyond first aid; restricted work or transfer to another job

Total recordable and injury and illness rate (TRIR) is the number of recordable cases multiplied by 200,000 divided by total hours worked by all employees over a calendar year. We exclude contractors from the TRIR calculation, separately tracking the number of contractor recordable injuries. A Lost Time Accident (LTA) is a work-related injury or illness that requires time away from work (excluding the day of the incident). A tier 1 or tier 2 process safety event involved loss of primary containment with consequence. It is an unplanned or uncontrolled release of any material from a process. Tier 1 has a higher magnitude of consequence than tier 2, as defined in the American Petroleum Institute (API) Recommended Practice (RP) 754.

Strategic report  
Sustainable business

## Managing our Environmental Impact

Through our purpose of delivering cleaner and better performance solutions, we strive to minimise our environmental impact and help our customers to solve their sustainability challenges. In 2020, we set ourselves specific targets to help us in this aim, using 2019 as a baseline year. During 2021, we have put in place additional projects to help us move faster towards those targets and ensure a lower environmental impact across our operations.

As a result, we have developed multi-year plans for improvement projects to reduce our energy use, greenhouse gas emissions, water consumption and waste generated. Progress against this plan is overseen by our Environmental Sustainability Council (ESC). For further information on the ESC please refer to page 43.

During 2021, we had zero Tier 2 or Tier 3 environmental incidents (2020: zero).

### Environmental performance

Number of sites  
operating on 100%  
renewable electricity

3

2021

2020: 0

### Greenhouse Gas Emissions

Mitigating our greenhouse gas (GHG) emissions is a cornerstone of our approach to acting as a responsible business. While our products help our customers to address the needs of modern society, our innovations continue to help lower the impact of answering those needs. For example, we have developed naturally derived coatings additives that activate at lower processing temperatures, thereby lowering the energy requirements of our customers (page 22).

We continue to improve how we address the impacts of our own activities. This year, we have extended our approach to climate change during 2021, and report for the first time against the Task-Force for Climate-Related Financial Disclosure Framework (TCFD, see page 42). We also report our climate related risk and opportunities via CDP, gaining a B- rating for CDP Climate (up from a C rating in 2020). We will continue to extend our work on climate impacts, risks, and opportunities through 2022 by further embedding the TCFD framework, completing our value-chain (Scope 3) emissions inventory and developing a corporate Net Zero Transition Plan.

Our Scope 1 GHG emissions include emissions from combustion of fuels for energy, heat and transport, emissions from our chemical processes and refrigerants. Our Scope 2 emissions include emissions caused by creating the electricity and steam we purchase. Our 2030 target is to reduce our Scope 1 plus Scope 2 (market-based) emissions by 25% per tonne of product made from a 2019 baseline.

We have made good progress against this target in 2021. Our absolute Scope 1+2 (market-based) emissions have dropped by 16% vs 2020. We have increased the number of sites who purchase renewable electricity during 2021 and this has helped lower our Scope 2 market-based emissions by 51%. Scope 2 location-based emissions showed an 8% improvement, reflecting a combination of efficiency gains and grid greening (location based). Scope 1 emissions increased 9%, as higher natural gas use and higher process emissions at our largest site (Castle Hayne, USA) more than offset efficiency gains made elsewhere.

Our GHG intensity reduced 25% vs 2020, a good step towards our 2030 target, through a combination of renewable electricity purchases and energy efficiency projects. Through 2022, we plan to continue to explore options to extend our purchases of renewable electricity, to continue delivering efficiency projects, and to consider the options for greater reduction of Scope 1 emissions. We will also develop our first Scope 3 GHG footprint.

### Third-party verification

Elementis commissioned Avieco, an experienced and independent sustainability consultancy, to verify our 2021 Scope 1+2 GHG emissions, energy consumption, water withdrawal and waste data. Scope 1+2 GHG emissions were verified to the ISO 14064-3: 2019 Greenhouse gases (GHG) standard using a reasonable level of verification. Restated 2019 and 2020 values were also verified. Avieco's verification opinion statement is available on our website.

Global GHG emissions		2030 Target	2021	2020*	2019*
Scope 1 (tonne CO <sub>2</sub> eq)		-	211,619	193,826	205,314
	Market	-	66,743	136,063	143,974
Scope 2 (tonne CO <sub>2</sub> eq)	Location	-	93,768	102,232	108,474
	Market	-	278,362	329,889	349,288
Total 1+2 (tonne CO <sub>2</sub> eq)	Location	-	305,387	296,058	313,788
Production (tonne)		-	833,100	742,720	831,418
GHG intensity (Total tonne CO <sub>2</sub> eq/ tonne production)	Market	0.315	0.334	0.444	0.420
	Location	-	0.367	0.399	0.377
GHG from biomass (tonne CO <sub>2</sub> eq)		-	5,189	5,753	6,325
UK GHG emissions		2021 % of global	2021	2020*	2019*
Scope 1 (tonne CO <sub>2</sub> eq)		3.7	7,740	5,866	7,735
	Market	4.1	2,712	2,686	3,026
Scope 2 (tonne CO <sub>2</sub> eq)	Location	2.2	2,062	1,986	2,031
	Market	3.8	10,452	8,552	10,761
Total 1+2 (tonne CO <sub>2</sub> eq)	Location	3.2	9,802	7,852	9,766
Production (tonne)		2.4	19,926	16,282	19,233
GHG intensity (Total tonne CO <sub>2</sub> eq/ tonne production)	Market	-	0.524	0.525	0.559
	Location	-	0.491	0.482	0.508

\* Restated figures, see methodologies box for more information.

## Methodologies

Our GHG emissions are calculated with reference to the GHG Protocol Corporate Standard (2015 revision). We take an operational control approach to defining our GHG and energy organisational boundary, meaning our 25% equity ownership of Alembic Manufacturing Ltd is excluded from our Scope 1+2 footprint. This approach is consistent with our financial statements. Non-financial data from new facilities are included from the date we take control and the facility becomes operational.

Scope 1+2 emissions are reported in tonnes of CO<sub>2</sub> equivalent (CO<sub>2</sub> eq) and include all gases in the GHG Protocol. We use DEFRA factors for Scope 1 fuels globally. We use IEA emissions factors for location-based Scope 2 emissions, except in the UK where we use DEFRA factors. Market-based emissions include power purchases associated with a Renewable Energy Certificate (REC) or Guarantee of Origin (GO), use residual mix factors from the Association of Issuing Bodies (AIB) for European sites without an REC or GO, and use location-based factors for remaining sites. GHG from biomass data includes energy and chemical process related emissions and excludes biomass in vehicle fuels.

We measure gross global scope 1 and 2 emissions in tonnes of CO<sub>2</sub> eq per tonne of production output as this is a common intensity metric for our industry sector. Our disclosures meet the UK Streamlined Energy and Carbon Reporting (SECR) requirements.

**2019 Baseline corrections:** During a review in 2021, we recognised some Scope 1 GHG sources (certain processes and vehicles) had been overlooked in our 2019 and 2020 figures. Together, these have a material impact (13%) on our baseline Scope 1 GHG emissions. We have also implemented corrections and reconciliations in our Scope 2 GHG, energy, water and waste 2019 and 2020 figures. Values are restated in this report.

We record and categorise environmental incidents into tiers based on the severity or actions taken by regulatory authorities. Tier 3 incidents are those that have a significant impact on the environment and require reporting to an external authority and where enforcement action is likely. Tier 2 incidents have a minor impact and require notification but are likely to result in minimal action by the authorities.

## Strategic report

## Sustainable business

## Energy

We recognise that responsible usage of energy, whatever the source of energy, reduces demands on resources and infrastructure and helps lower our costs. Our 2030 target aims to reduce our energy use from fuels per tonne of production by 20%. In 2021, 73.1% of our energy came from direct combustion of fossil fuels (2020: 71.7%).

Our sites at Amsterdam, Netherlands, Sotkamo, Finland and Vuonos, Finland began new electricity supply agreements in 2021, which have increased the amount of our purchased energy with a renewable energy certificate (REC) or guarantee of origin (GO) to 50% (0% in 2020). We continue to assess opportunities to increase our purchase of clean energy.

In 2021, sites continued to improve energy efficiency, for example:

- Newberry Springs, USA implemented several mechanical improvements to the ore beneficiation process, meaning the slurry requires less energy to dry and resulting in an estimated reduction in the plant's annual natural gas requirements of 26,000 GJ.
- Sotkamo, Finland upgraded a boiler to a more efficient one, saving an estimated 1,600 GJ per year.
- Songjiang, China increased the efficiency of their gas burners, saving an estimated 400 GJ per year.
- Livingston, UK introduced energy management software throughout the facility, saving an estimated 884 GJ per year.

In total in 2021, we spent \$298,000 on energy efficiency projects (2020: \$233,000) to save an estimated 35,000 GJ of annual energy demand (2020: 42,000 GJ).

Our total energy usage was 7.6% higher in 2021 compared to 2020, mostly due to increased gas consumption as activity levels increased – energy from fuels increased by over 300,000 GJ. Our energy use from fuels per tonne production is 2% better than 2020 reflecting benefits of our energy efficiency projects.

Global	2030 Target	2021	2020	2019
Total energy (GWh)	–	1,356.41	1,260.39	1,377.24
Total energy (GJ)	–	4,844,343	4,501,375	4,918,727
Purchased energy (GJ)	–	1,300,218	1,276,079	1,404,161
– of which is certified renewable (%)	–	50	0	0
Energy directly from fuels (GJ)	–	3,544,125	3,225,298	3,514,565
Production (tonne)	–	833,100	742,720	831,418
Energy intensity (GJ from fuels / tonne produced)	3.381	4.254	4.343	4.227

UK	2021 % of global	2021	2020	2019
Total energy (GWh)	3.8	51.35	40.30	50.40
Total energy (GJ)	3.8	183,384	143,926	180,004
Production (tonne)	2.4	19,926	16,282	19,233
Energy intensity	–	9.20	8.84	9.36

To drive towards our 2030 target, we have identified potential for upgrades of our high energy demand gas kilns including an upgrade to the kiln liners and addition of extra air to increase efficiency. These projects are part of a global portfolio of identified energy efficiency projects that are currently estimated to save 1 million GJ of energy for an investment of \$5 million over the next 5 years.

## Water

We see water as a precious resource that is not to be wasted and we continue to work to mitigate our water risks and impacts. In 2021, we adopted a water stewardship policy which is available on our website. As part of our TCFD work (page 42), we have considered climate-driven water risks at our sites. We have also publicly reported our water performance through CDP for the first time in 2021, achieving a B- rating. We aim to reduce water withdrawal per tonne of production by 10% by 2030.

Overall, our water withdrawal is lower by almost 700,000 m<sup>3</sup> compared to 2019 baseline, meaning we have already met our 2030 target. In 2021, we saw the fruits of our investments in enhanced water recycling at our mine in Vuonos, Finland and New Martinsville, USA. Our new Taloja, India site entered commissioning phase and is designed to recycle all water used in the manufacturing process, in a similar way to that already done at our Huguenot, USA site. We have also worked to increase efficiency of water use across our whole portfolio. For example, after investigating unexpectedly elevated water withdrawal amounts, our site in Songjiang, China detected underground leaks due to corroded water pipes. Upgraded pipes and additional water meters were installed, helping to prevent and detect future leakages.

In 2022 we plan to review our water target and ensure water management improvement plans continue. Tighter effluent quality discharge limits will be introduced in 2022 at some sites which may result in higher water withdrawal compared to 2021.

	2030 Target	2021	2020	2019
Total water withdrawal (m <sup>3</sup> )	–	3,076,738	3,707,947	3,767,854
Production (tonnes)	–	833,100	742,720	831,418
Water withdrawal intensity (m <sup>3</sup> / tonne produced)	4.08	3.69	4.99	4.53

## Waste

We recognise how valuable resources are and we aim to use them as efficiently as possible. To this end, we are working to reduce the waste (including hazardous waste) we send for third party treatment per tonne of production by 10% by 2030. For example, our site in Livingston is working to qualify waste clay materials as a by-product for use in agriculture. If successful, this could prevent up to 3,000 tonnes of waste generation. Our site in Hsinchu has improved process efficiencies to minimise waste generation by recycling filter waste and solvent, which are expected to prevent over 10,000 kg of waste generation annually.

	2030 Target	2021	2020	2019
Total Waste (tonnes)	–	43,274	34,190	29,850
Production (tonnes)	–	833,100	742,720	831,418
Waste intensity (tonnes waste / tonne produced)	0.032	0.052	0.046	0.036

Our waste sent for third party treatment increased substantially in 2021 because of temporary supply chain disruptions to our sales of a by-product, resulting in us needing to dispose of large quantities of this material as waste. Our waste per tonne of production therefore also increased. Without this disruption, underlying reductions of our other waste streams made good progress towards our 2030 target.

Some of our sites generate large quantities of mineral wastes (overburden, tailings, ore beneficiation residues etc) that remain in tailing storage facilities on our sites. There is potential for these materials to be valorised in the future.

## Air quality

We control the emission of dust and gaseous pollutants – VOC's (volatile organic compounds), nitrogen oxides and sulfur oxides – in compliance with our local operating permits, using scrubbers where necessary. These emissions can be generated from our mining activities, our high-temperature processes and our handling of organic chemicals. Our facilities are checked for compliance by regulatory authorities. In 2021, our Hsinchu site invested in increased capacity of their air pollution control system, increasing flexibility in production.

## Responsible Mining

We operate mines in Finland and California, USA that give us direct access to critical and unique mineral resources incorporated into our products. We engage openly and constructively with local communities, seek continuous improvements in our practices and work to minimise negative impacts of our operations. We work to protect the environment and nature, reducing or avoiding our impact on sensitive species, habitats and ecosystems.

We also actively manage environmental monitoring (including water quality) and remediation activities at legacy locations, including our facility in Corpus Christi, US and at Eaglescliffe, UK.

## Finland

We operate four active open cast mines for high purity talc minerals. Our talc mines are members of the Finnish Network for Sustainable Mining, which aims to advance responsible mining practices and we are committed to the Finnish Towards Sustainable Mining (TSM) Standard.

We operate an environmental management system and are certified to ISO14001. We continuously monitor environmental impacts with our own laboratories or qualified third parties, including the quality of groundwater and surface water. We also reuse the water from our tailings storage facility in our ore processing, minimising our need for freshwater withdrawal – resulting in over 95% water recycling rate. As we mine, we pump out accumulating groundwater and rainwater, treating it before discharge.

As we process the talc ore, we produce nickel concentrate and magnesite sand as by-products, which is utilised in on-site infrastructure or sold externally. We also use rocks in road construction on site.

The land area actively mined at these sites is 1,792 hectares. Our land management and remediation plans include consideration of landscape value when designing landfill areas.

The impact of our mining activities on biodiversity is monitored in compliance with local operating permits and regulations. There are no endangered species identified in our Finnish mining areas. We are currently in the assessment phase for an expansion of our mining area and are ensuring we minimise impacts on the local ecosystem.

## California, USA

We operate one open cast mine in California for our unique hectorite clay mineral. We can mine 220 hectares of land and have additional claims (mineral rights) on U.S. federal land surrounding the current operation. The ore screening system is included in our ISO9001 quality management system and we are working towards ISO14001 certification in 2022.

By design and geologic location, no stormwater leaves the site. Occasionally, rainwater in the active mining areas is pumped to other parts of the property to evaporate while allowing mining to continue. Water from an on-site and owned well is used for dust control to remain in compliance with the reclamation plan and regional California Air Quality Management District requirements.

All mined material is segregated such that further uses can be found for it in future (e.g. in agriculture, highway construction or landfill liners, etc.). To date, we have sold a small amount of rock as storm erosion protection and clay for agriculture amendments and residential pond liners. In 2022, we plan to re-use crushed waste rock from the mine overburden as a road surface on site to reduce the water amounts needed for dust control (and improve mine vehicle tyre wear).

Our mine is within the habitat range of the Mojave Desert tortoise, which is on the International Union for Conservation of Nature (IUCN) red list as critically endangered. We have an approved tortoise barrier surrounding the site to prevent tortoises entering the site. Should a tortoise be found inside the fence, we work with a trained biologist to return the animal safely to its natural habitat. Our biodiversity statement is available on our website.

## Strategic report

## Sustainable business

## Our employees

Our working culture is driven by our values.

Collaboration and teamwork shape our culture and help build strong bonds with diverse colleagues around the world. Together, we work to drive growth for our company, create a safe environment for each other and deliver innovation and value to our customers and other stakeholders. We aim to ensure everyone is valued and given the chance to fully contribute, to recognise and appreciate diversity of views and include employees across the organisation in providing input into initiatives that advance our strategy.

## Employee Engagement and Wellbeing

Elementis is committed to employee engagement throughout the business. Employees are kept informed of the performance and strategy of the Group, HSE matters and other initiatives through regular email bulletins and meetings. The Board receive bi-annual updates on our workforce engagement and we have a Designated Non-Executive Director for Employee Engagement, who is supported by our Chief Human Resources Officer.

All employees can participate in an employee engagement survey once per year. In 2021, response rates were 68% (up from 60% in 2020) and ahead of the 55-60% benchmark range across all companies (based on data from our survey partner Gartner). The surveys show an increase in positive responses to the survey questions in our primary Engagement Capital Index (up from 55% in 2020 to 63% in 2021). Secondary indices such as Manager, Values and Diversity, Equity & Inclusion (DE&I) also improved. This correlates with actions we have taken to improve manager communications, including providing managers with workshops and toolkits.

We continue to develop our engagement strategy and in 2022 we will launch a new initiative regarding our Employee Value Proposition (EVP) and employer branding.

The Company continues to highlight the importance of mental health. We support flexible working, provide employee assistance helplines; and have regular informal check-ins with employees. We have continued global employee townhalls and other engagement efforts in a virtual setting. The CEO has informal sessions such as 'Coffee with the CEO' to further connect with employees. Our health and wellness initiatives include free webinars for employees on mental and physical wellbeing. As employees continue to work through the challenges associated with COVID-19, ongoing focus and support will remain a key priority.

Global	2021	2020	2019
<b>Total</b>	<b>1,413</b>	<b>1,353</b>	<b>1,342</b>
<b>Americas</b>	<b>589</b>	<b>582</b>	<b>609</b>
<b>Europe</b>	<b>446</b>	<b>433</b>	<b>418</b>
<b>Asia</b>	<b>378</b>	<b>338</b>	<b>315</b>

## Diversity, Equity and Inclusion

Elementis strives to create a culture where all employees feel safe, respected, valued and empowered to contribute ideas and perspectives. We recognise that the diversity of our people and the inclusive nature of our culture are intrinsic to better business decisions and fundamental to the success of our strategy.

During the year, the Board has received updates on DE&I matters and has performed in line with the Board diversity policy and objectives. We have a Board composition with 43% female Board members. Further information on the Board can be found on pages 76-77.

Our DE&I Leadership Council is co-chaired by the CEO and CHRO and is represented by senior leaders who have a passion for DE&I. During 2021, the council has continued to deliver against their road map with initiatives centred around knowledge and culture, process and policy, and communications and reporting.

This year, education for DE&I topics has been accelerated. Unconscious bias and inclusive conversations e-learning were delivered. Expert speakers addressed inclusive leadership and active cultural advocacy. In total 644 hours of DE&I training has been delivered. Workshops and an accompanying toolkit have been provided to 60 senior people managers to encourage ongoing dialogue and communication on DE&I topics, with the toolkits available for over 270 managers globally.

Our employee resource groups (ERGs) are becoming more established and are helping raise awareness of various topics and perspectives. Our global Women in Leadership forum has organised external speakers for a range of topics and established an Asia Women In Leadership group in 2021. In the US, a People of Colour ERG has been established this year.

The Group is an equal opportunities employer and considers applications for employment from all backgrounds. We provide facilities, equipment and training to assist all employees. Should an employee become differently abled during their

## Highlights and progress against targets

% senior female employees\*

**31**  
2021

2020: 30  
2019: 25  
2018: 24

Employee engagement capital index %

**63**  
2021

2020: 55

\* ELT and direct reports, excluding administration

employment, efforts would be made to retain them in their current role or to explore opportunities for redeployment in the Group. In 2022, we plan a physical accessibility review of our facilities.

Our strategy to increase gender diversity continues to result in a greater proportion of females in senior positions, up to 31% in 2021 (from 30% in 2020). We align with the FTSE Women Leaders definition of senior positions, that is our ELT and direct reports excluding administrative roles. Across the whole employee population, gender diversity has remained flat at 24% in 2021. This compares with 37% women in manufacturing roles (International Labour Organisation data).

% Female	2021	2020	2019
Senior leaders*	31	30	25
Total	24	24	23

\* ELT and direct reports, excluding administrative personnel

### Employment

Our HR policies demonstrate how our Values are put into practice. They underscore our commitment to providing equal opportunities in employment, striving to ensure that the work environment is free of harassment and bullying and that everyone is treated with dignity and respect. Our policies are available to all employees via the company intranet and local HR. Mandatory training is provided to employees.

We conduct a biennial review of our gender pay globally, the outcome of which is reviewed by the Board, although we are not required to report under the UK gender pay gap regulations. The next review is due in 2022. We are accredited by the UK Living Wage Foundation in respect of our pay commitment to direct and third-party employees at all UK locations.

6.3% of our employees are union members (data excludes Ludwigshafen, Germany where we have no right to this information). 22.6% are subject to collective bargaining agreements. The total voluntary attrition rate in 2021 was 5.9% (2020: 7.8%).

### Training and Development

We are committed to inspiring and investing in the skills of our people. In 2021 we launched LinkedIn Learning as the virtual learning platform for all employees, providing them with access to trainings covering professional and personal skills. Over 4,500 learning hours were logged on this platform during this first year of provision. In addition, all people managers have access to Gartner for People Managers, which provides them with targeted courses and materials on leadership and managerial skills.

Assessment of individual training and development needs is an important feature of the annual performance process. All our employees have a mid-year and annual performance review, where employees and their managers agree on a learning and development goal, as well as agreeing on current performance and next year objectives. We recognise the importance of developing talent internally, as well as attracting talent from outside the organisation, to provide our employees with the skills they need to succeed in the future. This year, we strengthened our organisation with 281 new hires, the majority of whom were in manufacturing and supply chain.

### Communities and volunteering

We offer our employees paid time off to spend volunteering and encourage them to participate in volunteering activity as teams. This initiative started in 2021, although many teams around the world postponed their volunteering activity until 2022 due to COVID-19 restrictions. Examples of team volunteering that did proceed include: employees in Cologne, Germany who conducted a litter-pick in a city park, collecting 16 bags of rubbish; employees in Songjiang, China who visited a local nursing home, cheering the residents and helping with paintwork repairs; employees in the US who spent a day cleaning a New Jersey beach.

## Ethics and compliance

We are committed to conducting business with integrity around the world and to fair and ethical behaviour throughout our organisation.

Our Code of Conduct and Ethics is the cornerstone of our ethics and compliance programme. It helps us communicate our commitment to responsible business and promotes a culture of complying with the law and doing business ethically. It provides the framework for:

- making a culture of ethics and compliance apparent and accessible to all employees and third parties doing business with Elementis
- providing training and guidance on key compliance areas
- guaranteeing that all concerns are investigated appropriately
- ensuring ethical and compliance matters are considered and weighted appropriately in all Elementis business decisions

In 2021, we created a cross-functional project to refresh our Code to make it accessible in a variety of formats and resonant with all our business segments and stakeholders. We are looking forward to launching the new Code in early 2022, accompanied by a variety of awareness-raising initiatives.

### Ethics and Compliance Council

In 2021, we set up a new Ethics and Compliance Council (ECC). The ECC is comprised of the Group General Counsel & Chief Compliance Officer (Chair), the executive leaders from each business segment and function and Internal Audit. The ECC meets quarterly and reports to the CEO after each meeting and to our Board of Directors twice a year. Its purpose is to uphold and oversee an ethics and compliance culture at Elementis and to ensure the Code, and related Elementis policies and standards, are effectively communicated and implemented. In 2022, we will focus on expanding our network of Ethics and Compliance Champions to ensure representation from every site.



## Strategic report

### Sustainable business

#### Creating a culture of transparency and non-retaliation

We value open and honest communication and encourage employees and third parties to speak up about any concern as it arises, to their manager, HR, other Elementis function (such as HSE or Finance), or Legal and Compliance. Where an individual does not feel able to raise the matter with anyone at Elementis, it can be raised confidentially and anonymously (where local law permits) to a reporting service hosted independently of Elementis. All reports are investigated at the direction of the Group General Counsel & Chief Compliance Officer. We promptly take all required steps based on the outcome of the investigation, including provision of regular updates to the reporter. We are committed to protecting any employee who reports a violation in good faith from retaliation, even if the report does not hold up in an investigation.

In 2021, we appointed a new provider for our independent reporting service, IntegrityCounts. Posters publicising the different reporting channels that are available 24 hours a day, 7 days a week in multiple languages, were issued to each Elementis site, along with a global email awareness campaign.

We received four reports via the independent reporting service during 2021 (2020: six), further details of which are set out below:

Report Type	Date of Report (2021)	Outcome of investigation
Harassment and / or Discrimination	April	No findings of the issues alleged
Violence and / or Abuse	October	Substantiated – employee received behavioural coaching
Harassment and / or Discrimination	November	Substantiated – contractor agreed to terminate its employee
Harassment and / or Discrimination	December	Substantiated – employee disciplined

#### Compliance Training

As a result of the ongoing pandemic, during 2021 we delivered our compliance learning programme predominantly via e-learning (with classroom facilities provided for employees at manufacturing facilities) and smaller group videoconferences. Training is tailored to the role and location of our employees, based on an understanding of the nature of the ethical and compliance risks to which each employee may be exposed.

In 2021, employees were offered a range of courses, including Modern Slavery, Anti-bribery and Data Protection. Over 1,100 hours of learning were completed in the year. The average completion rate for the eight principal courses was 95.5%.

#### Data Privacy

We remain committed to ensuring the security and confidentiality of our data. The Data Protection Steering Committee (DPSC) continues to meet regularly, overseeing the Group's compliance with the ever-changing landscape of privacy and data protection regulation. In 2021, this notably included China's new laws on data security and personal information protection.

In 2021, as some of our workforce maintained home or flexible working, we delivered a series of live online privacy and information security sessions and introduced guidance on working from home and safe disposal of confidential waste, to support our existing policies and procedures. We remain committed to the security of our network and systems. In 2021, the DPSC introduced a schedule of simulated phishing campaigns to raise employee awareness of cyber security threats. The overall simulated compromise rate remained considerably below the average predicted rate.

We continue to encourage the timely, open, and transparent reporting of actual and potential incidents concerning personal data, and have dealt with the following reports during 2021:

Cause of report*	Number of reports
Loss or theft of data / hardware	2
Disclosed in error	4
Technical / procedural error	9
Cyber incident	4
Third Party	1

\* Elementis did not experience any notifiable personal data breaches in 2021

#### Supply Chain Transparency

We operate a complex, international supply chain of approximately 5,000 suppliers for our raw material feedstocks and indirect procurement, and we are committed to driving transparency throughout these value chains and partnering with suppliers who share our commitment to supply chain transparency and responsible business. In 2021, the Compliance, Sustainability and Procurement teams collaborated on a tender to identify an appropriate externally hosted solution to bring increased standardisation and efficiency to our third-party integrity risk-screening processes. We will go live with this new platform in 2022, which will further enhance our established zero-tolerance approach to corruption and modern slavery in our supply chain and position us well for compliance with the anticipated European Directive on corporate accountability and due diligence.

We support the use of certified sustainable palm oil and derivatives. Our Livingston, UK site purchases palm oil derivatives for use in our organoclay and gel products. The site is third-party certified to the Roundtable on Sustainable Palm Oil (RSPO) Mass Balance Supply Chain Model.

Our standard payment terms for suppliers are net 60 days from receipt of goods and services. In the UK, we report our UK payment performance to the UK Government's reporting portal twice a year. In January – June 2021, 94% of invoices were paid within 60 days, with an average payment time of 25 days. In July – December 2021, 97% of invoices were paid within 60 days, with an average payment time of 21 days. These data represent faster payments to suppliers than in 2020 (average payment times 26 days and 30 days).

#### Tax Transparency

On an annual basis, we develop and publish our tax transparency statement. This statement is approved by the Board and is available on the Company's website. We aim for a proactive and transparent relationship with all relevant tax authorities to facilitate meeting our statutory and legislative obligations.

## Strategic report

## Non-financial information statement

Section 414CA and 414CB of the Companies Act 2006 requires the Company to provide information to help stakeholders understand our position on non-financial matters. The table below sets out where you can find this information:

Reporting requirement	Policies and standards which govern our approach	Further information
<b>Anti-corruption and anti-bribery</b>	<ul style="list-style-type: none"> <li>- Code of Conduct</li> <li>- Anti-corruption policy</li> <li>- Anti-trust policy (global competition)</li> <li>- Purchasing Code of Practice</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable business – Ethics and Compliance, pages 39-40</li> <li>- <a href="http://www.elementis.com">www.elementis.com</a></li> </ul>
<b>Employees</b>	<ul style="list-style-type: none"> <li>- Health, Safety and Environmental policy</li> <li>- Code of Conduct</li> <li>- Life saving rules</li> <li>- Data protection and privacy policies</li> <li>- Equality and diversity policies</li> <li>- Whistleblowing policies</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable business – Our employees, pages 38-40</li> <li>- Diversity Policy and initiatives, page 94</li> <li>- Whistleblowing, page 100</li> </ul>
<b>Environmental matters</b>	<ul style="list-style-type: none"> <li>- Code of Conduct</li> <li>- Health, Safety and Environmental policy</li> <li>- Water Stewardship statement and policy</li> <li>- Biodiversity statement</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable business – Health and Safety, pages 32-33</li> <li>- Sustainable business – Our employees, pages 38-40</li> <li>- <a href="http://www.elementis.com">www.elementis.com</a></li> </ul>
<b>Respect for human rights</b>	<ul style="list-style-type: none"> <li>- Code of Conduct</li> <li>- Equality and diversity policies</li> <li>- Data protection and privacy policies</li> <li>- Purchasing Code of Practice</li> <li>- Modern slavery statement</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable business – Our employees, pages 38-40</li> <li>- Diversity Policy and Initiatives, page 94</li> <li>- <a href="http://www.elementis.com">www.elementis.com</a></li> </ul>
<b>Social matters</b>	<ul style="list-style-type: none"> <li>- Code of Conduct</li> <li>- Volunteering policy</li> <li>- Whilst we do not have specific policy on social/community matters, we engage directly with our communities wherever we operate</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable business – Our employees, page 39</li> <li>- Stakeholder engagement - Communities and the environment, page 51</li> </ul>
<b>Stakeholders</b>	<ul style="list-style-type: none"> <li>- Section 172</li> </ul>	<ul style="list-style-type: none"> <li>- Section 172, pages 52-53</li> </ul>
<b>Description of the Business model</b>		<ul style="list-style-type: none"> <li>- Business Model, pages 18-19</li> </ul>
<b>Description of Principal Risks and impact on business activity</b>		<ul style="list-style-type: none"> <li>- Risk management, pages 64-67</li> <li>- Principal risks and uncertainties, pages 68-72</li> <li>- Audit Committee report, page 99</li> </ul>
<b>Innovation</b>		<ul style="list-style-type: none"> <li>- Innovation at Elementis, pages 12-13</li> </ul>
<b>Non-financial key performance indicators</b>		<ul style="list-style-type: none"> <li>- Key Performance Indicators, pages 28-29</li> <li>- Sustainable business, pages 30-40</li> <li>- Taskforce for Climate-related Financial Disclosures, pages 42-47</li> </ul>

Reference to our policies, due diligence processes and information on how we are performing in these areas are contained throughout the Strategic report. Information on our principal risks can be found on pages 68 to 72, information on our non-financial key performance indicators can be found on page 29 and a description of our business model can be found on pages 18-19. Certain Group policies and internal standards and guidelines are not published externally.

## Strategic report

## Taskforce for Climate-related Financial Disclosures (TCFD)

## Climate Change Impacts

## Listing Rule 9.8.6R statement

Elementis plc has complied with the requirements of LR 9.8.6R by including climate-related financial disclosures consistent with the TCFD recommendations and recommended disclosures except for Scope 3 GHG emissions due to the complexity of our diverse value chains. We recognise the importance to our business of understanding Scope 3 emissions and are committed to assessing our Scope 3 footprint in 2022, with the aim to be fully compliant for the year ending 31st December 2022. We plan to identify and quantify the relevant Scope 3 categories for our business with the help of external specialists and this will help us to prioritise GHG reductions and climate risk mitigation actions within our value chains.

We support the recommendations of the TCFD framework and are aligning our reporting with the TCFD disclosure recommendations for the first time this year. This is in line with the FCA's (Financial Conduct Authority) confirmation that premium-listed companies in the UK are required to disclose how climate change will impact their business. The TCFD proposed a global framework for disclosing climate related risks and opportunities that will aid us in improving our resilience to climate change.

This year, we have conducted, with specialist support, a gap analysis on our current level of alignment to the eleven recommendations of TCFD. This process identified opportunities to strengthen linkages to climate related risks and opportunities, and new organisational processes, particularly in the TCFD Strategy and Metrics & Targets categories.

TCFD recommends that all companies should conduct a climate scenario analysis (CSA) to assess the potential climate related risks and opportunities that may impact them. In 2021 we completed our own CSA and assessed the resilience of our business to certain climate-related risks.

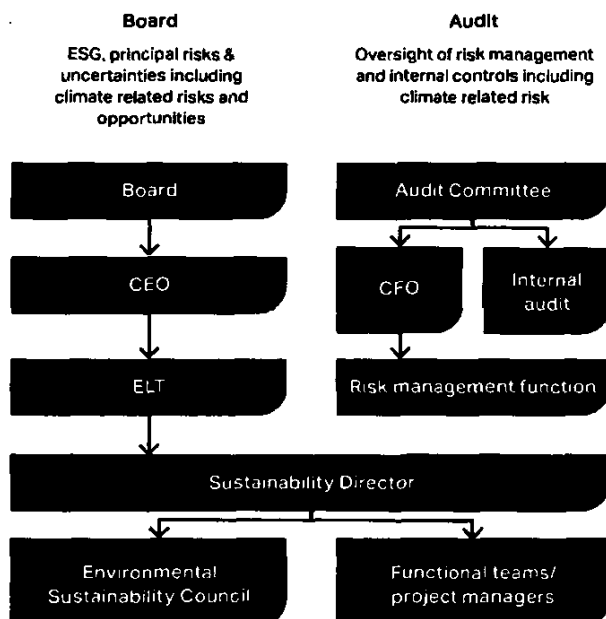
Our work against the TCFD disclosure recommendations is summarised below. We plan to continuously improve our use of TCFD in the coming years, for example by increasing our ability to financially quantify the risks and opportunities in different climate scenarios.

Recommended disclosures	Further information
<b>Governance</b>	<ul style="list-style-type: none"> <li>Describe the Board's oversight of climate related risks and opportunities</li> <li>Describe management's role in assessing and managing climate related risks and opportunities</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term</li> <li>Describe the impact of climate related risks and opportunities on the organisation's business strategy and financial planning</li> <li>Describe the resilience of the organisation's strategy, taking into account different climate related scenarios, including a 2°C or lower scenario</li> </ul>
<b>Risk management</b>	<ul style="list-style-type: none"> <li>Describe the organisation's processes for identifying and assessing climate related risks</li> <li>Describe the organisation's process for managing climate related risks</li> <li>Describe how the organisation's processes for identifying, assessing and managing climate related risks are integrated into the organisation's overall risk management</li> </ul>
<b>Metrics and targets</b>	<ul style="list-style-type: none"> <li>Describe the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process</li> <li>Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks.</li> <li>Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets</li> </ul>

## Governance

The governance of climate related risks and opportunities is integrated into our overall risk management framework. At Board level, the CEO's report highlights ESG progress including climate related risks and opportunities, with further detailed management updates provided on a bi-annual basis. This year these included, for example, our strategic approach to TCFD (see also page 52 for further information on s.172 duties). In 2021, the Audit Committee was given oversight of our progress to align with TCFD disclosure recommendations through management-prepared materials.

Our CEO has ultimate accountability for our strategic response to climate related risks and opportunities. The Executive Leadership Team (ELT) members are responsible for effectively managing climate related risks and opportunities (as part of our wider risk management process). In 2021 we appointed a Director of Sustainability, who is responsible for overseeing our Sustainability strategy and chairs our Environmental Sustainability Council (ESC). The ESC meets monthly and oversees project managers, assesses risks and identifies necessary actions on climate related topics. The ESC provides updates after every meeting to the CEO and ELT with written materials.



## Strategy

As a speciality additives business, the market segments in which our businesses operate are highly diverse and our products are fundamental to a wide range of economic activity within society. Our strategy of Innovation, Growth, and Efficiency incorporates climate and sustainability related drivers, for example:

- Our product innovations are helping our customers to deliver efficiency advantages in energy, durability and material usage that support a low carbon transition across society (see examples on page 23).
- We identify growth opportunities in market segments (such as premium decorative coatings or natural skin care ingredients) that allow the performance and sustainability benefits of our products to generate value for multiple stakeholders (see page 24-25).
- Our environmental targets (see page 31) and risk management (see page 64) help us to deliver increased efficiency, reliability and sustainability, while lowering our exposure to the operational risks of climate change and the transition to a low carbon society.

## Overview of the selected NGFS climate scenarios

	Net Zero 2050	Divergent Net Zero	Current Policies
Summary	Orderly transition across the world and industry sectors to meet Net Zero by 2050	Net Zero by 2050 met, but with a delayed start and inconsistent policies that are focussed more on transport, construction, and consumers	Current Policies continue with no significant extra push to align with IPCC
Policy ambition	1.5°C	1.5°C	3°C+
Policy reaction	Immediate and smooth	Immediate but divergent	Negligible/none
Type of change	Orderly	Disorderly	Hothouse world
Technology	Fast change	Fast change	Slow change
Cost of carbon	High	Very high	Very low
Regional policy variation	Medium	Medium	Low

## Strategic report

## Taskforce for Climate-related Financial Disclosures (TCFD)

## Climate Change Impacts

To help us with our medium and long-term climate planning and in alignment with the recommendations of TCFD, this year we conducted a climate scenario analysis (CSA). We used climate scenarios defined by the Network for Greening the Financial Systems (NGFS). NGFS is internationally recognised for its work to advance climate science and contributes to the International Panel on Climate Change's (IPCC) work. NGFS has defined six climate scenarios that are used by central banks to explore possible economic and financial impacts of climate change. These scenarios are often taken as the starting point for organisations to build their own assumptions and cover a range of physical and transitional risks, each with varying economic, policy and population trends. We selected three of these scenarios for analysis – Net Zero 2050; Divergent Net Zero and Current Policies. These are summarised in the table page 43.

We then held virtual workshops with functional leaders to help assess how these scenarios might impact our business. Over multiple workshops, we built up a comprehensive picture of potential climate related risks and opportunities in each scenario, and the dynamics in short/medium (2025), long (2030) and extended (2040 and beyond) timeframes. Using the workshop outputs, we focused our initial long list of 32 potential risks down to nine risks (two physical risks and seven transition risks) that we consider most likely to be material to our business.

In terms of the climate related dynamics of the markets we operate in, we identified opportunities, especially in the Net Zero 2050 and Divergent Net Zero scenarios. In these scenarios, changing demands of industry customers and end-consumers were thought likely to increase our opportunities for our innovative products in all three timeframes. For example, we would likely see more demand for our natural and naturally derived additives for personal care products, and for our talc additives used in plastics for vehicle light-weighting that help increase the distance travelled for a given amount of electricity or fuel used.

We identified fewer market-based risks. One of these was that in the extended (2040 and beyond) timeframe, demand for our talc additives used in pollution control catalyst ceramics for combustion engines would drop in the Net Zero 2050 and Divergent Net Zero scenarios, as new vehicle fleets become increasingly electrified. Nevertheless, in the short/medium (2025) and long (2030) timeframe, this remains an opportunity under every scenario because pollution control regulations continue to tighten, driving more demand for these products. The business-as-usual nature of the Current Policies scenario translates simply as potential lost market opportunity.

Overall, we consider that in the short, medium, and long-term, the market opportunities we could access with our portfolio would more than compensate for the market risks we identified during a low carbon transition. Thus, the diversity of the market sectors we serve, and the desirable performance and sustainability features of our products, provide increased revenue opportunities driven by climate change and the low carbon transition.

## Nine most material climate-related risks to our operations

Extreme weather events

Water scarcity

Carbon pricing

Investor pressure

Customer demands

Consumer trends

Raw material supplies / prices

Energy prices

Access to renewable electricity

Ensuring we can take advantage of such opportunities and help our customers and end-users respond is a key part of our strategy to manage climate related risks and opportunities. Reflecting this, two of nine risks are related to our ability to anticipate and deliver upon changing market expectations (specifically, customer demands and consumer trends risks).

To deliver to the market, we need a climate resilient operation. The CSA was also helpful to identify the most significant climate related risks for our operational delivery. These risks include carbon pricing, investor pressures, supply chain resilience, energy markets and extreme weather events.

We held further discussions with functional leaders to assess the potential impact of these nine climate related physical and transition risks. Using our corporate risk assessment framework, we scored the impact and likelihood of these nine risks over short/medium (2025), long (2030), and extended (2040 and beyond) timeframes in each of the three climate scenarios.

# Detailed review of the top two most significant risks in each NGFS climate scenario

	Customer demands	Carbon pricing	Consumer trends	Raw material supplies/ prices	Extreme weather events
Risk type	Transition	Transition	Transition	Transition & Physical	Physical
NGFS scenario in which it is high risk	Net Zero 2050	Net Zero 2050 & Divergent Net Zero	Divergent Net Zero	Current Policies	Current Policies
Why the risk is important to us*	Our customers preferentially source products with lower climate impacts than we offer, resulting in lower revenues.	A high carbon price causes significant increase in operating costs.  Our cost base may become uncompetitive.	Consumers change buying habits to lower consumption or to lower climate-impact products than we offer, resulting in lower revenues.	Key raw materials have lower availability, damaging our ability to fulfil orders, potentially lowering revenues AND/OR higher raw material prices mean our cost base may become uncompetitive.	Our sites and / or delivery routes are shut down due to damage, delaying order fulfilment and potentially lowering revenues and increases our cost base for repairs / prevention.
Our assessment approach	Review direct feedback from key customers and their own public climate targets.  Review competitor public climate targets against our own.	Carbon prices as defined in NGFS scenarios were used along with our Scope 1 & 2 GHG reduction plans to calculate potential impact.	Public information on consumer trends in sentiment and behaviours.  Feedback from our direct customers.	Key supply chain exposure to extreme weather disruption, including impacts on bio-derived material production and petrochemicals availability.	Site climate trends assessed using NGFS scenario assumptions for financial impact.  Impact is assumed higher for our critical sites with large volumes and unique processes.
Strategic mitigations	Climate and sustainability benefits described our product marketing.  New product innovation.  Deliver on GHG reduction plans and review targets.  Develop Scope 3 footprint.	Continue Scope 1 & 2 emissions reduction.  Continue energy efficiency improvements.  Develop Scope 3 footprint.  Continually review emission reduction targets.  Product price adjustments.	Innovate to ensure we are well positioned for new market trends.  Ensure sustainable practices though the supply chain.  Maintain our portfolio diversity.	Qualify multiple suppliers.  Encourage sustainable climate adaptation actions at key suppliers.  Inventory management.	Continue to assess need for investment in extreme weather adaptations at critical sites.

\* The quantification of potential financial impacts was assessed for some risks, however, further work is necessary to ensure this assessment is appropriate for disclosure purposes.

## Strategic report

## Taskforce for Climate-related Financial Disclosures (TCFD)

# Climate Change Impacts

In the short/medium (2025) timeframe, all nine risks scored lower than in longer timeframes. All risks were scored to be increasing or flat through to 2040 and beyond in all scenarios, except for the raw materials risk which has a score peak in 2030 in the Net Zero 2050 scenario. This reflects our view that under this scenario, disruptions as supply chains transition in the long term (2030) will be substantially resolved in the extended timeframe (2040 and beyond).

The two top-scoring risks identified for each climate scenario were the same for the long (2030) and extended (2040 and beyond) timeframes in all scenarios. These risks, why they are important to us, how we assessed the risk and our strategy to mitigate them are described in the table on page 45.

Action plans already exist for our strategic mitigations to the nine risks, and further detail on our progress can be found throughout this report.

Overall, our short/medium term (2025) strategy and business planning includes actions to ensure we take climate related opportunities and manage risks, including in:

- marketing, to allow early identification of trends and opportunities
- our innovation pipeline to deliver new products that improve performance and sustainability
- operational activities, such as energy efficiency projects and sourcing renewable power

For example, we have identified energy efficiency projects that require \$5M of investment in the next 5 years (with \$531,000 spent on energy efficiency projects in 2020 and 2021). Our long term (2030) and extended timeframe (2040 and beyond) planning involves assessment of regulatory and market trends. In the climate-related area, this additionally means developing a clear definition of and pathways to deliver on our commitment of becoming carbon neutral.

Therefore, based on this assessment we believe our strategy is fundamentally resilient to market dynamics in different climate scenarios (including a 1.5°C Net Zero scenario) over short/medium, long and extended timeframes, and provides a strong foundation to capitalise on climate related opportunities and further increase resilience against climate related risks.

## Risk management

Our climate risk management approach is incorporated at an enterprise level into our overall risk management framework (detailed on page 67) and all nine climate-related risks identified through the CSA analysis (described above) are visible in our Group risk register. Some of these risks (for example extreme weather disruption) have long been identified as elements of our principal risks (see page 68), and we will continue assessing the climate-related component of such risks to ensure we have appropriate mitigation and response plans.

The Audit Committee and Board have oversight of our risk management function and internal controls as noted on pages 99-100. Risk mitigations are monitored by the ELT and delivered by the ESC-coordinated working teams (such as Scope 1 and 2 reduction) or by functional teams (such as new product innovation and product marketing).

## Metrics & Targets

We have a range of metrics and targets that we use to address our climate related risks and opportunities in line with our strategy and risk management process. The table on page 47 shows which of these metrics and targets are relevant mitigations for which of our climate related risks. The table also shows which risk, target and metric are most strongly related with our Scope 1, 2 and 3 GHG emissions, and where in this report to find more information about our actions and progress.

We continue to review our metrics and targets in line with developing practices and regulatory requirements. We recognise the importance of understanding Scope 3 GHG emissions for our business and are committed to assessing our Scope 3 GHG footprint in 2022. This will help us prioritise GHG reduction and climate risk mitigation actions throughout our value chains.

# Current climate related targets & metrics, the climate risk areas that they help to mitigate and the related GHG emission scope

Target	Customer Demands	Carbon Pricing	Consumer Demands	Raw material supply / prices	Extreme Weather events	Water scarcity	Investor pressure	Energy Prices	Access to renewable electricity	Related Emission Scope	Additional information
GHG emission reduction	✓	✓	✓		✓		✓	✓	✓	1,2	Page 35
Energy (from fuels) efficiency		✓						✓	✓	1,2	Page 36
Reduced water use	✓		✓		✓	✓	✓			3	Page 36
Waste reduction	✓		✓	✓				✓		3	Page 37
Metric											
Renewable electricity	✓	✓	✓				✓		✓	1,2	Page 34
Natural content of products	✓		✓	✓						1,2	Page 21
New products launched	✓		✓			✓	✓			3	Page 23



## Strategic report

## Stakeholder engagement

# Listening and responding to our stakeholders

We are committed to listening to, engaging with and reflecting our stakeholders' needs and priorities in our business plans and operations. Our engagement approach is based on trust and transparency, which reflects our strategy and purpose.

## Customers

### Why we value them

Our customers rely on us to deliver high quality products with superior performance, efficiency and sustainability features. We deliver a range of products to customers around the world, and by providing expertise and innovation, we keep our customers at the forefront of their industries.

### How the Board engages

The CEO and the Business Unit leaders are in regular contact with our customers and regularly update the Board on the strength and quality of our customer relationships including innovation projects, challenges and opportunities, trends, competitive landscape, performance in year and longer term strategy.

As a mechanism to increase the voice of the customer in the Board environment and deepen knowledge of customer relationships, customer testimonies (video format) have featured in Board presentations during the year.

### How the business engages

- Customer dialogue and being able to demonstrate operational resilience have been significant priorities in the year as a result of a highly dynamic supply chain environment
- We have continued to work in partnership with our customers to develop innovative products that align with market trends
- We provide technical support services to our customers and have an established global key account programme which enables us to focus on deepening our customer relationships
- Sustainability is a key focus for customers and several large customers have engaged with us directly on innovation and sustainability projects and performance, which has strengthened the innovation pipeline and led to new innovation partnerships and collaboration
- We participate in conferences, trade shows and industry associations, although throughout the pandemic most engagement was carried out via virtual meeting formats

### 2021 highlights

- Launched 21 new products
- 60 innovation projects in development
- \$50m new business
- \$15m spend on R&D
- 2 new R&D labs (Brazil and China)
- 146 online customer technical support seminars

Read more on pages 60-63

## Suppliers

### Why we value them

A resilient and ethical supply chain is critical to our business. We rely on our suppliers to be able to meet the needs of our customers so that we can meet our growth opportunities and portfolio potential.

### How the Board engages

- Review and approval of significant contracts by the Board
- Compliance, ethics and litigation reports from the General Counsel and Chief Compliance Officer
- Procurement strategies
- Modern Slavery Transparency Statement

### How the business engages

- Onboarding process provides two-way communication to build relationships with our suppliers
- Due diligence and supplier surveys
- Supplier training and adherence
- Direct engagement with suppliers by senior management and regular contact with procurement team to address any issues or potential issues
- Corporate responsibility and ethics reporting

### 2021 highlights

During 2021 the Company secured alternate sources of supply to alleviate raw material supply issues and has worked with suppliers to ensure continuity of supply and quality.

Read more on pages 14-15

## Employees

### Why we value them

Our employees are crucial to the success of our business and many of our decisions have an impact on them. Our employees want to feel valued and empowered to make a difference. A safe, ethical and sustainable workplace with rewarding careers and investment in training and development remain important hallmarks of employee satisfaction.

### How the Board engages

- Organisational culture, strategy, engagement and talent and succession matters form part of the standing CEO report to the Board
- A detailed session on people strategy, culture, employee engagement, talent and succession is led by the Chief HR Officer
- Christine Soden (DNED) has engaged with focus groups, received engagement updates throughout the year and circulated a note to all employees on how the Board has listened to and used the feedback as part of the employee voice in the Boardroom
- Through commercial and function presentations to the Board throughout the year
- Director induction programme – townhalls, site visits and Board dinners, although most engagement has been virtual during the year

### How the business engages

- We continually engage and communicate with our people on their health, safety and wellbeing, our organisational culture, promoting diversity and inclusion, and training and development
- We use our annual engagement survey as a mechanism to measure progress, obtain feedback and develop action plans
- Active engagement activities are facilitated through global and local townhall meetings, quarterly business briefings, Coffee with the CEO, works councils, and business, site and functional meetings
- We launched our Inside Elementis news and information platform to keep employees up to date with latest news, recognition, diversity and inclusion events and Company performance
- Performance reviews and appraisals provide feedback on agreed objectives and career development discussions
- Diversity, equity and inclusion – employee resource groups have been established to facilitate local and regional diversity and inclusion activities
- A range of online training and support and a confidential employee assistance and wellbeing programme

### 2021 highlights

- 74% of sites without a recordable injury in 2021
- 63% response rate of employees (engagement score)
- 4 global Women in Leadership events
- Over 4,500 hours of employee training
- Over 644 hours of Diversity, equity and inclusion training delivered
- 3 global townhall meetings and 11 informal 'Coffee with the CEO' sessions

Read more on pages 38-40

## Strategic report

# Stakeholder engagement continued

### Investors

#### Why we value them

As owners of the Company, it is important to understand their perspectives on sustainable growth, capital efficiency and how the Company is run.

#### How the Board engages

- Chairman and SID governance meetings
- Executive remuneration policy proposals and implementation
- Annual shareholder meetings
- Corporate brokers interactions with the Board
- Investor relations Board report
- Feedback from investors following results presentations
- Full year and half year results presentations, trading statements and press releases provide meaningful information on which investors can make informed investment decisions

#### How the business engages

- We engage with our shareholders regularly and consult with our major shareholders on specific issues to understand their views. The CEO, CFO and Director of Investor Relations are the principal contacts for shareholder engagement
- ESG performance, supply chain, innovation, governance and financial related matters have been common themes in investor dialogue during the year which has been shared with the Board
- Virtual innovation seminar held for investors helps grow awareness and understanding of innovation capabilities

#### 2021 highlights

- Over 150 investor meetings
- Attended 5 investor conferences
- Virtual innovation seminar for investors led by SVP Global Technology
- Virtual presentation for retail shareholders in partnership with ShareSoc
- First hybrid AGM delivered

Read more on page 87

### Regulatory authorities

#### Why we value them

Engagement with governments and local regulatory authorities helps to ensure we understand changing regulatory requirements and can maintain a constructive dialogue to meet these requirements.

#### How the Board engages

The Board is kept informed of relevant governance, legal, regulatory and compliance matters, including data privacy.

#### How the business engages

- Direct engagement with regulatory authorities, including permit compliance, reporting breaches, annual technical submissions and regulatory guidance
- Establishing and maintaining key contact relationships with the Company's main regulators
- Active engagement with industry bodies

#### 2021 highlights

- Company submission in response to UK Government consultation – 'Restoring trust in audit and corporate governance'
- Dialogue with Financial Reporting Council in response to a Thematic Review of IAS 37 Provisions, Contingent Liabilities and Contingent Assets – further information on page 100
- Zero notifiable data breaches
- FTSE Women Leaders Review on Boards submission

## Communities and the environment

### Why we value them

Engagement helps us to understand our impact on the wider society and the ways in which we can work together to make a valuable difference.

### How the Board engages

Oversight by the Board of corporate responsibility plans and reporting, including the review and approval of key corporate statements.

### How the business engages

- Environmental and social reporting on our website, including corporate responsibility, modern slavery, gender pay, water stewardship and carbon emissions
- Philanthropy and employee-matched funding for charity policy
- Local volunteering activities
- Carbon Disclosure Project (CDP), UN Global Compact communication on progress and EcoVadis submissions
- Local biodiversity initiatives such as recycling rainwater for banana plantations in Brazil

### 2021 highlights

- Water stewardship policy
- Volunteering and fundraising activities
- Gold rating from EcoVadis and B- rating from CDP
- Responsible Chromium award – only chrome producer in the world to receive this award

Read more on pages 34-37

## Strategic report

## Section 172 statement

## Promoting the success of the Company

Our Directors have a duty under Section 172 of the Companies Act 2006 (s.172) to promote the success of the Company for the benefit of its members. In doing so, they must have regard to the interests of our employees, the business relationships with our suppliers and customers, the impact of our operations on the community and the environment, and the desirability of the Company maintaining a reputation for high standards of business conduct.

To be able to fulfil their duties when making decisions, it is essential that our Directors understand what matters to our stakeholders and, equally, that it is not always possible to provide positive outcomes for all stakeholders when considering the long term success of the Company.

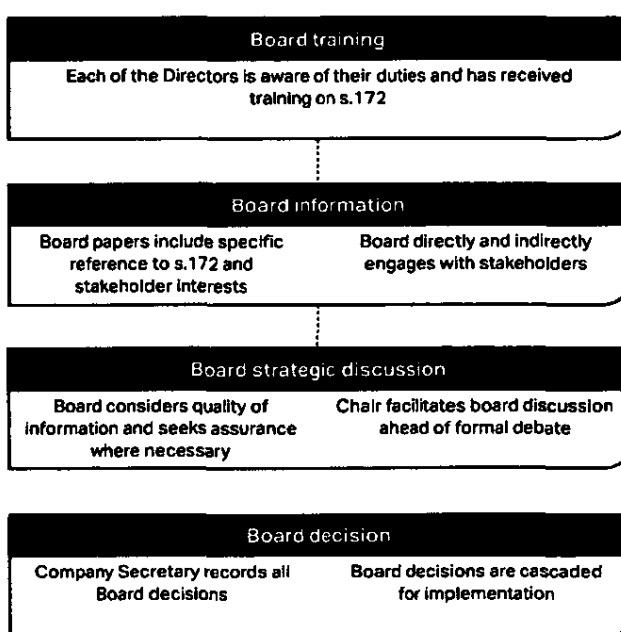
Details of our stakeholder groups and how the business and the Board have engaged with them during the year are set out on pages 48-51.

The Board receives information on stakeholder engagement matters through regular reports and presentations from senior management throughout the year. All Board papers for principal Board decisions include a specific section on s.172 and stakeholder interests. In addition to s.172 duties, there are also other factors that are taken into account or may be considered relevant in the context of decision making, for example, pension scheme members or engagement with regulatory authorities. Directors bring additional value by sharing knowledge or insight gained from previous or current roles which enable a more holistic approach to the decision making environment.

Christine Soden, our designated Non-Executive Director for workforce engagement, ensures that the views and concerns of the workforce are brought to the Board and are taken into account. Further information on our approach to workforce engagement can be found on pages 85-86.

In the ordinary course of business, site visits and Board dinners also provide opportunities for direct engagement with employees, however, this has not been possible as a result of continued COVID-19 related travel restrictions. In addition, the Directors also engage directly with our investors (see page 87 for more detail) and our employees.

## How the Board fulfils its s.172 duties



S.172 duties	Read more	Pages
(a) Consequences of decisions in the long term	Our business model	18-19
	Our strategic priorities	20-27
	Principal risks and uncertainties	68-72
	Viability statement and going concern	73
	TCFD disclosures	42-47
	Board activities	83
(b) Interests of employees	Non-financial information statement	41
	Sustainable business – Our employees	38-40
	Culture and values	84
(c) Fostering business relationships with suppliers, customers and others	Sustainable business	30-40
	Operating review	60-63
	Our strategic priorities	20-27
(d) Impact of operations on the community and the environment	Sustainable business – Managing our environmental impact	34-37
	TCFD disclosures	42-47
(e) Maintaining high standards of business conduct	Sustainable business	30-40
(f) Acting fairly between members	Shareholder engagement	87
	Voting rights	129

## Matters considered by the Board

The following are some of the decisions made by the Board this year which demonstrate how colleague interests, the need to foster business relationship with other key stakeholders and other section 172 matters have been taken into account in discussions and decision-making:

### Decision

**Renewable electricity procurement strategy (including a framework for delegation of authority)**

The key stakeholders identified:

### s.172 considerations

The ability to secure renewable energy for our key sites is a strategic focus for the company and is considered by the Board to be vital for the long term success of the Company.

### The Board's role

The Board's decision-making process was based on a longer term purpose driven objective to ensure that the business can deliver sustainable growth through innovative products that offer cleaner, better and sustainable performance. The reduction of energy used in the production or manufacture of products (i.e GHG Scope 3 emissions) will enable the Company to reduce supply chain emissions in the long-term as well as enabling the Company to achieve its sustainability targets. Sustainability features in our products and our operations are key topics of dialogue and engagement with investors, customers and employees. The Board considered management's proposal and used insight from stakeholder dialogue to conclude that there were no negative impacts for any one group of stakeholders. The ability to contract in a timely manner, cost and demand for renewable assets remain important factors for success.

### Suspension of dividends

The key stakeholders identified:

The Board recognises the value of dividends to shareholders and made a difficult decision to continue the suspension of dividends during 2021.

In 2020 at the height of COVID-19 related uncertainty, the Board decided to take several steps to provide additional financial headroom and preserve cash, one of which was the suspension of the dividend and relaxation of banking covenants as announced in 2020. In 2021, as a result of continued COVID-19 related macroeconomic uncertainty, the Board contemplated the longer terms interests of shareholders and creditors in the context of the Group's capital allocation priorities and it was deemed appropriate to focus on continued debt reduction versus a resumption of dividend. The Board carefully considered the short term negative impact on our shareholders, including employee shareholders but determined that these interests would be better served through prioritising the Group's capital allocation focus on investments to drive organic growth, further debt reduction and when appropriate the resumption of dividends to shareholders.

### Supply chain resilience throughout 2021

The key stakeholders identified:

The ability to operate resiliently throughout 2021 continues to be a key priority for the Board as part of the ongoing long-term success of the Company.

The Board have continued to play a holistic role in oversight of the many supply chain issues that have dominated the macro and micro environments where the Group operates recognising managements' role in navigating the dynamic supply chain environment. The Board considered the interests and expectations of stakeholders in the regular reports received by management to address the dynamic supply chain landscape with a particular focus on cost management, inflationary environment, raw material availability, operational capability and ability to serve customers whilst continuing to demonstrate ongoing focus on innovation, strategic focus and financial profitability. The Board have received and discussed a range of information including: the balance of supply chain resilience and risk, employee safety and well-being and continued backdrop of global and local COVID-19 guidance.

Strategic report

Finance report

## Good performance improvement and leverage reduction

As a result of strong new business success, targeted pricing actions in response to accelerating cost inflation and demand recovery across many of our end markets, this year we delivered a much improved level of performance. In turn, this earnings recovery resulted in an encouraging reduction in financial leverage from 3.2x to 2.6x net debt to EBITDA.

**Ralph Hewins**  
Chief Financial Officer

### Group results

In 2021, revenue increased 17% from \$751m to \$880m due to strong new business success, targeted pricing actions and demand recovery across most of our end markets following a COVID-19 impacted prior year. Excluding the impact of currency translation, underlying revenue increased 14%. Revenue in Personal Care rose 9% on a reported basis and 6% on an underlying basis\*, as demand showed steady recovery due to the gradual easing of social interaction and travel restrictions. In Coatings, revenue increased 20% on a reported basis and 17% on an underlying basis\*, driven by strong new business success and pricing actions in response to accelerating cost inflation. In Talc, revenue increased 14% on a reported basis and 9% on an underlying basis\*, as geographic expansion outside of Europe and delivery of revenue synergies more than offset weakness in both long life plastics for automotive applications and paper markets. Revenue in Chromium increased 16% due to strong volume growth as demand increased across a range of industrial end markets.

Reported operating profit increased from a loss of \$28m to a profit of \$26m with a strong performance improvement partially offset by \$80m of adjusting items, the largest of which was a \$53m non-cash Talc goodwill impairment (2020: Talc \$33.4m and Energy \$26.9m) due to the continuing impact of COVID-19 on industrial activity and global supply chains. Adjusted operating profit increased 28% on an underlying basis\* from \$82m to \$107m with the aforementioned higher revenue and associated earnings more than offsetting cost inflation primarily associated with global supply chain challenges. The statutory result for the year was a profit of \$3m compared with a loss of \$67m in 2020.

## Adjusting items

In addition to the statutory results, the Group uses alternative performance measures, such as adjusted operating profit and adjusted diluted earnings per share, to provide additional useful analysis of the performance of the business. The Board considers these non-GAAP measures as an alternative way to measure the Group's performance. Adjusting items in 2021 resulted in a charge of \$71.2m before tax, a decrease of \$50.3m against last year. The key categories of adjusting items are summarised below. For more information on adjusting items and the Group's policy for adjusting items, please see Note 5 and Note 1 to the financial statements respectively.

Credit/(charge)	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Central costs \$m	Total \$m
Business transformation	(0.1)	(4.2)	-	(0.3)	-	(4.6)
Environmental provisions	-	-	-	(8.3)	-	(8.3)
Impairment of goodwill	-	-	(52.3)	-	-	(52.3)
Amortisation of intangibles arising on acquisitions	(8.7)	(1.1)	(6.0)	(0.2)	-	(16.0)
Sale of Montreal land	-	-	-	1.0	-	1.0
Total charge to operating profit	(8.8)	(5.3)	(58.3)	(7.8)	-	(80.2)
Sale of businesses	(1.7)	-	-	-	-	(1.7)
Mark to market of derivatives	-	-	-	-	10.7	10.7
<b>Total</b>	<b>(10.5)</b>	<b>(5.3)</b>	<b>(58.3)</b>	<b>(7.8)</b>	<b>10.7</b>	<b>(71.2)</b>

### Business transformation

In November 2020, the closure of the Charleston plant was announced. Costs of \$4.2m in 2021 (including \$0.4m of depreciation) associated with preparing the site for sale are classified as an adjusting item and the site is planned to be disposed of in the future. Further charges of \$0.4m relate to the optimisation of the supply chain footprint across our Personal Care and Chromium businesses.

### Environmental provisions

The Group's environmental provision is calculated on a discounted cash flow basis, reflecting the time period over which spending is estimated to take place. The movement in provision relates to a change in discount rates that has decreased the liability by \$1.3m in the year, and extra remediation work identified in the year which has resulted in a \$9.6m increase to the liability. As these costs relate to non-operational facilities they are classified as adjusting items.

### Impairment of goodwill

In Talc, while the business fundamentals are unchanged, the continuing impact of COVID-19 on wider industrial activity and global supply chains, especially affecting the automotive sector, and the near term forecast profitability of the business has resulted in a goodwill impairment of \$53.1m. This impairment is reflected as a P&L charge of \$52.3m and \$0.8m movement in exchange differences on translation of foreign operations in other comprehensive income.

### Amortisation of intangibles arising on acquisition s

Amortisation of \$16.0m (2020: \$15.5m) represents the charge in respect of the Group's acquired intangible assets. As in previous years, these are included in adjusting items as they are a non-cash charge arising from historical investment activities.

### Sale of Montreal land

In 2021 the Group disposed of a non-core parcel of land in Montreal, Canada. The profit on disposal has been treated as an adjusting item.

### Sale of businesses

The \$1.7m loss on disposal of two non-core dental businesses, Eisenbacher Dentalwaren ED GmbH and Adentatec GmbH, has been treated as an adjusting item in 2021.

### Mark to market of derivatives

The movements in the mark to market valuation of financial instruments that are not in hedging relationships are treated as adjusting items as they are non-cash fair value adjustments that will not affect the cash flows of the Group.



## Strategic report

## Finance report continued

## Revenue

	2021 \$m	2020 \$m	Change
Personal Care	174.7	160.8	9%
Coatings	384.3	319.1	20%
Talc	150.4	132.5	14%
Chromium	170.7	146.9	16%
Inter-segment	-	(8.0)	N/A
Revenue	880.1	751.3	17%

## Adjusted operating profit

	2021			2020		
	Operating profit/(loss) \$m	Adjusting items \$m	Adjusted operating profit/(loss) \$m <sup>A</sup>	Operating profit/(loss) \$m	Adjusting items \$m	Adjusted operating profit/(loss) \$m <sup>A</sup>
Personal Care	27.9	8.8	36.7	20.0	13.6	33.6
Coatings	56.5	5.3	61.8	(4.9)	46.3	41.4
Talc	(44.3)	58.3	14.0	(22.4)	39.0	16.6
Chromium	6.3	7.8	14.1	(3.6)	9.2	5.6
Central costs	(20.0)	-	(20.0)	(17.3)	1.7	(15.6)
Operating (loss)/profit	26.4	80.2	106.6	(28.2)	109.8	81.6

<sup>A</sup> After adjusting items – see Note 5 to the financial statements

## Group performance – revenue

	Revenue 2020 \$m	Effect of exchange rates \$m	Increase 2021 \$m	Revenue 2021 \$m
Personal Care	160.8	3.5	10.4	174.7
Coatings	319.1	9.3	55.9	384.3
Talc	132.5	6.1	11.8	150.4
Chromium	146.9	-	23.8	170.7
Inter-segment	(8.0)	-	8.0	-
Revenue	751.3	18.9	109.9	880.1

## Group performance – adjusted operating profit

	Operating profit 2020 <sup>A</sup> \$m	Effect of exchange rates \$m	Increase/ (decrease) 2021 \$m	Operating profit 2021 <sup>A</sup> \$m
Personal Care	33.6	1.0	2.1	36.7
Coatings	41.4	0.8	19.6	61.8
Talc	16.6	0.6	(3.2)	14.0
Chromium	5.6	-	8.5	14.1
Central costs	(15.6)	(0.8)	(3.6)	(20.0)
Adjusted operating profit	81.6	1.6	23.4	106.6

<sup>A</sup> After adjusting items – see Note 5 to the financial statements

## Hedging

Cash flow hedges are used as part of a programme to manage our exposure to interest rate risk and commodity price risk particularly associated with USD and EUR interest payments and aluminium pricing. In 2021, interest rate and commodity price movements were such that the net impact of these hedge transactions was a loss of \$0.4m (2020: \$0.9m) recycled to the income statement.

## Central costs

Central costs are those costs that are not identifiable as expenses of a particular business and comprise expenditures of the Board of Directors and corporate head office. In 2021, adjusted central costs were \$20.0m, up \$4.4m on the previous year due to an increase in variable remuneration and an investment in capability.

## COVID-19 assistance

The Group has accessed various Government support schemes aimed at mitigating the potential impact on individuals' job losses resulting from the impact of COVID-19. The most significant amounts received by the Group include the following:

- \$0.4m in relation to Government support under temporary wage support schemes available in the Netherlands. The Group does not have any unfulfilled obligations relating to these support programmes. This amount has been offset against employee remuneration costs.
- Agreement of payment plans with tax authorities in China to defer payments of income taxes and payroll taxes resulting in \$1.1m payment deferrals across the Group.

## 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 \$2.1m in 2021 compared with \$1.6m in the previous year.

## Net finance costs

	2021 \$m	2020 \$m
Finance income	0.3	0.3
Finance cost of borrowings	(23.3)	(22.6)
	(23.0)	(22.3)
Net pension finance costs	(0.3)	(0.6)
Discount unwind on provisions	(2.6)	(2.7)
Fair value movement on derivatives	10.7	(10.2)
Dividend currency hedge cancellation	–	(1.8)
Interest on lease liabilities	(1.6)	(1.7)
Net finance costs	(16.8)	(39.3)

Net finance costs for 2021 were \$16.8m, a decrease of \$22.5m on last year. Finance costs comprise interest payable on borrowings calculated using the effective interest rate method, facility arrangement fees, the unwinding of discounts on the Group's environmental provisions, fair value movement on derivatives and interest charged on lease liabilities.

The decrease in net finance costs is primarily due to the fair value movement on derivatives (\$20.9m decrease) versus prior year and the cancellation of the dividend currency hedge in 2020 following the suspension of the 2019 final ordinary dividend (\$1.8m decrease). Finance cost of borrowings was broadly in line with the previous year.

Both pension finance costs, which are a function of discount rates under IAS 19 and the value of schemes' deficit or surplus positions, and the interest on lease liabilities, were broadly consistent in 2021 compared with 2020.

The discount unwind on provisions relates to the annual time value of the Group's environmental provisions which are calculated on a discounted basis. The unwind of \$2.6m in 2021 is in line with the previous year.

## Taxation

### Tax charge

		2021 Effective rate %		2020 Effective rate %
	\$m		\$m	
Reported tax charge/ (credit)	3.3	(57.0)	(1.8)	(2.6)
Adjusting items tax credit	11.3	–	16.0	–
Underlying tax charge	14.6	19.0	14.2	26.9

The Group incurred a tax charge of \$14.6m (2020: \$14.2m) on adjusted profit before tax, resulting in an effective tax rate of 19.0% (2020: 26.9%). The Group's effective tax rate in 2021 is slightly lower than its usual range due to beneficial adjustments in respect of prior years and the one-off impact of the UK rate change on its deferred tax assets.

Tax on adjusting items relates primarily to the reversal of an uncertain tax provision in the US and the amortisation of intangible assets.

The expectation for the Group's effective P&L tax rate is around 22-23% until 2023, after which it is anticipated to rise to 25-26% due to the previously announced increase in UK corporation tax rates from April 2023. The enacted rate change increases the Group's UK deferred tax assets by \$1.2m, with the tax credit reflected in the income statement. Furthermore, the enacted rate change increases the Group's UK deferred tax liabilities by \$2.5m, with the tax charge reflected in other comprehensive income.

Following the European Commission's State Aid investigation into the UK Finance Company Exemption (FCE) regime, Elementis received a charging notice in February 2021 for the maximum exposure of \$19m (excluding interest). Elementis paid the notice amount to HMRC on 5 March 2021, as required, and has lodged an appeal. 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 31 December 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. The UK Government's appeal against the European Commission's decision was heard by the General Court of the European Union during October 2021 with a decision expected during 2022.

## Earnings per share

Note 9 to the consolidated financial statements sets out a number of calculations of earnings per share. To aid comparability of the underlying performance of the Group, earnings per share reported under IFRS is adjusted for items classified as adjusting.

## Strategic report

## Finance report continued

Adjusted diluted earnings per share was 10.6 cents<sup>a</sup> for 2021 compared with 6.5 cents<sup>a</sup> in the previous year, an increase of 63% due to higher profit and a lower effective tax rate. Basic earnings per share before adjusting items was a profit per share of 0.4 cents<sup>a</sup> compared with a loss per share of 11.5 cents<sup>a</sup> in 2020.

Note 9 to the Group consolidated financial statements provides disclosure of earnings per share calculations both including and excluding the effects of adjusting items and the potential dilutive effects of outstanding and exercisable options.

## Distributions to shareholders

Given the market and economic uncertainties, and the Board's desire to provide additional financial headroom and preserve cash, no dividend distributions to shareholders were made during the year. The Board is also not recommending a final dividend for 2021. The Board recognises the importance of dividends to shareholders and will look to reinstate payments once further progress is made on reducing financial leverage.

## Cash flow

Net cash flow from operating activities decreased by \$40.4m to \$66.7m in 2021, due to an increase in cash tax of \$23.1m, the majority of which relates to the ongoing EU state aid case, and working capital outflow as a result of increased revenues.

Net cash outflow in relation to investing activities increased by \$25.8m to \$65.0m following the successful conclusion of an historic, pre-acquisition interest deductibility case (\$13.2m outflow) and also due to increased capital expenditure primarily linked to the new AP Actives plant in India.

Net cash outflow in relation to financing activities reduced by \$39.4m to \$25.3m in 2021 due to additional tax cash outflows related to specific items as set out above limiting surplus cash to pay down central borrowings.

The adjusted cash flow which excludes the effect of adjusting items from operating cash flow is summarised below. A reconciliation of statutory operating profit to EBITDA is shown in the alternative performance measures section on page 193.

	2021 \$m	2020 \$m
EBITDA <sup>1</sup>	158.5	132.8
Change in working capital	(31.6)	18.8
Capital expenditure	(52.8)	(40.0)
Other	1.9	(1.8)
<b>Adjusted operating cash flow</b>	<b>76.0</b>	<b>109.8</b>
Pension payments	(0.1)	(0.1)
Interest	(23.2)	(23.4)
Tax	(30.9)	(8.5)
Adjusting items	(20.4)	(12.2)
Payment of lease liabilities	(6.7)	(6.7)
<b>Free cash flow</b>	<b>(5.3)</b>	<b>58.9</b>
Issue of shares	0.1	0.1
Dividends paid	–	–
Acquisitions and disposals	0.3	0.5
Currency fluctuations	12.0	(13.4)
<b>Movement in net debt</b>	<b>7.1</b>	<b>46.1</b>
<b>Net debt at start of year</b>	<b>(408.1)</b>	<b>(454.2)</b>
<b>Net debt at end of year</b>	<b>(401.0)</b>	<b>(408.1)</b>

<sup>1</sup> EBITDA – earnings before interest, tax, adjusting items, depreciation and amortisation.

Adjusted operating cash flow decreased by \$33.8m to \$76.0m for 2021 as an increase of \$25.7m in EBITDA was offset by \$50.4m movement in working capital and an increase in net capital expenditure of \$12.8m.

Free cash outflow of \$5.3m in 2021 represents a reduction of \$64.2m on the prior year period. Cash tax outflows increased from \$8.5m to \$30.9m, primarily due to the \$19.5m charging notice received for the ongoing EU state aid case. A further one-off cash outflow of \$13.2m associated with an historic, pre-acquisition interest deductibility tax case increased adjusting items cash outflow from \$12.2m in 2020 to \$20.4m in 2021.

Net debt decreased from \$408.1m in 2020 to \$401.0m in 2021, a reduction of \$7.1m, and net debt to adjusted EBITDA decreased from 3.2x\*\* in 2020 to 2.6x\*\* in 2021. The decrease in leverage is due to the improvement in adjusted EBITDA, reflective of the Group's higher earnings.

## Balance sheet

	2021 \$m	2020 \$m
Intangible fixed assets	815.7	892.6
Tangible fixed assets	499.7	516.0
Working capital	164.0	141.4
Net tax liabilities	(112.6)	(132.2)
Provisions and retirement benefit obligations	(22.5)	(79.0)
Financial assets and liabilities	(5.2)	(30.7)
Lease liabilities	(40.2)	(44.4)
Unamortised syndicate fees	3.1	4.8
<b>Net debt</b>	<b>(401.0)</b>	<b>(408.1)</b>
<b>Total equity</b>	<b>801.0</b>	<b>860.4</b>

Group equity increased by \$40.6m in 2021 (2020: decrease of \$45.8m). Intangible fixed assets decreased by \$76.9m due to an impairment of \$52.3m, \$16.6m of amortisation of intangibles and \$8.2m of foreign exchange. Tangible fixed assets decreased by \$16.3m, with gross PPE additions of \$51.5m, right-of-use asset capitalisation of \$2.0m more than offset by exchange differences of \$18.7m and depreciation of \$51.7m.

Working capital comprises inventories, trade and other receivables and trade and other payables. Working capital increased by \$22.6m in 2021, a result of higher underlying revenue.

Net tax liabilities of \$112.6m decreased as a result of the EU state aid payment which has been recognised as an asset based on the expectation that the charge will be repaid in due course of the broadly in line with the previous year.

Adjusted ROCE (excluding goodwill) increased to 13% from 10% in 2020, due to increased adjusted operating profit (see Alternative Performance Measures on page 193).

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

	Year end	2021 Average	Year end	2020 Average
Pounds sterling	0.74	0.73	0.73	0.78
Euro	0.88	0.84	0.82	0.88

## Provisions

The Group records a provision in the balance sheet when it has a present obligation as a result of past events, which is expected to result in an outflow of economic benefits in order to settle the obligation and the amount can be reliably estimated. The Group calculates provisions on a discounted basis. At the end of 2021, the Group held provisions of \$61.8m (2020: \$58.8m) consisting of environmental provisions of \$58.7m (2020: \$50.6m), self-insurance provisions of \$0.7m (2020: \$1.5m) and restructuring and other provisions of \$2.4m (2020: \$6.7m).

Environmental provisions have increased by \$8.1m in 2021, with a net \$8.3m taken through adjusting items, \$9.6m expense relates to extra remediation work for additional closure and decommissioning activities offset by \$1.3m relating to a change in the discount rate applied to the liabilities. The remaining movement relates to \$2.6m of unwind of discount in the year offset by \$0.4m of currency translation and \$3.1m of utilisation. The self-insurance provision represents the Group's estimate of its liability arising from retained liabilities under the Group's insurance programme.

Within the restructuring and other provisions categories the majority of the balance relates to payments to be made for right of first refusal on a quarry, payments for which are linked to the discharge of residue into another quarry owned by the same counterparty.

## Pensions and other post retirement benefits

	2021 \$m	2020 \$m
Net (surplus)/liability:		
UK	(56.6)	(7.9)
US	8.3	18.3
Other	9.0	9.8
	(39.3)	20.2

### UK plan

The largest of the Group's retirement plans is the UK defined benefit pension scheme ('UK Scheme'), which at the end of 2021 had a surplus, under IAS 19, of \$56.6m (2020: \$7.9m). The UK Scheme is relatively mature, with approximately two thirds of its gross liabilities represented by pensions in payment, and is closed to new members. Return on plan assets of \$35.0m (2020: \$75.2m) and liability adjustments of \$27.1m (2020: \$59.5m) arising due to higher discount rates based on real corporate bond yields increased the surplus. Company contributions of \$0.6m (2020: \$nil) reflect the funding agreement reached with the UK trustees following the 2020 triennial valuation which concluded in 2021.

### US plan

In the US, the Group reports two post retirement plans under IAS 19: a defined benefit pension plan with a deficit value at the end of 2021 of \$1.7m (2020: \$11.8m), and a post retirement medical plan with a liability of \$6.6m (2020: \$6.5m). The US pension plans are smaller than the UK plan and in 2021 the overall deficit value of the US plans decreased by \$10.0m due to actuarial decreases in the liability of \$6.3m (2020: \$12.8m increase), return on plan assets of \$7.2m (2020: \$15.8m) and employer contributions of \$0.5m (2020 \$0.5m).

## Other plans

Other liabilities at 31 December 2021 amounted to \$9.0m (2020: \$9.8m) and relate to pension arrangements for a relatively small number of employees in Germany, certain UK legacy benefits and one pension scheme acquired as part of the SummitRehels transaction in 2017.

## Financial assets and liabilities

Financial liabilities at 31 December 2020 include \$nil of contingent consideration in respect of Talc (2020: \$13.4m). This balance was settled in 2021 following the successful conclusion of an historic, pre-acquisition interest deductibility tax case relating to Talc.

Also included are net derivative financial liabilities of \$5.2m (2020: \$15.9m) relating to the valuation of various risk management instruments.

The movements in the mark to market valuation of financial instruments that are not in hedging relationships are treated as adjusting items as they are non-cash fair value adjustments that will not affect the cash flows of the Group.

## Events after the balance sheet date

The ongoing EU state aid case is discussed in the taxation section of this finance report.

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

Ralph Hewins  
Chief Financial Officer

3 March 2022

Δ After adjusting items – see Note 5

\* Adjusted for FX (where constant currency reflects prior year results translated at current year exchange rates).

\*\* See calculation within the unaudited information on page 194

## Strategic report

### Operating review

#### Personal Care

## Partial demand recovery and improving momentum

**Stijn Dejonckheere**  
SVP Global Personal Care

As social and travel restrictions started to recede, demand for Personal Care products improved. While demand is yet to return to pre-COVID levels, this improvement, combined with our continued strategic progress, means we are well positioned to improve our financial performance.

### Financial performance

Personal Care revenue in 2021 was \$175m compared with \$161m in the prior year, a 9% increase on a reported basis. Excluding currency impacts, revenue rose by 6% on an underlying basis\*, driven by demand recovery in our two key end markets, colour cosmetics and anti-perspirant deodorants. While these markets have started to recover as COVID-19 related social and travel restrictions have eased, they remain approximately 3-5% below 2019 levels, thereby providing scope for further recovery.

Adjusted operating profit was 9% ahead of the prior year period at \$37m, with margins of 21.0% stable on the prior year (20.9%). Improved volumes and product mix more than offset double running costs associated with the ramp up of the new India manufacturing plant, people investments in Asia to drive future growth and increased raw material costs.

### Strategy

Our medium term Personal Care growth strategy is focused on two areas, *Cosmetics* and *AP actives*. In both segments we have differentiated technologies and strong competitive positions with attractive opportunities to grow ahead of the market.

In *Cosmetics*, consumers are increasingly looking for products that contain clean and natural ingredients, providing a clear structural growth driver for our hectorite clay based *Cosmetics* additives. With 8% average annual sales growth over the last decade, we have a strong track record, and looking forward, further targeted investment will drive our ability to develop new customers and enter new geographies and markets.

In *Asia*, our *cosmetics* business is underweight, with the region representing under 20% of our sales compared with 40% for the broader Personal Care industry. In January, we opened a new technical service centre in China, our first facility in the region dedicated to serving Personal Care customers. In addition, we have added eight heads in sales, marketing and R&D, more than doubling our headcount in the region. These steps, combined with innovative new products tailored to local market trends and a market recovery, helped deliver 44% year-on-year sales growth in *Asia* during 2021, and will drive our medium term aim of doubling sales in the region.

*Skin care*, is a large, resilient and growing part of a market where we have historically had little participation. This year, to develop our *skin care* presence, we launched two exciting new products, *Bentone Hydroclay™ 2100* and *Bentone® Luxe XO*, and expanded our marketing activities. Reflecting our progress, *skin care* sales rose 41% versus the prior year and with a new business pipeline of \$14m we are well positioned to deliver our medium term target of \$10m incremental sales.

In *AP Actives*, population growth and rising disposable incomes are anticipated to drive strong growth for anti-perspirants in markets such as *South America* and *Asia*. In the third quarter, we successfully started up a new \$20m manufacturing plant in *India*. This facility, which is now undergoing a 12 month ramp up and qualification phase, will ensure we are well positioned to serve these growth markets and generate material cost savings.

Innovation is critical to our future success in both *Cosmetics* and *AP Actives*. In 2021, we launched 14 new products, our highest level on record, all of which provide premium product performance attributes and enhanced sustainability claims. In addition, we have deepened our partnership with *AQDOT*, rolling out the *AQFresh™* odour capture and smart fragrance release solutions, strengthening our marketing leading portfolio of actives and ingredients for anti-perspirant and deodorant applications. The Personal Care product portfolio and innovation pipeline is well positioned to deliver organic revenue growth above GDP growth, with high and stable margins over the medium term.

\* Adjusted for currency impact. See page 56.

#### SALES BY REGION

Asia	16%
Europe	39%
Americas	45%

**\$175m**

2021 Revenue  
(2020: \$161m)

**\$37m**

2021 Adjusted  
Operating Profit  
(2020: \$34m)

## Coatings

## Strong new business success and margin progression

capacity consolidation more than offsetting raw material cost inflation. As a result, adjusted operating profit margins rose from 13.0% in 2020 to 16.1% in 2021, a tremendous result in a challenging global supply chain environment and reflective of a business well positioned for future success.

### Strategy

Today our Coatings business offers a simpler yet more differentiated product portfolio, alongside a more efficient operating model. This solid platform helped us navigate the challenges of 2021 and execute our growth strategies, resulting in 37% sales growth across our technology growth platforms that represent just over one third of the total business; as detailed below.

#### SALES BY REGION

Asia	34%
Europe	31%
Americas	35%

**Luc van Ravenstein**  
SVP Global Coatings and Energy

While demand largely rebounded following the impact of COVID-19, it is encouraging to see the delivery of record new business and strong margin improvement in a challenging supply chain environment. We have a business and product portfolio that is well positioned for the future.

### Financial performance

Coatings revenue in 2021 was \$384m compared with \$319m in the prior year, a 20% increase on a reported basis. Excluding the impact of currency, revenue rose 17%, driven by new business success, pricing actions and demand recovery from COVID-19 lows in 2020. Revenue from the Energy business, now reported as part of Coatings, rose 21% on the prior year supported by higher oil prices and increased drilling activity.

Excluding Energy, Coatings sales rose 17% on an underlying basis\* with strong growth in all regions as decorative activity remained buoyant and industrial demand recovered. In EMEA, sales rose 27% on an underlying basis\*, with notable strength in industrial coatings applications, reflective of new business success, particularly for our Thixatrol® products which are also used in high performance adhesives and sealants. In Americas, sales rose 17%\* driven by encouraging new business success for our Rheolate® HX rheology series for premium decorative paint. In Asia, where over 80% of our sales come from industrial activity, underlying\* sales rose 9% as strong growth in South East Asia was partially offset by slowing market activity in China in the second half of the year.

Adjusted operating profit rose by 49% from \$41m to \$62m, and 46% on an underlying basis\*, with volume growth, improved price/mix and cost savings from the Charleston plant closure and St Louis

In decorative paint, we have a strong value proposition for the premium segment. Consumers want paints that are easier to apply, with better stain resistance and enhanced sustainability credentials. Our Rheolate® HX series meets all of these requirements and, with 47% growth in 2021, has demonstrated encouraging new business success and market share gains. We are now approximately half way towards achieving our medium term aim of doubling our share of this \$400m market to approximately 20%. To drive further progress, we have continued to innovate, and will soon launch Rheolate® PHX 7025, a powdered associative thickener which delivers up to 75% reduction in transportation emissions and expands our total addressable market to \$500m.

In industrial coatings, we have broad and complementary solutions that enable the transition from solvent to waterborne technologies, thus delivering significant environmental benefits without sacrificing performance. We saw strong customer demand for our solutions in 2021, with 31% revenue growth. To support this momentum, we have launched several new products including Thixatrol® PM 8058 for protective coatings. This castor wax based additive is 75% bio based, delivers thicker application and requires lower temperature activation, thereby saving customers energy and emissions.

Adhesives and sealants are the third major growth platform of our Coatings business. This market is supported by megatrends such as the replacement of mechanical fasteners with adhesives, and energy efficiency regulations which require improved heat retention properties. Our range of additives deliver enhanced adhesion and durability, up to 30% lower energy processing costs and genuine sustainability benefits. Our revenue in this market grew double digits in 2021, and with a \$10m new business pipeline we look forward to making further progress.

\* Adjusted for currency impact. See page 56.

**\$384m**

2021 Revenue  
(2020: \$319m)

**\$62m**

2021 Adjusted  
Operating Profit  
(2020: \$41m)

## Strategic report

## Operating review continued

## Talc

## Good strategic delivery in a mixed operating environment

**Christian Kather**  
SVP Global Talc

This year witnessed a mixed operating environment with stronger industrial activity partially offset by weaker than expected demand for high value long life plastics. Nonetheless, we have made good strategic progress, expanding our presence in Asia and the Americas, delivering \$16m of revenue synergies and developing new applications such as barrier coatings for recyclable packaging.

### Financial performance

Revenue in 2021 was \$150m compared with \$133m in the prior year, a 14% increase on a reported basis. Excluding the impact of currency movements, revenue rose by 9%, with new business success and pricing actions partially offset by weakness in automotive and paper end markets.

Sales of industrial talc (representing over 85% of total Talc revenue) rose 15% on an underlying basis\*, driven by \$13m of new business, geographic expansion and demand recovery in several end markets following a COVID-19 impacted 2020. Sales to coatings customers grew 8% on an underlying basis\*, reflective of market share gains as we gained new customers and entered new geographies, taking our revenue synergies since acquisition to \$16m. Sales to technical ceramics customers more than doubled on the prior year due to market share gains, predominantly in Asia. This momentum more than offset a weak performance in high value long life plastics, due to a 6% decline in European automotive production because of well documented semiconductor shortages.

Talc sales to the graphic paper market declined as expected by over 30% on an underlying basis\* driven by the ongoing shift to non-print media. This market now represents just under 8% of total Talc revenue.

Adjusted operating profit declined 16% on a reported basis (19% on an underlying basis\*) from \$17m to \$14m, with top line growth more than offset by higher costs in the second half of the year due to accelerating logistics and energy cost inflation, ahead of pricing actions taken in response.

### Strategy

Historically the focus of our Talc business has been serving European paper markets, reflective of the location of our talc deposits in Finland. Over the last decade, we have successfully repositioned the business to serve higher value, growing end markets around the world. Despite this success there are further opportunities to increase our presence in the \$1bn global talc market and expand outside Europe, which accounts for approximately 80% of our business. Following recent investments in local sales and technical support, we grew 24% in Asia and 62% in Americas, driven by \$13m of new business success in long life plastics, technical ceramics and coatings. With both regions representing approximately 20% of total sales, compared with 50% for the overall market, there is much more room for growth.

Leveraging the Group's global asset base, marketing and distribution capabilities and technical expertise, we also aim to deliver \$20-25m of revenue synergies by 2023. At the end of 2021, we had delivered \$16m of our target, and with a significant new business pipeline we have encouraging momentum. Notable progress has been made consolidating distributors, cross selling talc additives to existing Elementis coatings customers, expanding into new geographies and developing new products such as pre-dispersed Talc.

Expanding our market share in existing markets and developing new applications is crucial to our future success. While the slowdown in global automotive production has impacted demand for long life plastics, the structural market drivers of vehicle light-weighting and emissions reductions remain positive. Our aim is to expand our share in this \$500m market from 7% towards our global average of 11%.

The business has a strong track record of identifying and developing new product applications. Talc for barrier coatings that enable recyclable food packaging is an exciting new area where we are making encouraging progress, with 27 production and pilot scale trials and a \$5m new business pipeline.

\* Adjusted for currency impact. See page 56.

### SALES BY REGION

Asia	14%
Europe	79%
Americas	7%

**\$150m**

2021 Revenue  
(2020: \$133m)

**\$14m**

2021 Adjusted  
Operating Profit  
(2020: \$17m)

## Chromium

## Demand improvement points to potential pricing recovery

## Strategy

In Chromium, we have a strong competitive advantage as the sole producer in North America, with a differentiated product delivery system that materially reduces customer product handling risk. While our business supplies industrial end markets that are exposed to the economic cycle, in particular outside North America, it has a track record of attractive cash returns with scope for future operational and performance improvement.

Our primary focus is the delivery of safe and reliable operations for our employees and customers. This year we were pleased to be recognised with the Responsible Chromium label awarded by the International Chromium Development Association. The award reflects our high standards in areas including safe processes, safeguarding the environment, fighting corruption, and demonstrates our commitment to being a responsible provider.

Global supply chain challenges including raw material inflation and logistical bottlenecks tested our resilience in 2021. We responded well but there is more we can do to improve our efficiency and market position. We have identified and will be working on several projects which target both cost and efficiency gains over the next several years.

Opportunities for growth also exist. In leather tanning we gained key new leather tanning accounts in North America and increased the take up of our Waynetan Chrome Sulphate product range with new products that deliver high quality leather hides and enhanced production yields.

We continue to focus on moving our product mix towards high value chrome acid and oxide applications. Such products are essential to enhancing the durability and lifecycle of critical industrial equipment in areas like aerospace, military equipment, automobiles and trucks, heavy duty equipment, manufacturing machinery, medical devices and exciting new applications including hydrogen fuel cells.

## SALES BY REGION

Asia	20%
Europe	12%
Americas	68%

**\$171m**

2021 Revenue  
(2020: \$147m)

**\$14m**

2021 Adjusted  
Operating Profit  
(2020: \$6m)

**Eric Waldmann**  
SVP Global Chromium

Chromium performance improved on the prior year, driven by improved demand from industrial end markets following the impact of COVID-19 in 2020. Signs of pricing recovery are encouraging and our focus remains on the delivery of safe and reliable operations.

## Financial performance

Chromium revenue in 2021 was \$171m, up 16% from \$147m in the prior year driven by double digit volume growth. Due to the rebound in industrial activity, demand for chromium chemicals increased across a range of end markets including metal plating, leather tanning and construction applications. While average unit pricing modestly decreased in the year, the second half of the year showed clear signs of recovery. As a result of demand improvements and constrained supply, we estimate global chromium industry capacity utilisation rose from approximately 75% in 2020 to 85% in 2021. In turn, this tightness is positively impacting market prices.

Adjusted operating profit rose by 152%, with improved volumes and product mix more than offsetting accelerating raw material costs. Adjusted operating profit margin rose from 3.8% to 8.3%.



## Strategic report

## Risk management

# Risk management

Elementis faces a number of risks, uncertainties and opportunities in the ordinary course of its operations. The effective identification, mitigation and ongoing management of these risks underpins the delivery of strategic objectives. Elementis has an established risk management framework and system of internal controls to support decision making throughout the financial year.

Risk management systems are intended to mitigate and reduce risk to the lowest extent possible; however, complete elimination of all risks faced by Elementis is not possible. The risk management processes can only provide reasonable and not absolute assurance against material misstatement or loss.

## Our framework for risk management

The Board has overall responsibility for risk management and sets the Group's policies, culture and tone on risk as well as providing oversight to management. A risk management framework is in place to identify, assess, mitigate and monitor the risks faced. The Company places the highest priority on preventing loss of life, other harm to people and the environment, legal and regulatory breaches and damage to reputation or brand and has in place Group policies, procedures and guidance in various aspects of business operations and functions in order to help the ELT and employees manage risk in these areas.

<b>Top down</b>	<b>Board</b>		
Oversight, identification, assessment and mitigation of risks at a Group level	The Board has overall responsibility for risk management and sets the Group's policies, culture and tone on risk as well as providing oversight to management		
	<b>Audit Committee</b>	<b>CEO (supported by the ELT)</b>	<b>ELT individuals and risk champions</b>
	Supports the Board and has specific responsibility for monitoring financial reporting as well as the internal and external audit programmes, one of the primary purposes of which is to provide assurance on financial, operational and compliance controls.	The CEO is responsible for implementing Group policies, risk management performance, identifying principal risks and ensuring resources are allocated for effective risk management and mitigation.	ELT members have responsibility for managing and monitoring risks relevant to their business or function on an ongoing basis and work with the support of risk champions to further embed risk management within the organisation.
<b>Bottom up</b>			
Identification, assessment and mitigation of risks across operational and functional areas	<b>Operational and supporting functions</b>		
	Data Protection Steering Committee, HSE Council, Manufacturing Council, Ethics and Compliance Council, Environmental Sustainability Council, Diversity, Equity and Inclusion Council, and Investment Commitment forum (Capital expenditure & allocation) and Internal Audit.		

The Group employs a three lines model to provide a simple and effective way to enhance risk management and control processes and ensure roles and responsibilities are clear. The Board maintains oversight to ensure risk management and control activities carried out by the three lines are proportionate to the perceived degree of risk and its own risk appetite across the Group.

First and second line functions provide comfort to management that controls are designed appropriately and are working effectively to mitigate the principal risks. Examples include the review of the general IT controls framework during the year and business continuity plans at site level in response to the COVID-19 pandemic.

#### First line roles:

##### Business operations

Our first line of defence, our employees, have a responsibility to manage day-to-day risk in their own areas, guided by Group policies, procedures and control frameworks.

Local management, and ultimately the ELT, ensure that risks are managed, maintained, reviewed and actioned according to these frameworks.

#### Second line roles:

##### Oversight functions

The second line of defence is provided by the management team reviewing and monitoring current and emerging risks using a bottom-up and top-down approach.

#### Third line roles:

##### Internal Audit

The third line of defence is assurance over the effectiveness of mitigating controls. This is provided through internal audits, in addition to reports from external assurance providers, which are reviewed by management and monitored and challenged by the Audit Committee and the Board.

### Risk heat map (gross impact)

#### Our principal risks

1. Global economic conditions and competitive market pressures
2. Business interruption as a result of a major event or a natural catastrophe
3. Business interruption as a result of supply chain failure of key raw materials and/or third party service provision
4. Regulatory compliance and product stewardship challenges
5. Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations
6. Intellectual property and know-how
7. Portfolio innovation and technology/protection
8. People, talent management and succession
9. IT networks, data security and privacy
10. Health and Safety (new)

## Strategic report

## Risk management continued

## Risk culture

Every individual at Elementis has a responsibility to manage risk, irrespective of function, business or role. Risk awareness exists through decision making processes and is embedded in systems, policies, procedures, leadership and, behaviours and specific standards such as the Code of Conduct. All Company employees are responsible for complying with related Company policies and guidance, and share responsibility for ensuring that the Company conducts its business in a safe, lawful and ethical manner.

## Risk appetite and tolerance

Risk appetite at Elementis is understood as being the amount of risk that the Board is prepared to accept in return for reward or investment return. There is a degree of variability in determining risk appetite which may be based on strategic objectives as well as guidance from management or advisers based on appropriate understanding and analysis of the nature of the risk. The strategic appetite for risk is decided on a case-by-case basis at Board level, for example with respect to any corporate transaction or significant capital expenditure project, and delegated to the ELT to implement as appropriate. The maximum risk that can be taken before the Company experiences financial distress is also decided at Board level and mitigated, as far as possible, by internal controls, business continuity plans, insurance, financial instruments and contracts.

## Our risk review processes

Our risk management policy defines our approach to risk management. The Board maintains an annual forward planner to ensure that appropriate focus is given at scheduled meetings to discuss, review and monitor business and operational performance, strategic priorities, governance, compliance and risk matters. This approach enables the Board to engage directly with each of the business units and functional departmental leaders.

Each ELT member is responsible for identifying, assessing and monitoring their respective business and functional risks as well as measuring the impact and likelihood of the risk to the business. Each identified risk is categorised as strategic, commercial, operational, financial or compliance.

On an annual basis, the ELT collectively reviews the enterprise risk universe and the Board carries out a review of the principal risks and uncertainties.

During the year, the following risk management activities have been carried out:

- Renewal of insurance programme
- BU and function risk registers reviewed, updated and development of effectiveness of controls with clear accountabilities
- New climate change risk landscape and assessment and climate scenario analysis undertaken
- Launch of risk champion role to support each business segment and function
- Property risk survey programme
- Board briefings on climate change reporting frameworks, risks and implementation

## Key areas of focus during the year

During 2021, the Board carried out a robust assessment of the key risks which we believe could threaten the Group's business model, future performance, solvency or liquidity, or the long term viability of the Company. These risks, if they materialise, could have a significant impact on the Group's ability to meet its strategic objectives over the medium term.

Our risk heat map (page 65) identifies these key risks pre-mitigation that we consider most impact our business model (pages 18-19) and the delivery of our strategic objectives (pages 20-27). Movements on the risk heat map reflect changes to the underlying long term risk environment.

- IT networks, data security and privacy remain an increasingly significant risk to the business. The COVID-19 pandemic has expedited the use of new online platforms within the business and at home. Elementis continues to enhance its security and controls, and provides regular IT, cyber and GDPR updates to the Board.
- Following a review of people, talent management and succession risk, the impact of the risk was assessed to have decreased in risk profile due to the progress made during the year. For example, the addition of several significant roles including General Counsel and Chief Compliance Officer and creation of the Global Director of Sustainability role demonstrates the strength of the management team. As noted on page 71, the Company has updated its succession planning processes to include retention risk and impact analysis.
- The global pandemic was previously reported as a principal risk and, following assessment, COVID-19 is considered having a number of interdependencies with several principal risks. The impact of COVID-19 will now be captured within our other principal risks and is believed to be a shorter term impact, whilst our principal risks profile reflects medium to longer term risks. The global COVID-19 taskforce led by the CHRO will continue to monitor post COVID-19 risks and opportunities as global economies recover and vaccination programmes gain traction.
- Health and safety is an important part of our risk management process. Previously risks associated with health and safety have been incorporated within other principal risks; however, following assessment it has been agreed that 'Health and safety' will be introduced as a new principal risk.
- The risk rating of Business interruption as a result of supply chain failure of key materials and/or third party service provision has increased mainly due to the impact of COVID-19 on global supply chains. The Group continued with improving its planning process to ensure inventory and safety stock levels.

There have been no significant changes to the risk profiles for the remaining principal risks although we continue to monitor and review as appropriate.

## Priorities for 2022 include

- Further enhancement of our mitigation programme including tracking and monitoring
- Fully integrate TCFD/ESG into our risk management system
- Improve risk programme capabilities to include net risk reporting

## Emerging risks

Emerging risks and opportunities are identified and documented through the existing risk management framework through a variety of horizon-scanning methods and through activities, for example:

- Monthly performance calls with each business unit and functions including deeper dives on new business opportunities, supply chain resiliency and procurement matters
- Annual and 3 year financial plans and budgets and processes
- Board, ELT and other internal governance forums
- Customer/market insight and industry specific data
- Materiality assessment with regard to ESG

As well as assessing ongoing risks, we continue to consider how the business could be affected by emerging risks over the longer term and how strategic, market and customer initiatives might manage risks and seize any new opportunities. It is often possible to identify and respond to the potential impacts of emerging risks, but it is more challenging to predict their financial impact, likelihood and timeframe. For example, the climate scenario analysis which was carried out as part of our TCFD statement on pages 42-47.

## Climate change

Our response to the impacts of climate change is core to our long term success. Our products can contribute to lower energy and resource use, and we are working to minimise impacts of our own operations and supply chain.

In 2020, we set challenging targets to minimise our environmental and climate related impacts. For further information on our performance and activities in each of these areas, please refer to pages 34-37.

Our risk assessment has concluded that climate change is a contributing factor to many of our principal risks and longer term uncertainties. Specific climate risk factors are identified in our TCFD response. The TCFD framework has enabled us to analyse the physical and transition risks we face over a longer time horizon, and to better understand the implications of different future climate scenarios on our business. Further information on our approach to TCFD can be found on page 42.

## Internal control

The key elements of the Group's internal control framework are monitored throughout the year. The Audit Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems on behalf of the Board.

To support the Board's annual assessment, a report is prepared by the Head of Internal Controls on the Group's principal risks and internal controls. This describes the risk management systems and key internal controls, as well as the work conducted in the year to improve the risk and control environment, including the level of assurance undertaken.

The internal control framework is intended to effectively manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable, but not absolute, assurance against the risk of material misstatement or financial loss.

For further information on internal controls, please refer to page 99.

## Strategic report

## Principal risks and uncertainties

## Global economic conditions and competitive market pressures

Link to strategic objective		1	2	3
Movement in year		=		
Description of risks	Controls and mitigating activities			
<p>The performance of the specific end-user markets we serve is affected by general economic conditions. Adverse developments that may result in a downturn in general economic conditions or in the industries in which our customers operate may include political uncertainty, retaliatory tariffs or other disputes between trading partners. Sub-optimal global economic conditions can affect sales, raw material costs, fluctuations in foreign exchange rates, capacity, utilisation and cash generation, which can impact our position against banking covenants.</p> <p>Increased competitive pressure in the marketplace can result in significant pricing pressure and loss of market share. The impact of non-delivery of operating plans can lead to market expectations of Group earnings not being met and slower delivery of reported strategic priorities.</p> <p><b>Impact of COVID-19</b></p> <ul style="list-style-type: none"><li>– Risk impact assessment carried out in respect of financial stress testing/ response and strategy</li></ul>	<ul style="list-style-type: none"><li>– Financial performance (monthly sales, profit and cash flows and position against key banking covenants) is closely monitored with full year scenario planning of our key risks reforecasts updated twice a year and variances investigated and explained</li><li>– Contingency and cost reduction plans can be implemented in the event of an economic downturn to reduce operating costs, including non-essential capital expenditure items and discretionary spend</li><li>– Currency and commodity hedging action taken as appropriate</li><li>– Global key account management programme in place to deepen how we work and grow with our largest customers as well as monitoring customer performance and trends to pre-empt end market changes</li><li>– Balanced geographic footprint and supply chain and broad differentiated product offering across different sectors</li></ul> <p><b>Developments in year</b></p> <ul style="list-style-type: none"><li>– Continued focus on cost reductions, capex effectiveness, working capital and discretionary spend (see page 27 for further information)</li><li>– New business opportunities delivered \$50m and focus on future opportunity pipeline</li><li>– Balance sheet protections maintained including bank covenant relaxations and continued suspension of dividends</li><li>– Prices rises implemented to mitigate impact of raw material, logistics and energy cost increases</li><li>– Refer to business summaries on pages 60-63</li></ul>			
Link to KPIs Read more on pages 28-29				

## Business interruption as a result of a major event or a natural catastrophe

Link to strategic objective		1	2	3
Movement in year		=		
Description of risks	Controls and mitigating activities			
<p>The ability of the Group to manage its operations successfully and achieve performance in line with its strategy, business plans and budgets depends on the efficient and uninterrupted operation of planning processes, operational delivery capabilities and internal control environment. Production facilities may be subject to planned and unplanned shutdowns, turnarounds and outages including natural catastrophe, weather, climate change, disruption associated with transportation, utilities and distributors, which could result in increased costs in securing alternate facilities, significant time to increase production or customer qualification.</p> <p>A major event is categorised as an operational or HSE incident, transport related, or workplace incident caused by system failure and/or human error or by fire, storm, flood or pandemic.</p> <p><b>Impact of COVID-19</b></p> <ul style="list-style-type: none"><li>– Management continued to monitor pandemic status on a site by site basis</li></ul>	<ul style="list-style-type: none"><li>– Preventative maintenance, critical spares, process and other safety procedures to mitigate the effects of a major incident</li><li>– Property damage and business interruption insurance coverage</li><li>– Each site is required to develop a business continuity plan that includes emergency response and business recovery protocols; annual reviews, periodic updates, and training; and exercising the plan via periodic drills or table top exercises. We verify business continuity compliance through the HSE auditing process.</li><li>– Business continuity scenario planning overseen by ELT</li><li>– HSE management programme which includes corporate compliance audits and insurance property surveys</li><li>– HSE matters reviewed by ELT on a monthly basis</li></ul> <p><b>Developments in year</b></p> <ul style="list-style-type: none"><li>– Internal audits completed for Anji, Songjiang and Castle Hayne</li><li>– Continued focus on operational reliability</li><li>– Adverse weather conditions impacted the entire state of Texas, including our Castle Hayne site, resulting in the unplanned shutdown of the site and energy utilities</li></ul>			
Link to KPIs Read more on pages 28-29				

## Key

- 1 Innovation 2 Growth 3 Efficiency

## Movement in year

- = No change + Increasing - Decreasing

## Business interruption as a result of supply chain failure of key raw materials and/or third party service provision

[Link to strategic objective](#)

2 3

### Movement in year

+

#### Description of risks

The Group is dependent on numerous raw materials from various sources. In the event of a long term supply disruption or market volatility, it may not be possible to secure sufficient supplies of raw materials from alternative sources on a timely basis or in sufficient quantities or qualities or on commercially reasonable terms. The lead time and effort needed to establish a relationship with a new supplier could be lengthy and could result in additional costs, diversion of resources and reduced production yields.

#### Impact of COVID-19

- Port congestion
- Delays associated with shipping, availability of containers and shortages of truck drivers

#### Controls and mitigating activities

- Review of single source supply chain and find and qualify alternatives
- Market research to understand and monitor the impact of short term events
- Recalibration of inventory stock levels and lead times on a regular basis at all sites
- Business continuity scenario planning overseen by ELT

#### Developments in year

- External reviewing of supplier business continuity planning
- Supply chain contingency planning to mitigate other trade related risks continually assessed and updated to address dynamic planning environment
- Continually leverage strategic supplier relationships to secure required raw material volume
- Improved planning process ensured appropriate inventory and safety stock levels
- Accelerated production qualification programme to ensure ability to redistribute production volume across our global manufacturing network
- Continued focus on qualification of new sources of supply

[Link to KPIs Read more on pages 28-29](#)

## Regulatory compliance and product stewardship challenges

[Link to strategic objective](#)

1 2 3

### Movement in year

-

#### Description of risks

Emerging regulations in global markets can lead to hurdles and additional costs to deliver on strategic objectives. Non-compliance and suspected non-compliance could lead to regulatory action. The Group is subject to extensive and evolving risk in multiple jurisdictions.

#### Impact of COVID-19

- No impact

#### Controls and mitigating activities

- Global Product Stewardship team oversees, manages and monitors regulatory developments in various jurisdictions
- Coordination with R&D team to enable a faster speed-to-market of new technologies and applications
- Safety Data Sheets, labels, and regulatory information is provided for global customers specific to the requirements in their jurisdiction
- Multiple languages are used to communicate these requirements
- Active compliance and risk management programmes in place (including policies, procedures and training)
- Horizon scanning for evolving regulatory landscape in new markets

#### Developments in year

- UK REACH planning and assessment are underway throughout the supply chain
- Successful implementation of EURASIA REACH
- Supported the manufacturing optimisation change through regulatory activities
- Adding regulatory expertise to growth regions to support expanding market segments

[Link to KPIs Read more on pages 28-29](#)

## Strategic report

## Principal risks and uncertainties continued

## Major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations

Link to strategic objective

2

Movement in year

=

## Description of risks

The scale and complexity of the Group's operations means that the Group is subject to a wide range of international regulation spanning all aspects of its business. This regulatory sphere includes multiple corporate taxation regimes, national and supra-national anti-corruption, fair competition and data privacy laws, as well as applicable environmental regulations and standards relating to the Group's past and present operations. Failure to comply can lead to complex cross border claims, litigation, damages, fines, penalties and remediation orders. The Group may be involved in legal proceedings and claims within the ordinary course of business including legacy claims from businesses that have been acquired or disposed of by the Group or ongoing operations.

Adverse results in legal proceedings could result in reputational and financial damages, loss of business, business opportunity and profit, and diversion of management time and resources.

## Impact of COVID-19

- Although normal travel between the Group's sites by the Group's functional teams continued to be limited due to pandemic travel restrictions, e-learning functionality was used to deliver a broad range of compliance training modules to employees
- The Group's governance forums were able to continue to meet by virtual connection

## Controls and mitigating activities

- Cross functional expertise including Legal, Compliance, Finance, HSE and Product Stewardship, supported appropriately by external consultants and advisors, actively monitoring emerging risks and ensuring controls in relation to known risks are effective
- The Group's products are routinely and rigorously tested to the highest standards
- The Group continuously evolves its global compliance programme to ensure high risk employees receive targeted training and to establish adequate surveillance for, and responses to, newly identified risks and issues – as monitored by the internal audit programme
- Insurance programme and risk transfer strategy in place to mitigate potential financial losses
- The Audit Committee and Board of Directors exercise oversight through regular reports on all threatened and actual litigation within the Group from the General Counsel
- Employees are subject to a range of policies and procedures setting out required behaviours and standards, and consequences for non-compliance
- The Ethics and Compliance Council, chaired by the General Counsel and Chief Compliance Officer, meets regularly to monitor the Group's compliance culture and ensure ethics and compliance considerations are appropriately weighted in business decisions
- The Data Protection Steering Committee meets regularly to oversee compliance with applicable data privacy laws

## Developments in year

- See page 40 for KPIs on ethics and compliance
- Internal audit programme and activities continued in 2021, see page 99 for further information

Link to KPIs Read more on pages 28-29

## Intellectual property and know-how

Link to strategic objective

1

Movement in year

=

## Description of risks

Failure to adequately protect and preserve intellectual property and proprietary know-how in both existing and new markets could harm our competitive position.

## Impact of COVID-19

- No impact

## Controls and mitigating activities

- The Group actively manages its trademark portfolio via an internal Trademark Committee (TMC) comprised of the business segment Marketing Directors and Legal. The TMC meets regularly to take decisions in relation to the registration of new trademarks and defensive activity in relation to existing marks. The TMC is supported by a global network of trademark agents who represent the Group's interests in all relevant jurisdictions.
- General Counsel supported by in-house and external legal teams
- The Group's Science Director works closely with the Legal team and external patent attorneys to ensure emerging inventions are appropriately protected.
- Employees are trained on the importance of appropriate handling and disclosures of proprietary and confidential information.
- The Legal team reviews every Confidentiality Agreement entered into by the Group to assess the suitability of the proposed purpose and the duration of the confidentiality obligations. A central record of all Confidentiality Agreements entered into globally is maintained by the Legal team.
- Contentious IP matters are reported through to the Audit Committee and Board of Directors.

## Developments in year

- New stage gate system incorporates intellectual property and freedom to operate as requirement to launch new product
- Patent and intellectual property disclosures to keep distinction in our new launches
- In house legal expertise for partnership
- Evaluation of new tool (chemtracker) to monitor competitive intellectual property landscape for each business segment
- Enforcement of proprietary advantage

Link to KPIs Read more on pages 28-29

## Key

- 1 Innovation 2 Growth 3 Efficiency

## Movement in year

- = No change + Increasing - Decreasing

## Portfolio innovation and technology

Link to strategic objective

1 2

Movement in year

=

## Description of risks

The ability of the Group to compete is highly dependent on its ability to meet the changing needs of customers and keep pace with technological innovations and sustainability trends.

New or substitute products and technologies developed by competitors could erode the Group's ability to compete and lead to declines in sales and market share.

## Impact of COVID-19

- Qualification of alternate raw materials for existing portfolio have impacted number launches

## Controls and mitigating activities

- Global R&D team aims to develop new products and technologies used in an evolving market to meet the changing needs of our sophisticated customers
- Collaborative relationships with customers and industry formulators ensures our efforts are aligned with latest market trends
- Innovation stage gate process with systematic prioritisation enables the Group to deliver high value solutions for the market
- Hectorite and high quality talc minerals are natural resources enabling the Group to consistently deliver high performance innovation

## Developments in year

- 21 new products launched in 2021 (targeted 20 planned for 2022)
- Innovation from new products was in line with 2020 at 14% in 2021
- New innovation management (smart sheet based) tool has been implemented to increase speed to market
- Sustainability remains a key driver for Innovation: all new launches will have sustainability drivers as part of the launch package
- Open innovation with strategic partners remains a priority

Link to KPIs Read more on pages 28-29

## People, talent management and succession

Link to strategic objective

1 2 3

Movement in year

-

## Description of risks

The Group operates in highly competitive labour markets and relies upon the expertise and services of talented individuals and teams to succeed.

Loss of key people or disruption to teams without timely action could result in a disruption to business operations.

## Developments in year

- Orderly transition to new General Counsel and Chief Compliance Officer; Global Marketing Directors for Personal Care and Coatings; Manufacturing Directors for Chromium and Specialties plus the addition of a Global Sustainability Director completed through external hiring
- Internal development moves for Senior Leaders in Coatings, HR and Finance to further build experience and capability
- LinkedIn Learning adopted globally with a local solution sourced for China to enhance learning opportunities
- Talent and succession process further embedded into the organisation with cross functional reviews for commercial roles
- Flexible working principles adopted globally to support talent acquisition and retention

## Controls and mitigating activities

- Formal talent, succession management and retention risk programmes in place with individual development goals reviewed
- Succession to senior management positions formally reviewed by the ELT twice a year
- Succession to the ELT reviewed with the Board
- Regional HR Directors, Global Talent Manager and Country HR Managers support the CHRO and ELT to provide focus on talent
- HR systems functionality in place for performance management, goal setting, career profile and compensation planning with succession management to be integrated in 2022
- Formal system for job grading and compensation benchmarking in place supported by external expertise
- Employee engagement survey reviewed on 6 monthly basis with the quality of managers measured through their impact on Engagement. Action plans developed by each people manager.

## Impact of COVID-19

- Accelerated the roll-out and adoption of e-learning
- Prompted a global approach to flexible working through new principles with local application

Link to KPIs Read more on pages 28-29



## Strategic report

## Principal risks and uncertainties continued

## Key

- 1 Innovation    2 Growth    3 Efficiency

## Movement in year

- No change    + Increasing    – Decreasing

## IT networks, data security and privacy

Link to strategic objective

3

Movement in year

+

## Description of risks

The Group is expected to increasingly rely on IT systems for its internal communications, controls, reporting and relationships with customers and suppliers.

A significant disruption could cause delays to key operations and inability to meet customers' requirements and result in increased operating costs, legal liability and reputational damage. In addition, continuing developments in data protection legislation globally have created a range of compliance obligations with increased financial penalties for non-compliance.

## Impact of COVID-19

- Targeted guidance issued on records management when working remotely

## Controls and mitigating activities

- Security controls including policies and procedures, staff awareness and training, risk management and compliance, systems and information management and protection process
- Regular IT, cyber and data protection updates to the Board
- Business continuity and emergency response plans are in place for manufacturing sites
- Internal audits are scheduled on a regular basis

## Developments in year

- Schedule of phishing simulations introduced to increase awareness and continually assess training needs
- Information governance group established
- Implementation of a privacy and data protection management platform
- Digital data review pilot programme launched

Link to KPIs Read more on pages 28-29

## Health and Safety

Link to strategic objective

1

2

3

Movement in year

NEW

## Description of risks

The nature of business manufacturing activities, which includes the production, storage and transport of hazardous materials, has a wide-ranging exposure to health and safety risks, including both occupational safety and process safety risks. Failure to recognise, evaluate and mitigate health and safety risks would leave the Group vulnerable to negative impacts such as employee and contractor injuries, lost production time, equipment damage, impact to the community, potential regulatory compliance challenges, and reputational damage.

## Impact of COVID-19

- Operational impacts with short term interruptions due to staff shortage; covered staff gaps with overtime and reprioritising production schedules
- Keeping informed with local requirements and implementing safety protocols as necessary
- No work related COVID-19 cases documented

## Controls and mitigating activities

- Safety leadership – setting clear expectations for site leaders and supervisors on their role and responsibility for ensuring employee safety and providing them with leadership training/tools (Alive & Well at the End of the Day); HSE site leader certification process required for all site leaders; establishing safety lagging and leading key performance indicators; communication and demonstration of top management's strong commitment to our Safety value
- Management systems – programmes such as compliance and insurance audits, root cause analyses, management of change, routine inspections, risk assessments, training, contractor management and work permits
- Safety culture development – stop work authority focus and training; increasing employee participation in safety through near miss reporting, hazard recognition and safety committees; TogetherSAFE awareness sessions with all employees and development of safety improvement plans focused on employee concerns
- Process safety management – performing process hazard analyses; ensuring equipment is well maintained and functioning properly (mechanical integrity) through capital investment; developing corporate guidelines and performing equipment criticality assessments to determine preventative maintenance approach

## Developments in year

- Development of new management of change web based tool
- Participation in World Day for Safety & Health at Work and establishing a Safety week
- Dedicated HSE Sharepoint page
- Development of process safety management guidelines for process hazard analyses and equipment criticality assessments
- Embedding TogetherSAFE, our value for safety, into our work planning and business processes; launching the first CEO TogetherSAFE award promoting team safety initiatives

Link to KPIs Read more on pages 28-29

## Strategic report

## Viability and going concern statement

## Going concern

The Directors are satisfied that it is appropriate for the Group and the Company to adopt the going concern basis of accounting in preparing these Group and parent company financial statements, and that there are no material uncertainties impacting the ability of the Group and Company to continue to operate over a period of at least 12 months from the date of approval of the financial statements. To support this assessment the Directors produced three models covering a future period of three years from the date of these accounts demonstrating the position of the Group regarding its two financial covenants, Net Debt/EBITDA and Interest Cover, at each measurement period for the 12 months following the date of signing of these accounts and annually thereafter. These models comprised:

- A base case scenario, aligned to the latest Group annual operating plan for 2022 as well as the Group's three-year plan for 2023 and 2024;
- A severe but plausible downside scenario that assumes that the global economic environment is severely depressed over the assessment period; and
- A reverse stress test flexing sales to determine what circumstance would be required to breach borrowing covenants.

Having 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. No breaches in the required covenant tests were reported during the year and under both the base case, and severe but plausible downside, scenarios 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. The Group's net debt position at the 2021 year end was \$401.0m. It has access to a syndicated revolving credit facility of \$375m, of which \$71.6m has an expiry date of September 2024 and \$303.4m has an expiry date of September 2025, and long term loan facilities of \$200m and €172m which have an expiry date of September 2023. The Group had further borrowings available to it of over \$350m at the year end. In conclusion, after reviewing the base case scenario, the severe but plausible downside scenario and considering the remote likelihood of the scenario in the reverse stress test occurring as well as having considered the uncertainty relating to global supply chain 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.

## Business viability assessment

The basis of the assessment includes a detailed review of strategic and operating plans, underpinned by one- and three-year financial forecasts including profit and loss and cash flows. Consideration is therefore given to capital expenditures, investment plans, returns to shareholders and other financial commitments, as well as the Company's debt bearing capacity, its financial resources, borrowings and the availability of finance. No review of business plans and financial forecasts is complete without a robust assessment of the risks and opportunities in such planning models and the assumptions used. These reviews include consideration and discussion of the materials prepared and presented to the Board by management and its advisers (where appropriate), as well as additional information requested by the Board. The Board's programme of monitoring major risks is therefore an important component of the business viability assessment and the financial

impact of the principal risks is modelled over the three-year period. Business and segment growth scenarios, rate of return on investments, assumptions on global GDP growth rates, relevant currency rates, commodity prices in business plans and financial forecasts are all considered, with stress testing on financial models where appropriate. Finally, a review of litigation and tax reports, legal and compliance risks throughout the year and at a formal year end risk review ensures that the viability statement is made with a reasonable degree of confidence.

## Principal risks

For each principal risk that is deemed to be both permanent and have a high impact, a severe but plausible scenario has been considered. In making the business viability statement, the Board has reviewed and discussed the overall process undertaken by management and has assessed the outcome of the stress-testing, carried out using the Group's three-year financial forecast as the base case. The three-year financial forecast considers the Group's cash flows, interest cover, Net Debt/EBITDA covenant ratio and other key financial ratios over the period. These metrics are assessed against the Group Risk Register to determine the most impactful ones to stress test against, and this is carried out to evaluate the potential impact of the Group's principal risks actually occurring. Based on the results of its review, and as set out above, the directors have a reasonable expectation that the Group will be able to continue its operation and meet its liabilities as they fall due over the three-year period of their assessment.

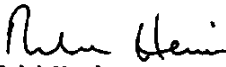
## Business viability statement

In accordance with the UK Corporate Governance Code provision 31, the Directors have reviewed the Group's current position and carried out a robust assessment of the principal risks and uncertainties that might threaten the business model, future performance, solvency and liquidity of the Group, including resilience to such threats, and consider that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years. A period of three years was chosen as being consistent with the Group's business and financial planning models, R&D plans, a number of key supply contracts and external borrowing facilities. In addition, three years is the period used for mid-term business planning purposes. Regarding accessibility to financing, whilst the majority of the RCF currently has an expiry of Sept 2025, the Term Loan expires in Sept 2023, within the three year period, and so will require renegotiation or replacement before this. Elementis has to date had a very supportive banking syndicate (as indicated by the willingness of the majority of members to extend the RCF facility during 2021 and to relax the banking covenants in March and September 2020) as such the Directors do not believe there will be any issues in renegotiating a further Term Loan when necessary. Whilst the Directors have no reason to believe that the Group will not be viable over a longer period, a three year period allows the Directors to make the viability statement with a reasonable degree of confidence whilst providing shareholders with an appropriate longer term outlook. The Directors' viability assessment of the Group's prospects is based on reviews of annual operating and three year business plans, bank covenant compliance forecasts, including sensitivities, the Group's strategy and strategic priorities, principal risks and how these are managed and mitigated. How these reviews were carried out, the principal risks and how they are being managed are more fully described and explained in the Principal Risks and Uncertainties section on pages 68-72, together with relevant assumptions and qualifications.

## Strategic report

The Strategic report was approved by the Board of Directors on 3 March 2022 and is signed on its behalf by:

  
Paul Waterman  
CEO

  
Ralph Hewins  
Chief Financial Officer

## Corporate governance

## Chairman's introduction to governance

## Leading with purpose

Dear Shareholders,

I am pleased to present our Governance report for the year ended 31 December 2021. The Board is responsible for ensuring the long term success of the Company, generating value for shareholders and contributing to the communities in which it operates and wider society. This report sets out our approach to governance, our key areas of focus during the year, our ways of working and how we, as your Board, remain effective as stewards of your company.

## Ways of working

Notwithstanding the continued public health and travel challenges, the Board has continued with its regular scheduled meetings and programme of business, adapting where necessary to accommodate for timezone differences and additional meetings as appropriate. Meetings were held face to face when safe to do so and in line with public health advice. Looking ahead to 2022, the Board calendar is a blend of physical and virtual meetings designed to maximise the time spent together as a Board as well as continuing to deepen the understanding of the business and interact with employees.

## Promoting the success of the Company

As noted on page 52, the Board have a clear role in promoting the success of the Company for the benefit of shareholders. As your Board, we continue to consider all relevant stakeholders in our decision making processes and you can find further information on pages 53 and 75.

## Engaging our employees

The Board has not been able to physically meet with our employees during 2021, as our plans to visit sites were not feasible as a result of ongoing COVID-19 related travel and public health advice. We look forward to resuming those activities as soon as it is safe to do so and are planning on carrying out visits in 2022 to our office and technology laboratory in New Jersey, our St Louis site and our mining operations in Finland.

Virtual meetings have enabled the Board to connect with the business segment and functional leaders during the year and the CEO, CHRO and other members of the ELT have provided frequent reports on workforce matters including employee engagement insight, leadership activities, townhalls, diversity and inclusion initiatives, health and safety, and ongoing information on the impact of the pandemic on employees in each of the countries in which we operate. Further information on our approach to employee engagement can be found on page 38 and the work of our Designated Non-Executive Director on pages 85 to 86.

## How sustainability drives long term success

The Board has continued to deepen its focus on sustainability and climate change during the year and, on page 42, the Board is pleased to present the Company's first TCFD disclosure and is supportive of the progress and journey that the Company is making with sustainability at the heart of the Company's purpose and strategy.

## Outcomes of the Board evaluation

The external evaluation activity that was conducted in the second half of the year confirmed that we continue to operate as an effective Board and are recognised as being open, transparent, collaborative and respectful, combined with an appropriate balance between support and constructive challenge. The levels of commitment, enthusiasm and responsiveness that each Board member has demonstrated through this challenging year have been outstanding. Details of the evaluation activity are included in the report on pages 90 to 91.

## Remuneration Policy

Our Remuneration Policy is due to be renewed at our Annual General Meeting (AGM) in 2022. The Remuneration Committee has carried out a review of current Remuneration Policy and consulted with its top shareholders on changes to current Remuneration Policy. The outcome of the consultation exercise demonstrated that there is strong support for the changes which will be formally put to shareholders for approval at the AGM. Further information can be found in the Directors' Remuneration report on pages 101 to 127.

## AGM

As ever I am grateful to you, our shareholders, for your continued support. Our AGM will take place on 26 April 2022. Further information can be found in the Notice of Meeting which is available on the Company's website.

**John O' Higgins**  
Chairman

## How governance supports our strategy

Corporate governance plays a vital role in formulating and delivering strategy. The Board and Executive Directors, collectively work towards the strategic priorities to build the long term success of the Company. In doing so, the Board must balance a diverse range of stakeholders and ensure that the vision, purpose and culture are aligned.

Innovation, Growth and Efficiency are the strategic priorities on which the long term success of the Company is built. The Board has an established programme of business which enables regular discussion on strategic priorities as well as the risks and opportunities which can affect the delivery of strategy. In addition, there are feedback mechanisms and external information which help the Board to ensure the strategy is delivered in line with stakeholder expectations.

### Strategic pillar: Innovation

#### The Board's governance role

The Board reviews information on the innovation pipeline, business opportunities, product launches, innovation partnerships and customer innovation projects which supports the growth of the business.

#### What we considered in 2021

- Regular innovation reporting from the CEO and a deeper strategy focused innovation session with Joe Lupia, SVP Global Technology showcasing the latest innovation
- Understanding global key accounts, customer development projects, open innovation approach, and market drivers and opportunities
- Review of information relating to the impact of COVID-19 on the innovation pipeline and ongoing opportunities to maintain innovation momentum with customers

For more information see pages 12-13 and 23

### Strategic pillar: Growth

#### The Board's governance role

The Board reviews information on the market drivers and assumptions for each business, including investments to underpin growth and emerging market opportunities and revenue generation profile.

#### What we considered in 2021

- Monitoring delivery of new business opportunities pipeline and growth of product portfolio platforms following in-depth business segment presentations
- Regular information on industry data for the business segments
- Approved the three year plan and annual operating plan
- Monitoring Talc acquisition revenue synergies

For more information see pages 24-25

### Strategic pillar: Efficiency

#### The Board's governance role

The Board reviews information on the organisational capability and resource plans, capital allocation strategy, investments and medium term performance objectives.

#### What we considered in 2021

- Tracking progress of strategic investments for St Louis (US) and Taloja (India) sites, including focus on safety, deadlines and budget
- Oversight and approval of capital expenditure and investment plans throughout the annual planning and forecasting cycle
- Regular review of information on operational reliability, capacity, resilience and oversight of cost, logistics and raw material challenges in a year characterised by the effects and impact of COVID-19

For more information see pages 26-27

Corporate governance  
Board of Directors

## The right skills to deliver our strategy

John O'Higgins Chair	Paul Waterman Chief Executive Officer	Ralph Hewins Chief Financial Officer	Steve Good Senior Independent Director
<p><b>Tenure on Board:</b> John was appointed a Non-Executive Chair and Chair of the Nomination Committee on 1 September 2021. John joined the Board as a Non-Executive Director on 4 February 2020 and was appointed Senior Independent Director on 29 April 2020 prior to his appointment as Chair.</p> <p><b>Independent:</b> Yes**</p> <p><b>Committee memberships:</b> N R</p>	<p><b>Tenure on Board:</b> Paul was appointed CEO on 8 February 2016.</p> <p><b>Independent:</b> No</p> <p><b>Committee memberships:</b> —</p>	<p><b>Tenure on Board:</b> Ralph was appointed CFO-Designate and Executive Director on 12 September 2016 and became the Elementis Group CFO on 1 November 2016.</p> <p><b>Independent:</b> No</p> <p><b>Committee memberships:</b> —</p>	<p><b>Tenure on Board:</b> Steve was appointed Senior Independent Director on 1 September 2021. Steve joined the Board as a Non-Executive Director on 20 October 2014 and became Chair of the Remuneration Committee on 25 April 2017.</p> <p><b>Independent:</b> Yes**</p> <p><b>Committee memberships:</b> N R</p>
<p><b>Experience and role:</b> John served as chief executive of Spectris plc from January 2006 to September 2018, leading the business through a period of significant strategic transformation and development. Prior to Spectris plc, John spent 14 years at Honeywell International in a number of senior management roles including chairman of Honeywell Automation India and president of automation &amp; control for Asia-Pacific. His early career was spent at Daimler Benz A.G. as a research and development engineer.</p> <p><b>Previous non-executive director roles</b> include Exide Technologies, a US based supplier of battery technology to automotive and industrial users (from 2010 to 2015).</p> <p>John holds a master's degree in Mechanical Engineering from Purdue University (US) and an MBA from INSEAD.</p> <p><b>External appointments:</b></p> <ul style="list-style-type: none"> <li>Trustee of the Wincott Foundation</li> <li>Non-executive director of Oxford Nanopore Technologies plc and a member of the audit, risk, remuneration and nomination committees</li> <li>Senior Independent director of Johnson Matthey plc and a member of the audit, nomination and remuneration committees</li> <li>Advisor to Envea Global, a market leader in environmental air and emissions measurement and majority owned by The Carlyle Group</li> </ul>	<p><b>Experience and role:</b> Paul has a proven track record in developing markets, products and opportunities for creating value, business optimisation and transformation. Paul's global experience provides the skill set required to deliver the Company's strategy and provide inspiring leadership.</p> <p>Prior to joining Elementis, Paul was global CEO of the BP Lubricants business in 2013 after having overseen the BP Australia/New Zealand downstream business. In 2010, Paul was country president of BP Australia. Prior to this he was CEO of BP's global aviation, industrial, marine and energy lubricants businesses (2009 to 2010) and CEO of BP Lubricants Americas (2007-2009). He joined BP after it acquired Burmah-Castrol in 2000, having joined the latter in 1994 after roles at Reckitt Benckiser and Kraft Foods.</p> <p>Paul holds a BSc degree in Packaging Engineering from Michigan State University and an MBA in Finance and International Business from New York University, Stern School of Business.</p> <p><b>External appointments:</b> None</p>	<p><b>Experience and role:</b> Ralph is an accomplished CFO who has a strong track record in finance, strategy development and implementation, and M&amp;A, which enables him to provide effective financial leadership to underpin the delivery of the Company's strategy.</p> <p>Ralph had a 30 year career with BP, where he held a number of significant leadership positions, including roles in financial management, sales and marketing, corporate development, M&amp;A, strategy and planning. In 2010, Ralph was CFO of BP Lubricants and served on the board of Castrol India Limited from 2010 until 2016.</p> <p>Ralph holds an MA degree in Modern History and Economics from the University of Oxford and an MBA from INSEAD.</p> <p><b>External appointments:</b> None</p>	<p><b>Experience and role:</b> Steve has strong and relevant international experience in specialty chemicals businesses, manufacturing and diverse industrial markets, which enables him to provide guidance and challenge to management. Steve's involvement with remuneration committees in other organisations enables him to provide judgement and demonstrate sound knowledge of topical remuneration matters in his capacity as Remuneration Committee chair.</p> <p>Steve was chief executive of Low &amp; Bonar plc between September 2009 and September 2014. Prior to that role, he was managing director of its technical textiles division (2006-2009), director of new business (2005-2006), and managing director of its plastics division (2004-2005). Prior to Low &amp; Bonar, he spent ten years with BTP plc (now part of Clariant) in a variety of leadership positions managing international specialty chemicals businesses. Steve served as non-executive director and chairman of the remuneration committee of Cape plc (2015-2017), non-executive director of Anglian Water Services and member of the audit committee, nomination committee and remuneration committee (2015-2018), non-executive director of Dielight plc (2018-2020) and director of Low &amp; Bonar Pension Trustee Ltd (2018-2021).</p> <p>Steve holds a degree in Economics and Financial Management from Sheffield University. He is a chartered accountant.</p> <p><b>External appointments:</b></p> <ul style="list-style-type: none"> <li>Non-executive chairman of Zotefoams plc (non-executive director from October 2014 and chairman from April 2016), chairman of the nomination committee and member of the remuneration committee</li> <li>Non-executive chairman of Devro plc (from June 2019) and chairman of the nomination committee</li> </ul>

\*\* On appointment

## Key to committee membership

**A** Audit Committee **N** Nomination Committee **R** Remuneration Committee \* Chairman of the Committee

**Anne Hyland**  
 Independent Non-Executive Director

**Tenure on Board:**  
 Anne was appointed a Non-Executive Director on 1 June 2013 and became Chair of the Audit Committee in August 2013.

**Independent:**  
 Yes\*\*

**Committee memberships:**

**A** **N**

**Experience and role:**  
 Anne brings significant and current financial, internal controls, audit and tax expertise to the Board, which enables her to be effective in her role as Audit Committee Chair. Anne's background with global companies enables her to effectively contribute in the context of Elementis' existing markets and new business opportunities.

Anne is currently CFO of Kymab Group Ltd, a biopharmaceutical company acquired by Sanofi in April 2021.

Prior to her current executive role, she was CFO and company secretary of both BSI Diagnostics Group Ltd and Vectura Group plc. Previous senior finance positions held include director of corporate finance at the then FTSE 100 Celltech Group plc, Medeva plc and KPMG.

Anne holds a degree in Business Studies from Trinity College, Dublin and is a chartered accountant (FCA) and a corporate tax adviser (CTA-AITI).

**External appointments:**

- Non-executive director of Clinigen Group plc (from January 2018) and chair of the audit committee
- Non-executive director of Mereo BioPharma Group plc (March 2022)
- CFO of Kymab Group Ltd (a Sanofi company) (from March 2015)

**Dorothee Deuring**  
 Independent Non-Executive Director

**Tenure on Board:**  
 Dorothee was appointed a Non-Executive Director on 1 March 2017.

**Independent:**  
 Yes\*\*

**Committee memberships:**

**A** **N** **R**

**Experience and role:**  
 Dorothee provides the Board with valuable insight into the wider European chemicals and industrial sectors as well as sector specific acquisition expertise.

Dorothee manages her own corporate advisory consultancy, serving a number of European clients in the pharma/biotech sector. She is active in various industry bodies. Her previous executive roles included managing director and head of Corporate Advisory Group (Europe) at UBS in Zurich, head of M&A chemicals and healthcare at a private investment bank in Germany and as a senior executive in the corporate finance department at the Roche Group. Dorothee served as non-executive director of the supervisory board of Billfinger SE and member of the audit committee (May 2016 – May 2021).

Dorothee holds a master's degree in Chemistry from the Université Louis Pasteur, Strasbourg and an MBA from INSEAD.

**External appointments:**

- Non-executive director of AXPO Holding AG (from March 2017)
- Non-executive director of Lonza Group (from April 2020)
- Supervisory board member of Immofinanz AG (from October 2021)

**Christine Soden**  
 Independent Non-Executive Director

**Tenure on Board:**  
 Christine was appointed a Non-Executive Director on 1 November 2020 and is the Designated Non-Executive Director for workforce engagement.

**Independent:**  
 Yes\*\*

**Committee memberships:**

**A** **N** **R**

**Experience and role:**  
 Christine brings significant experience of innovation and the commercialisation of technology to the Board. Christine is an experienced CFO with a strong track record from leading a range of private and public companies rooted in innovation with a particular focus on biotechnology, life sciences and pharmaceutical products.

Christine was CFO and company secretary of Acacia Pharma Group plc, a public quoted provider of pharmaceutical products designed to improve the outcomes and recovery for surgical patients (2015-2020). Prior to Acacia Pharma Group plc, Christine served as CFO and then non-executive director of AIM-listed Electrical Geodesics, Inc., which was acquired by Philips NV in 2017. Other CFO and finance leadership roles include Optos plc, BTG plc (former FTSE 250 constituent), Oxigen Limited and Celltech Chiroscience Group plc, having started her life-sciences career as financial controller of Medeva plc.

Christine has previously served as chair of the audit committee at e-therapeutics plc, an AIM-listed technology based drug discovery platform (2017-2020) and at Provalis plc, a quoted healthcare business (2000-2005). She was also non-executive director of Futurenova Limited, a provider of antimicrobial cases for iPads and iPhones from 2017 to 2021.

Christine is a chartered accountant and holds a degree in Mathematics from the University of Durham.

**External appointments:**

- Non-executive director of Fertility Focus Limited (from 2013)
- Non-executive director of Cell and Gene Therapy Catapult (from October 2020)
- Non-executive director of Arcor Therapeutics plc (since May 2021)

## Corporate governance

## Executive Leadership Team

**Paul Waterman**  
Chief Executive Officer

Full biography can be found on page 76

**Ralph Hewins**  
Chief Financial Officer

Full biography can be found on page 76

**Stijn Dejonckheere**  
SVP Global Personal Care

**Tenure:**  
Joined Elementis in 2007 and was appointed SVP Global Personal Care in May 2020

**Experience and role:**  
Stijn is responsible for the leadership of the Personal Care business, which includes Cosmetics and AP Actives businesses. He is an accomplished leader who has demonstrated an ability to build and lead high performing commercial teams. Stijn spent many years developing his career at Elementis in various positions in our Personal Care and Coatings business, most recently as Director Global Sales Personal Care.

Prior to Elementis, he also held leading commercial roles at Capsugel, now Lonza, and Barentz.

Stijn holds Master's degrees in Bio-Engineering from Ghent University and Agro-Management from Montpellier SupAgro, and is a graduate of the Executive Development Program from the Wharton School.

**Eric Waldmann**  
SVP Global Chromium

**Tenure:**  
Joined Elementis in 2007 and was appointed SVP Global Chromium in February 2018

**Experience and role:**  
Eric is responsible for the leadership of our global Chromium business.

Eric has held a number of roles in the Chromium business and, prior to his current role, was VP Finance and Sourcing. Prior to joining Elementis, Eric's experience was focused in the areas of finance, accounting, mergers and acquisitions, and sourcing.

Eric holds a bachelor's degree in business administration from Bucknell University, and an MBA from Villanova University. Eric is a member of the International Chromium Development Association (ICDA) Council, which oversees and sets the strategy for promoting the value and sustainability of chromium and represents the chromium industry worldwide.

**Luc van Ravenstein**  
SVP Global Coatings and Energy

**Tenure:**  
Joined Elementis in 2012

**Experience and role:**  
Luc is responsible for leading the Global Coatings business. He has led the business' Transformation programme and put in place its new growth strategy.

Luc started his career with Elementis as Global Business Director, Personal Care and became SVP, Personal Care in July 2016 and leading the growth of the Personal Care business and integration of the SummitRehels acquisition. In February 2018, he was appointed SVP, Global Coatings. Luc began his career at Croda where he held various roles in their coatings business before heading up their European personal care business.

Luc has an MSc degree in Chemistry and Chemical Engineering, a Professional Doctorate in Engineering from Eindhoven University of Technology and is a graduate of the Program for Leadership Development from the IESE business school.

**Dr Christian Kather**  
SVP Global Talc

**Tenure:**  
Joined Elementis in 2018

**Experience and role:**  
Christian has led the Talc business since 2011, having joined Mondo in 2010, which was acquired by the Company in 2018.

Previously, Christian worked as senior vice president & general manager at Evonik Degussa Corp., in Parsippany, NJ. There he was heading the Business Unit Coatings and Additives and was responsible for the global pigment dispersion business. Before that, he held a number of senior executive positions with the Degussa Group, both in Europe and the US.

Christian has a business education from Harvard Business School and INSEAD, and a PhD in International Law from the University of Munster, Germany.

**Steve Ridge**  
SVP Global Supply Chain & Manufacturing

**Tenure:**  
Joined Elementis in 2019

**Experience and role:**  
Steve brings to Elementis his solid experience in overseeing a global manufacturing and supply chain footprint. With a proven track record of leading international teams and a passion for safety and continuous improvement.

Steve is responsible for supply chain, manufacturing, capital projects, procurement, quality, and health and safety.

Steve joined Elementis from FMC where he was the global manufacturing director. Prior to FMC, Steve was the global EHS and operational excellence director at Celanese.

Steve has a master's degree in Chemical Engineering from Texas A&M University and a bachelor's degree in Chemistry and Mathematics from Florida Southern College.

**Greg Bellotti**  
Chief Information Officer

**Tenure:**  
Joined Elementis in 2014 and was appointed CIO in January 2021

**Experience and role:**  
As Chief Information Officer, Greg is responsible for global IT strategy, operations, service delivery, innovation and digital transformation.

Prior to joining Elementis, Greg held IT leadership roles at Summit Medical Group (now Allscripts) and Siemens. At Summit, he rebuilt a team and an infrastructure to support exponential growth across facility locations. During his tenure at Siemens, Greg was instrumental in the acquisition of HEAR USA, the first B2C in Siemens' portfolio, and led project management, global service provision and the global PMO at various times.

Greg graduated from The College of New Jersey in 1992 with a Bachelor of Science degree in Law & Justice.

**Anna Lawrence**  
Group General Counsel and Chief Compliance Officer

**Tenure:**  
Joined Elementis in March 2021

**Experience and role:**  
Anna leads the Group's Legal function with global responsibility for all legal matters within the Group including Litigation, M&A and Intellectual Property matters. As Chief Compliance Officer, Anna's remit includes oversight of the Group's compliance programme including the development of our Group compliance policies and procedures.

Prior to joining Elementis, Anna was director of legal and compliance at Kingfisher plc (FTSE100) covering supply chain, procurement and intellectual property. Prior to Kingfisher she worked for Johnson Matthey. She started her legal career at Allen & Overy LLP and is an English qualified corporate and commercial lawyer.

Anna has a degree in Modern Languages from the University of Oxford, a postgraduate diploma in Law and Legal Practice from BPP Law School, London and is an Associate of the Chartered Governance Institute.

**Chris Shepherd**  
Chief Human Resources Officer

**Tenure:**  
Joined Elementis in 2017.

**Experience and role:**  
Chris leads the Group Human Resources and Communications function and is responsible for talent, succession, HR operations, reward programmes and internal communications. His focus is on embedding the Company's culture and values throughout the organisation, developing internal talent and standardising our global people processes. Chris is co-Chair of the Elementis Diversity, Equity and Inclusion Council.

Chris has over 20 years' experience of global human resources gained in a mix of privately held US and UK listed p.lcs, with the first 12 years of his career in manufacturing and supply chain.

Chris holds an MEng in Mechanical Engineering from the University of Liverpool.

**Laura Higgins**  
Group Company Secretary

**Tenure:**  
Joined Elementis in 2018

**Experience and role:**  
Laura is the Group's Company Secretary and is responsible for providing Board support and advice on corporate governance, UK listing obligations and corporate transactions. Laura is also a pension trustee and a member of the Elementis Diversity, Equity and Inclusion Council.

Laura has held various senior company secretarial positions at public quoted companies including Sky, Britvic, Betfair and Rio Tinto.

Laura holds a postgraduate diploma in Legal Practice and a BA (Honours) in Law and Legal Studies with History. She is also a Fellow of the Chartered Governance Institute.

**Joe Lupia**  
SVP Global Technology

**Tenure:**  
Joined Elementis in 2019

**Experience and role:**  
Joe joined in 2019 and is responsible for the leadership of the Global R&D and Product Stewardship functions. His former commercial experiences enable him to ensure our innovation pipeline is capable of delivering both technical and financial success. Joe is responsible for collaborating with the business leaders to develop new technologies that enhance our customers' product performance.

Joe has 30 years' experience in the chemicals industry and joined us from BASF, where he had many different technical and commercial roles over his 24 year tenure.

Joe has a Ph.D. in Organic Chemistry from Seton Hall University.



## Corporate governance

## UK Corporate Governance Code

# The UK Corporate Governance Code

The UK Corporate Governance Code 2018 (the 'Code') sets standards of good practice in relation to all areas of corporate governance the UK. The Code has applied to the Company since 1 January 2019. In this Annual Report we report on how we applied the main principles of the Code and complied with its relevant provisions.

The Company was not in compliance with Provision 38 during the year; however the Executive Directors are currently on a phased glidepath reduction in pension towards the workforce rate (as

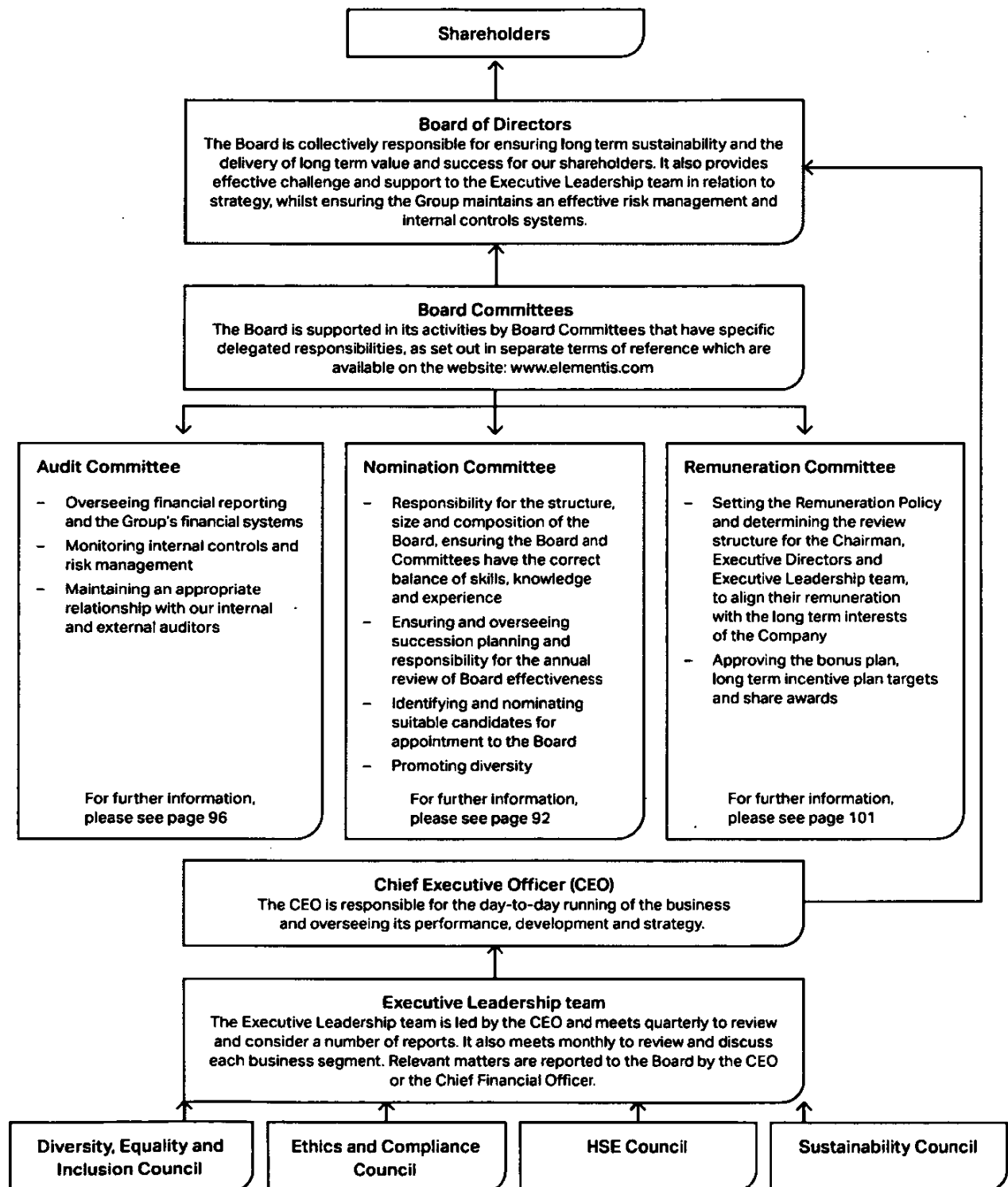
noted in page 103 in the Directors' Remuneration report and as noted in the 2020 and 2019 Directors' Remuneration reports. Investors were consulted on this matter and remain supportive of the Company's approach.

Elementis has complied with all other relevant provisions throughout the year ended 31 December 2021 and from that date up to the date of approval of this Annual Report. The Code is currently available [www.frc.org.uk](http://www.frc.org.uk)

Board leadership and Company purpose	Pages	Composition, succession and evaluation	Pages
A. Effective and entrepreneurial Board to promote the long term sustainable success of the Company, generating value for shareholders and contributing to wider society	91	J. Board appointments, succession plans for Board and senior management, and promotion of diversity	94
B. Purpose, values and strategy with alignment to culture	84	K. Skills, experience and knowledge of the Board and length of service of the Board as a whole	95
C. Resources for the Company to meet its objectives and measure performance. Controls framework for management and assessment of risks	67	L. Annual evaluation of the Board as a whole and individual evaluation to demonstrate each Director continues to contribute effectively	91
D. Effective engagement with shareholders and stakeholders	48-51	Board evaluation process	90
E. Consistent workforce policies and practices to support long term sustainable success	104-105 & 38-39	Board skills and attributes	95
Chairman's introduction to governance	74	Diversity policy	94
Strategic report	1-73	Nomination Committee report	92-95
Section 172 statement	52-53		
Activities of the Board	83	Audit, risk and internal controls	Pages
Board of Directors	76-77	M. Independence and effectiveness of internal and external audit functions and integrity of financial and narrative statements	97, 99
Culture	84	N. Fair, balanced and understandable assessment of the Company's position and prospects	100
Shareholder engagement	87	O. Risk management and internal control framework and principal risks the Company is willing to take to achieve long term strategic objectives	99
Stakeholder engagement	48-51	Audit Committee report	96-100
Workforce engagement	85-86	Risk management	64-67
		Viability and going concern statement	73
Division of responsibilities	Pages	Internal controls and risk management	99
F. Chair leadership of the Board	88	Fair, balanced and understandable	100
G. Board composition and responsibilities	88		
H. Role of NEDs	88	Remuneration	Pages
I. Policies, processes, information, time, resources and the Company secretary	89	P. Remuneration policies and practices to support strategy and promote long term sustainable success, with executive remuneration aligned to Company purpose and values	104-105
Governance framework	81	Q. Policy procedure on executive remuneration, director and senior management remuneration	106-112
Roles and responsibilities	88	R. Authorising remuneration outcomes	119
Time commitments	89	Directors' Remuneration report	101-127
Conflicts of interest	89 & 93	Directors' Remuneration Policy	102
		Directors' Annual Report on Remuneration	118

Corporate governance  
Division of responsibilities

# Governance framework



## Corporate governance

## Board leadership and Company purpose

## How the Board operates

The Board held nine scheduled meetings during the year and additional Board meetings were also held to discuss emerging matters such as COVID-19 updates, Board succession matters and defence activities.

For each Board and Committee meeting, meeting papers are provided in advance through a secure portal. Board papers include standing items such as financial performance and investor relations updates and special business such as strategic, operational or governance matters, which are prepared by Executive Directors, senior management, the Company Secretary and/or external advisers.

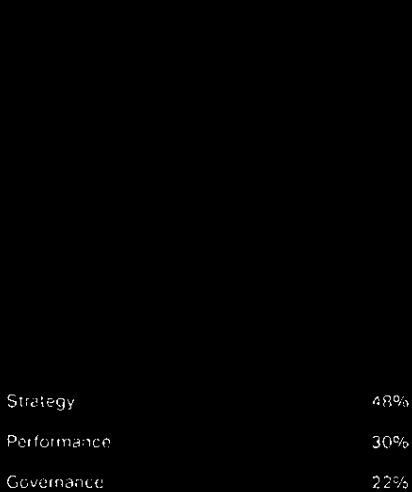
The Board regularly invites ELT members to attend Board meetings and receives presentations and updates from their relevant business and functional areas.

Other key information such as analyst/investor reports, Company policies and governance guidelines is available through the secure portal.

## Board allocation of agenda time

Agendas for each Board meeting are prepared by the Company Secretary as a rolling programme over a 12 month period but are reviewed regularly and updated where appropriate. The agenda for each Board meeting is agreed with the Chairman, CEO and CFO.

## Scheduled meetings during the year



## Board meeting attendance

The attendance of the Directors at the Board meetings in the year ended 31 December 2021



\* Andrew Duff stepped down from the Board on 1 September 2021

## Matters reserved for the Board

To ensure there is a clear division of responsibilities between the Board and the running of the Company business, the Board has a formal schedule of matters reserved for its decision. This is reviewed on a periodic basis and is available on our website [www.elementis.com](http://www.elementis.com).

## Changes to the Board during the year

- 1 Andrew Duff stepped down from the Board on 1 September 2021
- 2 John O'Higgins was appointed as Chairman on 1 September 2021\*

\* Further information regarding John's appointment can be found within the Nomination Committee report on page 94.

## Matters reserved

Group financial report
Risk management and internal controls
Corporate governance
Group strategy
Acquisitions and disposals
Talent and succession
Culture and values
Sustainability
Health and safety
Engagement with key stakeholders
Financial and trading statements

## Key activities of the Board in 2021

The Board's key activities and their link to Section 172 factors are shown below. The Company's Section 172 statement can be found on pages 52 and 53.

### Defence activity

- On 31 March 2021, an unsolicited approach was made by Innospec Inc (Innospec), a global specialty chemicals group listed on NASDAQ
- The Defence Committee, supported by the Board, together with management and advisers, conducted a thorough review to assess the fundamental value as well as the likely value to be created by the continued delivery of existing strategy and the future prospects of the Company
- On 9 April 2021, the Board unanimously rejected the conditional proposal and on 15 April 2021, Innospec publicly announced the cessation of active interest in the Company

[Link to Section 172](#)

### Strategic updates

- Annual Operating Plan and Innovation
- Litigation and Compliance, and IT and Cyber
- Talc
- Global Supply Chain Management, Procurement, HSE and ESG
- Engagement and Chromium
- Coatings and Energy
- Personal Care and 2022-2024 financial shape
- People related topics including strategy, diversity, equity and inclusion, people engagement and succession

[Link to Section 172](#)

### Chair succession

- On 23 March 2021, Andrew Duff announced he intended to step down from the Board as Chair. The Nomination Committee retained Korn Ferry to consult on the Chair succession approach where an internal candidate had expressed interest in the role of Chair
- A specification for the role of Chair was agreed and a longlist of potential external candidates were evaluated, resulting in three external candidates being shortlisted for further discussion. Having ascertained the candidates' interest in the role and following a detailed evaluation of the attributes, experience and references of the candidates, the Nomination Committee agreed to recommend the internal candidate for appointment as Chair

[Link to Section 172](#)

### Board evaluation

- Manchester Square Partners (MSP) were engaged to conduct the triennial external evaluation
- Following a review of Board papers, a series of interviews were held with each Board member, the Company Secretary, the Chief HR Officer and, the General Counsel and Chief Compliance Officer
- Following a Board observation session, MSP presented their report. The themes arising from the evaluation were discussed and a set of actions were agreed
- Further information regarding the evaluation can be found on pages 90-91

[Link to Section 172](#)

## Corporate governance

## Board leadership and Company purpose continued

## Our purpose, culture and values

Our purpose is to achieve sustainable progress across the world through innovative specialty chemical products that deliver cleaner and better performance.

We are collaborative industrial innovators; developing long term partnerships with our customers, innovating at pace to keep them at the forefront of their markets. Combining our access to unique natural resources with our unmatched rheology and technological expertise, we responsibly transform raw materials into advantaged ingredients that provide crucial end product benefits. This enables our customers to solve their product performance and sustainability challenges.

The Board is satisfied that the Company's culture continues to be aligned with its purpose, values and strategy:

- Company values were established during 2018 following a refresh and engagement with employee focus groups
- Strategy is discussed regularly and includes the three year plan and annual operating plan, and is formally agreed as part of the Board's annual programme
- The Company's values of Safety, Solutions, Ambition, Respect and Team underpin the behaviours expected to cultivate an open and inclusive culture

## Maintaining a healthy culture

To ensure that the Company is creating the right environment for longer term success, a variety of mechanisms are available to measure Company culture, as shown below.

There are also other mechanisms for measuring culture which can be directly linked to the Company's values. Further information can be found on pages 38-40.

## How the Board monitors culture

Cultural Indicators					
Cultural Identifier	Promoting integrity and accountability	Valuing diversity	Culture aligned to purpose	Culture aligned to values	Culture aligned to strategy
Employee survey insight	✓	✓	✓	✓	✓
Employee engagement	✓	✓	✓	✓	✓
Employee retention, promotion and attrition data		✓		✓	✓
Reports on progress on diversity, equity and inclusion	✓	✓		✓	
Whistleblowing reports	✓		✓	✓	✓
Health, safety and environmental performance	✓		✓	✓	✓
Internal Audit reports and findings	✓		✓	✓	✓
Ethics and compliance programme	✓	✓		✓	

## Corporate governance

### Workforce engagement

In line with the requirements of the Code, the Board considered the mechanisms for ensuring that the views and concerns of the workforce are taken into account and agreed that a specific Board accountability for workforce engagement would be formalised by appointing a Board member to serve as the Designated Non-Executive Director for workforce engagement (DNED). Christine Soden currently serves as the DNED and assumed the role on appointment as a Board member on 1 November 2020.

#### A role description was established and the DNED is expected to:

- Understand the concerns of the workforce
- Articulate those views and concerns in Board meetings
- Ensure the Board takes appropriate steps to evaluate the impact of proposals and developments on the workforce and consider what steps should be taken to mitigate any adverse impact
- Feedback to the workforce on steps taken to address concerns or explain why particular steps have not been taken

#### Responsibilities:

- To review and monitor insight driven by the engagement survey or other qualitative data (quarterly updates) with the Chief HR Officer
- To actively participate in a programme of workforce engagement which may include a variety of engagement mechanisms/channels such as focus groups and townhalls
- To report on the programme of engagement activity and workforce concerns
- To feedback any concerns regarding remuneration directly to the Remuneration Committee
- To prepare appropriate responses to address workforce concerns
- To explain how the Code provisions relating to workforce engagement have been met

#### Christine Soden

Designated Non-Executive Director for workforce engagement

"I am impressed by the level of engagement, honesty and professionalism of our workforce and I look forward to further discussion in 2022"

Read more on page 49

#### Examples of workforce engagement themes

Values and culture

Communications

Processes

#### Workforce themes

Remuneration and benefits

Local/global ways of working

COVID-19 response

## Corporate governance

## Workforce engagement continued

## Workforce engagement highlights in 2021

Activities	Outcomes
<ul style="list-style-type: none"> <li>Christine Soden was the keynote speaker for the Company's inaugural Women in Leadership forum on International Women's Day in March 2021 with global employees in a virtual Q&amp;A format facilitated by the Company Secretary</li> </ul>	<p>Raising Christine's profile as the Designated Non-Executive Director for workforce engagement within a non-selective work environment</p> <p>Launch of Women in Leadership forum, as part of the Company's diversity, equity and inclusion strategy</p>
<ul style="list-style-type: none"> <li>Quarterly data insight gained from the Company's engagement survey</li> </ul>	<p>Enabling deeper contextual understanding relating to engagement capital, management, diversity and inclusion and values indices which are used to measure employee engagement trends</p>
<ul style="list-style-type: none"> <li>Focus group insights from the US, Finland, Netherlands, UK, China, India and Germany with a particular focus on understanding local workforce challenges together with actions to address the challenges</li> </ul>	<p>Detailed perspective of local challenges and opportunities faced by employees enabling an understanding of how global strategy and policies are cascading through the business</p>
<ul style="list-style-type: none"> <li>Panel discussion with local HR managers without senior management in attendance</li> </ul>	<p>Local HR issues were shared in a transparent and honest environment</p>
<ul style="list-style-type: none"> <li>Regular workforce engagement reports at Board meetings and aligned to principal Board decisions (for example, the annual operating plan)</li> </ul>	<p>Representing employee views and concerns brings depth to Board discussion and strengthens Directors' awareness around their duties to consider employee stakeholders in decision making processes</p>
<ul style="list-style-type: none"> <li>Site visits and physical meetings with employees have not been able to take place during 2021, but it is expected that Christine Soden will resume this activity when COVID-19 advisory and travel restrictions sufficiently ease</li> </ul>	<p>Meeting employees at their place of work helps to build relationships and gain awareness of the local environment and culture</p>
<ul style="list-style-type: none"> <li>Communication feedback loop to employees on what has been heard in the focus groups, employee engagement insight and how the Board has taken these views into account during the year</li> </ul>	<p>Employees feel that their views have been heard and that actions have been taken to address their concerns</p>

## Workforce engagement activities – 2022

- Regional focus groups led by the DNED
- Quarterly engagement data insight
- Emerging engagement survey themes
- Regular DNED reports to the Board
- Global, local or functional townhalls and site visits
- DNED feedback loop communication to all employees

## Corporate governance

## Shareholder engagement

## Shareholder communications

The Chairman is responsible for effective communication with shareholders. The CEO and CFO are the Company's principal contacts for investors, analysts, press and other interested stakeholders.

There is a dedicated investor relations programme for current and potential investors, which is managed by the Director of Investor Relations, who reports to the CFO. Further information regarding shareholder services can be found on page 196.

## Shareholder engagement

## Investor meetings

The Board receives an investor relations report at each of its meetings outlining recent dialogue with investors and feedback received and updates from our corporate brokers, JP Morgan and Numis. Analysts' reports are also made available to the Board. The Chair attends the financial results presentations, where he has the opportunity to meet with those analysts who attend. All Board members are invited to attend results presentations.

The Chair and Senior Independent Director (SID) are available to shareholders to discuss governance and strategy concerns as appropriate. The SID regularly meets with the Company's major investors. At these meetings, investors are also given the opportunity to meet with other members of the Board, for example, the Chair of the Audit, Nomination or Remuneration Committee. During the year, our Remuneration Chair consulted with investors and leading advisory bodies relating to proposed

changes to the Directors' Remuneration Policy ahead of submitting for shareholder approval at the 2022 Annual General Meeting. In 2021, a total of over 150 meetings were held with investors.

## Private investors

The Board is keen to hear the views of our private shareholders and they are encouraged to use our shareholder mailbox, [company.secretariat@elementis.com](mailto:company.secretariat@elementis.com). The Company's website is kept updated with Company reports and related information. Enquiries may also be addressed to the Company Secretary and sent to the registered office.

## Annual General Meetings

The Company held a hybrid AGM for the first time on 13 May 2021. As a consequence of public health advice, the meeting was constituted with a minimum quorum in physical attendance. This format enabled shareholders to attend the meeting in a safe and secure remote environment and a telephone line was available for shareholders to ensure that they could be heard. The proceedings of the AGM is available on demand. All resolutions were approved by shareholders on a poll. Shareholders were able to submit questions ahead of the AGM; however, no questions were submitted prior to or at the AGM.

The 2022 AGM will be held on 26 April 2022 at 10.00am and further information can be found in the Notice of Meeting.

## Key shareholder activities during the year

		Shareholders by number of shares		Shareholders by type	
		Balance ranges	Party type		
Q1	- Trading statement				
	- FY20 results presentation				
	- Results roadshow				
	- Chairman Governance roadshow				
Q2	- AGM trading statement				
	- Retail Investor presentation				
	- UBS Small and Mid-cap conference				
Q3	- H1 21 results presentation	1-499	0.13%	Private individuals	2.35%
	- Results roadshow	500-999	0.13%	Nominee companies	69.34%
	- Berenberg chemicals conference	1,000-4,999	0.77%	Limited and public limited companies	22.38%
	- 9 month trading update	5,000-9,999	0.48%	Other corporate bodies	5.70%
Q4	- Investor event	10,000-49,999	0.95%	Pensions funds, insurance companies and banks	0.23%
	- Innovation webinar	50,000-99,999	0.78%		
	- Jefferies industrials conference	100,000-499,999	4.88%		
	- JPM - Best of British conference	500,000-999,999	4.55%		
	- Berenberg European conference	1,000,000-999,999,999	87.32%		



## Corporate governance

## Composition, succession and evaluation

## Roles and responsibilities of the Directors

Role	Name(s)	Responsibility
<b>Chair*</b>	<b>John O'Higgins</b>	<ul style="list-style-type: none"> <li>Leadership of the Board and responsible for its effectiveness</li> <li>Setting the agendas in consultation with the CEO, CFO and Group Company Secretary</li> <li>Promoting open, honest and constructive debate and challenge during meetings and guiding the CEO and CFO in delivery of the strategy</li> <li>Ensuring the Board conforms with the highest standards of corporate governance</li> <li>Chairs the Nomination Committee and ensures the Board has an appropriate balance of skill, diversity and experience and effective succession planning in place, and leads the annual Board effectiveness review</li> <li>Effective engagement and communication shareholders and other stakeholders, and ensuring that their views are understood by the Board</li> </ul>
<b>CEO</b>	<b>Paul Waterman</b>	<ul style="list-style-type: none"> <li>Day-to-day management of the business</li> <li>Execution of strategy and operational performance</li> <li>Providing regular updates to the Board on all significant matters relating to the Group</li> <li>Ensuring the Company has a strong team of high calibre executives, and putting in place management succession and development plans</li> </ul>
<b>CFO</b>	<b>Ralph Hewins</b>	<ul style="list-style-type: none"> <li>Supporting the CEO in the delivery of the Company's strategy and financial performance</li> <li>Leading the Group Finance function and responsible for financial reporting, investor relations, IT, risk, insurance and tax matters</li> <li>Key role in external stakeholder relationship, including investment community, lenders and pension trustees</li> </ul>
<b>Senior Independent Director</b>	<b>Steve Good</b>	<ul style="list-style-type: none"> <li>Acting as a sounding board to the Chair, providing support and advice where necessary</li> <li>Point of contact for shareholders and other stakeholders to discuss matters of concern</li> <li>Leading the Board's appraisal of the Chair's performance with the Non-Executive Directors</li> </ul>
<b>Independent Non-Executive Directors</b>	<b>Dorothee Deuring</b> <b>Steve Good</b> <b>Anne Hyland</b> <b>John O'Higgins</b> <b>Christine Soden</b>	<ul style="list-style-type: none"> <li>Providing independent oversight objectivity to the Board's deliberations</li> <li>Using their broad range of experience and expertise to challenge management and aid decision making</li> <li>Serve on various Committees and play a leading role in the effectiveness of those Committees</li> </ul>
<b>Designated Non-Executive Director for workforce engagement</b>	<b>Christine Soden</b>	<ul style="list-style-type: none"> <li>Representing the Board when engaging and communicating with employees and providing communication on any outcomes</li> </ul>
<b>Company Secretary</b>	<b>Laura Higgins</b>	<ul style="list-style-type: none"> <li>Supporting the Chair in ensuring the Board operates efficiently and effectively</li> <li>Providing the Board with advice on governance developments</li> <li>Facilitating the Directors' induction programmes and assisting with ongoing training and development</li> <li>Assisting the Chair with the Board effectiveness review process</li> </ul>

\* Independent on appointment

## Time commitment

Following the Board evaluation process, as detailed on page 90, the Board has considered the individual Directors' attendance, contribution and external appointments, and are satisfied that each of the Directors is able to allocate sufficient time to the Group to discharge his or her responsibilities effectively. Information on Directors' external appointments can be found on pages 76 to 77.

The Directors' commitments register is maintained by the Company Secretary and is regularly reviewed by the Nomination Committee. All Directors are expected to commit sufficient time to the Board, and the Company, as is necessary to carry out their duties as a Director.

## Additional appointments

If a Non-Executive Director wishes to take on an additional external appointment, they are required to seek permission from the Board. The Board will take into consideration the time commitment required by the Non-Executive Director in their role as a Board Director, Committee Chair or Committee member before any permission is given.

Prior to the appointment of Christine Soden, her other commitments were carefully considered by the Nomination Committee as part of the appointment process. During the year, the Board considered and approved additional external appointments for Christine Soden and Dorothee Deuring.

The Executive Directors do not hold any external appointments.

## Board training and independent advice

All Directors have access to the advice and services of the Company Secretary and may take independent professional advice, as appropriate, at the expense of the Company.

Directors are given the opportunity throughout the year to undertake training and attend seminars, as necessary, to keep their skills and knowledge up to date. In addition, technical briefings are regularly included in Board and Committee papers.

The Company Secretary supports the Chairman in ensuring that the Board and its Committees operate within the governance framework and that communication and information flows within the Board and its Committees and between management and Non-Executive Directors remain effective.

## Independence of the Non-Executive Directors

Each of the Non-Executive Directors is considered independent in character and judgement. The Chairman was considered independent on appointment and the Board confirms that he remains effective. The independence of Non-Executive Directors is reviewed annually by the Nomination Committee.

Further information can be found in the Nomination Committee report on page 92.

The biographies of the Directors can be found on pages 76 to 77 and details of the membership of each Board Committee can be found on pages 92, 96 and 101 respectively.

## Directors' insurance and indemnities

The Company maintains Directors' and Officers' liability insurance, in the event of legal action brought against its Directors.

The Company has also granted indemnities to each of the Directors. These indemnities are uncapped in amount, in relation to certain losses and liabilities which they may incur to third parties in the course of acting as a Director of the Company. Neither the indemnity or insurance provides coverage in the event that a Director is proved to have acted fraudulently or dishonestly.

## Conflicts of interest

The Board operates a policy to identify and, when appropriate, manage actual or potential conflicts of interest that may arise.

Directors are required to seek Board approval for any actual or potential conflicts of interest. Conflicts of interest are considered formally by the Board, at each meeting, and are kept under review throughout the year.

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme. Further details can be found in the Directors' report on page 128.

## Information flows

The Chairman and the Company Secretary ensure that the Directors receive clear and timely information on all relevant matters. Board papers are circulated in a timely manner in advance of the meetings to ensure that there is adequate time for them to be read and to facilitate robust and informed discussion. A fully encrypted electronic Board portal is used to distribute Board and Committee papers and to provide efficient distribution of business updates and other resources to the Board.

## Corporate governance

## Composition, succession and evaluation continued

## External Board evaluation process and framework

## Appointment of consultants

The Code requires that an external evaluation is undertaken every three years. Manchester Square Partners were engaged to carry out this activity, which took place in the second half of 2021. MSP conducted the previous external evaluation in 2018 and it was agreed that it was appropriate to re-appoint them, taking into account their knowledge of the Company and change in composition of the Board over the last three years, including significant roles of the Chair and SID. Further, it was agreed that MSP would bring insight into the evolution and overall effectiveness of the Board over time. MSP have no other connection with the Company or any of the Directors.

## Evaluation timeline and process

The process is divided into four stages:

## June – September 2021

The Nomination Committee, with the support of the Board, discussed the approach and format for the triennial evaluation activity, which resulted in MSP being appointed to conduct the external evaluation. The Chair and MSP discussed and agreed the brief and timeline.

## September – October 2021

MSP carried out a review of Board and Committee papers for the preceding 12 months and scheduled individual meetings with Board members, the Company Secretary, the CHRO and the General Counsel and Chief Compliance Officer.

Board and Committee observation was conducted by MSP.

## November 2021

The findings of the evaluation were discussed with the Chair and Company Secretary and finalised into a report for wider Board review.

## December 2021

The report was presented to the Board by MSP. The Board discussed the findings and agreed on the focus areas for the forthcoming year.

## Board evaluation structure

Working with the Chair and the Company Secretary, MSP used their experience and insight of the Company to consider how the Board would need to continue evolving to meet the needs of the Group now and over the coming years. The individual interviews with the Board, Company Secretary, CHRO and General Counsel and Chief Compliance Officer focused on a set of questions relating to the themes below:

Structure,  
composition,  
succession,  
diversity

Values & culture,  
strategy, role,  
challenges, risks,  
dynamics and  
engagement

Governance

Governance,  
execution,  
leadership

## Key

Board leadership and Company  
purpose

Division of responsibilities

Composition, succession,  
and evaluation

## 2020 internal Board evaluation

Building on the evaluation activity in 2019, the Board agreed to carry out an internal Board evaluation process, which was led by the Company Secretary. The outcomes of the Board evaluation activity for 2020 were:

Actions	Status in 2021
Reviewing the balance/cadence of Board activities and meetings to reflect adapted ways of working between physical and virtual meetings	The 2022 Board calendar has been adapted to optimise Board time spent together. Of the eight scheduled meetings for 2022, five are planned to be physical meetings and three are planned to be virtual meetings. Additional meetings are likely to be held in a virtual format.
Continued focus on Board succession, senior management development, and talent and succession mapping beneath Executive Directors	The Nomination Committee and the Board have received talent and succession and wider organisational people strategy updates. John O'Higgins succeeded Andrew Duff as Chair and Steve Good was appointed SID on 1 September 2021. The Board continues to be active in succession planning matters with Anne Hyland and Steve Good approaching tenure.
Discuss and agree the external evaluation approach scheduled for 2022 and timing	MSP were engaged to carry out the external evaluation activity, which took place in Q3-Q4. Information on the process can be found on page 90.
Complete induction programmes for John O'Higgins and Christine Soden	Induction programmes were tailored for both Board members and largely carried out in a virtual format. Page 93 includes an example of a typical Board induction programme.
Continued focus on risk management and compliance	Risk management systems and processes have developed during the year with risk featuring regularly in Board discussion. Compliance practices, processes and culture have progressed following the introduction of the new General Counsel and Chief Compliance Officer.
Initiation of site visits and re-connecting with management (when safe to do so) and informal Board events	2021 was another year characterised by public health and travel restrictions. ELT members have presented their business deep dives to the Board with key members of their team alongside, which has enabled the Board to gain more exposure to talent within the Company. Site visits to the US and Finland are planned for 2022.

## 2021 externally Board evaluation summary

In line with the Code, MSP, together with a brief from the Chair, developed a set of questions to ensure that the specific objectives of the evaluation activity were met and would enable the Board to agree areas of development and provide further value to stakeholders.

It was agreed that the Board has evolved considerably since the last review and has continued to function well, providing valuable governance, oversight and challenge since the previous evaluation, notwithstanding a series of challenges including navigating the COVID-19 crisis, renegotiating debt covenants, takeover activity, supply chain challenges and handling NED and Chair succession. The Board is recognised as an open, transparent, friendly, respectful, collaborative and cohesive Board with strong capability and diversity of experience, expertise and thinking around the table. There is an appropriate balance between support and constructive challenge from the NEDs and genuine appreciation from the executives for the enthusiasm and value add of the NEDs.

All Committees are considered to operate effectively with praise for the chairmanship of all Board Committees, with the support and guidance of the Company Secretary and other external advisers as appropriate. All Board members receive full access to papers and minutes, so all have the ability to be fully informed about all work done at Committee level.

### Areas of focus for 2022

- Board succession – continue to ensure the Board is composed of the most appropriate balance of skills, knowledge, experience and diversity and to ensure the orderly succession of Anne Hyland and Steve Good over the next one to two years
- Strategy – continue to develop discussion of strategy (incorporating ESG topics) with focus on portfolio and long term ambition
- Risk management – agree on risk topics for focused Board discussion during the year

## Corporate governance

## Nomination Committee report

## Composition, success and evaluation

Dear Shareholders,

As Chair of the Nomination Committee (the 'Committee'), I am pleased to present the Nomination Committee report covering the work of the Committee during 2021.

This report should be read in conjunction with the separate section on compliance under the UK Corporate Governance Code on page 80.

**John O'Higgins**  
Chair, Nomination Committee

## Highlights

## Areas of focus

- Appointment of new Chair and SID
- Ongoing Board succession planning
- Oversight of Group's diversity policy
- External Board evaluation
- Review of terms of reference

## Board meeting attendance

The attendance of the Directors at the Board meetings in the year ended 31 December 2021:

Andrew Duff (Chair)**	1/1
Dorothee Deuring	6/6
Steve Good	6/6
Anne Hyland	6/6
John O'Higgins (Chair)*	2/2
Christine Soden	6/6

\* Four meetings were held regarding the succession of the Chair role. It was not appropriate for Andrew Duff, as current Chair, and John O'Higgins, as the internal candidate, to be in attendance at those meetings.

\* Andrew Duff stepped down from the Board on 1 September 2021.

The Committee's terms of reference are available on the Company's website at [www.elementis.com](http://www.elementis.com).

## Role of the Committee

The Committee is responsible for the structure, size and composition of the Board, ensuring that the Board and Committees have the most appropriate balance of skills, knowledge and experience. This Committee ensures and oversees succession planning and has responsibility for the annual evaluation of the Board.

## Key responsibilities

- Regularly reviewing the structure, size, diversity and composition of the Board
- Ensuring that the Company has the right leadership, balance of skills and experience to deliver the Company's strategy and enable the Board to effectively fulfil its obligations
- Succession planning for the Board and ELT
- Leading on the annual performance evaluation of the Board and its Committees
- Identifying and nominating, for approval by the Board, candidates to fill Board vacancies as and when they arise
- Managing potential Directors' conflicts of interests

## Programme of business

- Annual review of Directors' independence and conflicts in accordance with the Committee's terms of reference
- Engagement with external search consultants to assist with the Chair succession approach
- External Board evaluation
- Reviewing structure, size, diversity and composition of the Board
- Succession planning for the Board and oversight of senior management succession plans
- Non-Executive Directors meeting without the Executive Directors present
- Approval of Nomination Committee report

## Board effectiveness processes

Annually the Chair is responsible for conducting an appraisal with each Non-Executive Director in respect of their skills, experience, contribution and time commitment to the Company.

The Committee also oversees the effectiveness process and agreed that an externally facilitated review was appropriate during the year. Further information regarding this year's effectiveness review can be found on page 90.

## Directors' conflicts

The Committee has oversight of Directors' potential conflicts of interest and during the year, in accordance with policy, considered and approved additional external directorships for Dorothee Deuring and Anne Hyland.

## Board composition and skills

A matrix is maintained which serves as a record of directors' experience, attributes and expertise. The Committee reviews this matrix annually to ensure that the Board has an appropriate composition and range of skills, experience and diversity to prevent any dominance, either individually or collectively over the Board's decision making processes. Highlights from this matrix are noted on page 95.

## Re-appointment of Directors

All Directors are subject to re-election at the next Annual General Meeting, as required by the Code. Following the evaluation activity and taking into account a review of director independence, conflicts and ongoing time commitments, the Committee concluded that each of the Directors continues to make an effective contribution to the Board and, with the exception of Anne Hyland, all Directors will stand for re-election at the AGM.

During the year there was no requirement for the re-appointment of a Director for second or third term. The Committee regularly reviews the schedule of non-executive tenure and the next formal review will take place in 2022. Recommendations for annual re-appointment are supported by considerations regarding the Directors' independence, experience and contribution which they bring to the Board and its Committees. These matters will be subsequently confirmed following the Board evaluation process during 2022 and a review of conflicts and independence. In line with best practice, the continuing Board roles remain subject to annual re-election by shareholders.

## Board induction programme

### Induction - General topics

- The role of a Director
- Board and Committees
- Board Meetings
- Rules and regulations and guidance
- Board procedures
- Current issues
- Nature of the Company, its business and its markets
- The Company's main relationships

### Induction - Board Committees (as appropriate)

- Role and remit of the Committee
- Link between the Committee's policy and the Company's strategic objectives
- The annual meeting schedule for the Committee
- The main business conducted by the Committee
- The legal requirements relevant to the Committee's operations
- Market practice and current trends relevant to the Committee
- Current issues
- Views of investors on matters considered by the Committee and potential areas of focus
- Any technical training on key matters

### Induction - External advisers

- Meetings with:
  - External auditors
  - Internal audit function
  - Remuneration consultants
  - Brokers
- Lawyers

### Induction - Senior management meetings

- Meetings with:
  - CEO
  - CFO
  - SVP Global Coatings and Energy
  - SVP Global Personal Care
  - SVP Global Chromium
  - SVP Global Talc
  - Chief HR Officer
  - Chief Information Officer
- SVP Global Supply Chain & Manufacturing
- Group General Counsel and Chief Compliance Officer
- Group Company Secretary
- Group Head of Tax
- Group Financial Controller
- Director of Investor Relations

### Induction - Site visits

- Induction - Site visits
- SciPark - New Jersey, US (US head office)
- Amsterdam, Netherlands (Talc)
- Castle Hayne - North Carolina, US (Chromium)
- Others as agreed during the course of the year

## Corporate governance

## Nomination Committee report

## Board induction

The Chair, with the support of the Company Secretary, is responsible for preparing and co-ordinating an appropriate induction programme, which is to be tailored to the needs of each newly appointed Non-Executive Director.

Newly appointed Directors are provided with a thorough briefing on their fiduciary duties and continuing obligations from the Company Secretary, and legal advisers if required.

A typical induction programme can be found on page 93.

## Succession planning

Following the announcement of the Chair's intention to retire from the Board, the Committee discussed the approach for this particular role and appointed Korn Ferry, external search consultants, to assist with the process, which included the sensitivity of managing an internal candidate, John O'Higgins.

As Andrew Duff and John O'Higgins were not able to participate in any of the Committee discussion regarding the Chair succession process, Steve Good, with the support of the Committee, led the Chair succession process.

With input from the Executive Directors, the Committee prepared a role specification and a recruitment brief, which was shared and discussed with Korn Ferry. A longlist comprising candidates with regard for the benefits of diversity, including gender and ethnicity, was prepared by Korn Ferry and considered by the Committee. Having discussed the merits of each of the candidates, the Committee agreed a shortlist, including John O'Higgins, for further discussion.

Having carried out further due diligence including time commitments and potential conflicts, and with the support of the Board, the Committee concluded that John O'Higgins be appointed as Chair.

As a consequence of this appointment, the role of Senior Independent Director had become vacant and, following Committee discussion, there was unanimous support for Steve Good to fill the role in addition to his role as Chair of the Remuneration Committee. These role changes were announced on 29 July 2021 and became effective on 1 September 2021.

In the period from announcement to 1 September 2021, Andrew Duff and John O'Higgins agreed a transition and handover process. For the induction as Chair, the Company facilitated a tailored approach building on the induction programme that John O'Higgins received on joining the Company.

## Diversity policy

The Board has adopted a diversity policy, which is available on the Company's website. The Board acknowledges the importance of diversity in its broadest sense in the boardroom as a key element of Board effectiveness. The Board is fully supportive of the recommendations of the Parker Review and the Hampton-Alexander Review which are discussed in the context of succession planning. Diversity includes perspective, experience (including working internationally), background (including nationality), cognitive and personal strengths and other personal attributes, as well as diversity of gender, social background and ethnicity.

## Progress on our diversity objectives

- Our external advisers are selected on their commitment and ability to deliver diverse longlists in the recruitment processes
- The composition of the Board is reviewed on an annual basis
- The gender balance of the Board exceeds our target of 33% (currently 43%)
- Oversight of gender and ethnic diversity profile across the Group including promotion of talent into management roles
- Oversight of senior management succession plans
- Assessment of skills, expertise, backgrounds and experiences are considered prior to Directors joining the Board and on an ongoing basis using a diversity matrix
- Continue to monitor regulatory developments and best practice in respect of diversity
- The policy is reviewed on an annual basis

## Priorities for the year ahead

- Succession planning for new Non-Executive Directors ahead of expiry of tenure for Anne Hyland and Steve Good in 2023
- Review Board and senior management succession plans
- Review Board diversity policy and objectives
- Review of 2021 external evaluation outcomes and planning for 2022 internal evaluation

## Diversity overview

Average age of Board as at 31 December 2021

59

### Board expertise and experience matrix

	John O'Higgins	Paul Waterman	Ralph Hewins	Dorothee Deuring	Steve Good	Anne Hyland	Christine Soden
Manufacturing/industrial processing	●	●	●	●	●	●	
Specialty chemicals	●	●		●	●		
Strategy/business development	●	●	●	●	●	●	●
International business & markets	●	●	●	●	●	●	●
Innovation/product development	●	●		●	●	●	●
Sales/marketing/customer	●	●	●		●		
Accounting/tax/treasury/risk management			●	●	●	●	●



## Corporate governance

## Audit Committee report

# Audit, risk and internal controls

Dear Shareholders,

As Chair of the Audit Committee (the 'Committee'), I am pleased to present the Audit Committee report covering the work of the Committee during 2021. This report should be read in conjunction with the separate section on compliance under the UK Corporate Governance Code on page 80.

**Anne Hyland**  
Chair, Audit Committee

## Highlights

### Areas of focus

- Recommended approval of the 2020 Annual Report and Accounts and 2021 Half Year Statements to the Board
- Approval of audit plans (external and internal) for 2021
- Review of going concern and viability statement
- Assessment of impact of COVID-19 on the key balances and estimates
- Presentation of adjusting items
- Goodwill and indefinite life intangible assets impairment review
- Group tax exposures and tax positions

All members of the Committee are independent Non-Executive Directors. Members' biographies can be found on pages 76 to 77.

The Chair of the Board, CEO, CFO and Group Financial Controller, alongside representatives from the external auditors, Deloitte, and internal auditors, PwC, have a standing invitation to attend Committee meetings. All Board members have access to Committee papers.

As required by the Code, the Board is satisfied that Anne Hyland has the relevant financial experience to chair this Committee and the Committee as a whole has the financial and commercial competence to meet its responsibility in an independent and robust manner.

## Role of the Committee

To assist the Board by establishing, reviewing and monitoring the Group's financial reporting, internal controls framework and risk management, internal audit programmes and changes in regulatory requirements.

## Composition of the Committee

In accordance with the Code, the Board has confirmed that all members of the Committee are independent Non-Executive Directors and have been appointed to the Committee based on their individual financial and commercial experience.

The Board is satisfied that Anne Hyland, as Chair of the Committee, has recent and relevant financial experience to chair this Committee through her current executive role as CFO at Kymab Group and as chair of the audit committee at Clinigen plc (AIM listed) as well as previous experience as CFO at FTSE-listed Vectura plc. Anne is a chartered accountant (FCA) and a corporate tax adviser (CTA-AITI).

The Committee, as a whole, has financial and commercial competence relevant to the sector in which the Group operates. Further information on the skills, expertise and experience of Committee members can be found on page 95.

## Attendance at Audit Committee meetings

Anne Hyland (Chair)	4/4
Dorothee Deuring	4/4
John O'Higgins*	3/4
Christine Soden	4/4

\* John O'Higgins stepped down from the Audit Committee on appointment as Chair of the Board, 1 September 2021.

## Key responsibilities

- Monitoring the integrity of the Group's financial statements, financial reporting and related statements
- Ensuring the appropriateness of accounting policies, any changes to these, and any significant estimates and judgements made
- Reviewing the effectiveness of internal controls, compliance and risk management systems (including whistleblowing arrangements)
- Overseeing all aspects of the relationship with the internal and external auditors; approving the policy on non-audit services; making recommendations to the Board for their dismissal or changes; and supervising any tender process

The Committee's terms of reference, which are reviewed and approved annually, are available on the Company's website.

## Activities during the year

The Committee's focus in 2021 has been on:

- Meetings with both the internal and external auditors to review their key findings
- Reviewing the internal control systems and considering the output of internal audit reviews and management's action plans
- Reviewing the integrity, consistency and key accounting judgements made by management in both the Company's full and half year results
- Advising the Board on whether the Annual Report and Accounts preparation process is fair, balanced and understandable, and provides the information necessary to shareholders to assess the Group's position and performance, business model and strategy
- Reviewing the going concern and viability statements, and the supporting assumptions and assessments in the Company's half year report and Annual Report and Accounts
- Ensuring compliance with applicable accounting standards, monitoring developments in accounting regulations which affect the Group and reviewing the appropriateness of accounting policies and practices currently in place
- Reviewing the effectiveness of the internal and external auditors, their independence and objectivity and terms and scope of engagement, and recommending their re-appointment
- Overseeing matters relating to tax, including the impact of tax rates on the financial statements, the position on EU state aid and approval of the Company's tax strategy
- Litigation and compliance reports for both the full and half year
- Considering the material legal risks impacting the Company and the associated provisioning for both the full and half year
- Receiving updates on the Code of Business Conduct and Ethics, and the associated training and whistleblowing policies
- Technical updates on the Annual Report and Accounts key developments, 2021 year end report environment, corporate governance matters and future developments
- Reviewing the Group's risk management activities undertaken by each business area, and at Group level to identify and assess the Group's principal risks
- Monitoring and assessing the Group's insurance arrangements
- Selection and appointment of new lead auditor
- FRC correspondence and oversight of the Company's response to the BEIS 'Restoring trust in audit and corporate governance' consultation

- Preparation, and reviewing progress, for TCFD disclosure requirements
- Identifying, assessing and mitigating climate related risks

## Committee effectiveness

The Committee's performance and effectiveness were reviewed in the year as part of the Board's effectiveness review conducted by Manchester Square Partners. Further details can be found on pages 90-91.

## External auditors

Deloitte have served as external auditors for six years. The Committee engages with Deloitte on a regular basis to ensure this area of oversight is appropriately maintained. The Committee periodically meets privately with the lead audit partner and senior members of the audit team to discuss their work and findings.

## Audit of the 2021 Annual Report

At the end of 2021, Deloitte presented their audit plan for the year ahead, which the Committee considered and then approved. Deloitte highlighted the key areas of risk, which were primarily identified as areas of judgement and complexity and were consistent with those areas identified by the Committee.

As part of the audit process, Deloitte prepared a detailed report of their audit findings, which was reviewed and discussed by the Committee. A similar process is undertaken for the half year results.

## Audit effectiveness

To support the Committee in evaluating the effectiveness of the external auditors, a questionnaire based evaluation is circulated to internal stakeholders who have had the most interaction with the external auditors during the audit process. The data is collated into a score card which is used to assess the strengths and weaknesses of the external auditors.

Management and the external auditors then address any areas of weakness in their regular review meetings, and the lead audit partner from Deloitte updates the Committee on how areas of weakness are being addressed.

The Committee also monitors audit effectiveness by reviewing the Audit Quality Inspection reports published by the FRC.

The Committee will formally assess Deloitte's performance in relation to the 2021 audit following its completion. It is intended that a resolution to re-appoint Deloitte as the external auditor will be proposed at the 2022 AGM.

## Audit independence

The Committee considers the external auditors' objectivity and independence at least twice a year. It receives reports from Deloitte on its internal quality controls and independence rules and considers carefully the extent of the non-audit services provided by Deloitte.

The Committee is of the view that Deloitte was objective and independent throughout the 2021 audit process, notwithstanding the level of non-audit services provided.

## Corporate governance

## Audit Committee report continued

**Auditor rotation, tendering and competition and Markets Authority order – statement of compliance**

The Committee carried out an audit tender process in 2015, resulting in the appointment of Deloitte as external auditors in April 2016. Deloitte's re-appointment in 2021 was approved by shareholders at the Company's AGM in May 2021. Under the Companies Act 2006, the lead audit partner must be mandatorily replaced after five years to ensure auditor independence. The external auditors, as a whole, can only be appointed for a maximum term of ten years before a competitive tender is required to be undertaken.

The year ended 31 December 2021 was the fifth year for the lead audit partner Christopher Powell. In preparation for the orderly transition of lead audit partner, two experienced candidates were interviewed by management, a process which was overseen by the Chair of the Committee. The transition of lead audit partner was accelerated as a result of Christopher Powell not being available to complete his fifth year and Lee Welham succeeded Christopher Powell as the new lead audit partner, effective from January 2022. The Committee confirms that the Company is compliant with the provisions of The Statutory Audit Services for Large Companies market investigation (mandatory use of Competitive Tender processes and Audit Committee Responsibilities) Order 2014, for the year ended 31 December 2021.

**Key judgements****How the Committee has addressed these matters****Going concern**

Given the continuing significant uncertainties resulting from the impact of COVID-19 on the economic environment in which the Group operates, and the material uncertainty around going concern reported at the half year, the Committee has placed a particular focus on the appropriateness of adopting the going concern basis in preparing the consolidated financial statements for the 12 months ended 31 December 2021. To support the Committee's assessment, management produced three models over a future period of three years from the date of these accounts – a base case, a downside case and a reverse stress case with cashflows for each demonstrating the position of the Company regarding its two financial covenants – net debt/EBITDA and interest cover at each measurement period for the 12 months following the date of signing of these accounts. Having agreed covenant relaxations with our lenders in March and September 2021, 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. Under both the base and downside cases, the Group is expected to remain within its financial covenants throughout the going concern period and the conditions necessary for the reverse stress case to be applicable were deemed sufficiently remote. As such, the Committee concluded it was appropriate for the Group to adopt the going concern basis for these accounts.

**Impairment testing of goodwill in relation to the Talc CGU**

Critical accounting estimates arise in determining the value in use for the goodwill balances tested, which require assessments of the duration over which reliable business plans can be made, achievability of these plans (and therefore future cash flows), growth rates beyond the period covered by the business plans and appropriateness of the discount rates applied to future cash flows. A report from management was discussed setting out the basis for the assumptions and confirmation that the cash flows used were derived from the 2022 three year plan (which in their role as members of the Board, Committee members had previously reviewed and approved). The Committee has reviewed the robustness of the impairment model, challenged the appropriateness of the key assumptions used to calculate value in use including forecast sales volumes, selling prices, growth rates used to extrapolate beyond the forecast period and the discount rates applied to the resulting cash flows. The Committee also considered the continuing market challenges being faced by the business, especially in the automotive sector and increasing distribution and supply chain costs, and the continuing risk these present to achievement of the business plans. After considering these items, and also the impairment of \$33.4m made to goodwill relating to the Talc cash generating unit (CGU) in 2020, the Committee concluded a further impairment of \$53.1m was necessary at 31 December 2021.

**Revenue recognition**

The main area of judgement continues to be in relation to recognition of revenue from shipments by sea. The Committee satisfied itself that the Group had appropriately recognised revenues in accordance with their contractual obligations during the period, paying particular attention to period end cut-off.

### External audit tendering timeline

- 2016: Deloitte were appointed as external auditors
- 2021: Mandatory appointment of new audit partner
- 2025: Full competitive tender to be undertaken
- 2026: Re-appointment, or appointment of new, external auditor

### Non-audit services

The Group has an agreed policy with regard to the provision of audit and non-audit services by the external auditor, which has operated throughout 2021 and is available on the Company's website.

Under the policy, the CFO may approve individual engagements where the fee is up to 15% of the Group's audit fee for the year, provided that the non-audit fees in the year do not exceed 50% of that Group audit fee. Decisions above these thresholds must be referred to the Committee for determination.

	2020	2021
Audit fees (\$m)	2.2*	2.2
Assurance related services (\$m)	0.1	0.2
Non-audit fees (\$m)	0.1	-
Ratio of non-audit fees to audit fees (%)	4.5%	0%
Total fees (\$m)	2.4	2.4

\* Includes \$0.3m of extra fees relating to the 2019 Group audit

### Internal controls and risk, and risk management

The Committee's role is to review the effectiveness of the internal control, compliance and risk management systems which it carries out in support of the Board's formal review of significant risks and material controls, as summarised in the Risk management report on pages 64-67.

PwC provide an outsourced internal audit function. The Committee considers that the value of internal audit is enhanced by having a third party perform this function, to support the independent challenge of management and give greater access to expertise and resources than an internal function could provide.

The internal audit plan is based on a review of the Group's key risks which are considered high risk or have not been subject to a recent audit.

The 2021 internal audit plan was discussed and agreed between management and PwC ahead of it being considered and subsequently approved by the Committee. Management review the schedule with PwC on a quarterly basis and adapt the schedule during the year to incorporate any new or increased risks which materialise.

The outcomes of these reports are provided to the Committee, alongside any management actions.

Following an evaluation of the services provided by PwC in respect of the internal audit, the Committee confirms that both the process for determining the internal audit programme, and the programme itself, are appropriate and effective.

Management have committed to fully addressing control findings raised by our auditors at the prior period end through their audit response plan. The Committee was consulted on the initial plan and has received regular updates from management on implementation progress throughout the year. The Group has invested in capability across both Finance and IT, putting in place new controller roles in regions as well as improving modelling capability and enhancing information technology general controls. It is recognised that further improvements are required to address the remaining control findings in relation to the goodwill impairment models and issues relating to user access and segregation of duties within specific IT systems and the Committee will continue to oversee actions taken to remediate the remaining control observations. Set out below is a summary of the key features of the Group's internal controls and risk management system.

### Control environment

The Group has policies and procedures that set out the responsibilities of business and site management, including authority levels, reporting disciplines and responsibility for risk management and internal controls. In addition, annual compliance statements on internal controls are certified by each operating segment.

### Risk identification and review

A formal risk review process exists at Board and ELT levels for the identification, evaluation, mitigation and ongoing monitoring of risks, including emerging risks. Further details can be found on pages 68-72.

### Internal audit programme

An internal audit programme is proposed by PwC in consultation with the CFO and approved by the Committee each year, setting out a programme of audits over the course of the next 12 months. The programme covers the monitoring of the effectiveness of internal controls and the design of processes to test the effectiveness of controls. As well as conducting audits of operating facilities, sales offices and tolling sites on a two to three year rotational basis, the internal audit programme includes reviews of Group functions and processes.

During 2021, the following audits were undertaken (with two other audits being deferred until 2022 due to the impact of COVID-19):

- IT general controls review
- Tax governance review
- Financial close and reporting review
- Cyber security IdAM review
- Castle Hayne site
- Asia – Shanghai/Anji sites

### Internal auditor effectiveness

To support the Committee in evaluating the effectiveness of the internal auditor programme, a questionnaire based evaluation is completed by employees who had had the most interaction with PwC during the year. A scorecard is reviewed by the Committee to assess the strengths and weaknesses of the internal auditors. The effectiveness of the internal audit function was confirmed and agreed by the Committee.

## Corporate governance

## Audit Committee report continued

## Controls assurance

The controls assurance framework at Elementis is as follows:

- Board leadership supported by an open and transparent culture of 'no surprises', good governance and compliance. This means knowing and understanding the businesses, and quality interactions between the Board and the Executive Leadership team (including a regular programme of presentations and reports to the Board, as well as operational site visits)
- Internal and external audit programmes, regular litigation and compliance reviews with the Group General Counsel and Chief Compliance Officer
- A programme of compliance audits, and regulatory inspections, environmental reviews and property surveys by external specialists
- Code of Business Conduct and Ethics, on which all employees are given training and are required to self-certify compliance with, supplemented by an online compliance training programme, an anti-bribery and corruption policy, which contractors are also required to sign up to, whistleblowing arrangements and an anti-retaliation policy

## Whistleblowing

The Group's whistleblowing facility is accessible on a 24/7 basis, 365 days of the year and provides arrangements for an independent service provider to receive, in confidence, reports of breaches of any legal or Company policy or standards, including those related to accounting, auditing, risk, internal control and related matters.

Details of how to access this service are referenced in the Code of Conduct; posters are available at each site and via the compliance training portal. The Committee has oversight of reports of this nature. During 2021, there were 4 reports, all of which were duly investigated and closed during the year.

## BEIS consultation - Restoring trust in audit and corporate governance

During 2021, with the support and oversight of the Committee and the Board, the Company submitted a comprehensive response to the BEIS consultation. The consultation set out a number of proposals relating to how companies should report on their governance and finances, how reports should be audited, how the audit and the audit market should change and oversight by a new regulator. It is acknowledged that the outcome of the consultation is yet to be published at the date of the approval of the 2021 Annual Report and Accounts. As part of the internal audit plan for 2022, the Committee will have oversight of associated readiness activity, implementation timelines and will allocate appropriate resources to continue the development of our framework of controls in line with guidance.

## FRC Thematic Review of IAS 37 Provisions, Contingent Liabilities and Contingent Assets

The FRC engaged with the Company during the year to advise that the Company's Annual Report and Accounts to 31 December 2020 would be included in the FRC's sample for the thematic review of companies' disclosures relating to provisions, contingent liabilities and contingent assets under IAS 37. The FRC sought further information about the Company's self-insurance provision. It was concluded that the Company had provided satisfactory explanations. The FRC will publish the associated report on 25 March 2022. For further information, please refer to pages 147 and 182 notes in the financial statements.

## Fair, balanced and understandable

The Committee adopted a similar approach as in previous years to ensure that the Annual Report is fair, balanced and understandable. The process was as follows:

- An Internal Annual Report team (ART) was set up to manage the process. The ART consisted of members drawn from Group Finance, Company Secretariat, and Investor Relations teams. The ART was responsible for regularly reviewing work and ensuring balanced reporting with appropriate links between key messages and sections of the Annual Report
- The Committee Chair held meetings with the audit partner, and the Committee held meetings with the external auditor without management being present
- An audit clearance meeting was held with the Committee Chair, CFO and members of the Finance team alongside the audit partner and audit team members
- The Committee received updates from management on the Annual Report progress and audit throughout the process as well as from the Company's brokers and other advisers
- The Committee, Chair and Executive Directors reviewed the Annual Report in its final stages

Following this process, the Committee and then the Board were able to confirm that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

**Anne Hyland**  
Chair, Audit Committee

## Corporate governance

## Directors' Remuneration report

# Directors' Remuneration report

Strategic report

Corporate governance

Financial statements

Shareholder information

Dear Shareholders,

As Chair of the Remuneration Committee (the 'Committee'), I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2021. This report should be read in conjunction with the separate section on compliance under the UK Corporate Governance Code on page 80.

**Steve Good**  
Chair, Remuneration Committee

The Directors' Remuneration Report is set out in the following parts:

1. This Annual Statement from the Chair of the Remuneration Committee summarising how our Remuneration Policy has been implemented and the key decisions taken by the Committee
2. At a Glance section providing an overview of how we implemented the Remuneration Policy during the year under review
3. The Directors' Remuneration Policy for which shareholder approval is being sought in a binding vote at the AGM to be held on 26 April 2022
4. The Annual Report on Remuneration which provides full detail on how we paid Directors during 2021 and how we propose to implement the Policy in 2022

The Directors' Remuneration Policy and the Directors' Remuneration Report (excluding the Directors' Remuneration Policy) will be presented to shareholders for approval at the AGM on 26 April 2022 and I hope you will vote in support of the resolutions.

## Attendance at Remuneration Committee meetings

Steve Good (Chair)	4/4
Dorothee Deuring*	3/4
John O'Higgins	4/4
Christine Soden	4/4

\* Dorothee Deuring was unable to attend the July 2021 meeting as a result of a rescheduling conflict

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## Corporate governance

## Directors' Remuneration report continued

**Remuneration Policy**

As a global specialty chemicals company, Elementis offers performance-driven additives that help create innovative formulations for consumer and industrial applications. We have market leading positions in high performance ingredients in the Personal Care, Coatings and Talc markets and are the leading manufacturer of Chromium in North America. We have a global footprint, with the majority of our manufacturing sites based in the US and a talented leadership team located across the US, the UK, and the EU. Our strategy is to deliver long term sustainable shareholder value through innovation-led growth and the execution of efficiency savings. We continue to deliver solid progress against this strategy, improving both our margin and cash conversion, enabling the Company to reduce its leverage.

With regard to our Remuneration Policy, it has been purposefully designed to support our strategy detailed above. Our overall policy is set with reference to UK benchmarks, with flexibility retained to pay above UK norms where executives are recruited from overseas. Our pay model is UK-centric and includes base salary, pension and benefits, annual bonus, and a performance share plan (the same policy cascades below Executive Director level but includes restricted stock as well as performance shares in recognition of local market practice in the geographic locations in which we operate).

Remuneration is weighted towards long term variable pay which supports the long term nature of the investment decisions we make. Our performance metrics are fully aligned with strategy as set out above.

At the 2021 AGM we received shareholder approval to extend the life of our 2018 Directors' Remuneration Policy for a further year. This followed the Remuneration Committee's decision in 2019 to defer our triennial policy review process as a result of the short term uncertainty created by COVID-19. We have now undertaken a full policy review and will be proposing our refined policy to shareholders at our 2022 AGM.

In summary, the review concluded that our current policy is working effectively and is generally aligned with institutional investors' 'best practice' expectations. As a result, we are not proposing material changes to the current arrangements. The changes we are proposing are minor amendments updating the policy to mirror current market and best practice developments. The main changes are as follows:

- Long term incentives: The proposed policy for the threshold level of vesting has been set such that no more than 25% of a future award may vest for achieving the threshold performance target. Whilst this level of vesting is not anticipated being applied to financial targets set for future awards (e.g. EPS and cash conversion targets where 0% vests at the threshold performance target), it is anticipated that 25% of any portion of an award set against relative total shareholder return targets would vest at the threshold performance target, mirroring standard market practice. This would apply to long-term incentives awards granted from 2022 onwards.
- Share ownership guidelines: From 2022, executives will be expected to hold shares equal to the value of the lower of the actual shareholding at cessation of employment and the current guideline (200% of salary).

Investors were consulted on this approach and were supportive. It is also noted that the 2021 Remuneration Policy was updated to reflect the phased reduction to incumbent Executive Director pension levels to align with the typical rate of pension provision provided to the wider UK workforce (with alignment achieved from 1 December 2022) and the alignment of the pension policy for new Executive Directors with that in force for new joiners to the UK workforce. This update is also incorporated into the 2022 Remuneration Policy.

**Remuneration in 2021**

As detailed in the Strategic report, 2021 was a year of strong performance and progress against our Innovation, Growth and Efficiency strategy. We delivered double digit revenue growth and an adjusted operating profit of \$107m, which was above our internal planning and ahead of external market expectations for the full financial year. Our performance reflected a combination of agile supply chain management, self-help actions and recovery in demand in a number of our key businesses. We also launched over 20 new products, won more than \$35m of new business and delivered \$10m of in year cost savings. Further information on in year performance can be found on page 120.

**Annual bonus**

As a result of the above, following the Committee undertaking a formal assessment of performance against the targets, bonuses were payable at 93% of maximum for the Executive Directors.

Further details of the targets set for 2021 and the actual performance achieved are disclosed on page 120.

**Long term incentive plan (LTIP)**

The 2021 LTIP awards were granted on 6 April 2021 based on normal award levels of 200% of salary for the Chief Executive and 175% of salary for the Chief Financial Officer.

The metrics were equally weighted on EPS, TSR and cash conversion. The vesting of the award is also subject to a return on capital employed underpin which requires the Committee to consider whether the return generated is in line with the Board's expectations and, if not, to reduce the vesting to a more appropriate level. The Committee also retains discretion to reduce the number of shares on vesting should it be considered appropriate, including in the event of a perceived windfall gain.

Full details of the targets and the awards are set out on page 121. To the extent these awards vest at the end of the three year performance period, shares will be required to be held for a further two years.

The 2019 LTIP Awards that were subject to EPS growth and TSR performance targets measured over the three years to 31 December 2021 will not vest due to the required levels of threshold performance not being achieved. Further details are included on page 105.

The Committee believes that the overall incentive outcomes and approach to target setting for 2021 (as detailed above) were appropriate based on the Company's performance over the whole performance period and demonstrates that the Committee has, and will continue to, set performance targets which it considers to be meaningful and appropriately stretching. As a result, the Committee is comfortable that its general approach to remuneration and the overall policy framework are working as intended.

With regard to use of Committee discretion during the year, in March 2021, the Committee considered the performance targets relating to 2020 performance and agreed with the Executive Directors' recommendation that no bonuses be payable in 2021 for 2020 performance, despite robust performance in year.

## Remuneration in 2022

The application of the proposed policy for 2022 is largely in line with 2021 as summarised below:

**Salary review:** In line with the workforce in the UK and US, the Executive Directors' base salary increases will be 3% for 2022.

**Pension reductions:** In line with the previously communicated glidepath detailed in the 2019 Directors' Remuneration report, pension contributions for incumbent Executive Directors will continue to be reduced from 22.5% of salary to 21% of salary on 1 December 2022, which will bring incumbent Directors in line with the typical funding cost of pension benefits for UK employees as determined in 2019. Since there has been no material change to the funding cost, the Executive Directors' glidepath will result in their pension benefit (as a percentage of salary) being aligned with the typical pension provided to the majority of the UK workforce.

**2022 annual bonus:** There will be no change to the quantum of the Executive Director bonus opportunity and as such the CEO will have the opportunity to earn up to 150% of salary and the CFO up to 125% of salary.

As for 2021, the bonus will be based 70% against a challenging range of financial targets (50% on adjusted Group profit before tax and 20% on average trade working capital to sales ratio (AWC) on total operations), with the remaining 30% based on non-financial strategic objectives which are specific and measurable objectives that are related to the Company's strategic priorities. Within the non-financial targets we are making a change for 2022 in that we are raising the profile on sustainability to reflect our Group-wide focus. Accordingly, half of the non-financial targets will relate to sustainability including targets relating to Health & safety, Diversity, equity and inclusion and environmental. The balance of the non-financial targets will continue to relate to our strategic priorities of Innovation, Growth, and Efficiency.

Summary details of our approach to target setting are detailed on page 107 and full details of the financial target ranges and our performance against them will be disclosed on a retrospective basis in next year's report. The Committee has discretion to modify the overall amount of bonus payable to ensure it is appropriate. 50% of any bonus earned is deferred in shares for two years.

**2022 LTIP Awards:** Awards are expected to be granted at 200% of salary for the Chief Executive and 175% of salary for the Chief Financial Officer.

The primary performance targets will be as per the 2021 awards with 33% based on EPS, 33% based on cash conversion and 33% based on TSR performance conditions.

- The EPS targets will be set based on the level of EPS achieved in 2024 with vesting to take place from 13.5 cents to 17.5 cents for threshold to maximum vesting, which runs from 0% to 100% on a straight line basis. The Committee considers the EPS target to be appropriately stretching in light of the progress made with our Company's strategy after having had regard to current internal planning and external broker forecasts for our future performance in light of current market conditions.

- The cash conversion targets will again be set based on a range of 85% to 95% which aligns with the Company's publicly stated medium term target. Threshold to maximum vesting runs from 0% to 100% on a straight line basis.
- TSR will continue to be assessed against the constituents of the FTSE All Share Index (excluding investment trusts). Threshold vesting starting at 25% for median performance (increased from 3.85% under the 2022 Policy in line with standard market practice), increasing on a graduated basis with 100% vesting for achieving stretch targets, which for TSR will require at least upper quartile performance.

The 2022 LTIP awards will also be subject to a return on capital employed underpin. This will require the Committee to consider the vesting result determined based on the application of the EPS, TSR and operating cash conversion performance conditions in light of the return on capital employed achieved during the three year period ending 31 December 2024 relative to the Board's internal targets and planning over the period. If the Committee does not consider the vesting result appropriate in light of the return on capital employed achieved, the underpin enables vesting to be reduced to a more appropriate level. The general discretion the Committee retains will also require the Committee to consider on vesting if it believes there to have been a windfall gain and, if so, reduce the vesting level to a level considered reflective of underlying financial performance.

## Context of Directors' pay within the Company

Christine Soden is the Designated Non-Executive Director (DNED) for workforce engagement. During the year we held employee focus groups in the US, China, Finland and Germany to gather employee feedback on a range of topics including pay and benefits. This followed an analysis of our employee engagement survey results and resulted in a communication and education programme started in 2021 and running throughout 2022. We continue to monitor employee engagement relative to compensation through our employee survey. This feedback was considered by the Board, which resulted in actions to ensure elements of compensation and benefits are well understood at a local level.

The Group is not required to provide disclosure of the CEO to all-employee pay ratio given the Group has less than 250 employees in the UK. However, given the external focus on pay ratios, the Committee has included full pay ratio disclosure on page 124 and is comfortable that the ratio is in line with the Company's pay policies and in line with current FTSE market practice.

The Group is also not required to report under the gender pay gap regulations. Despite this, the Group reviews gender pay on a biennial basis. The last gender pay review was completed towards the end of 2020 and a further review will take place towards the end of 2022. CEO pay ratio and gender pay are taken into account when there is a full review of the Executive Director and wider Remuneration Policy.

## Concluding remarks

The Committee believes that the Policy and our approach to implementation in both 2021 and 2022 are in the best interests of the Company and we hope that you will support the actions the Committee has taken by voting in favour at the 2022 AGM. If you have any concerns, please feel free to contact me via the Group Company Secretary at [company.secretariat@elementis.com](mailto:company.secretariat@elementis.com).

**Steve Good**  
Chair, Remuneration Committee



## Corporate governance

## Directors' Remuneration report continued

## At a glance

## Our measures

**Annual bonus**

Adjusted Group profit before tax:  
50% weighting

Adjusted average trade working capital  
to sales ratio (AWC):  
20% weighting

Non-financial objectives (aligned  
with strategic implementation,  
safety and environment and people):  
15% weighting – Sustainability targets  
15% weighting – Strategic targets

**2021 LTIP**

Earnings per share (EPS):  
33% weighting

Relative Total Shareholder Return (TSR):  
33% weighting

Cash conversion:  
33% weighting

ROCE underpin

## How our measures link to strategy

	Performance metrics	Strategic priorities		
		Innovation	Growth	Efficiency
<b>Bonus</b>	<b>Financial: (70%)</b>			
	Adjusted Group profit before tax	✓	✓	✓
	Average trade working capital to sales ratio		✓	✓
	<b>Non-financial: (30%)</b>			
	Sustainability targets	✓	✓	✓
<b>LTIP</b>	Innovation, Growth and Efficiency	✓	✓	✓
	<b>EPS (33%)</b>	✓	✓	✓
	Relative TSR versus FTSE All Share (33%)	✓	✓	✓
	Cash conversion (33%)			✓
	Return on operating capital employed (underpin)	✓	✓	✓

## Implementation of Remuneration Policy for 2021

The section below summarises how the Policy was implemented in the financial year ended 31 December 2021. Further details are provided on pages 114 to 123.

Key Policy features	Performance assessment	How we implemented in 2021	
<b>Salary</b>	Not applicable	Paul Waterman	Ralph Hewins
– Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole		2021 salary	£679,463* £369,482
		* Equivalent to \$936,096	
		In line with the average increases awarded to the US and UK salaried workforce, the salaries of the CEO and CFO were increased by 2%. These changes were effective from 1 January 2021.	

Key Policy features	Performance assessment	How we implemented in 2021																											
<b>Pension/benefits/all-employee share schemes</b>	Not applicable	<table> <tr> <th></th><th>Paul Waterman</th><th>Ralph Hewins</th></tr> <tr> <td>Pension</td><td>£164,686*</td><td>£88,214</td></tr> </table> <p>* Equivalent to \$226,888</p> <p>Implementation in line with the Policy.</p> <p>Executive Directors' pensions have been and will be reduced in phases to be in aligned with the pension provision of the median employee:</p> <ul style="list-style-type: none"> <li>- From 1 January 2020: 25%</li> <li>- From 1 December 2020: 24%</li> <li>- From 1 December 2021: 22.5%</li> <li>- From 1 December 2022: 21%</li> </ul>		Paul Waterman	Ralph Hewins	Pension	£164,686*	£88,214																					
	Paul Waterman	Ralph Hewins																											
Pension	£164,686*	£88,214																											
<p><b>Annual bonus</b></p> <ul style="list-style-type: none"> <li>- Performance related scheme which delivers value for achievement against annual targets</li> <li>- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance</li> <li>- 50% of bonus earned deferred into shares for two years</li> <li>- Recovery and withholding provisions apply</li> </ul>	<table> <tr> <th></th><th>Paul Waterman</th><th>Ralph Hewins</th></tr> <tr> <td>Opportunity</td><td>150% of salary</td><td>125% of salary</td></tr> <tr> <td>PBT</td><td>\$77m vs target of \$63.5m</td><td></td></tr> <tr> <td>Payout (50% of bonus)</td><td>100% of PBT maximum</td><td></td></tr> <tr> <td>AWC</td><td>20% vs target of 23.8%</td><td></td></tr> <tr> <td>Payout (20% of bonus)</td><td>100% of AWC maximum</td><td></td></tr> <tr> <td>Non-financial</td><td>See page 120</td><td></td></tr> <tr> <td>Payout (30% of bonus)</td><td>77% of Non-financial maximum</td><td>77% of Non-financial maximum</td></tr> <tr> <td>Total</td><td>93% of maximum</td><td>93% of maximum</td></tr> </table>		Paul Waterman	Ralph Hewins	Opportunity	150% of salary	125% of salary	PBT	\$77m vs target of \$63.5m		Payout (50% of bonus)	100% of PBT maximum		AWC	20% vs target of 23.8%		Payout (20% of bonus)	100% of AWC maximum		Non-financial	See page 120		Payout (30% of bonus)	77% of Non-financial maximum	77% of Non-financial maximum	Total	93% of maximum	93% of maximum	<p>As detailed in the Annual Statement on page 101, 2021 was a year of strong performance and progress against our Innovation, Growth and Efficiency strategy. We delivered double digit revenue growth and an adjusted operating profit of \$107m which was above our internal planning and ahead of external market expectations for the full financial year. Our performance reflected a combination of agile supply chain management, self-help actions and recovery in demand in a number of our key businesses.</p>
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Non-financial	See page 120																												
Payout (30% of bonus)	77% of Non-financial maximum	77% of Non-financial maximum																											
Total	93% of maximum	93% of maximum																											
Further information can be found on pages 119-120.																													
<p><b>Long term incentive plan</b></p> <ul style="list-style-type: none"> <li>- Performance measures based on financial and/or relative TSR metrics and measured over three years</li> <li>- Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance</li> <li>- Holding period applies for two years following vesting</li> <li>- Recovery and withholding provisions apply</li> </ul>	<table> <tr> <th></th><th>Average EPS growth</th><th>TSR vs FTSE All Share</th></tr> <tr> <td>2019 Award</td><td></td><td></td></tr> <tr> <td>Weighting</td><td>50%</td><td>50%</td></tr> <tr> <td>Threshold target</td><td>3% p.a.</td><td>Median</td></tr> <tr> <td>Maximum target</td><td>10% p.a.</td><td>Upper quartile</td></tr> <tr> <td>Actual</td><td>-13% p.a.</td><td>17th percentile</td></tr> <tr> <td>Vesting</td><td>0%/50%</td><td>0%/50%</td></tr> </table>		Average EPS growth	TSR vs FTSE All Share	2019 Award			Weighting	50%	50%	Threshold target	3% p.a.	Median	Maximum target	10% p.a.	Upper quartile	Actual	-13% p.a.	17th percentile	Vesting	0%/50%	0%/50%	<p>Since the performance targets were not met in relation to the 2019 LTIP award, no vesting will take place.</p>						
	Average EPS growth	TSR vs FTSE All Share																											
2019 Award																													
Weighting	50%	50%																											
Threshold target	3% p.a.	Median																											
Maximum target	10% p.a.	Upper quartile																											
Actual	-13% p.a.	17th percentile																											
Vesting	0%/50%	0%/50%																											
Further information can be found on pages 121-122.																													
<p><b>Share ownership guidelines</b></p> <ul style="list-style-type: none"> <li>- Build up and maintain a shareholding equal to 200% of salary</li> </ul>	<table> <tr> <th></th><th>Paul Waterman</th><th>Ralph Hewins</th></tr> <tr> <td>Guideline</td><td>200% of salary</td><td>200% of salary</td></tr> <tr> <td>Level</td><td>On track 154% of salary<sup>1</sup></td><td>On track 66% of salary<sup>1</sup></td></tr> </table>		Paul Waterman	Ralph Hewins	Guideline	200% of salary	200% of salary	Level	On track 154% of salary <sup>1</sup>	On track 66% of salary <sup>1</sup>	<p>Both the CEO and CFO increased their holdings during the year.</p> <p>Further information can be found on page 123.</p>																		
	Paul Waterman	Ralph Hewins																											
Guideline	200% of salary	200% of salary																											
Level	On track 154% of salary <sup>1</sup>	On track 66% of salary <sup>1</sup>																											
<p><sup>1</sup> For the purposes of the guideline, an estimate has been made in relation to the after tax number of shares in relation to vested/unexercised share awards.</p>																													

## Corporate governance

## Directors' Remuneration report continued

**Implementation of Remuneration Policy for 2022**

As a UK Listed business, our primary reference points for both quantum and remuneration structure for our Executive Directors are UK benchmarks. However, as noted in our policy, we retain flexibility as to where we position individuals against UK benchmarks to take into account the locations in which they work and also the relevant market for talent. With our CEO being a US Citizen, based in the US, splitting his time between the UK and US, his remuneration quantum is set to be aligned with UK market practice both in terms of structure and quantum. However, recognizing that remuneration quantum is above UK levels in US businesses of a similar size and complexity, his total remuneration package is positioned towards upper quartile versus UK FTSE 250 benchmarks. For completeness, this market positioning is considered appropriate on the basis that versus US companies of a comparable size and complexity his remuneration quantum falls between lower quartile and median.

The section below summarises how the Committee intends to implement the Policy for the forthcoming financial year ending 31 December 2022.

Key Policy features	2022 implementation												
<b>Salary</b> <ul style="list-style-type: none"><li>Level based on the scope and responsibilities of the role</li><li>Increases normally guided by the general increase for the local workforce and/or broader workforce as a whole</li></ul>	<ul style="list-style-type: none"><li>The Committee reviewed salaries and decided to award Paul Waterman and Ralph Hewins each a salary increase as shown in the table below, which is consistent with the average increase in year for the respective US and UK salaried workforce.</li></ul> <table><tr><th></th><th>Paul Waterman</th><th>Ralph Hewins</th></tr><tr><td>Salary as at 1 January 21</td><td>\$936,096</td><td>£369,482</td></tr><tr><td>Salary as at 1 January 22</td><td>\$964,179</td><td>£380,566</td></tr><tr><td>2022 increase</td><td>(+3%)</td><td>(+3%)</td></tr></table>		Paul Waterman	Ralph Hewins	Salary as at 1 January 21	\$936,096	£369,482	Salary as at 1 January 22	\$964,179	£380,566	2022 increase	(+3%)	(+3%)
	Paul Waterman	Ralph Hewins											
Salary as at 1 January 21	\$936,096	£369,482											
Salary as at 1 January 22	\$964,179	£380,566											
2022 increase	(+3%)	(+3%)											
<b>Pension/benefits/all-employee share schemes</b> <ul style="list-style-type: none"><li>Pension: CEO participates in US specific arrangements and receives a salary supplement and the CFO receives a salary supplement</li><li>Any new Director appointment will have pension set at 8% of salary in line with that offered to new joiners across the wider workforce</li><li>Benefits: Directors receive market competitive benefits and may participate in all-employee share schemes</li></ul>	<ul style="list-style-type: none"><li>Implementation in line with the Policy</li><li>Pension rates for incumbent Directors are on a glidepath to be aligned with the typical individual pension funding rates prevalent at the time of the Directors' appointment (see pages 123-124 for further detail)</li></ul>												
<b>Annual bonus</b> <ul style="list-style-type: none"><li>Policy maximum of 150% of salary for CEO and 125% of salary for CFO</li><li>Performance related scheme which delivers value for achievement against annual targets</li><li>Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance</li><li>50% of bonus earned deferred into shares for two years</li><li>Recovery and withholding provisions apply</li></ul> <b>Link to KPIs</b> <ul style="list-style-type: none"><li>Adjusted Group PBT</li><li>AWC</li><li>Individual objectives linked to sustainability and strategic priorities</li></ul>	<table><tr><th></th><th>Paul Waterman</th><th>Ralph Hewins</th></tr><tr><td>Opportunity</td><td>150% of salary</td><td>125% of salary</td></tr></table> <p><b>Performance metrics:</b></p> <ul style="list-style-type: none"><li>Adjusted Group PBT: 50%</li><li>Average trade working capital to sales ratio: 20%</li><li>Non-financial strategic priorities: 30% of which 15% based on appropriately structured sustainability priorities with the remaining 15% set on innovation, growth and efficiency targets. The targets are fully aligned with the Company's current strategy and have been set to be challenging in the context of the Company's performance expectations for the year ahead</li><li>The Committee considers that the bonus targets are commercially sensitive and therefore plans to disclose them only on a retrospective basis in next year's Directors' Remuneration report</li><li>The range of targets around budgeted performance levels to apply in 2022 has been calibrated to take into account the current external environment and internal planning</li></ul>		Paul Waterman	Ralph Hewins	Opportunity	150% of salary	125% of salary						
	Paul Waterman	Ralph Hewins											
Opportunity	150% of salary	125% of salary											

Key Policy features	2022 implementation			
<b>Long term incentive plan</b> <ul style="list-style-type: none"> <li>Policy maximum is 250% of salary</li> <li>Awards vest to the extent performance conditions are achieved</li> <li>Performance measures based on financial and/or relative TSR metrics and measured over three years with a ROCE underpin</li> <li>Committee may adjust outturn where formulaic assessment is inconsistent with Company's overall performance and/or there is a perceived windfall gain</li> <li>Holding period applies for two years following vesting</li> <li>Recovery and withholding provisions apply</li> <li>ROCE underpin introduced for the 2019 awards continues to apply</li> </ul> <b>Link to KPIs</b> <ul style="list-style-type: none"> <li>EPS</li> <li>Relative TSR</li> <li>Cash conversion</li> <li>The choice of targets relates to measuring the Company's success in delivering profitable growth and sustainable shareholder returns</li> </ul>			Paul Waterman	Ralph Hewins
	LTIP Award		200% of salary	175% of salary
	<b>Performance metrics:</b>			
		Weighting	Threshold target	Threshold vesting
			13.5 cents per share	17.5 cents per share
	FY 2024 EPS	33.3%		
	Cash conversion	33.3%	85%	0%
	Relative TSR vs FTSE all-share index	33.3%	Median	25%
				Upper quartile
	<ul style="list-style-type: none"> <li>The range of EPS targets is considered to be appropriately demanding noting (i) that vesting takes place from 0% (as opposed to the market norm of 25%), and (ii) in line with institutional investor expectations such that the range straddles consensus growth expectations</li> <li>Cash conversion is the three year average operating cash conversion</li> </ul>			
<b>Chair and NED fees</b> <ul style="list-style-type: none"> <li>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</li> </ul>	<ul style="list-style-type: none"> <li>With the exception of the Chair's fee given his appointment in 2021, in line with treatment for the UK workforce, fees will increase by 3% for the upcoming year</li> </ul>			
		2022	2021	2022 Increase
<b>Basic fees</b>				
Chairman	£198,957	£198,957		(+0%)
Non-Executive Director	£53,863	£52,294		(+3%)
<b>Additional fees</b>				
Senior Independent Director	£9,360	£9,087		(+3%)
Chair of Audit or Remuneration Committee	£9,360	£9,087		(+3%)
Workforce engagement NED	£4,680	£4,544		(+3%)

## Corporate governance

## Directors' Remuneration report continued

## Remuneration Policy report

The Company's existing Remuneration Policy was approved by shareholders at the Company's 2021 AGM and took effect from the date of that meeting. This policy was a rollover of the 2018 Policy with the Committee considering that a full Policy review should be delayed until 2021 to allow the business to focus on the challenges arising due to the COVID-19 pandemic. The Committee has undertaken a full review of the Policy during 2021 and an updated Policy is therefore presented to shareholders for approval at the 2022 AGM on 26 April 2022, and if approved this will be the effective date of the Policy.

The Committee determines the Remuneration Policy taking into account all relevant factors. The Committee receive input from management and external advisers with respect to the design of the Policy and consider the context of the relevant stakeholders when considering their input. The Committee determines the Policy applicable to the Executive Directors and the Chairman, with the Policy for Non-Executive Directors agreed by the Board, excluding the Non-Executive Directors. This also applies when with respect to the implementation of the Policy so that no individuals are involved in decisions as to their own remuneration. The Committee concluded that the Policy continues to support the long term strategy of the company and as such only minor changes were required.

- **Long term incentives:** The policy for the threshold level of vesting has been set such that no more than 25% of a future award may vest for achieving the threshold performance target. Whilst this level of vesting is not anticipated being applied to financial targets set for future awards (e.g. EPS and cash conversion targets where 0% vests at the threshold performance target), it is anticipated that 25% of any portion of an award set against relative total shareholder return targets would vest at the threshold performance target, mirroring standard market practice.
- **Share ownership guidelines:** From 2022, executives will be expected to hold shares equal to the value of the lower of the actual shareholding at cessation of employment and the

current guideline (200% of salary). The post cessation guideline only applies to shares vesting under incentive plans from 2022.

Further summary details of this change are included in the Remuneration Committee Chair's Introductory Statement in this report.

The Policy is aligned with the six factors listed in Provision 40 of the UK Corporate Governance Code:

- **Clarity** – the Policy is set out as transparently as possible and the workforce engagement Director retains oversight of employee communication and education. We proactively consult our shareholders on any proposed changes to remuneration policy.
- **Simplicity** – the Remuneration Policy is structured as simply as possible; however, a degree of complexity is required to align pay and performance. Performance metrics are chosen to focus on the key operational, financial and strategic performance objectives of the business.
- **Risk** – the Remuneration Policy has been shaped to discourage inappropriate risk taking, including long term performance measurement, deferral and shareholding guidelines which extend into post-employment. The Committee retains discretion to override formulaic outcomes.
- **Predictability** – elements of the Policy are subject to caps and dilution limits. Examples of how remuneration varies depending on performance is set out in the scenario charts.
- **Proportionality** – there is a sensible balance between fixed pay and variable pay, and incentive pay is weighted to sustainable long term performance.
- **Alignment to culture** – the Policy is weighted towards performance related pay which supports a performance-based culture and the non-financial targets encourage innovation and optimisation which are also central to the Elementis culture and is aligned to Company values.

## Policy table

The information in the table below sets out the Remuneration Policy for 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	<p>Annual salary increases that are broadly in line with the local workforce (in percentage of salary terms), subject to Committee approval.</p> <p>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.</p> <p>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.</p> <p>Salaries are normally reviewed in December and any changes are effective from 1 January in the following year.</p>
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	
<b>Purpose and link to Company's strategy</b>	<p>To aid retention and to remain competitive in the marketplace. Healthcare benefits in order to minimise business disruption.</p> <p>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.</p>
<b>How it operates in practice</b>	<p>Life assurance and private medical health insurance are provided.</p> <p>Provision of either a company car (for business and personal purposes) or a car allowance.</p> <p>Payments in connection with an international assignment and payments in connection with a relocation, which would typically be paid for a transitional 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.</p> <p>Participation in all-employee/savings based share option schemes as above.</p> <p>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.</p>
<b>Maximum potential value</b>	<p>SAYE/savings based schemes are subject to individual limits. These are \$2,000 per month in the US and up to the HMRC prescribed limit (£500 per month) in the UK.</p> <p>Other benefits: the Committee will determine the level of benefit as it considers appropriate, taking into consideration local market practice.</p>
Pension	
<b>Purpose and link to Company's strategy</b>	<p>To aid retention and remain competitive in the marketplace.</p> <p>To provide appropriate retirement benefits commensurate with local market practice, seniority of the role and tenure with the Company.</p>
<b>How it operates in practice</b>	<p>Executive Directors are eligible to participate in a Company sponsored pension scheme, a statutory pension arrangement, receive cash in lieu of a Company pension or a combination of these.</p>
<b>Maximum potential value</b>	<p>For incumbent Executive Directors, pensions will continue to be reduced in phases to be aligned with the pension provision of the median employee:</p> <ul style="list-style-type: none"> <li>- From 1 January 2020: 25%</li> <li>- From 1 December 2020: 24%</li> <li>- From 1 December 2021: 22.5%</li> <li>- From 1 December 2022: 21%</li> </ul> <p>Any new Director appointment will have pension set to be aligned with the average of the appropriate wider workforce rate (currently 8% of salary).</p>

## Corporate governance

## Directors' Remuneration report continued

Annual bonus scheme	
<b>Purpose and link to Company's strategy</b>	<p>To incentivise the senior management team to exceed the annual operating plan approved by the Board at the start of each financial year.</p> <p>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.</p> <p>Through the part deferral of bonuses into deferred shares this enables incentive pay to help executives build and maintain meaningful shareholdings and thereby provides a long term focus.</p>
<b>How it operates in practice</b>	<p>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.</p> <p>Bonus payments are paid following the approval of full year results. Payments are based on salaries at the time of payment.</p> <p>Bonus deferral element: 50% of any cash bonus payable is normally awarded in shares and deferred for two 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).</p> <p>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 three 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.</p>
<b>Maximum potential value</b>	<p>CEO: 150% of basic salary.</p> <p>CFO: 125% of basic salary.</p> <p>A higher annual bonus limit of 200% of basic salary may apply for new recruits.</p>
<b>Framework used to assess performance</b>	<p>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.</p> <p>The financial element of the bonus may include (but is not limited to) the Company's key performance indicators which include:</p> <p>Profit before tax or other measures of profitability.</p> <p>Group average trade working capital to sales ratio expressed as a percentage ('AWC') or other cash flow indicators.</p> <p>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 regard 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.</p> <p>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.</p> <p>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.</p>

## 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 three years from, and within ten 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 two years will normally 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 operating cash conversion) and/or relative TSR performance conditions, measured over a minimum of three 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.

The threshold vesting level may be up to 25% of maximum, increasing to 100% vesting on a graduated basis for achieving stretch targets.

For the TSR portion of the 2022 Awards, the threshold vesting for achieving median will be 25% of maximum. For the EPS and operating cash conversion performance conditions applying to the 2022 Awards, the threshold vesting level will start from 0%.

In relation to strategic targets, the structure of the target will vary based on the nature of the target set (i.e. it will not always be practicable to set 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 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.



## Corporate governance

## Directors' Remuneration report continued

**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. The guideline will also apply for two years post cessation of employment such that Executive Directors are expected to hold shares equal to the value of the lower of the actual shareholding at cessation of employment and the current guideline (200% of salary). The post cessation guideline only applies to shares vesting under incentive plans from 2022.

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 potential value**

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-Executive 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 two 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 on pages 28-29.

In the annual bonus scheme, the financial measures currently used are adjusted Group profit before tax and average working capital (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 sustainability objectives (e.g. Health and Safety, Diversity, equity and inclusion and environment) and/or strategic business objectives (e.g. relating to innovation, growth and efficiency targets).

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. Cash conversion is also used to encourage efficient working practices. 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 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 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 the Remuneration Policy from year to year the Committee would give consideration to an appropriate form of dialogue with the Company's major shareholders.

### 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 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.

In 2018, the Board introduced 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 are generally 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.

### How the views of employees are taken into account

The Board has established a Designated Non-Executive Director for workforce engagement (DNED) as a direct response to the UK Corporate Governance Code enabling the workforce voice in Board matters. The role of the workforce engagement Director is to review and monitor employee insight informed by engagement activities and employee engagement surveys. During the year, global reward principles were communicated with additional detail on determination of pay, irrespective of position. The DNED will engage with the workforce on these principles in 2022 and seek feedback. Also, in 2022, the DNED will be fully involved in a full global gender pay review. For more information, see pages 85-86 on engaging with the workforce.

## Corporate governance

## Directors' Remuneration report continued

**Committee discretion with regard to incentive plans**

The Committee will operate the annual bonus plan, deferred share bonus plan, LTIP and all employee plans according to their respective rules and in accordance with the Financial Conduct Authority's Listing Rules ('Listing Rules') and HMRC rules where relevant. The Committee retains discretion, consistent with market practice, in a number of regards to the operation and administration of these plans. These include the following (plan limits and performance targets restricted to the descriptions detailed in the preceding policy table):

- Who participates in the plans
- The timing of grant of award and/or payment
- The size of an award and/or payment
- The determination of vesting
- Dealing with a change of control (e.g. the timing of testing performance targets) or restructuring
- Determination of a good/bad leaver for incentive plan purposes based on the rules of each plan and the appropriate treatment chosen
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring and special dividends)
- The annual review of performance conditions, including metrics and weightings, for the annual bonus plan and LTIP

The Committee also retains the ability to adjust the targets and/or set different measures and alter weightings for the annual bonus plan and to adjust targets for the LTIP if events occur

(e.g. material divestment of a Group business) which cause it to determine that the conditions are no longer appropriate and the amendment is required so that the conditions achieve their original purpose and are not materially less difficult to satisfy. The Committee has discretion to override incentive pay outcomes in the event that payouts are not considered reflective of overall Company performance having applied the performance conditions for the annual bonus and LTIP.

**CEO and CFO rewards scenario analysis**

The bar charts below illustrate the potential pay opportunities for Executive Directors under three different scenarios for 2022. The CEO's remuneration has been converted into pounds sterling using the average exchange rate for 2021 (\$1.3777:£1.00).

- Fixed: comprises fixed pay being the value of salary, benefits and pension (based on 2021 Company contributions)
- On target: the amount receivable assumes performance in which 50% of annual bonus is payable and 50% of LTIP awards vest.
- Maximum: the maximum amount receivable should all stretch targets be met and vesting under both the annual bonus scheme and LTIP is 100%.
- Maximum with share price growth: in addition, we have provided an illustration of the maximum outcome assuming 50% share price appreciation for the purpose of the LTIP value.

The LTIPs also relate to awards to be made in 2022 rather than any awards vesting in 2022.

## Recruitment policy

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

Element	Policy
<b>Basic salary</b>	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.
<b>Benefits</b>	<p>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.</p> <p>Where necessary, the Committee may approve the payment of reasonable relocation expenses to facilitate recruitment for a maximum period of 12 months.</p>
<b>Pension</b>	Any new Executive Directors will have their pension level set to be aligned with the appropriate wider workforce rate (currently 8% of salary).
<b>Annual bonus</b>	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.
<b>Long term incentives</b>	<p>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.</p> <p>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.</p>
<b>Buyout awards</b>	<p>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.</p> <p>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.</p>
<b>Interim appointments</b>	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.

## Corporate governance

## Directors' Remuneration report continued

**Outside board appointments**

The Company's policy is to support executives should they wish to take on an external board appointment, provided that there is no conflict of interest and the role does not interfere with the executive's commitment or duties. If an executive does take on an external appointment, they may retain any fees paid and will be restricted generally to only one such external appointment.

**Service contracts**

Executive Directors' service contracts contain a termination notice period not exceeding 12 months.

Name	Date of contract*	Notice period
Paul Waterman, CEO	6 November 2015	12 months
Ralph Hewins, CFO	27 June 2016	12 months

\* The date of the service contract is not the same as the date of appointment, which for Paul Waterman was 8 February 2016 and Ralph Hewins 12 September 2016.

Copies of the Executive Directors' service contracts are available for inspection at the Company's registered office during normal business hours and will be available for inspection at the AGM.

**Policy on payment for loss of office****Termination payments**

The maximum amount payable under both the CEO's and CFO's contract is basic salary, benefits and pension for 12 months while each serves his notice period. For the Executive Directors, the terms covering termination were agreed at the date their contracts were made and both are required to mitigate their loss in the event of loss of office by making efforts to secure a new position.

The Company may pay compensation in lieu of the notice period of basic salary only, to be paid in monthly instalments (pro-rated for the actual notice period). This would apply if the Company terminates his/her contract for any reason other than for cause, or if he/she serves notice to terminate his/her contract in 12 months' time.

Payments in lieu of notice to both the CEO and CFO may be reduced or ceased if either secures a new position. In both cases, the payments will only be ceased if the salary in a new position is equal to or more than the salary on termination; if not, the monthly payments will be reduced by the gross salary earned by the CEO or CFO in his/her new position each month.

The above summary only addresses contractual rights to payments in lieu of notice, or during the relevant Director's notice period, and may not reflect any settlement or compromise sums which are separately agreed at the point of termination.

**Treatment of incentive plans****Annual bonus plan**

If an Executive Director resigns and serves his/her notice period, the Committee retains discretion to make a pro-rata payment based on performance. The same applies in certain circumstances such as if the individual's employment is terminated on the grounds of ill health or disability. No bonus is payable for termination for cause.

In line with the Company's policy, rules of the annual bonus scheme incorporate a requirement to defer half of the amount of bonus vesting for two years in the form of share awards under the deferred share bonus plan. In certain 'good leaver' circumstances (e.g. ill health, death), the Committee, acting fairly and reasonably, may waive deferral.

**Deferred share bonus plan**

If an Executive Director's employment is terminated before a deferred share award vests (after two years), then the awards would vest in full on the date of leaving unless termination is for cause, in which case the awards would lapse.

**LTIP**

As with the annual bonus plan, the Company's current (and proposed) LTIP also includes a number of discretions in connection with an Executive Director leaving employment. Other than in certain defined 'good leaver' circumstances, awards lapse on cessation of employment. Where an individual ceases employment for one of the defined 'good leaver' events (i.e. ill health, disability, redundancy within the meaning of UK legislation or its overseas equivalent, transfer out of the Group/ sale of business or retirement with employer's consent and, in the case of the new LTIP, any other reason at the discretion of the Committee), the award will remain eligible to vest on its normal vesting date (unless the Committee uses its discretion to vest the award on the date of cessation of employment), in all cases subject to a pro-rata reduction to reflect the portion of the vesting period that has elapsed (unless the Committee determines otherwise) and the application of the performance condition. In the event of a death of an Executive Director, the default is for the award to vest at the date of death unless the Committee determines otherwise, in which case it will vest at the normal vesting date with pro-rating and performance conditions applied as described in other 'good leaver' circumstances.

Similar provisions apply in the event of a change of control, with performance measured up to the date of the relevant event, and a pro-rata reduction applying unless the Committee determines otherwise.

It is the Committee's policy to exercise these discretions in a way that would be in the best interests of the Company and depending on the individual circumstances of each case.

### Payments agreed prior to the effective date of this policy

Any agreements entered in good faith prior to the commencement of the 2022 Remuneration Policy will remain eligible to operate on their original terms.

### Non-Executive Directors' terms of appointment

Non-Executive Directors are appointed for a three year term, subject to annual re-election by shareholders. For Non-Executive Directors who have served for nine years or more, they may be appointed for a further year at a time. Each letter of appointment currently provides that the Director's appointment can be terminated by the Company on six months' notice on any grounds without claim for compensation. Following the 2018 AGM, the letters of appointment of the Non-Executive Directors were amended to 30 days' notice by either party, which is the application of the new Remuneration Policy where a limit of up to three months is permitted. All other terms will remain the same. The Chairman's letter of appointment will remain with a six months' notice period.

Non-Executive Directors are not eligible to participate in any pension, bonus or share incentive schemes. No individual is allowed to vote on his/her own remuneration.

The table below provides further details of the letters of appointment that the Non-Executive Directors held with the Company during 2021.

Name	Date of appointment	Date of last re-appointment	Date of expiry
<b>Non-Executive Directors</b>			
A Duff <sup>1</sup>	01 April 2014	1 April 2020	1 April 2023
D Deuring	1 March 2017	1 March 2020	1 March 2023
S Good	20 October 2014	20 October 2020	20 October 2023
A Hyland	1 June 2013	1 June 2019	1 June 2022
J O'Higgins	4 February 2020	n/a	4 February 2023
C Soden	1 November 2020	n/a	1 November 2023

<sup>1</sup> Andrew Duff retired from the Board on 1 September 2021.

Copies of all letters of appointment of Non-Executive Directors are available on the Company's website.

### Shareholder engagement

The views of shareholders are important to the Committee. Regular dialogue and engagement with the Company's shareholders is undertaken. For example, the Committee wrote to its major shareholders and the leading advisory bodies in 2021 with the proposed changes to the Policy and its operation going forward. In particular, the Committee has introduced a post cessation of employment share ownership guideline in response to shareholder views which will apply from 2022.

## Corporate governance

## Directors' Remuneration report continued

## Annual Report on Remuneration ('Report')

This Report details how the Company's policies and practices on Directors' remuneration were applied in respect of the financial year ended 31 December 2021 and how they will be applied in the 2022 financial year.

## Remuneration payable to Directors for 2021 (audited)

Although the Company reports its results in US dollars, the remainder of this report on remuneration is presented in pounds sterling because the majority of the Directors are UK based and paid in pounds sterling.

A breakdown of the Directors' remuneration for the year ended 31 December 2021 is set out in the table below.

£'000	Year	Fixed			Performance related				Total variable	Total
		Salary/ fees	Benefits²	Pension	Total fixed	Bonus	LTIP	Other³		
Executive Directors										
Paul Waterman¹, CEO	2021	679	89	165	932	976	-	37	1,013	1,946
	2020	716	76	178	970	0	-	37	0	1,007
Ralph Hewins, CFO	2021	369	27	88	484	442	-	-	442	926
	2020	362	26	90	478	0	-	-	0	478
Non-Executive Directors										
John O'Higgins⁴, Chairman	2021	107	-	-	107	-	-	-	-	107
	2020	46	-	-	46	-	-	-	-	46
Andrew Duff⁵, Former Chairman	2021	133	-	-	133	-	-	-	-	133
	2020	195	-	-	195	-	-	-	-	195
Dorothee Deuring	2021	52	-	-	52	-	-	-	-	52
	2020	51	-	-	51	-	-	-	-	51
Steve Good⁶	2021	64	-	-	64	-	-	-	-	64
	2020	60	-	-	60	-	-	-	-	60
Anne Hyland	2021	61	-	-	61	-	-	-	-	61
	2020	60	-	-	60	-	-	-	-	60
Christine Soden⁷	2021	57	-	-	57	-	-	-	-	57
	2020	9	-	-	9	-	-	-	-	9
Former Directors										
Sandra Boss⁸	2021	-	-	-	-	-	-	-	-	-
	2020	19	-	-	19	-	-	-	-	19
Nick Salmon⁹	2021	-	-	-	-	-	-	-	-	-
	2020	20	-	-	20	-	-	-	-	20
Total	2021	1,522	116	253	1,890	1,418	-	37	1,455	3,346
Total	2020	1,538	102	268	1,908	0	-	37	0	1,945

1 Paul Waterman is based in the US and paid in US dollars. He received an annual salary of \$936k (2020: \$918k). His pension comprises a salary supplement and employer contributions to defined contribution retirement schemes. The foreign exchange rate applied is the 2021 average rate of \$1.3777:£1.00 (2020: \$1.2820:£1.00).

2 Taxable benefits for Paul Waterman consist of a car allowance (£16,949), private health care (£19,271), dental, life assurance, accidental death and disablement cover and long term disability insurance (£25,112), and tax advice (£21,775). The tax advice benefit allows appropriate tax filings to be made in both the UK and US as a result of company business travel requirements during 2020/21 which exceeded the normal business expectations agreed on appointment and gave rise to the need for dual filings. Taxable benefits for Ralph Hewins consist of a car allowance (£18,000), private health care and life assurance.

3 As required by remuneration reporting regulations, the valuation of Paul Waterman's US Savings Related Share Option Scheme (SRSOS) award is based on the face value of shares at grant (September 2020). There are no performance measures for the SRSOS.

4 John O'Higgins was appointed Chairman on 1 September 2021, having been appointed Non-Executive Director on 4 February 2020 and Senior Independent Director on 29 April 2020.

5 Andrew Duff stepped down as Chairman on 1 September 2021.

6 Steve Good was appointed Senior Independent Director upon John O'Higgins' appointment as Chairman.

7 Christine Soden was appointed a Non-Executive Director on 1 November 2020 and is the Designated Non-Executive Director for workforce engagement.

8 Sandra Boss stepped down from the Board on 29 April 2020.

9 Nick Salmon stepped down from the Board on 29 April 2020.

### Determination of annual bonus outcome for performance in 2021 (audited)

This section shows the performance targets set in respect of the 2021 annual bonus scheme and the level of performance achieved.

As detailed in the Chair's Introductory Statement, 2021 was a year of strong performance and progress against our Innovation, Growth and Efficiency strategy. We delivered double digit revenue growth and an adjusted operating profit of \$107m, which was above our internal planning and ahead of external market expectations for the full financial year. Full details of the bonus assessment of the Executive Directors' non-financial bonus elements can be found on page 120. Accordingly, and in line with the Policy, 50% of the bonus payable will be deferred over shares which will be released to the Director after two years which are forfeitable for gross misconduct.

	Relative weighting of performance conditions	FY 2021 bonus plan targets					Percentage of maximum bonus earned		Percentage of salary earned	
		Threshold	Plan	Stretch	Actual result	Percent of maximum	Paul Waterman CEO	Ralph Hewins CFO	Paul Waterman CEO	Ralph Hewins CFO
Full year bonus										
Maximum as % salary							100%	100%	150%	125%
PBT (\$m)	50%	57.2	63.5	69.9	77.0	100%	50%	50%	75%	62%
AWC (%)	20%	25.8	23.8	21.8	20.0	100%	20%	20%	30%	25%
		See disclosure below and on page 120								
Non-financial	30%				23%	77%	23%	23%	35%	29%
Total full year	100%						93%	93%	140%	116%
Post discretion							0%	0%	0%	0%

In relation to the targets, 0% is payable at the threshold performance levels, 50% at plan and 100% at the maximum performance level.

Set out on page 120 are the challenging 2021 individual strategic objectives and actual performance against the objectives. The objectives were categorised into two categories – (1) Strategic Implementation and People (20% weighting) and (2) Safety and Environment (10% weighting).



## Corporate governance

## Directors' Remuneration report continued

## 2021 bonus assessment for CEO and CFO

Measure	Performance indicators	Achievements	Summary scoring
<b>Safety, compliance, and risk management</b>  <b>ASSESSMENT</b> Targets partially achieved – further investment made in Safety culture through TogetherSAFE programme	– Reportable Injuries: target 7 or less, threshold 9 and stretch 5. – LTA's: target =2, threshold = 3, stretch = 1 – Process Safety Tier 1 and Tier 2 Events: target =2, threshold = 3, stretch = 1	– Reportable Injuries = 12 – LTA's = 4 – Tier 1/2 events = 1	3/10
<b>Strategic Implementation</b> Actions to deliver 'Innovation' Strategic Priority  <b>ASSESSMENT</b> All targets achieved or exceeded	– Pipeline of new products in place to be launched in 2022/2023 to ensure innovation revenue contribution on track for 17% of total by 2025	– 21 new product launches delivered in 2021 with at least 20 identified for 2022. Innovation funnel for 2023 is strong with products moving through stage gate process – Innovation revenue at 14% up from 10% in 2017 with plans to further increase in 2022 – Open innovation with AQDOT and NXTLEVEL product launches	15/15
Actions to deliver 'Growth' Strategic Priority  <b>ASSESSMENT</b> All targets achieved or exceeded	– Underpin future revenue growth through continuing to maintain a healthy NBO pipeline leading to >\$25m NBO delivery in 2022 and >\$25m in 2023	– \$50m of new business achieved in 2021 with a strong pipeline identified for 2022/23. Revenue growth 17% in Coatings, 15% in Industrial Talc and >40% in skin care and Asia personal care	
Actions to deliver 'Efficiency' Strategic Priority  <b>ASSESSMENT</b> All targets achieved or exceeded	– Ensure actions in place to underpin delivery of 2023 targets of \$10m cost savings and \$10m working capital reduction	– Actions are in place to underpin and delivery of 2023 targets via efficiency savings including India AP Plant; continuous improvement programs in Minerals, Specialties and Chromium; procurement efficiency and a review of back-office effectiveness – Working Capital reduction actions including improved demand planning accuracy to manage inventory levels; aligned 2022 plan focused on process improvement, lead time assessment, supplier financing and strategic procurement	
Actions to deliver additional Sustainability Strategic Priority  <b>ASSESSMENT</b> All targets achieved or exceeded	– Identify the projects (investment, impact, timing) to be implemented within the next 5 years to accelerate progress towards the 2030 goals	– Roadmap in place including >60 improvement projects already demonstrating accelerated progress towards our Water, Energy and GHG targets – Actions taken in the year include manufacturing and supply chain projects identified to underpin and exceed our targets; Task-Force for Climate-Related Financial Disclosure Framework implemented; appointed Global Head of Sustainability; launched new products with enhanced sustainability features – Resulted in improved 3rd party sustainability assessments gaining Ecovadis gold, MSCI to A, CDP to B-, Sustainability to Medium risk and Responsible Chromium awards	
<b>People</b> Actions to deliver People Strategic Priority  <b>ASSESSMENT</b> All targets achieved or exceeded	– Build organisational capability through actions that drive employee engagement and create a diverse, equitable and inclusive organisation	– Through both enterprise wide and local action plans increased employee engagement score from 55% to 63% over the year – Continued to increase gender diversity of Senior Leadership up to 31% female (FTSE Women Leaders definition) from 30.5% in 2020 – Evolved DE&I Council and key activities as part of three year plan	5/5

## Directors' share based awards

### Determination of 2019 LTIP awards (audited)

Under the 2019 Award, achieving the threshold EPS growth target (3% p.a.) would result in 0% of the EPS portion vesting and achieving the threshold TSR target (median rank versus the FTSE All Share Constituents excluding Investment Trusts) would result in 3.85% of the TSR portion vesting. Since the threshold performance targets were not met, these awards will not vest.

### Annual LTIP awards granted in the year (audited)

On 6 April 2021, LTIP awards were granted in line with the Remuneration Policy. The CEO was granted an award over shares to the value of 200% of salary and 175% of salary for the CFO. The Committee retains the discretion to reduce the number of shares on vesting should it be considered appropriate, including in the event of a perceived windfall gain.

Details of the main terms of the 2021 LTIP awards are summarised in the table below. The awards are subject to EPS, TSR and operating cash conversion performance conditions (equally weighted), each measured over the three years to 31 December 2023 as shown in the table below.

Award holder	Type of share award	Grant date	Number of awards	Face value of award at grant (£'000s) <sup>1</sup>	Percentage that would vest at threshold performance	The end date of the performance period	A summary of performance targets and measures
Paul Waterman	Nil cost (restricted stock unit)	06.04.2021	1,079,362	1,355	0% of the award subject to the EPS condition and 3.85% of the award subject to the TSR condition and 0% of the award subject to operating cash conversion	31.12.2023	FY23 EPS of between 10 cents and 13 cents and TSR performance of between median to upper quartile and Three year operating cash conversion between 85% and 95%
Ralph Hewins	Nil cost option	06.04.2021	515,214	647			

- 1 The share price used to determine the number of awards granted was £1.2550, based on the share price on the day prior to grant.
- 2 Details of deferred bonus and savings based share schemes are shown in the table overleaf.
- 3 The vesting of the award is also subject to a return on capital employed underpin which requires the Company to consider whether the return generated is in line with the Board's expectations and if not, to reduce the vesting to a more appropriate level. The Committee also retains discretion to reduce the number of shares on vesting should it be considered appropriate, including in the event of a perceived windfall gain.

## Sourcing shares for our share plans

Employee share plans comply with the Investment Association's guidelines on dilution, which provide that overall issuance of shares under all plans should not exceed an amount equivalent to 10% of the Company's issued share capital over any ten year period, with a further limitation of 5% in any ten year period on discretionary plans. Based on the number of awards that remain outstanding as at the year end, the Company's headroom for all plans is 3.96% and for discretionary plans is 3.36% of issued share capital.

## Corporate governance

## Directors' Remuneration report continued

## Directors' scheme interests (audited)

The interests of the persons who were Directors during the year in the issued shares of the Company were:

	Interest type	Grant date	Option price (p)	01.01.21 <sup>(A)</sup>	Scheme interests			31.12.21	Vested but unexercised share options
					Granted during 2021	Exercised during 2021	Lapsed during 2021		
<b>Executive Directors</b>									
Paul Waterman	LTIP <sup>(A)</sup>	30.04.2018	-	483,127	-	-	483,127	-	-
	DSBP <sup>(B)</sup>	06.03.2019	-	110,378	-	110,378	-	-	-
	LTIP <sup>(A)</sup>	01.04.2019	-	849,282	-	-	-	849,282	-
	DSBP <sup>(B)</sup>	05.03.2020	-	188,130	-	-	-	188,130	-
	LTIP <sup>(A)</sup>	07.04.2020	-	2,037,577	-	-	-	2,037,577	-
	SRSOS <sup>(E)</sup>	15.09.2020	63.11	59,188	-	-	-	59,188	-
	LTIP <sup>(A)</sup>	06.04.2021	-	-	1,079,362	-	-	1,079,362	-
<b>Total scheme interests</b>				3,727,682	1,078,362	110,378	483,127	4,213,539	Nil
<b>Ralph Hewins</b>									
	DSBP <sup>(B)</sup>	07.03.2017	-	7,140	-	-	-	7,140	7,140
	RA <sup>(C)</sup>	07.03.2017	-	17,458	-	-	-	17,458	17,458
	RA <sup>(C)</sup>	07.03.2017	-	92,262	-	-	-	92,262	92,262
	DSBP <sup>(B)</sup>	05.03.2018	-	73,123	-	-	-	73,123	73,123
	LTIP <sup>(A)</sup>	30.04.2018	-	229,983	-	-	229,983	-	-
	SAYE <sup>(F)</sup>	27.11.2018	163.91	10,981	-	-	-	10,981	-
	DSBP <sup>(B)</sup>	06.03.2019	-	48,865	-	-	-	48,865	48,865
	LTIP <sup>(A)</sup>	01.04.2019	-	381,469	-	-	-	381,469	-
	DSBP <sup>(B)</sup>	05.03.2020	-	76,266	-	-	-	76,266	-
	LTIP <sup>(A)</sup>	07.04.2020	-	862,469	-	-	-	862,469	-
	LTIP <sup>(A)</sup>	06.04.2021	-	-	515,214	-	-	515,214	-
	<b>Total scheme interests</b>				1,800,016	515,214	-	229,983	2,085,247

## Notes

- (A) LTIP awards are subject to performance conditions. The same relative TSR performance conditions apply in respect of all awards. The EPS target for the 2018 award requires annual growth of 3% to 10%, with the 2019 and 2020 awards requiring annual growth of 3% to 12%. The EPS target for the 2021 award is based on FY23 EPS of between 10 cents and 13 cents. The operating cash conversion performance conditions for the 2020 and 2021 awards is based on three year targets between 85% and 95%. These awards ordinarily vest on the third anniversary of the grant date. Full detail of the vesting conditions are set out on page 121.
- (B) Conditional share award under the Deferred Share Bonus Plan (DSBP). Structured as restricted stock units for Paul Waterman and nil cost options for Ralph Hewins. The 2019 DSBP vested on 6 March 2021. Paul Waterman's tax liability crystallised on vesting and in line with share ownership guidelines, 49,759 shares were sold to cover liabilities arising from the exercise. 60,619 shares were retained by Paul Waterman. For DSBP awards granted in March 2020, the share price at date of grant was 98.95 pence. The face value of awards at grant were £186,154.63 and £75,466 for Paul Waterman and Ralph Hewins respectively. Both Executive Directors recommended and the Committee agreed that no bonus be payable in 2021, therefore no DSBP awards were granted in 2021.
- (C) Replacement Awards structured as nil cost options made under standalone arrangements that borrow terms from the LTIP as amended. In line with the remuneration forfeited on leaving his former employer, the 2017 Award did not have performance conditions, but shares were required to be held for two years.
- (D) Replacement Awards structured as nil cost options made under standalone arrangements that borrow terms from the DSBP as amended.
- (E) Grant under the Elementis plc US Savings Related Share Option Scheme 2018. The options are exercisable from 15 September 2022 with an option price of 63.11 pence per share. The options are made pursuant to a two year savings contract and the exercise price is based on the share price at close of business on 15 September 2020, being the date of the grant.
- (F) Options held under the UK SAYE scheme. This is a savings based share option scheme that is not subject to performance conditions. Vesting occurred on 1 January 2022 and 10,981 shares remain unexercised at the date of this report. Further details on this scheme is shown in Note 26 to the consolidated financial statements on page 179.

**Directors' share interests (audited)**

The interests of the Directors (including any connected persons) during the year (and from the year end to 3 March 2022) in the issued shares of the Company were:

	01.01.21	Acquired during 2021	Disposed during 2021	31.12.21	Shareholding level met as at 31.12.21
<b>Executive Directors</b>					
Paul Waterman	713,843	80,619	–	794,462	No <sup>1</sup>
Ralph Hewins	59,193	–	–	59,193	No <sup>1</sup>
<b>Non-Executive Directors</b>					
Andrew Duff <sup>2</sup>	113,500	20,000	–	20,000	n/a
Dorothee Deuring	26,250	–	–	26,250	n/a
Steve Good	62,500	–	–	62,500	n/a
Anne Hyland	22,153	–	–	22,153	n/a
John O'Higgins	–	125,600	–	125,600	n/a
Christine Soden	–	20,000	–	20,000	n/a

1 As per the Policy, Executive Directors are expected to build up a shareholding that is equal in value to 200% of their basic annual salaries. Share awards vesting over time will contribute to meeting the shareholder requirement.

2 Andrew Duff retired from the Board on 1 September 2021.

The market price of ordinary shares at 31 December 2021 was 131 pence (2020: 115 pence) and the range during 2021 was 108 pence to 161 pence (2020: 18 pence to 185 pence).

As at 31 December 2021, the trustee of the Company's Employee Share Ownership Trust (ESOT) held 446,534 shares (2020: 621,236). As Executive Directors, Paul Waterman and Ralph Hewins, as potential beneficiaries under the ESOT, are deemed to have an interest in any shares that become held in the ESOT.

As at 3 March 2022, no person who was then a Director had any interest in any derivative or other financial instrument relating to the Company's shares and, so far as the Company is aware, none of their connected persons had such an interest. There was no other change, so far as the Company is aware, in the relevant interests of other Directors or their connected persons.

Other than their service contracts, letters of appointment and letters of indemnity with the Company, none of the Directors had an interest in any contract of significance in relation to the business of the Company or its subsidiaries at any time during the financial year.

**Retirement benefits**

The table on page 124 shows the breakdown of the retirement benefits of the Executive Directors, comprising employer contributions to defined contribution plans and salary supplements paid in cash.

Paul Waterman received a salary supplement and participated in US contractual retirement schemes. Further detail can be found in the Policy. The amount shown in the table below represents employer matching contributions and both this and the salary supplement are included in the Directors' emoluments table shown on page 118.

Ralph Hewins received a salary supplement in lieu of any other retirement benefit. The amount received is shown in the table below and in the Directors' emoluments table.

## Corporate governance

## Directors' Remuneration report continued

## Directors' retirement benefits (audited)

	Defined contribution plans		Salary supplement	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Paul Waterman	38	36	126	143
Ralph Hewins	n/a	n/a	88	90

Note: The pensions received were in line with the glidepath set out in the 2020 Directors' Remuneration report and for Paul Waterman included contributions to his US pension arrangements (which included a tax qualified 401k plan and a non-qualified plan with contributions to these structures varying year to year but in all cases capped in line with the commitments included in the 2019 Directors' Remuneration report).

## Payments to past directors or payments for loss of office (audited)

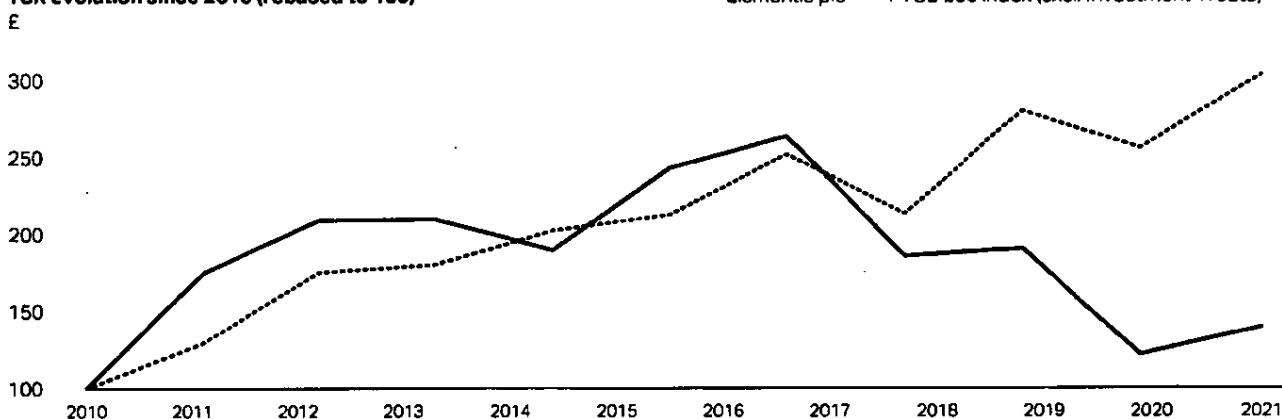
There were no payments in the financial year.

## Total shareholder return performance and change in CEO's pay

The graph below illustrates the Company's total shareholder return for the ten years ended 31 December 2021, relative to the FTSE 250 Index, along with a table illustrating the change in CEO pay over the corresponding period. The table also details the payouts for the annual bonus scheme and LTIP.

As the Company's shares are denominated and listed in pence, the graph below looks at the total return to 31 December 2021 of £100 invested in Elementis on 31 December 2011 compared with that of the total return of £100 invested in the FTSE 250 Index. This index was selected for the purpose of providing a relative comparison of performance because the Company is a member of it.

## TSR evolution since 2010 (rebased to 100)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
CEO pay (total remuneration – £'000s)	3,560	2,252	1,573	763	1,553 <sup>1</sup>	2,539	1,229	1,114	1,007	1,946
Annual bonus payout (% of maximum)	81%	56%	50%	0%	27.5%	93.0%	35.0%	17.3%	0%	93%
LTIP vesting (% of maximum)	100%	100%	65%	0%	91.2% <sup>2</sup>	91.4% <sup>3</sup>	0%	0%	0%	0%

1 Includes remuneration for Paul Waterman and David Dutro for the period in which each was CEO during 2016.

2 Relates to Paul Waterman's buy-out awards which vested in March 2017.

3 Relates to Paul Waterman's buy-out awards vesting in March 2018.

## CEO to all-employee pay ratio

Whilst Elementis is not required to publish a CEO to all-employee pay ratio given it has less than 250 UK employees, voluntary disclosure of the pay ratio is included below. In line with the relevant legislation, the analysis has been completed using Option A (i.e. actual total remuneration earned has been used as the basis for comparison).

Whilst this is only based upon 79 UK employees, there is a mix of factory based employees (c. 80%) and corporate Head Office employees. Option A was used as it was deemed the most accurate and prevalent amongst recent FTSE 250 disclosures. The ratio is greater than that measured internally for 2020 due to higher than target bonus pay-outs for the majority of UK employees in 2021 and the much higher ratio of variable pay within the CEO's overall compensation. The ratio is consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole.

CEO pay ratio	2019	2020	2021
Method	A	A	A
CEO single figure	£1,114	£1,007	£1,946
Upper quartile	15	14	23
Median	21	19	34
Lower quartile	25	23	42

The salary and total pay for the individuals identified at the Lower quartile, Median and Upper quartile positions in 2021 are set out below:

2021	Salary	Total pay
Upper quartile individual	£64,108	£85,190
Median individual	£44,322	£58,025*
Lower quartile individual	£43,305	£46,206

\* difference between total pay and salary due to individual receiving highest bonus level due to exceptional performance

### Relative importance of spend on pay

The table below shows the total remuneration paid across the Group together with the total dividends paid in respect of 2021 and the preceding financial year.

£m	2021	2020	Change
Remuneration paid to all employees <sup>1</sup>	108.5	97.7	11.1%
Total dividends paid in the year	0	0	0%

<sup>1</sup> See Note 8 to the consolidated financial statements. The amounts for 2021 and 2020 have been converted from dollars into pounds sterling using the average USD/GBP exchange rates for those years.

### Percentage change in the remuneration of the Directors (unaudited)

The table below shows the change from 2019 to 2020 and from 2020 to 2021 in the Directors' pay and the corresponding change of these elements across all employees within the Group.

	Average percentage change 2019-20			Average percentage change 2020-21		
	Salary	Taxable benefits	Annual bonus	Salary	Taxable benefits	Annual bonus
CEO <sup>1,2,3</sup>	2.0%	8.5%	0%	2%	26%	100%
CFO <sup>1,2</sup>	2.2%	2.8%	0%	2%	4%	100%
John O'Higgins <sup>4</sup>	n/a	-	-	131%	-	-
Andrew Duff <sup>4</sup>	2.2%	-	-	-31%	-	-
Dorothee Deuring	2.2%	-	-	2%	-	-
Steve Good <sup>5</sup>	2.2%	-	-	7%	-	-
Anne Hyland	2.2%	-	-	2%	-	-
Christine Soden <sup>6</sup>	n/a	-	-	512%	-	-
Employees	-9.4%	-	-	11.1%	-	-
Former Directors						
Sandra Boss <sup>7</sup>	2.8%	-	-	-	-	-
Nick Salmon <sup>8</sup>	2.2%	-	-	-	-	-

<sup>1</sup> All percentages are based on converting relevant local currencies into pounds sterling using the average rates for the respective year.

<sup>2</sup> The Executive Directors recommended and the Committee agreed that no bonuses should be payable in relation to 2020 performance. ♦

<sup>3</sup> The 2019-20 year on year change in the CEO's benefits are driven by increased private medical insurance subscription as a result of a change in coverage, while changes in employee salary, benefits and bonus are driven by changes to the employee population and movements in exchange rates.

<sup>4</sup> Andrew Duff stepped down as Chairman on 1 September 2021, with John O'Higgins assuming the role.

<sup>5</sup> Steve Good assumed the role of SID on 1 September 2021

<sup>6</sup> Christine Soden joined the Board as non-executive Director and DNED on 1 November 2020

<sup>7</sup> Sandra Boss was appointed as Designated Non-Executive Director for workforce engagement in October 2019 and retired from the Board in April 2020.

<sup>8</sup> Nick Salmon retired from the Board in April 2020.

## Corporate governance

## Directors' Remuneration report continued

**Statement of shareholder voting**

The resolution to approve the 2020 Directors' Remuneration Policy and the 2020 Directors' Remuneration report were passed by a poll at the Company's 2021 AGM held on 13 May 2021. Set out in the table below are the votes cast by proxy in respect of these resolutions.

	Votes for	% for	Votes against	% against	Votes withheld
2020 Directors' Remuneration report (2021 AGM)	367,357,732	93.67	24,817,630	6.33	61,002,164
2020 Directors' Remuneration Policy (2021 AGM)	315,271,323	80.55	76,149,855	19.45 <sup>1</sup>	61,756,348

<sup>1</sup> A key concern was that post-cessation share ownership requirements had not been included in the 2020 Policy which following the full review in 2021 have been included in the proposed 2021 policy.

Votes withheld are not included in the final figures as they are not recognised as a vote in law.

**Other information about the Committee's membership and operation****Committee composition**

The Chairman and members of the Committee are shown on pages 76 to 77, together with their biographical information. Four meetings were held during 2021 and the attendance of Committee members is shown on page 101.

The Chairman, CEO and other Non-Executive Directors who are not members of the Committee have a standing invite to attend and the CFO and CHRO also attend meetings by invitation, as appropriate. The Executive Directors are not present when their own remuneration arrangements are discussed or, if they are, they do not participate in the decision making process.

**Terms of reference**

A full description of the Committee's terms of reference is available on the Company's website at [www.elementis.com](http://www.elementis.com).

**Activities during the year**

The Committee ensures that the Policy promotes sustained performance of the Company and is aligned with shareholder interests with incentive pay based on growing profits and delivering above average total shareholder return. In line with the business operations as a global specialty chemicals company, our Policy is designed with a bias towards long term performance. In line with this strategy, the performance metrics are selected to focus on profitable growth and delivering above average total shareholder returns.

The Committee considers the Directors' remuneration in the context of remuneration practices across the Group, considering pay ratios (including the CEO pay ratio and gender pay gap), internal relativities, and external benchmarking. The Committee is of the opinion that the Policy is currently operating as intended, and provides a strong link between Company performance and outturns.

During the Policy review in 2021, the Committee considered the clarity, simplicity, risk alignment, predictability of outcomes, proportionality and alignment with culture. These are also considered when implementing the Policy. For example, salary increases are considered in the context of the increases provided to the wider employee population, the measures used in the incentive schemes are directly linked to the KPIs used within the business, and both the annual bonus and LTIP have clearly defined performance targets.

Shareholders were consulted during the Policy review in 2021, with their views taken into account in agreeing the changes recommended.

Committee meeting dates	Agenda items
February 2021	<ul style="list-style-type: none"> <li>– 2018 LTIP performance outcomes</li> <li>– 2020 Executive Director bonus awards</li> <li>– 2021 LTIP targets/performance conditions</li> <li>– ELT salary review and bonus payments</li> <li>– CEO pay ratio calculations</li> <li>– Approval of final draft of Directors' Remuneration report</li> <li>– Remuneration Policy review timetable</li> </ul>
April 2021	<ul style="list-style-type: none"> <li>– 2021 LTIP grant</li> </ul>
July 2021	<ul style="list-style-type: none"> <li>– Market update and Remuneration Policy review discussion proposals</li> <li>– Employee share schemes</li> </ul>
October 2021	<ul style="list-style-type: none"> <li>– Remuneration Policy proposal approval</li> <li>– Shareholder consultation process</li> </ul>
December 2021	<ul style="list-style-type: none"> <li>– Chairman's fee review</li> <li>– 2022 salary reviews for Paul Waterman and Ralph Hewins</li> <li>– Update on FY 2021 performance against annual bonus targets</li> <li>– Application of Remuneration Policy in 2022</li> <li>– Committee Terms of Reference</li> </ul>

Outside of the above meeting dates, the Committee considered and confirmed operational matters in appropriate forums (e.g. the Executive Directors' annual bonus targets, and granting of the 2021 LTIP awards).

#### Evaluation, training and development

On an annual basis, the Committee's effectiveness is reviewed as part of the evaluation of the Board. Following the evaluation last year, there were no major issues to report. During 2021, Committee members were updated on the latest developments on executive remuneration and all members received briefings from the Group Company Secretary and the Committee's remuneration advisers throughout the year, to keep them updated on topical matters and developments relating to executive remuneration.

#### Remuneration advisers

Korn Ferry were appointed external advisers to the Committee with effect from April 2017 following a selection process undertaken by the Committee. The Committee is satisfied that there was no over reliance on Korn Ferry and that advice received was independent and objective. Korn Ferry are a member of the Remuneration Consultants Group and voluntarily operate under the Code of Conduct. Fees paid to Korn Ferry for remuneration advisory services in 2021 were £65,360 (excluding VAT) and were charged on a time and materials basis. In addition to the remuneration advisory services provided by Korn Ferry, another team provided assistance in respect of Board succession and provided leadership assessment assistance. There are no other connections with the Company that may impact the independence of the remuneration advice received given the nature of the other services provided and the internal protocols at Korn Ferry.

#### Auditable sections of the Directors' Remuneration report

The sections of the Annual Report on Remuneration that are required to be audited by law are as follows: Remuneration payable to Directors for 2021 and Retirement benefits; and tables headed Annual LTIP awards granted in the year, Directors' scheme interests, Directors' share interests and Directors' retirement benefits.

**Steve Good**

Chairman, Remuneration Committee

3 March 2022



Corporate governance  
Directors' report

## Directors' report

The Directors present the Annual Report and Accounts together with the audited consolidated financial statements of the Company, and the Group, for the year ended 31 December 2021.

The Directors' Report comprises of pages 128 to 130 of this report, together with the information required to be disclosed referred to below which are incorporated by reference, in accordance with the Companies Act 2006 and the Listing Rule 9.8.4R of the Financial Conduct Authority. The Company, in accordance with Section 414(C)(11) of the Companies Act 2006, has chosen to set out certain information required to be included in the Directors' Report in the Strategic Report. The Governance Report, set out on pages 74 to 131 and the Consolidated Financial Statements. The destinations for such information are also shown in the table below:

Carbon emissions, energy consumption and energy efficiency	Pages 34-36
Corporate Governance Framework	Page 81
Directors' share interests and remuneration	Pages 118, 123
Directors' training and development	Page 89
Employee diversity, equality and inclusion	Page 38
Employee engagement	Page 85
Environmental matters	Page 34
Financial Instruments & financial risk management	Page 64
Innovation, Growth & Efficiency strategy	Page 20
Long term incentive schemes	Page 102
Membership of Board	Pages 76-77
Modern Slavery Statement	Page 31
Non-financial information	Page 41
Principal risks	Pages 68-72
Results and Dividend	Pages 54-59
Section 172 Statement	Pages 52-53
Stakeholder engagement	Page 48
Statement of Directors' Responsibilities	Page 131
Sustainability	Pages 30-40
Viability and Going Concern Statement	Pages 73

### Directors

#### Directors and their interests

The biographical details of the Directors of the Company who held office during the year, and up to the date of the signing of the financial statements, are set out on pages 76 and 77. During the period, Andrew Duff stepped down from his role as Chairman on 1 September 2021.

#### Appointment and replacement of Directors

The Articles of Association (the "Articles") give the Directors power to appoint and replace Directors. Under the terms of reference of the Nomination Committee, appointments are recommended by the Nomination Committee for approval by the Board. In line with the UK Corporate Governance Code, the Articles also require Directors to retire and submit themselves for election at the first annual general meeting ("AGM") following appointment and to retire at each subsequent AGM and to submit themselves for re-election at the following AGM. The service contracts of the Executive Directors and letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office.

#### Directors' powers

The business of the Company is managed by the Board who may exercise all the powers of the Company, subject to the Company's Articles, the Companies Act 2006 and any special resolution of the Company. The Articles may only be amended by special resolution of the Company at a general meeting of its shareholders.

#### Directors' conflicts of interest

Ralph Hewins is in receipt of a conflict authorisation from the Company in respect of him acting as a trustee of the Elementis Group Pension Scheme.

The conflict authorisation enables Ralph Hewins to continue to act as a trustee notwithstanding that this role could give rise to a situation in which there is a conflict of interest. The Board considers that it is appropriate for the trustees of the UK pension scheme to benefit from the financial expertise of the CFO and that his contribution at trustees' meetings demonstrates the Board's commitment to supporting the UK pension scheme. The Board's conflict authorisation is subject to annual review and, under the terms of the conflict authorisation, reciprocal provisions have been put in place with a view of safeguarding information that is confidential to the Group, as well as to the trustees. Were a conflict of interest to arise, Ralph Hewins is required to excuse himself from reading the relevant papers and absent himself from participating in relevant discussions. Procedures are in place to ensure compliance with the Companies Act 2006. These procedures have been complied with during the year. Details of any new conflicts or potential conflicts matters are submitted to the Board for consideration and, where appropriate, are approved.

Authorised conflicts and potential conflict matters are reviewed on an annual basis.

## Directors' insurance and indemnities

In addition to the indemnity granted by the Company to Directors in respect of the liabilities incurred as a result of their office, a Directors' and Officers' liability insurance policy is maintained throughout the year. Neither the indemnity nor the insurance provides cover in the event that a Director has proven to have acted dishonestly or fraudulently. Similar arrangements also exist for Directors appointed to Group subsidiary entities.

## Directors' share interests

The Directors' interests in the ordinary share and options of the Company can be found within the Directors' Remuneration report on pages 122 and 123.

## Shares

### Share Capital

As at 31 December 2021, the Company's authorised and issued share capital was 581,858,452 ordinary shares, with a nominal value of 5 pence each. Each issued share carries a voting right of one vote per share. All of the Company's issued shares are fully paid up and rank equally in all respects. The rights attached to the shares, in addition to those conferred on their holders by law, are set out in the Company's Articles.

From time to time the ESOT holds shares in the Company for the purposes of various share incentive plans and the rights attaching to them are exercised by independent trustees, who may take into account any recommendation by the Company. As at 31 December 2021, the ESOT held 446,534 shares in the Company (2020: 621,236). A dividend waiver is in place in respect of all shares that may become held by the Trust.

Further details of the authorised and issued share capital during the financial year are provided in note 17 to the accounts on page 163.

## Rights and obligations attaching to shares

The rights and obligations attaching to the shares are set out in the Articles. The Articles may only be changed by a special resolution passed by the shareholders.

## Voting rights

Shareholders are entitled to attend and vote at any general meeting of the Company and a poll will be held on every resolution. Every member present in person or by proxy has, upon a poll, one vote for every share held. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.

## Dividends

The Directors are not recommending the payment of a final dividend this year.

## Authority to purchase own shares

The Board has the power conferred on it by shareholders to purchase its own shares and is seeking renewal of that power at the forthcoming AGM within the limits set out in the Notice of Meeting.

## Employee share plans

The Company operates a number of employee share plans, details of which are set out in note 26 to the consolidated financial statements and on page 122 of the Directors' remuneration report. All of the Company's employee share plans contain provisions relating to change of control. On a change of control, options and awards granted to employees may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at the time.

## Substantial shareholders

In accordance with the Disclosure Guidance and Transparency Rules (DTR), as at 31 December 2021 and 3 March 2022, the following interests in voting rights over the issued share capital of the Company had been notified.

	Ordinary shares	Percentage of issued share capital
Ameriprise Financial, Inc. and its group	61,954,711	10.47
APG Asset Management N.V.	57,840,964	9.96
SFM UK Management LLP	33,337,634	5.74
Franklin Mutual Advisers LLP	29,170,775	5.01
Aberdeen Asset Managers Limited	23,056,448	4.97
Schroders plc	22,517,387	4.91
AXA Investment Managers S.A.	23,515,878	4.05
BlackRock, Inc.	Below 5%	Below 5%
FMR LLC	Below 5%	Below 5%

## Employees

### Employment policies and equal opportunities

Elementis policies seek to create a workplace that has an open atmosphere of trust, honesty and respect. Harassment or discrimination of any kind based on race, colour, religion, gender, age, national origin, citizenship, mental or physical disabilities, sexual orientation, veteran status, or any other similarly protected status is not tolerated. This principle applies to all aspects of employment, including recruitment and selection, training and development, promotion and retirement. Employees are free to join a trade union and participate in collective bargaining arrangements.

It is also a Group policy for employees who have a disability to reasonably accommodate them, where practicable, and to provide training, career development and promotion, as appropriate. It is Group policy not to discriminate on the basis of any unlawful criteria and its practices include prohibition on the use of child or forced labour.

Elementis supports the wider fundamental human rights of its employees worldwide, as well as those of our customers and suppliers, and further details set out in the Sustainable business section on pages 38-40.

## Corporate governance

## Directors' report continued

## Employee communications and involvement

The Company is committed to employee involvement throughout the business. Employees are kept informed of the performance and strategy of the Group via email. Telephone conference calls are held by the CEO to employees worldwide and these serve as an informal forum for employees to ask topical questions about the Group. Further information can be found on pages 85 and 86.

## Research and development activities

Innovation is a core strategic priority. Our innovation expertise and capability is focused on delivering products that address our customers' needs.

As at 31 December 2021, 100 employees were engaged in global research and development activities. For further information on our approach to innovation, please refer to pages 12 and 23.

During the year ended 31 December 2021, costs relating to research and development activities were \$7.5m (2020: \$7.2m).

## Additional information

## Going concern and viability statement

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out on page 73.

## Audit Information

Each Director of the Company on 3 March 2022, the date this Directors' Report was approved, confirms that so far as they are aware, there is no relevant audit information of which the Company's auditor, Deloitte LLP, is unaware and that they have taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## Auditors

Following recommendation by the Audit Committee, resolutions to re-appoint Deloitte LLP as auditors and to authorise the Audit Committee to fix their remuneration will be proposed at the forthcoming AGM. The remuneration of the auditors for the year ended 31 December 2021 is fully disclosed in note 7 to the Financial Statements on page 158.

## Annual General Meeting

The 2022 AGM will be held at 10.00am on Tuesday 26 April 2022 at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London, EC2A 2EG. Details of the resolutions to be proposed at the AGM are set out in the Notice of Meeting which has been sent to shareholders and is available on the Elementis corporate website: [www.elementis.com](http://www.elementis.com)

## Amendments to the Company's Articles of Association

Any amendments to the Articles of Association of the Company may be made in accordance with the provisions of the Companies Act 2006 by way of special resolution.

## Significant agreements – change of control

There are few significant agreements which the Company is party to that take effect, alter or terminate in the event of change of control of the Company. The Company is a guarantor under the Group's \$200m and €172m long term loans, and \$375m revolving credit facility and, in the event of a change of control, any lender among the facility syndicate, of which there are 13 with commitments ranging from \$24m to \$92m, may withdraw from the facility and that lender's participation in any loans drawn down are required to be repaid.

The rules of the Company's various share incentive schemes set out the consequences of a change of control of the Company on the rights of the participants under those schemes. Under the rules of the respective schemes, participants would generally be able to exercise their options on a change of control, provided that the relevant performance conditions have been satisfied and, where relevant, options are not exchanged for new options granted by an acquiring company.

The Company is required to disclose any significant agreements that take effect, alter or terminate on a change of control of the Company following a takeover bid. In the event of a takeover or other change of control (usually excluding an internal reorganisation), outstanding awards under the Group's incentive plans vest and become exercisable (including Deferred Bonus Share Plan (DSBP) cash awards and Long Term Incentive Awards (LTIP) awards), to the extent any performance conditions (if applicable) have been met, and subject to time pro-rating (if applicable) unless determined otherwise by the Board in its discretion, in accordance with the rules of the plans. In certain circumstances, the Board may decide (with the agreement of the acquiring company) that awards will instead be cancelled in exchange for equivalent awards over shares in the acquiring company.

## Political donations

The Group made no political donations during the year (2020: nil).

## Branches

As a global Group, Elementis' interests and activities are held or operated through subsidiaries, branches, joint arrangements or associates which are established in, and subject to the laws and regulations of, many different jurisdictions.

## Other information

Information about the Group's financial risk management and exposure to financial market risks are set out in Note 23 to the financial statements on pages 170-173.

## Events after the balance sheet date

There were no significant events after the balance sheet date.

On behalf of the Board:



Laura Higgins  
Company Secretary

3 March 2022

## Corporate governance

## Directors' responsibilities

## Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and regulations. Detailed below are statements made by the Directors in relation to their responsibilities and disclosure of information to the auditor:

### Statement of Directors' responsibilities in respect of the Annual Report and financial statements

Company law requires the Directors to prepare such financial statements for each financial year. Under the law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Articles 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the

assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement which complies with that law and regulations.

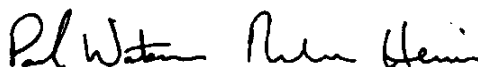
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing and preparing and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' responsibility statement

Each of the Directors, who are appointed at the date of approval of this report, confirm that to the best of their knowledge:

- the financial statements, which have been prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 3 March 2022 and is signed on its behalf by:



Paul Waterman  
CEO

Ralph Hewins  
CFO

## Financial statements

## Independent auditor's report to the members of Elementis plc

## Report on the audit of the financial statements

## 1. Opinion

In our opinion:

- the financial statements of Elementis plc (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the consolidated financial statement related notes 1 to 33; and
- the parent company statutory accounts related notes 1 to 11.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

## 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the group and parent company for the year are disclosed in note 7 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## 3. Summary of our audit approach

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>– Impairment of goodwill and intangible assets in relation to the Talc cash generating unit; and</li> <li>– Revenue recognition in relation to cut off.</li> </ul>
<b>Materiality</b>	<p>The materiality that we used for the group financial statements was \$2.8 million (2020: \$3.0 million) which was determined on the basis of 5% of adjusted forecast profit before tax; this excludes business transformation costs, environmental provisions movements, M&amp;A and disposal costs, impairment of goodwill, mark to market of derivatives and currency hedge due to dividend cancellation ("adjusted PBT") (2020: 0.4% of revenue). This is equivalent to 0.2% of 2021 revenue.</p>
<b>Scoping</b>	<p>We have performed full scope audits or audit of specified account balances of seven components which contribute 96% of the group's revenue and 98% of the group's profit before tax.</p>
<b>Significant changes in our approach</b>	<p>We have amended the basis on which we have determined materiality in the current period in order to reflect the recovery of the group's results following the volatility in the prior year as a result of COVID-19. In FY20 our materiality level was based on revenue as a benchmark, in the current year we have returned to using adjusted profit before tax.</p> <p>In the current year audit, we considered the risk associated with the environmental provision to have reduced. This is because we have not identified any significant changes or new elements included in the provision and management's process for calculating the provision has improved, therefore it is not included as a key audit matter.</p>

#### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the group's financing facilities including the nature of facilities, repayment terms and covenants including the re-tightening of the net debt to EBITDA ratio covenant for the 2022 measurement periods onwards. Further information is set out on page 63 of the annual report;
- recalculating and assessing of the amount of forecast headroom on the loan covenants;
- evaluating the reverse stress test prepared by management and performing a sensitivity analysis to consider specific scenarios, including a reduction in revenue and associated profits; and
- assessing the cash flow model used to prepare the going concern forecast, testing of clerical accuracy of the model and our assessment of the historical accuracy of forecasts prepared by management.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements were authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

##### 5.1. Impairment of Goodwill and intangible assets in relation to the Talc CGU

<b>Key audit matter description</b>	<p>The financial performance of the Talc CGU has been below that forecast by management in 2020. Talc business performance in 2021 and the future forecast have been impacted by the slowdown in the automotive industry, and by increasing distribution and supply chain costs. Management recognised an impairment charge of \$53.1m in relation to the goodwill of the Talc CGU as at 31 December 2021.</p> <p>As described in note 1 to the financial statements, the annual impairment review involves judgement in relation to forecasting future cash flows. At the planning stage of our audit, we identified the Talc CGU as being sensitive to variations in future forecast cash flows and we identified the forecast revenue growth in the short-term and growth in the levels of contribution margins as key assumptions which could be manipulated due to fraud.</p> <p>Management has highlighted impairment of goodwill as a key source of estimation uncertainty in note 1 and provided disclosure on the sensitivity of the Talc CGU to reasonably possible changes in key assumptions in note 10. This significant judgement area is also referred to within the Audit Committee report on page 98.</p>
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## Financial statements

## Independent auditor's report to the members of Elementis plc continued

<b>How the scope of our audit responded to the key audit matter</b>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>- Gaining an understanding of the Group and Talc management's process for developing the short-term cash flow assumptions and the relevant controls mitigating the risks identified in the impairment process;</li> <li>- Performing sensitivity analysis to identify the key assumptions that have a significant effect on the model;</li> <li>- Challenging the period over which the model has been prepared both for the 5 year forecast period and 70 year long term growth period;</li> <li>- Meeting with Talc management to understand and challenge the revenue growth forecasts and the reasons for the changes to the forecasts in the current year;</li> <li>- Challenging the key assumptions underpinning management's forecast revenue and contribution margin growth, including by reference to past actual performance and available third party evidence;</li> <li>- Considering available market data to assess and challenge the forecast sales volume increases and longer term growth rates;</li> <li>- Considering the impact of different scenarios should the forecast levels of revenue growth not be achieved, including assessment of what costs have been modelled that are directly linked to the revenue growth;</li> <li>- Considering and assessing the impact of contradictory evidence in relation to the expected performance of the CGU;</li> <li>- Assessing the historical accuracy of forecasts by comparing the current period actual trading performance against the FY21 planned expectations;</li> <li>- Involving our internal valuation specialists to challenge the discount rate applied; this was done by obtaining the underlying data used in the calculation and benchmarking it against market data and comparable organisations, and by evaluating the underlying process used to determine the risk adjusted cash flow projections;</li> <li>- Checking the integrity of the impairment models through testing of the mathematical accuracy, checking the application of the input assumptions and testing its compliance with IAS 36; and</li> <li>- Assessing the appropriateness of the reasonable possible change and sensitivity disclosures included by management in note 10 to the financial statements, challenging management's choice regarding the assumptions to be sensitised, and re-performing the underpinning calculations.</li> </ul>
<b>Key observations</b>	<p>We are satisfied that management's conclusion that an impairment charge of \$53.1m is appropriate.</p> <p>We consider the disclosure in the judgements and estimates section of note 1 provided concerning the impairment of assets in the Talc CGU together with the reasonable possible change sensitivity provided in note 10 to be appropriate.</p> <p>We identified a control deficiency which we have separately reported to the Audit Committee on the precision of the management review controls.</p>
<b>5.2. Revenue recognition in relation to cut off</b>	
<b>Key audit matter description</b>	<p>At the year end, manual adjustments are made by management for goods which have been despatched but where, under the terms of sale, the control of the goods has yet to pass to the customer; this is done because the Group's systems record revenue on despatch. Management determines the point at which the performance obligation has been fulfilled based on different shipping terms and estimates the delivery times to the point at which control passes to the customer. The Group trades globally and a change in the number of days estimated for shipments to transfer to the customer can have a material impact on the cut off adjustment. Additionally there is a greater risk that management has not considered delays caused by difficulties in securing shipments due to supply chain constraints in their assumptions around the delivery times. This could potentially result in revenue being recorded in the incorrect period.</p> <p>Given the level of management judgement involved, we have also identified this key audit matter as a potential fraud risk.</p> <p>The accounting policy is described in note 1 where this is also included as a critical accounting judgement. These significant judgement areas are also referred to within the Audit Committee report on page 98.</p>

<b>How the scope of our audit responded to the key audit matter</b>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>– Obtaining an understanding of the relevant controls over the revenue cutoff;</li> <li>– Reviewing and assessing the commercial arrangements, to determine the correct point of revenue recognition for different shipping arrangements and agreements with customers;</li> <li>– Selecting a sample of international shipments made pre-year end for time periods varying by destination port and therefore transit time for shipments and agreeing these to invoice, shipment and order details and goods receipt notes;</li> <li>– Assessing whether the current economic environment impacted by COVID-19 and logistics constraints have a specific impact on cut off;</li> <li>– Engaging our data analytics team to assess the accuracy and formulae of management's cut off calculations;</li> <li>– Challenging management's assumptions used in their cut off calculation for reasonableness and consistency and substantively testing of international shipments both pre and post year-end; and</li> <li>– Testing a sample of post year end credit notes raised to determine if revenue was inappropriately recognised in 2021.</li> </ul>
<b>Key observations</b>	We are satisfied that management have completed appropriate cut off adjustments at the year end to take into account those sales where control has not transferred.

## 6. Our application of materiality

### 6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
<b>Materiality</b>	\$2.8 million (2020: \$3.0 million)	\$1.4 million (2020: \$1.2 million)
<b>Basis for determining materiality</b>	Materiality was set on the basis of 5% of forecast adjusted profit before tax ("adjusted PBT") (2020: 0.4% of revenue). This is equivalent to 0.2% of 2021 revenue.	A factor of 3% of net assets was used capped to an appropriate component materiality of 50% (2020: 40%) of Group materiality.
<b>Rationale for the benchmark applied</b>	<p>We have considered the users of the financial statements when selecting the appropriate benchmark. Earnings based metrics tend to be of more interest to the analyst and investor-based communities. Adjusted profit before tax is a suitable measurement for profit orientated entities.</p> <p>We have amended the basis on which we have determined materiality in the current period in order to reflect the recovery of the Group's results following the volatility in the prior year earnings of the Group as a result of COVID-19. In FY20 our materiality level was based on revenue as a benchmark; in the current year we have returned to using adjusted profit before tax.</p>	We have used net assets in determining materiality as we believe this is an appropriate basis for materiality as it reflects the nature of the parent company as a holding company and its contribution to the Group performance.



## Financial statements

## Independent auditor's report to the members of Elementis plc continued

## 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent Company financial statements
<b>Performance materiality</b>	60% (2020: 60%) of group materiality	60% (2020: 60%) of parent company materiality
<b>Basis and rationale for determining performance materiality</b>	<p>We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.</p> <p>In determining performance materiality, we considered our past experience of the group and our risk assessment, including our assessment of the group's overall control environment. A number of control deficiencies were identified for the years ended 31 December 2020 and 2021, which were reported to the Audit Committee.</p> <p>In determining performance materiality for the current year, we therefore considered the value and number of corrected and uncorrected misstatements in the previous year, as well as the likelihood of these recurring in the current year. Further discussion regarding the control environment is included in section 7.2.</p>	

## 6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$140,000 (2020: \$150,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

## 7.1. Identification and scoping of components

There are eight components for the 2021 year end audit (2020: eight), of which the first five below are significant to the Group:

- the Talc operation in Netherlands and Finland;
- the Chromium operations in the US;
- the Chromium operations in the UK;
- the Specialty products operations in the US;
- the Specialty products operations in the UK;
- the Specialty products operations in Taiwan;
- the Specialty products operations in China; and
- the Specialty products operations in Germany.

Seven of these locations were subject to full scope audits or audits of specified accounts balances and Specialty products operations in Germany was subject to review procedures.

Our audit work on the eight components was executed at levels of performance materiality applicable to each individual entity which were lower than Group materiality and ranged from \$1.2 million to \$0.8 million (2020: \$1.1 million to \$0.9 million).

The in-scope locations represent the principal business units within the Group's operating divisions and account for 96% (2020: 93%) of the Group's revenue and 98% (2020: 89%) of the Group's profit/(loss) before tax.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The parent company is located in the UK and is audited directly by the Group audit team.

## 7.2. Our consideration of the control environment

Our audit for the prior period identified a number of control deficiencies. The nature of these deficiencies primarily related to the precision of controls around inventory management within the Chromium division; the recognition of deferred and current taxation; the preparation of the goodwill impairment models used and the precision of the management review controls of those models; and user access and segregation of duties within the IT systems.

During the current year audit, we noted that actions have been initiated and in some cases fully implemented by management to address the deficiencies previously identified. However a number of deficiencies remain as at the year end, in particular the precision of the management review controls of the goodwill impairment models and a number of issues relating to user access and segregation of duties within the IT systems. As such, we extended the scope of our substantive procedures in response to the identified deficiencies and did not place reliance controls.

As described in the Internal controls and risk management section of pages 99-100, the Audit Committee will continue to oversee the actions taken to remediate the control observations.

## 7.3. Our consideration of climate-related risks

Climate change and the transition to a low carbon economy ("climate change") were considered in our audit where they have the potential to directly or indirectly impact key judgements and estimates within the financial statements. The Group continues to develop its assessment of the potential impacts of climate change, as explained in the Chief Executive Officer's review within the strategic report on page 6. Climate risks have the potential to materially impact the key judgements and estimates within the financial statements. Our audit considered those risks that could be material to the key judgements and estimates in the assessment of the carrying value of non-current assets and environmental provisions. The key judgements and estimates included in the financial statements incorporate actions and strategies, to the extent they have been approved and can be reliably estimated in accordance with the Group's accounting policies. We also considered whether information included in the climate related disclosures in the Annual Report were consistent with our understanding of the business and the financial statements.

#### 7.4. Working with other auditors

The Group audit was conducted exclusively by a global network of Deloitte member firms under the direction and supervision of the UK Group audit team, with exception of Speciality UK and Chromium UK operations where the Group audit team performed the audit without the involvement of a component team. Component auditors were assigned to perform audit procedures in line with the scoping of the respective components within their jurisdiction. For the Group audit, the component auditors focused on components classified for full scope and specified audit procedures. Further work was performed at a Group level over the consolidation and components not in scope. Dedicated members of the Group audit team were assigned to each component to facilitate an effective and consistent approach to component oversight.

The planned programme which we designed as part of our involvement in the component auditor's work was delivered over the course of the Group audit. The extent of our involvement which commenced from the planning phase included:

- Setting the scope of the component auditor and assessment of the component auditor's independence.
- Designing the audit procedures for all significant risks to be addressed by the component auditors and issuing Group audit instructions detailing the nature and form of the reporting required by the Group engagement team.

In response to the COVID-19 pandemic, which limited our ability to make component visits, more frequent calls were held between the Group and component teams and our procedures included, where appropriate, providing direction on enquiries made by the component auditors through online and telephone conversations, a review of each component auditor's engagement file by a senior member of the Group audit team and Group team virtual attendance at local component audit close meetings. Given the pandemic, the majority of our audit was performed under a remote working environment, with the only component visits performed at US and Netherlands sites. Throughout this time, we increased the frequency of our meetings with the component teams and with management to ensure progress. We were able to perform our procedures without needing to make substantial changes to our planned approach.

#### 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

#### 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

#### 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

##### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management internal audit and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;

## Financial statements

## Independent auditor's report to the members of Elementis plc continued

- detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
- the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax, pensions, IT, financial instruments, valuation, environmental and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: impairment of goodwill and intangibles for the Talc cash generating unit and revenue cut off. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty which included environmental regulations.

### 11.2. Audit response to risks identified

As a result of performing the above, we identified impairment of goodwill and intangibles for the Talc cash generating unit and revenue recognition cut off as key audit matters related to the potential risk of fraud or non-compliance with laws and regulations. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and environmental regulators; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 73;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 73;
- the directors' statement on fair, balanced and understandable set out on page 131;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 66-67;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 67; and
- the section describing the work of the audit committee set out on pages 97-98.

## 14. Matters on which we are required to report by exception

### 14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### 14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

## 15. Other matters which we are required to address

### 15.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board on 27 April 2016 to audit the financial statements for the year ending 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ending 31 December 2016 to 31 December 2021.

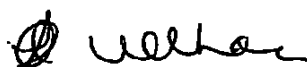
### 15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

## 16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.



**Lee Welham FCA (Senior Statutory Auditor)**  
For and on behalf of Deloitte LLP  
Statutory Auditor  
Cambridge, United Kingdom

[3] March 2022

## Financial statements

## Consolidated income statement

For the year ended 31 December 2021

	Note	2021 \$m	2020 \$m
Revenue	2	880.1	751.3
Cost of sales		(545.2)	(494.0)
Gross profit		334.9	257.3
Distribution costs		(151.9)	(112.6)
Administrative expenses		(156.6)	(172.9)
Operating profit/(loss)	2	26.4	(28.2)
(Loss)/profit on disposal	32	(1.7)	0.3
Other expenses <sup>1</sup>	25	(2.1)	(1.6)
Finance income	3	11.0	0.3
Finance costs	4	(27.8)	(39.6)
Profit/(loss) before income tax		5.8	(68.8)
Tax	6	(3.3)	1.8
Profit/(loss) for the year		2.5	(67.0)
Attributable to:			
Equity holders of the parent		2.5	(67.0)
<b>Earnings per share</b>			
Basic earnings/(loss) (cents)	9	0.4	(11.5)
Diluted earnings/(loss) (cents)	9	0.4	(11.3)

1 Other expenses comprise administration expenses for the Group's pension schemes.

## Consolidated statement of comprehensive income

For the year ended 31 December 2021

	2021 \$m	2020 \$m
Profit/(loss) for the year	2.5	(67.0)
<b>Other comprehensive income:</b>		
Items that will not be reclassified subsequently to profit and loss:		
Remeasurements of retirement benefit obligations	63.5	(0.3)
Deferred tax associated with retirement benefit obligations	(14.6)	(0.3)
Items that may be reclassified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(29.1)	25.0
Effective portion of change in fair value of net investment hedge	10.7	(3.6)
Tax associated with change in fair value of net investment hedge	1.8	-
Tax associated with changes in cashflow hedges	(0.4)	-
Recycling of deferred foreign exchange gains on disposal	(0.4)	(0.2)
Effective portion of changes in fair value of cash flow hedges	(0.1)	(1.4)
Fair value of cash flow hedges transferred to income statement	2.7	0.9
Exchange differences on translation of share options reserves	-	(2.7)
Other comprehensive income/(loss)	34.1	17.4
Total comprehensive income/(loss) for the year	36.6	(49.6)
Attributable to:		
Equity holders of the parent	36.6	(49.6)
Total comprehensive income/(loss) for the year	36.6	(49.6)

## Financial statements


## Consolidated balance sheet

As at 31 December 2021

	Note	2021 31 December \$m	2020 31 December \$m
<b>Non-current assets</b>			
Goodwill and other intangible assets	10	815.7	892.6
Property, plant and equipment	11	499.7	516.0
Tax recoverable	30	19.7	-
ACT recoverable	16	-	0.6
Deferred tax assets	16	28.0	26.3
Net retirement benefit surplus	25	56.6	7.9
<b>Total non-current assets</b>		<b>1,419.7</b>	<b>1,443.4</b>
<b>Current assets</b>			
Inventories	12	186.1	164.3
Trade and other receivables	13	138.9	108.3
Derivative financial instruments	21	0.2	1.4
Current tax assets		7.1	7.2
Cash and cash equivalents	20	84.6	111.0
<b>Total current assets</b>		<b>416.9</b>	<b>392.2</b>
<b>Total assets</b>		<b>1,836.6</b>	<b>1,835.6</b>
<b>Current liabilities</b>			
Bank overdrafts and loans	19	-	(3.7)
Trade and other payables	14	(161.0)	(132.6)
Financial liabilities	21	(1.4)	(17.3)
Current tax liabilities		(17.4)	(23.2)
Lease liabilities	24	(6.4)	(7.2)
Provisions	15	(8.7)	(9.6)
<b>Total current liabilities</b>		<b>(194.8)</b>	<b>(193.6)</b>
<b>Non-current liabilities</b>			
Loans and borrowings	21	(482.5)	(510.6)
Retirement benefit obligations	25	(17.3)	(28.1)
Deferred tax liabilities	16	(150.0)	(143.1)
Lease liabilities	24	(33.8)	(37.2)
Provisions	15	(53.1)	(49.2)
Financial liabilities	21	(4.0)	(13.4)
<b>Total non-current liabilities</b>		<b>(740.7)</b>	<b>(781.6)</b>
<b>Total liabilities</b>		<b>(935.6)</b>	<b>(975.2)</b>
<b>Net assets</b>		<b>901.0</b>	<b>860.4</b>
<b>Equity</b>			
Share capital	17	52.2	52.1
Share premium		240.8	237.7
Other reserves	18	90.7	108.6
Retained earnings		517.3	462.0
<b>Total equity attributable to equity holders of the parent</b>		<b>901.0</b>	<b>860.4</b>
<b>Total equity</b>		<b>901.0</b>	<b>860.4</b>

The financial statements on pages 140 to 184 were approved by the Board on 3 March 2022 and signed on its behalf by:

  
Paul Waterman  
CEO

  
Ralph Hewins  
CFO

## Financial statements

## Consolidated statement of changes in equity

For the year ended 31 December 2021

	Share capital \$m	Share premium \$m	Translation reserve \$m	Hedging reserve \$m	Other reserves \$m	Retained earnings \$m	Total equity \$m
<b>Balance at 1 January 2020</b>	<b>52.1</b>	<b>237.7</b>	<b>(69.0)</b>	<b>(8.4)</b>	<b>168.5</b>	<b>525.3</b>	<b>906.2</b>
<b>Comprehensive income</b>							
Loss for the year	-	-	-	-	-	(67.0)	(67.0)
Other comprehensive income:							
Exchange differences	-	-	21.4	-	(2.7)	-	18.7
Recycling of deferred foreign exchange losses on disposal	-	-	(0.2)	-	-	-	(0.2)
Fair value of cash flow hedges transferred to the income statement	-	-	-	0.9	-	-	0.9
Effective portion of changes in fair value of cash flow hedges	-	-	-	(1.4)	-	-	(1.4)
Remeasurements of retirement benefit obligations	-	-	(1.1)	-	-	0.8	(0.3)
Deferred tax adjustment on pension scheme deficit	-	-	-	-	-	(0.3)	(0.3)
Transfer	-	-	-	-	(2.9)	2.9	-
<b>Total other comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>20.1</b>	<b>(0.5)</b>	<b>(5.6)</b>	<b>3.4</b>	<b>17.4</b>
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>20.1</b>	<b>(0.5)</b>	<b>(5.6)</b>	<b>(63.6)</b>	<b>(49.6)</b>
<b>Transactions with owners:</b>							
Issue of shares by the Company	-	-	-	-	-	0.2	0.2
Share based payments	-	-	-	-	3.5	-	3.5
Deferred tax on share based payments recognised within equity	-	-	-	-	-	0.1	0.1
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3.5</b>	<b>0.3</b>	<b>3.8</b>
<b>Balance at 31 December 2020</b>	<b>52.1</b>	<b>237.7</b>	<b>(48.9)</b>	<b>(8.9)</b>	<b>166.4</b>	<b>462.0</b>	<b>860.4</b>
<b>Balance at 1 January 2021</b>	<b>52.1</b>	<b>237.7</b>	<b>(48.9)</b>	<b>(8.9)</b>	<b>166.4</b>	<b>462.0</b>	<b>860.4</b>
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	-	2.5	2.5
Other comprehensive income:							
Exchange differences	-	-	(18.4)	-	-	-	(18.4)
Recycling of deferred foreign exchange gains on disposal	-	-	(0.4)	-	-	-	(0.4)
Fair value of cash flow hedges transferred to the income statement	-	-	-	2.7	-	-	2.7
Effective portion of changes in fair value of cash flow hedges	-	-	-	(0.1)	-	-	(0.1)
Tax associated with changes in cashflow hedges	-	-	-	-	-	(0.4)	(0.4)
Tax associated with change in fair value of net investment hedge	-	-	-	-	-	1.8	1.8
Remeasurements of retirement benefit obligations	-	-	-	-	-	63.5	63.5
Deferred tax adjustment on pension scheme deficit	-	-	-	-	-	(14.6)	(14.6)
Transfer	-	-	-	-	(1.4)	1.4	-
<b>Total other comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>(18.8)</b>	<b>2.6</b>	<b>(1.4)</b>	<b>51.7</b>	<b>34.1</b>
<b>Total comprehensive income/(loss)</b>	<b>-</b>	<b>-</b>	<b>(18.8)</b>	<b>2.6</b>	<b>(1.4)</b>	<b>54.2</b>	<b>36.6</b>
<b>Transactions with owners:</b>							
Issue of shares by the Company	0.1	3.1	-	-	(3.1)	-	0.1
Deferred tax on share based payments recognised within equity	-	-	-	-	-	1.1	1.1
Share based payments	-	-	-	-	5.1	-	5.1
Fair value of cash flow hedges transferred to net assets	-	-	-	(2.3)	-	-	(2.3)
<b>Total transactions with owners</b>	<b>0.1</b>	<b>3.1</b>	<b>-</b>	<b>(2.3)</b>	<b>2.0</b>	<b>1.1</b>	<b>4.0</b>
<b>Balance at 31 December 2021</b>	<b>52.2</b>	<b>240.8</b>	<b>(67.7)</b>	<b>(8.6)</b>	<b>167.0</b>	<b>517.3</b>	<b>901.0</b>

## Consolidated cash flow statement

For the year ended 31 December 2021

	Note	2021 \$m	2020 \$m
<b>Operating activities:</b>			
Profit/(loss) for the year		2.5	(67.0)
Adjustments for:			
Other expenses		2.1	1.6
Finance income	3	(11.0)	(0.3)
Finance costs	4	27.8	39.6
Tax charge	6	3.3	(1.8)
Depreciation and amortisation	7	68.3	66.7
Impairment loss on property, plant and equipment	11	-	11.7
(Decrease)/increase in provisions and financial liabilities		0.8	3.7
Pension payments net of current service cost	25	(0.1)	1.1
Share based payments expense	26	5.1	3.5
Impairment of goodwill		52.3	60.3
Loss/(profit) on disposal of business	32	1.7	(0.3)
Operating cash flow before movement in working capital		152.8	118.8
(Increase)/decrease in inventories		(24.2)	7.8
(Increase)/decrease in trade and other receivables		(33.8)	13.3
(Increase)/decrease in trade and other payables		26.3	(0.6)
Cash generated by operations		121.1	139.3
Income taxes paid		(30.9)	(8.5)
Interest paid	4	(23.5)	(23.7)
<b>Net cash flow from operating activities</b>		<b>66.7</b>	<b>107.1</b>
<b>Investing activities:</b>			
Interest received	3	0.3	0.3
Disposal of property, plant and equipment		0.7	1.8
Purchase of property, plant and equipment		(52.7)	(41.5)
Purchase of business	33	(0.2)	-
Disposal of business	32	0.5	0.5
Acquisition of intangible assets		(0.4)	(0.3)
Contingent consideration paid	21	(13.2)	-
<b>Net cash flow from investing activities</b>		<b>(65.0)</b>	<b>(39.2)</b>
<b>Financing activities:</b>			
Issue of shares by the Company and the ESOT net of issue costs		0.1	0.1
Outflow of cancelled dividend hedge		-	(1.8)
Net movement on existing debt		(18.7)	(56.3)
Payment of lease liabilities		(6.7)	(6.7)
<b>Net cash used in financing activities</b>		<b>(25.3)</b>	<b>(64.7)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(23.6)</b>	<b>3.2</b>
Cash and cash equivalents at 1 January		111.0	103.9
Foreign exchange on cash and cash equivalents		(2.8)	3.9
<b>Cash and cash equivalents at 31 December</b>	20	<b>84.6</b>	<b>111.0</b>



## Financial statements

## Notes to the consolidated financial statements

For the year ended 31 December 2021

**1. Accounting policies**

Elementis plc is a public company limited by shares incorporated and domiciled in England and is the parent company of the Group. The address of its registered office is Caroline House, 55-57 High Holborn, London WC1V 6DX. The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the UK ('adopted IFRS'). The Company has elected to prepare its parent company financial statements in accordance with FRS 101. These are presented on pages 175 to 182.

**Basis of preparation**

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards as issued by the IASB.

The financial statements have been prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The preparation of financial statements requires the application of estimates and judgements that affect the reported amounts of assets and liabilities, revenues and costs and related disclosures at the balance sheet date.

The financial statements have been prepared on a going concern basis. The rationale for adopting this basis is discussed in the Directors' report on page 116.

**Reporting currency**

As a consequence of the majority of the Group's sales and earnings originating in US dollars or US dollar linked currencies, the Group has chosen the US dollar as its presentational currency. This aligns the Group's external reporting with the profile of the Group, as well as with internal management reporting. The functional currency of the parent is pounds sterling.

**Critical accounting judgements and key sources of estimation uncertainty**

When applying the Group's accounting policies, management must make a number of key judgements on the application of applicable accounting standards and estimates and assumptions concerning the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and judgements are based on factors considered to be relevant, including historical experience, which may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the amounts recognised in the financial statements within the next year are discussed below. The development of the estimates and disclosures related to each of these matters has been discussed by the Audit Committee.

**Critical accounting judgements**

The following is the sole critical judgement, (as opposed to those involving estimations which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies that has significant effect on the amounts recognised in the financial statements. Where relevant and practicable, sensitivity analyses are disclosed in the relevant notes to demonstrate the impact of changes in estimates or assumptions used.

**Revenue recognition**

Judgement is exercised over how to determine the timing of revenue recognition for orders where the agreed terms are delivery to the destination point. The Group has compiled shipping estimates based on the destination country which are used to inform the timing of revenue recognition. In compiling these estimates management have used past experience and carrier standard shipping estimates to inform their decision making.

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material misstatement to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

**a. Environmental provisions**

Provisions for environmental restoration are recognised where: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be estimated reliably.

Environmental provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Due to the long time horizons over which costs are anticipated, small changes in recurring annual cash outflows can have a significant cumulative impact on the total provision required. At 31 December 2021 the carrying value of environmental provisions was \$58.7m. Further details of these provisions and a sensitivity assessment are given in Note 15.

**b. Valuation of a defined benefit pension obligation**

The key estimates made in relation to defined benefit pensions relate to the discount rate used to determine the present value of future benefit, the rate of inflation applied to plan assets, mortality rates and rates of salary growth. At 31 December 2021 the UK scheme, the largest of the Group's retirement plans, had a surplus of \$56.6m whilst the US and other schemes were in a net deficit position of \$17.3m in aggregate. Further details of pensions and a sensitivity analysis are given in Note 25.

**c. Impairment testing of goodwill in Talc cash generating unit ("CGU")**

Each year the Group carries out impairment tests of goodwill which require estimates to be made of the value in use of the cash generating units to which it is allocated. These value in use calculations are dependent on estimates of future cash flows, long-term growth rates and appropriate discount rates to be applied to future cash flows.

During the year ended 31 December 2021, a full impairment review was performed and an impairment charge of \$53.1 million was recorded in respect of the goodwill held in the Talc CGU. At 31 December 2021, goodwill and other intangible assets in the Talc CGU had a carrying value of \$130.3 million, and no further impairment charge was required. Should the business experience further unforeseen deterioration of results or were there to be an increase in the pre-tax discount rate a future impairment may be required for these assets. Further details and sensitivity disclosures are included in Note 10.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition costs are accounted for as an expense in the period incurred.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A full list of the Group's subsidiaries is shown in Note 6 of the parent company financial statements.

### Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

### Foreign currency

#### a. Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at exchange rates ruling at the dates the fair value was determined.

#### b. Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at the average rates of exchange ruling for the relevant period. Exchange differences arising since 1 January 2004 on translation are taken to the translation reserve. They are recognised in the income statement upon disposal of the foreign operation. The Group may hedge a portion of the translation of its overseas net assets through US dollar and euro borrowings. From 1 January 2005, the Group has elected to apply net investment hedge accounting for these transactions where possible. Where hedging is applied, the effective portion of the gain or loss on an instrument used to hedge a net investment is recognised in equity. Any ineffective portion of the hedge is recognised in the income statement.

### Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Freehold land is not depreciated. Leasehold property is depreciated over the period of the lease. Freehold buildings, plant and machinery, fixtures, fittings and equipment are depreciated over their estimated useful lives on a straight line basis. Depreciation methods, useful lives and residual values are assessed at the reporting date. No depreciation is charged on assets under construction until the asset is available for use.

Depreciation is charged on a straight-line basis over the estimated useful economic lives of the assets as follows:

Buildings	10 – 50 years
Plant and machinery	2 – 20 years
Fixtures, fittings and equipment	2 – 20 years
Right of use assets	Shorter of the useful economic life of the asset and the lease term

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within it will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Management regularly considers whether there are any indications of impairment to carrying values of property, plant and equipment. Impairment reviews are based on risk adjusted discounted cash flow projections. Significant judgement is applied to the assumptions underlying these projections which include estimated discount rates, growth rates, future selling prices and direct costs. Changes to these assumptions could have a material impact on the financial position of the Group and on the result for the year.

### Intangible assets

#### a. Goodwill

Goodwill arises on the acquisition of subsidiaries, and it represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

**1. Accounting policies continued****b. Research and development**

Expenditure on pure research is recognised in the income statement as an expense as incurred. Under IAS 38, expenditure on development where research findings are applied to a plan or design for the production of new or substantially improved products and processes is capitalised if the product or process will give rise to future economic benefits and where the cost of the capitalised asset can be measured reliably. Expenditure capitalised is stated as the cost of materials, direct labour and an appropriate proportion of overheads less accumulated amortisation. The length of development lifecycles, broad nature of much of the research undertaken and uncertainty until a late stage as to ultimate commercial viability of a potential product can mean that the measurement criteria of IAS 38 regarding the probability of future economic benefits and the reliability of allocating costs may not be met, in which case expenditure is expensed as incurred.

**c. Customer relationships and other intangible assets**

Customer relationships and other intangible assets are stated at cost or when arising in a business combination, estimated fair value, less accumulated amortisation.

**Intangible assets continued****d. Amortisation**

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets through the administrative expenses line item, unless such lives are indefinite. Goodwill is systematically tested for impairment each year. Other intangible assets, comprising customer lists, customer relationships, manufacturing processes and procedures, trademarks, non-compete clauses and patents are amortised over their estimated useful lives which range from 5 to 24 years.

**Impairment of non-current non-financial assets**

The carrying amount of non-current assets other than deferred tax is compared to the asset's recoverable amount at each balance sheet date where there is an indication of impairment. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

Each year the Group carries out impairment tests of its goodwill and other indefinite life intangible assets which requires an estimate to be made of the value in use of its cash generating units (CGUs). These value in use calculations are dependent on estimates of future cash flows and long term growth rates of the CGUs. Further details of these estimates are given in Note 10.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset(s). For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

**Impairment of financial assets – expected credit losses**

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on payment profiles and the corresponding historical credit losses experienced. The historical loss rates are adjusted to reflect current and forward looking information in relation to macroeconomic factors that could affect the ability of customers to settle receivables.

The Group usually considers a financial asset in default when contractual payments are 120 days past due. In certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less estimated costs of completion and selling expenses. Cost, which is based on a weighted average, includes expenditure incurred in acquiring stock and bringing it to its existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads attributable to manufacture, based on normal operating capacity.

**Trade and other receivables**

Trade receivables and other receivables are due for payment within one year and are thus classified as current. They are non-interest bearing and are stated at their nominal amount which is the original invoiced amount, less allowance for expected future credit losses. Estimates of future expected credit losses are informed by historical experience and management's expectations of future economic factors, further information on expected credit loss impairment is given in the impairment of financial assets accounting policy. Individual trade receivables are written off when management deem them to be no longer collectable.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**Leases**

A lease liability is recognised when the Group obtains control of the right-of-use asset that is the subject of the lease. The lease liability is subsequently measured using the effective interest method, with interest charged to finance costs. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

At inception, the Group evaluates whether it is reasonably certain that any option to extend a lease term will be exercised or likewise whether any option to terminate the lease will be exercised. The Group continues to evaluate the likelihood of exercising such options throughout the initial lease term. When the Group is committed to extending or terminating the lease, having considered the alternative options available and, where appropriate, lessor consent to the extension or termination has been obtained, the Group will consider the option to be reasonably certain to be exercised. When an option is reasonably certain to be exercised, the right-of-use asset and lease liabilities recognised are adjusted to reflect the extended or curtailed lease term.

Leases, which at inception have a term of less than 12 months or relate to low-value assets, are not recognised on balance sheet. Payments made under such leases are recognised as an expense in the income statement on a straight-line basis over the period of the lease.

### Borrowings

Borrowings are initially measured at cost (which is equal to the fair value at inception), and are subsequently measured at amortised cost using the effective interest rate method. Any difference between the proceeds, net of transaction costs and the settlement or redemption of borrowings is recognised over the terms of the borrowings using the effective interest rate method.

### Trade and other payables

Trade payables are non-interest bearing borrowings and are initially measured at fair value and subsequently carried at amortised cost.

### Provisions

A provision is recognised in the balance sheet when the Group 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated. Provisions for environmental issues are judgemental by their nature, particularly when considering the size and timing of remediation spending, and more difficult to estimate when they relate to sites no longer directly controlled by the Group.

Self-insurance provisions relate to personal injury and other claims from former employees or third parties and represent the aggregate of outstanding claims plus a projection of losses incurred but not yet reported which together make up the full liability recognised as a provision. Insurance recoveries are recognised as a separate reimbursement asset.

### Pension and other post retirement benefits

In respect of the Group's defined benefit schemes, the Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current

and prior periods, that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. Pension and post retirement liabilities are calculated by qualified actuaries using the projected unit credit method. Following the introduction of the revised IAS 19 Employee Benefits standard, the net interest on the defined benefit liability consists of the interest cost on the defined benefit obligation and the interest income on plan assets, both calculated by reference to the discount rate used to measure the defined benefit obligation at the start of the period.

The Group recognises actuarial gains and losses in the period in which they occur through the statement of comprehensive income. The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. Due to the size of the Group's pension scheme assets and liabilities, relatively small changes in the assumptions can have a significant impact on the expense recorded in the income statement and on the pension liability recorded in the balance sheet.

### Share capital

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity. When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Shares repurchased by the Company are classified as treasury shares and are presented as a deduction from total equity.

### Derivative financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and commodity swap contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. The Group does not hold or issue derivative financial instruments for speculative trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Due to the requirement to assess the effectiveness of hedging instruments, changes in market conditions can result in the recognition of unrealised gains or losses on hedging instruments in the income statement.

Derivative financial instruments are recognised initially at fair value and are shown within derivatives if they are in an asset position or within financial liabilities if they are in a liability position. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

### Derivative financial instruments continued

#### a. Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 1. Accounting policies continued

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit and loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset the gains or losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset.

**IBOR reform**

The Group has adopted 'Amendments to IFRS 9, IAS 39 and IFRS 7: Interest rate benchmark reform – Phase 1', applying the amendments retrospectively to hedging relationships that existed at the start of the prior year or that have been designated thereafter. The interest rates on which the cash flows of the Group's USD interest rate swap derivative financial instruments are based are currently linked to USD 3 month LIBOR, which is expected to cease as a benchmark at the end of June 2023. The Group's EUR interest rate swap derivative financial instruments reference EURIBOR which is not expected to cease publication. By adopting these amendments, the impact for the Group is that it does not need to assume any impacts from LIBOR reform in assessing whether its existing instruments continue to meet the hedging criteria.

The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows. This temporary relief is expected to cease, on a hedge-by-hedge basis, when the designated hedge relationship is amended and application of Phase 2 reliefs begins. Further information is given in Note 22.

**b. Fair value hedges**

Where a derivative financial instrument is designated as a hedge of the variability in a fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement.

The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves).

**c. Hedges of a net investment in a foreign operation**

The Group designates the foreign exchange gain or loss on a proportion of the Group's Euro and US dollar denominated borrowings as a hedge of the Group's net investment in foreign operations. As such the foreign exchange gain or loss on those borrowings is recognised in other comprehensive income and accumulated in equity until such time as the operations are disposed of at which point the corresponding amounts are recycled to profit or loss.

**Termination benefits**

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

**Revenue**

Revenue is recognised upon transfer of promised goods to customers (the performance obligation) in an amount that reflects the consideration the Company expects to receive in exchange for those goods. This may occur, depending on the individual customer relationship, when the product has been transferred to a freight carrier, when the customer has received the product or, for consignment stock held at customers' premises, when usage reports for the relevant period have been compiled.

All revenue is from contracts with customers and pertains to the sale of specialty chemicals products, selling prices are agreed in advance and hence are directly observable.

The Group's payment terms offered to customers are within a certain number of days of receipt of invoice and standard contracts do not include a significant financing component. The Group does not expect to have any contracts where the period between the transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Provisions for returns, trade discounts and rebates are recognised as a reduction in revenue at the later of when revenue is recognised for the transfer of the related goods and the entity pays or promises to pay the consideration. The promise to pay rebates is contractually agreed in advance and thus the point of transferring the goods to the customer is deemed to be the later of the two circumstances. Rebates and discounts are estimated using historical data and experiences with the customers. Returns from customers are negligible.

**Operating profit**

Operating profit includes net profits realised on the sale of tangible fixed assets, current and long term assets and liabilities but excludes gains and losses on the disposal of businesses.

**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.

**Finance income and finance costs**

Finance income comprises interest income on funds invested and changes in the fair value of financial instruments at fair value taken to the income statement. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings, lease liabilities, unwinding of the discount on provisions, dividends on preference shares classified as debt, foreign currency gains/losses and changes in the value of financial instruments at fair value taken to the income statement. All borrowing costs are recognised in the income statement using the effective interest method.

## Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Group is required to estimate the income tax in each of the jurisdictions in which it operates. This requires an estimation of current tax liability together with an assessment of the temporary differences which arise as a consequence of different accounting and tax treatments. The Group operates in a number of countries in the world and is subject to many tax jurisdictions and rules. As a consequence the Group is subject to tax audits, which by their nature are often complex and can require several years to conclude. Management's judgement is required to determine the total provision for income tax. Amounts are accrued based on management's interpretation of country specific tax law and likelihood of settlement. However, the actual tax liabilities could differ from the position and in such events an adjustment would be required in the subsequent period which could have a material impact. Tax benefits are not recognised unless it is probable that the tax positions are sustainable. Once considered to be probable, management reviews each material tax benefit to assess whether a provision should be taken against full recognition of the benefit on the basis of potential settlement through negotiation. This evaluation requires judgements to be made including the forecast of future taxable income.

## Share based payments

The fair value of equity settled share options, cash settled shadow options and LTIP awards granted to employees is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options/awards. The fair value of the options/ awards granted is measured using a binomial model, taking into account the terms and conditions upon which the options/ awards were granted. The amount recognised as an employee expense is adjusted to reflect the actual number of share options/awards that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

## Own shares held by Employee Share Ownership Trust (ESOT)

Transactions of the Group sponsored ESOT are included in the consolidated financial statements. In particular, the ESOT's purchases of shares in the Company are charged directly to equity.

## Government grants

Government grants are recognised at fair value when there is reasonable assurance that the conditions associated with the grants have been complied with and the grants will be received. Grants compensating for expenses incurred are recognised as a deduction of the related expenses in the consolidated income statement on a systematic basis in the same periods in which the expenses are incurred.

## Alternative performance measures

In the analysis of the Group's operating results, earnings per share and cash flows, information is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis. This presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long term trends with reference to their materiality and nature. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. Information for separate presentation is considered as follows:

- Material costs or reversals arising from a significant restructuring of the Group's operations are presented separately
- Disposal of entities or investments in associates or joint ventures or impairment of related assets are presented separately
- Other matters arising due to the Group's acquisition, such as adjustments to contingent consideration, payment of retention bonuses, acquisition costs and fair value adjustments for acquired assets made in accordance with IFRS 13 are separately disclosed in aggregate
- If a change in an accounting estimate for provisions, including environmental provisions, results in a material gain or loss, that is presented separately
- Other items the Directors may deem to be unusual as a result of their size and/or nature.

## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 1. Accounting policies continued

## Adoption of new and revised standards

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods that began on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

International Accounting Standards (IAS/IFRSs) and Interpretations (IFRICs):	UK/EU Endorsement status	Effective date
Covid-19-Related Rent Concessions – Amendment to IFRS 16	Endorsed	1 June 2020/1 April 2021
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform – Phase 2	Endorsed	1 January 2021

## New and revised IFRSs in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised international accounting standards (IAS/IFRSs) and interpretations (IFRICs) that have been issued but are not effective for periods starting on 1 January 2021 but will be effective for later periods:

International Accounting Standards (IAS/IFRSs) and Interpretations (IFRICs) not yet endorsed for use in the EU or UK:	UK/EU Endorsement status	Effective for annual reporting periods beginning on or after
Amendments to IFRS 3: Reference to the Conceptual Framework	Not yet endorsed	1 January 2022
Amendments to IAS 16: Property, Plant and Equipment—Proceeds before Intended Use	Not yet endorsed	1 January 2022
Amendments to IAS 37: Onerous Contracts – Cost of Fulfilling a Contract	Not yet endorsed	1 January 2022
Annual Improvements to IFRS Standards 2018–2020 Cycle: Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	Not yet endorsed	1 January 2022
IFRS 17 Insurance Contracts	Not yet endorsed	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	Not yet endorsed	1 January 2023
Amendments to IAS 8: Definition of Accounting Estimates	Not yet endorsed	1 January 2023
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Not yet endorsed	1 January 2023
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	Not yet endorsed	1 January 2024
IFRS 10 and IAS 28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Not yet endorsed	tbc

## 2. Operating segments

## Business segments

The Group has determined its operating segments on the basis of those used for management, internal reporting purposes and the allocation of strategic resources. The key measure used for review of the performance of the operating segments is adjusted operating profit. In accordance with the provisions of IFRS 8, the Group's chief operating decision maker is the Board of Directors.

The four reportable segments, Personal Care, Coatings, Talc, and Chromium each have distinct product groupings and separate management structures. Segment results, assets and liabilities include items directly attributable to a segment and those that may be reasonably allocated from corporate activities. Presentation of the segmental results is on a basis consistent with those used for reporting Group results. The principal activities of the reportable segments are as follows:

## 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 previously reported Energy segment has been included within Coatings from 1 January 2021.

## Talc

Production and supply of talc for use in plastics, coatings, technical ceramics and the paper sectors.

## Chromium

Production of chromium chemicals.

## Segmental analysis for the year ended 31 December 2021

	2021						
	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Segment totals \$m	Central costs \$m	Total \$m
Revenue	174.7	384.3	150.4	170.7	880.1	–	880.1
Internal revenue	–	–	–	–	–	–	–
Revenue from external customers	174.7	384.3	150.4	170.7	880.1	–	880.1
Adjusted operating profit	36.7	61.8	14.0	14.1	126.6	(20.0)	106.6
Adjusting items	(8.8)	(5.3)	(58.3)	(7.8)	(80.2)	–	(80.2)
Profit/(loss) before interest	27.9	56.5	(44.3)	6.3	46.4	(20.0)	26.4
Loss on disposal	(1.7)	–	–	–	(1.7)	–	(1.7)
Other expenses	–	–	–	–	–	(2.1)	(2.1)
Finance income	–	–	–	–	–	11.0	11.0
Finance expense	–	–	–	–	–	(27.8)	(27.8)
Taxation – after adjusting items	–	–	–	–	–	(14.6)	(14.6)
Taxation – on adjusting items	–	–	–	–	–	11.3	11.3
Profit/(loss) for the year	26.2	56.5	(44.3)	6.3	44.7	(42.2)	2.5

	2021					
	Personal Care and Coatings <sup>1</sup> \$m	Talc \$m	Chromium \$m	Segment totals \$m	Central costs \$m	Total \$m
Fixed assets	659.1	310.5	78.8	1,048.4	267.0	1,315.4
Inventories	109.0	23.0	54.2	186.2	(0.1)	186.1
Trade and other receivables	90.0	23.2	20.2	133.4	5.5	138.9
Other tax recoverable	-	-	-	-	19.7	19.7
Derivatives	-	-	-	-	0.2	0.2
Tax assets	-	-	-	-	35.1	35.1
Net retirement benefit surplus	-	-	-	-	56.6	56.6
Cash and cash equivalents	-	-	-	-	84.6	84.6
<b>Segment assets</b>	<b>858.1</b>	<b>356.7</b>	<b>153.2</b>	<b>1,368.0</b>	<b>468.6</b>	<b>1,836.6</b>
Trade and other payables	(86.2)	(21.6)	(31.0)	(138.8)	(22.2)	(161.0)
Operating provisions	(1.0)	(4.4)	(21.6)	(27.0)	(34.8)	(61.8)
Lease liabilities	(27.9)	(11.0)	(0.5)	(39.4)	(0.8)	(40.2)
Bank overdrafts and loans	-	-	-	-	(482.5)	(482.5)
Current tax liabilities	-	-	-	-	(17.4)	(17.4)
Retirement benefit obligations	-	-	-	-	(17.3)	(17.3)
Deferred tax liabilities	-	-	-	-	(150.0)	(150.0)
Financial liabilities	-	-	-	-	(5.4)	(5.4)
<b>Segment liabilities</b>	<b>(115.1)</b>	<b>(37.0)</b>	<b>(53.1)</b>	<b>(205.2)</b>	<b>(730.4)</b>	<b>(935.6)</b>
<b>Net assets</b>	<b>743.0</b>	<b>319.7</b>	<b>100.1</b>	<b>1,162.8</b>	<b>(261.8)</b>	<b>901.0</b>
Capital additions	28.9	14.3	8.7	51.9	4.4	56.3
Depreciation and amortisation	(28.3)	(27.4)	(10.1)	(65.8)	(2.5)	(68.3)

1 Due to the shared nature of the production facilities for the Personal Care and Coatings segments a split of assets and liabilities by segment is not available and the cost to determine such a split would be prohibitive therefore assets and liabilities are shown in aggregate for these segments.

## Analysis by geography

	North America \$m	United Kingdom \$m	Rest of Europe \$m	Rest of the World \$m	Total \$m
<b>2021</b>					
Revenue from external customers	288.7	24.7	289.8	276.9	880.1
Fixed assets	750.9	155.2	335.0	74.3	1,315.4
Capital additions	28.6	1.5	16.3	9.9	56.3
Depreciation and amortisation	(33.3)	(1.6)	(30.3)	(3.1)	(68.3)

Revenue is based on the location of the customer. The Group's largest customer accounts for 6.1% of revenue (\$53.4m).



## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 2. Operating segments continued

Segmental analysis for the year ended 31 December 2020

	2020					
	Personal Care \$m	Coatings \$m (restated)*	Talc \$m	Chromium \$m	Segment totals \$m	Total \$m
Revenue	160.8	319.1	132.5	146.9	759.3	759.3
Internal revenue	–	–	–	(8.0)	(8.0)	(8.0)
Revenue from external customers	160.8	319.1	132.5	138.9	751.3	751.3
Adjusted operating profit	33.6	41.4	16.6	5.6	97.2	81.6
Adjusting items	(13.6)	(46.3)	(39.0)	(9.2)	(108.1)	(109.8)
Profit/(loss) before interest	20.0	(4.9)	(22.4)	(3.6)	(10.9)	(28.2)
Loss on disposal	0.3	–	–	–	0.3	0.3
Other expenses	–	–	–	–	–	(1.6)
Finance income	–	–	–	–	–	0.3
Finance expense	–	–	–	–	–	(39.6)
Taxation – after adjusting items	–	–	–	–	–	(14.2)
Taxation – on adjusting items	–	–	–	–	–	16.0
<b>Profit/(loss) for the year</b>	<b>20.3</b>	<b>(4.9)</b>	<b>(22.4)</b>	<b>(3.6)</b>	<b>(10.6)</b>	<b>(67.0)</b>

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

	2020					
	Personal Care, and Coatings <sup>1</sup> \$m	Talc \$m	Chromium \$m	Segment totals \$m	Central costs \$m	Total \$m
Fixed assets	659.7	347.6	79.8	1,087.1	321.5	1,408.6
Inventories	89.5	20.2	54.6	164.3	–	164.3
Trade and other receivables	62.5	21.6	16.7	100.8	7.5	108.3
ACT recoverable	–	–	–	–	0.6	0.6
Derivatives	–	–	–	–	1.4	1.4
Tax assets	–	–	–	–	33.5	33.5
Net retirement benefit surplus	–	–	–	–	7.9	7.9
Cash and cash equivalents	–	–	–	–	111.0	111.0
<b>Segment assets</b>	<b>811.7</b>	<b>389.4</b>	<b>151.1</b>	<b>1,352.2</b>	<b>483.4</b>	<b>1,835.6</b>
Trade and other payables	(67.7)	(20.7)	(28.0)	(116.4)	(16.2)	(132.6)
Operating provisions	(2.7)	(4.2)	(21.1)	(28.0)	(30.8)	(58.8)
Lease liabilities	(28.9)	(13.8)	(0.7)	(43.4)	(1.0)	(44.4)
Bank overdrafts and loans	–	–	–	–	(514.3)	(514.3)
Current tax liabilities	–	–	–	–	(23.2)	(23.2)
Retirement benefit obligations	–	–	–	–	(28.1)	(28.1)
Deferred tax liabilities	–	–	–	–	(143.1)	(143.1)
Financial liabilities	–	–	–	–	(30.7)	(30.7)
<b>Segment liabilities</b>	<b>(99.3)</b>	<b>(38.7)</b>	<b>(49.8)</b>	<b>(187.8)</b>	<b>(787.4)</b>	<b>(975.2)</b>
<b>Net assets</b>	<b>712.4</b>	<b>350.7</b>	<b>101.3</b>	<b>1,164.4</b>	<b>(304.0)</b>	<b>860.4</b>
Capital additions	18.4	13.8	7.2	39.4	3.8	43.2
Depreciation and amortisation	(29.4)	(25.4)	(10.2)	(65.0)	(1.7)	(66.7)

1 Due to the shared nature of the production facilities for the Personal Care and Coatings segments a split of assets and liabilities by segment is not available and the cost to determine such a split would be prohibitive therefore assets and liabilities are shown in aggregate for these segments.

## Analysis by geography

	North America \$m	United Kingdom \$m	Rest of Europe \$m	Rest of the World \$m	Total \$m
2020					
Revenue from external customers	240.8	24.4	235.4	250.7	751.3
Fixed assets	756.8	210.4	373.7	67.7	1,408.6
Capital additions	19.2	1.2	13.7	9.1	43.2
Depreciation and amortisation	(33.7)	(1.4)	(28.6)	(3.0)	(66.7)

Revenue is based on the location of the customer. The Group's largest customer accounts for 7.9% of revenue (\$60.0m).

### 3. Finance income

	2021 \$m	2020 \$m
Interest on bank deposits	0.3	0.3
Fair value movement on derivatives	10.7	-
	11.0	0.3

### 4. Finance costs

	2021 \$m	2020 \$m
Interest on bank loans	23.3	22.6
Pension and other post retirement liabilities	0.3	0.6
Unwind of discount on provisions	2.6	2.7
Fair value movement on derivatives	-	10.2
Dividend currency hedge cancellation	-	1.8
Interest on lease liabilities	1.6	1.7
	27.8	39.6

### 5. Adjusting items

	2021 \$m	2020 \$m
Restructuring	-	0.9
Business transformation	4.6	22.7
Environmental provisions		
Increase in provisions due to additional remediation work identified	9.6	5.6
(Decrease)/increase in provisions due to change in discount rate	(1.3)	1.1
M&A and disposal costs	-	3.7
Impairment of goodwill	52.3	60.3
Sale of Montreal land	(1.0)	-
Amortisation of intangibles arising on acquisition	16.0	15.5
	80.2	109.8
Sale of Business	1.7	(0.3)
Mark to market of derivative financial instruments	(10.7)	10.2
Currency hedge due to dividend cancellation	-	1.8
Tax credit in relation to adjusting items	(11.3)	(16.0)
	59.9	105.5

A number of items have been recorded under 'adjusting items' by virtue of their size and/or one time nature, in line with our accounting policy in Note 1, in order to provide additional useful analysis of the Group's results. The Group considers the adjusted results to be an important measure used to monitor how the businesses are performing as they achieve consistency and comparability between reporting periods. The net impact of these items on the Group profit before tax for the year is a debit of \$71.2m (2020: \$121.5m). The items fall into a number of categories, as summarised below:

**Restructuring** – In 2020, restructuring costs relate predominantly 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 \$4.2m in 2021 (including \$0.4m of depreciation) associated with the closure of the site are classified 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 Personal Care and Chromium businesses.

**Environmental provisions** – The Group's environmental provision is calculated on a discounted cash flow basis, reflecting the time period over which spending is estimated to take place. The movement in provision relates to a change in discount rates that has decreased the liability by \$1.3m in the year, extra remediation work identified in the year which has resulted in a \$9.6m increase to the liability. As these costs relate to non-operational facilities they are classified as adjusting items.

**M&A and disposal costs** – Charges of \$3.7m in 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 previous year.

## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 5. Adjusting items continued

**Impairment of goodwill** – In Talc, while the business fundamentals are unchanged, the continuing impact of COVID-19 on wider industrial activity and global supply chains, especially affecting the automotive sector, and the near term forecast profitability of the business has resulted in a goodwill impairment of \$53.1m. This impairment is reflected as a P&L charge of \$52.3m and \$0.8m movement in exchange differences on translation of foreign operations in other comprehensive income.

**Sale of Montreal land** – In 2021 the Group disposed of a non-core parcel of land in Montreal, Canada. The profit on disposal has been treated as an adjusting item.

**Amortisation of intangibles arising on acquisition** – Amortisation of \$16.0m (2020: \$15.5m) represents the charge in respect of the Group's acquired intangible assets. As in previous years, these are included in adjusting items as they are a non-cash charge arising from historical investment activities

**Sale of Business** – The \$1.7m loss on disposal of two non-core dental businesses, Eisenbacher Dentalwaren ED GmbH and Adentatec GmbH, has been treated as an adjusting item in 2021.

**Mark to market of derivatives** – The movements in the mark to market valuation of financial instruments that are not in hedging relationships are treated as adjusting items as they are non-cash fair value adjustments that will not affect the cash flows of the Group.

**Currency hedge due to dividend cancellation** – The charge of \$1.8m in 2020 relates to the cancellation of currency hedges following the suspension of the 2019 final ordinary dividend that provided additional financial headroom in response to COVID-19.

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

To support comparability with the financial statements as presented in 2021, the reconciliation to the adjusted consolidated income statement is shown below.

	2021 Profit and loss \$m	2021 Adjusting Items \$m	2021 Profit and loss after adjusting Items \$m
Revenue	880.1	–	880.1
Cost of sales	(545.2)	–	(545.2)
Gross profit	334.9	–	334.9
Distribution costs	(151.9)	–	(151.9)
Administrative expenses	(156.6)	80.2	(76.4)
Operating profit	26.4	80.2	106.6
(Loss)/profit on disposal	(1.7)	1.7	–
Other expenses	(2.1)	–	(2.1)
Finance income	11.0	(10.7)	0.3
Finance costs	(27.8)	–	(27.8)
(Loss)/profit before income tax	5.8	71.2	77.0
Tax	(3.3)	(11.3)	(14.6)
(Loss)/profit for the year	2.5	59.9	62.4
Attributable to:			
Equity holders of the parent	2.5	59.9	62.4
<b>Earnings per share</b>			
Basic (loss)/earnings (cents)	0.4	10.3	10.7
Diluted (loss)/earnings (cents)	0.4	10.2	10.6

	2020 Profit and loss \$m	2020 Adjusting items \$m	2020 Profit and loss after adjusting items \$m
Revenue	751.3	-	751.3
Cost of sales	(494.0)	-	(494.0)
Gross profit	257.3	-	257.3
Distribution costs	(112.6)	-	(112.6)
Administrative expenses	(172.9)	109.8	(63.1)
Operating (loss)/profit	(28.2)	109.8	81.6
Profit/(loss) on disposal	0.3	(0.3)	-
Other expenses	(1.6)	-	(1.6)
Finance income	0.3	-	0.3
Finance costs	(39.6)	12.0	(27.6)
(Loss)/profit before income tax	(68.8)	121.5	52.7
Tax	1.8	(16.0)	(14.2)
(Loss)/profit for the year	(67.0)	105.5	38.5
Attributable to:			
Equity holders of the parent	(67.0)	105.5	38.5
Earnings per share			
Basic (loss)/earnings (cents)	(11.5)	18.1	6.6
Diluted (loss)/earnings (cents)	(11.3)	17.8	6.5

To support comparability with the financial statements as presented in 2021, a reconciliation from reported profit/(loss) before interest to adjusted profit before income tax by segment is shown below for each year.

	Personal Care \$m	Coatings \$m	Talc \$m	Chromium \$m	Segment totals \$m	Central costs \$m	2021 Total \$m
<b>Reported operating profit/(loss)</b>	<b>27.9</b>	<b>56.5</b>	<b>(44.3)</b>	<b>6.3</b>	<b>46.4</b>	<b>(20.0)</b>	<b>26.4</b>
Adjusting Items							
Business transformation	0.1	4.2	-	0.3	4.6	-	4.6
Increase in environmental provisions due to additional remediation work identified	-	-	-	9.6	9.6	-	9.6
Increase in environmental provisions due to change in discount rate	-	-	-	(1.3)	(1.3)	-	(1.3)
Impairment of goodwill	-	-	52.3	-	52.3	-	52.3
Sale of Montreal Land	-	-	-	(1.0)	(1.0)	-	(1.0)
Amortisation of intangibles arising on acquisition	8.7	1.1	6.0	0.2	16.0	-	16.0
<b>Adjusted operating profit/(loss)</b>	<b>36.7</b>	<b>61.8</b>	<b>14.0</b>	<b>14.1</b>	<b>126.6</b>	<b>(20.0)</b>	<b>106.6</b>
Other expenses	-	-	-	-	-	(2.1)	(2.1)
Finance income	-	-	-	-	-	0.3	0.3
Finance costs	-	-	-	-	-	(27.9)	(27.9)
<b>Adjusted profit/(loss) before income tax</b>	<b>36.7</b>	<b>61.8</b>	<b>14.0</b>	<b>14.1</b>	<b>126.6</b>	<b>(49.7)</b>	<b>76.9</b>

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## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 5. Adjusting items continued

	2020						
	Personal Care \$m	Coatings \$m (restated*)	Talc \$m	Chromium \$m	Segment totals \$m	Central costs \$m	Total \$m
<b>Reported operating profit/(loss)</b>	20.0	(4.9)	(22.4)	(3.6)	(10.9)	(17.3)	(28.2)
Adjusting items							
Restructuring	–	0.9	–	–	0.9	–	0.9
Business transformation	3.0	17.4	–	2.3	22.7	–	22.7
Increase in environmental provisions due to additional remediation work identified	–	–	–	5.6	5.6	–	5.6
Increase in environmental provisions due to change in discount rate	–	–	–	1.1	1.1	–	1.1
M&A and disposal costs	2.0	–	–	–	2.0	1.7	3.7
Impairment of goodwill	–	26.9	33.4	–	60.3	–	60.3
Amortisation of intangibles arising on acquisition	8.6	1.1	5.6	0.2	15.5	–	15.5
<b>Adjusted operating profit/(loss)</b>	33.6	41.4	16.6	5.6	97.2	(15.6)	81.6
Other expenses	–	–	–	–	–	(1.6)	(1.6)
Finance income	–	–	–	–	–	0.3	0.3
Finance costs	–	–	–	–	–	(27.6)	(27.6)
<b>Adjusted profit/(loss) before income tax</b>	33.6	41.4	16.6	5.6	97.2	(44.5)	52.7

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

## 6. Income tax expense

	2021 \$m	2020 \$m
<b>Current tax on continuing operations:</b>		
UK corporation tax	12.2	6.5
Overseas corporation tax on continuing operations	5.8	8.6
Adjustments in respect of prior years:		
United Kingdom	(1.0)	0.1
Overseas	(7.2)	(8.3)
<b>Total current tax</b>	<b>9.8</b>	<b>6.9</b>
<b>Deferred tax:</b>		
United Kingdom	(2.8)	(1.0)
Overseas	(3.2)	(11.1)
Adjustment in respect of prior years:		
United Kingdom	–	–
Overseas	(0.5)	3.4
<b>Total deferred tax</b>	<b>(6.5)</b>	<b>(8.7)</b>
<b>Income tax (credit)/expense for the year</b>	<b>3.3</b>	<b>(1.8)</b>
<b>Comprising:</b>		
Income tax (credit)/expense for the year	3.3	(1.8)
Adjusting items*		
Overseas taxation on adjusting items	(12.2)	(12.4)
UK taxation on adjusting items	0.9	(3.6)
<b>Taxation on adjusting items</b>	<b>(11.3)</b>	<b>(16.0)</b>
<b>Income tax expense for the year after adjusting items</b>	<b>14.6</b>	<b>14.2</b>

\* See Note 5 for details of adjusting items.

The tax charge on profits represents an effective rate of 56.9% (2020: 2.6%) and an effective tax rate after adjusting items of 19.0% (2020: 26.9%).

The tax impact of the adjusting items outlined within note 5 and within the Consolidated income statement relates to the following:

	2021 Gross \$m	2021 Tax impact \$m	2020 Gross \$m	2020 Tax impact \$m
Restructuring	-	-	0.9	-
Business transformation	4.6	1.0	22.7	6.3
Environmental provisions	8.3	1.6	6.7	1.0
M&A and disposal costs	1.7	-	3.7	-
Impairment of goodwill	52.3	-	60.3	5.6
Mark to market of derivative financial instruments	(10.7)	(2.0)	10.2	1.9
Sale of Montreal land	(1.0)	-	-	-
Amortisation of intangibles arising on acquisition	16.0	3.5	15.5	1.2
Currency hedge due to dividend cancellation	-	-	1.8	-
	-	-	(0.3)	-
Reversal of uncertain tax provision	-	7.2	-	-
Tax (credit)/charge and effective tax rate for the year	71.2	11.3	121.5	16.0

The Group is international and has operations across a range of jurisdictions. Accordingly, tax charges of the Group in future periods will be affected by the profitability of operations in different jurisdictions and changes to tax rates and regulations in the jurisdictions within which the Group has operations. The Group's effective tax rate in 2021 is slightly lower than its usual range due to beneficial adjustments in respect of prior years and the one-off impact of the UK rate change on its deferred tax assets. The medium-term expectation for the Group's adjusted effective tax rate is around 22-23% until 2023, after which it is anticipated to rise to 25-26% due to the previously announced increase in UK corporation tax rates from April 2023.

On 20 December 2021 the OECD published its Global Anti-Base Erosion Model Rules (Pillar Two). The report provides a model for a coordinated system of taxation that imposes a top-up tax on profits arising in a jurisdiction whenever the effective tax rate, determined on a jurisdictional basis, is below the minimum tax rate of 15%. Each OECD member nation has begun consultations on the implementation of these model rules into local legislation, with the expectation that they will be enshrined into law in 2023. The Group is currently considering the impact of the announcements on its tax position.

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

	2021 \$m	2021 %	2020 \$m	2020 %
Profit/(loss) before tax	5.8		(68.8)	
Tax at 19.00% (2020: 19.00%)	1.1	19.0	(13.1)	19.0
Difference in overseas effective tax rates	1.5	25.9	4.0	(5.8)
Income not taxable and impact of tax efficient financing	(0.9)	(15.5)	(4.7)	6.8
Expenses not deductible for tax purposes	12.0	206.9	11.5	(16.7)
Adjustments in respect of prior years	(8.7)	(150.0)	(4.8)	7.0
Tax rate changes	(1.2)	(20.7)	1.3	(1.9)
Movement in unrecognised deferred tax	(0.5)	(8.7)	4.0	(5.8)
Total charge/(credit) and effective tax rate for the year	3.3	56.9	(1.8)	2.6

The majority of the prior year adjustment relates to the reversal of an uncertain tax provision previously held in respect of the US. The statute of limitations for the relevant period expired on 15 October 2021 and hence the filed tax returns are treated as final. The Group's estimate of the additional tax which may be due has been revised to \$nil.

## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 7. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	2021 \$m	2020 \$m
Employee costs (see Note 8)	149.5	125.3
Net foreign exchange gains	1.0	0.6
Research and development costs	7.5	7.2
Depreciation of property, plant and equipment	51.7	50.6
Amortisation of intangible assets	16.6	16.1
Total depreciation and amortisation expense	68.3	66.7
Loss/(profit) on disposal	1.7	(0.3)
Profit on disposal of property, plant and equipment	0.2	(0.7)
Write off of inventory	2.5	2.8
Cost of inventories recognised as expense	375.6	325.9
Fees payable to the Company's auditor and its associates:		
Audit of company*	1.4	1.1
Audit of subsidiaries	1.1	1.1
Audit related services – interim review	0.2	0.1
Other advisory fees	–	0.1

\* The \$1.4m of audit of company includes \$0.3m of extra fees relating to the 2020 group audit

## Government grants and other COVID-19 assistance

The Group has accessed various government support schemes aimed at mitigating the potential impact on individuals' job losses resulting from the impact of COVID-19. The most significant amounts received by the Group include the following:

- \$0.4m in relation to government support under temporary wage support schemes available in the Netherlands. The Group does not have any unfulfilled obligations relating to these support programmes. This amount has been offset against employee remuneration costs.
- Agreement of payment plans with tax authorities in China to defer payments of income taxes and payroll taxes resulting in \$1.1m payment deferrals across the Group.

## 8. Employees

	2021 \$m	2020 \$m
Employee costs:		
Wages and salaries	130.9	111.6
Social security costs	9.9	8.8
Pension costs	8.7	4.9
	149.5	125.3

	Number	Number
Average number of FTE employees*:		
Specialty Products	939	917
Talc	252	253
Chromium	191	195
Central	17	17
Total	1,399	1,382

\* Full time equivalent including contractors.

The aggregate amount of Directors' remuneration (salary, bonus and benefits) is shown in the Remuneration Report on page 105:

- The aggregate amount of gains made by Directors on exercise of share options was \$0.1m (2020: \$0.1m).
- The remuneration of the highest paid Director was \$2.6m (2020: \$1.2m).
- Payments have been made to a defined contribution pension scheme on behalf of 1 Director (2020: 1 Director). For the highest paid Director, pension contributions of \$0.2m (2020: \$0.2m) were made.

## 9. Earnings per share

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

	2021 \$m	2020 \$m
<b>Earnings:</b>		
Earnings/(loss) for the purpose of basic earnings per share	2.5	(67.0)
Adjusting items net of tax	59.9	105.5
Adjusted earnings	62.4	38.5

	2021 m	2020 m
<b>Number of shares:</b>		
Weighted average number of shares for the purposes of basic earnings per share	581.0	580.1
Effect of dilutive share options	7.8	13.6
Weighted average number of shares for the purposes of diluted earnings per share	588.8	593.7

	2021 cents	2020 cents
<b>Earnings per share:</b>		
Basic earnings/(loss)	0.4	(11.5)
Diluted earnings/(loss)	0.4	(11.3)
Basic after adjusting items	10.7	6.6
Diluted after adjusting items	10.6	6.5

## 10. Goodwill and other intangible assets

	Goodwill \$m	Brand \$m	Customer lists \$m	Other intangible assets \$m	Total \$m
<b>Cost:</b>					
At 1 January 2020	725.7	25.9	165.8	103.2	1,020.6
Exchange differences	2.6	0.8	4.7	2.5	10.6
Additions	-	-	-	0.4	0.4
Disposals	-	-	-	-	-
At 31 December 2020	728.3	26.7	170.5	106.1	1,031.6
Exchange differences	(2.2)	0.2	(4.1)	(2.0)	(8.1)
Additions	-	-	-	0.4	0.4
Acquisition	0.5	-	-	0.1	0.6
Disposals	(1.0)	-	-	-	(1.0)
At 31 December 2021	725.6	26.9	166.4	104.6	1,023.5
<b>Amortisation and impairment:</b>					
At 1 January 2020	-	2.3	20.8	39.4	62.5
Charge for the year	-	0.9	9.3	5.9	16.1
Impairment	60.3	-	-	-	60.3
Disposals	-	-	-	-	-
At 31 December 2020	60.3	3.2	30.1	45.3	138.9
Charge for the year	-	-	9.5	7.1	16.6
Impairment	52.3	-	-	-	52.3
Disposals	-	-	-	-	-
At 31 December 2021	112.6	3.2	39.6	52.4	207.8
<b>Carrying amount:</b>					
At 31 December 2021	613.0	23.7	126.8	52.2	815.7
At 31 December 2020	668.0	23.5	140.4	60.8	892.7
At 1 January 2020	725.7	23.6	145.0	63.8	958.1



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## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

The net book value of customer lists includes \$94.9m (2020: \$102.5m) in relation to the acquisition of SummitReheis which have remaining lives of between 2 and 19 years (2020: between 3 and 20 years) and \$32.1m (2020: \$38.0m) in relation to the acquisition of Mondo which have remaining lives of 12 years (2020: 13 years).

The brand intangibles represent the value ascribed to the trading name and reputation of the Deuchem, Fancor, Watercryn, Hi-Mar and SummitReheis acquisitions. The Group, with the exception of SummitReheis, considers these to have significant and ongoing value to the business that will be maintained and it is therefore considered appropriate to assign these assets an indefinite useful life. The brand relating to SummitReheis is being amortised over a period of three years. The carrying amount of brand intangibles with an indefinite useful life as at 31 December 2021 is \$23.7m (2020: \$23.5m). Brand intangibles are tested annually for impairment using similar assumptions to the goodwill testing. The remaining intangible assets comprise the value ascribed to customer lists, patents and non-compete clauses, which are being amortised over periods of five to twenty-four years.

## Goodwill impairment testing

Goodwill is allocated to the Group's cash-generating units ("CGUs") as follows:

	2021 \$m	2020 \$m
Personal Care	290.7	289.4
Coatings*	192.0	193.5
Talc	130.3	185.1
Chromium	–	–
At 31 December	613.0	668.0

\* 2020 Coatings CGU goodwill restated to include Energy which has been reported as part of the Coatings segment from 1 January 2021.

The Group tests annually for impairment at 31 October, or more frequently, if there are events or circumstances that indicate that the carrying amount may not be recoverable.

## 10. Goodwill and other intangible assets continued

## Basis of the recoverable amount

The recoverable amounts of the Group's CGUs are determined from value in use ("VIU") calculations which use cash flow projections based on financial budgets approved by the directors covering a three to five year period.

## Management's judgement in estimating the cash flows of a CGU

The key assumptions for the value in use calculations are expected changes to sales volumes, selling prices and direct costs during the forecast period, growth rates used to extrapolate beyond the forecast period and the discount rates applied to the resulting cash flows. Changes in sales volumes, selling prices and direct costs are based on past practices and expectations of future changes in the market. For the Talc CGU a five year forecasting model is used to reflect the longer operating and business planning cycle of the industries which this business serves. A three year forecasting model is used for all other CGUs.

## Growth rates

Cash flows for periods beyond the forecast period are extrapolated based on estimated growth rates. The rates do not exceed the average long term growth rate for the relevant products or markets.

## Discount rates

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs.

## Personal Care

The recoverable amount of the CGU was calculated using forecast cash flows based on budgets and plans for 2022 to 2024, a pre-tax discount rate of 10.8% (2020: 10.5%) and a long-term growth rate of 5.0% based on the long term historical growth rate seen in this CGU. The recoverable amount exceeded the carrying value of the CGU by \$126.7m. A reasonably possible reduction in the long term growth rate of 4.1%, a reduction in revenues of 5.1% in each year of the three year forecast period (applied to average forecast revenues of \$185.2m per annum in the three year period) or an increase in the pre-tax discount rate of 1.6%, applied in isolation, would result in the headroom reducing to nil.

## Coatings

The recoverable amount of the CGU was calculated using forecast cash flows based on budgets and plans for 2022 to 2024, a pre-tax discount rate of 11.2% (2020: 10.5%) and a long-term growth rate of 3.0%.

## Talc

At 31 December 2021 we considered the continuing impact of COVID-19 on wider industrial activity and global supply chains, especially affecting the automotive sector, which has impacted current year performance and the near term forecast profitability of the Talc business to be an indicator of impairment of goodwill for the Talc CGU. As a result, an impairment test was performed which resulted in

recognition of an impairment of \$53.1m to the goodwill of the Talc CGU as at 31 December 2021 based on a recoverable amount of \$440.7m. Due to the currency of the entity in which the goodwill is held, this impairment is reflected as a P&L charge of \$52.3m and \$0.8m movement in exchange differences on translation of foreign operations in other comprehensive income.

In reaching the impairment charge the forecast period included revenue growth of between 5% and 8%. A pre-tax discount rate of 10.0% was applied. The outcome of the impairment review was most sensitive to changes to forecast revenues and discount rate. A 0.5% increase in the pre-tax discount rate would have increased the impairment charge by \$29.2m and a 3% decrease in forecast revenues in each year of the five year forecast period would have increased the impairment charge by \$43.6m.

#### Chromium

The recoverable amount of the CGU was calculated using forecast cash flows based on budgets and plans for 2022 to 2024, a pre-tax discount rate of 11.3% (2020: 10.5%) and a long-term growth rate of 3.0%.

### 11. Property, plant and equipment

	Land and buildings \$m	Plant and machinery \$m	Fixtures fittings and equipment \$m	Under construction \$m	Right-of-use assets			Total \$m
					Land and buildings \$m	Plant and machinery \$m	Fixtures fittings and equipment \$m	
<b>Cost:</b>								
At 1 January 2020	125.3	614.5	45.7	18.3	51.4	5.6	2.5	863.3
Additions	0.2	13.0	–	28.3	0.9	–	0.5	42.9
Exchange differences	4.0	28.8	1.0	0.4	1.1	0.4	0.1	35.8
Disposals	(1.0)	(3.1)	(0.6)	(0.3)	(0.1)	(0.2)	–	(5.3)
Reclassifications	0.1	17.0	1.1	(18.2)	–	–	–	–
At 31 December 2020	128.6	670.2	47.2	28.5	53.3	5.8	3.1	936.7
Additions	–	13.9	–	38.6	1.4	0.5	0.1	54.5
Exchange differences	(2.0)	(23.6)	(0.4)	(0.5)	(1.0)	(0.3)	(0.1)	(27.9)
Disposals	(0.4)	(1.2)	(2.6)	–	–	–	(0.2)	(4.4)
Acquisitions through business combinations	–	0.1	0.2	–	–	–	–	0.3
Reclassifications	0.9	21.2	(0.6)	(21.5)	–	–	–	–
At 31 December 2021	127.1	680.6	43.8	45.1	53.7	6.0	2.9	959.2
<b>Accumulated depreciation and impairment losses:</b>								
At 1 January 2020	57.9	240.4	33.1	–	16.1	1.1	1.1	349.7
Charge for the year	2.7	40.4	2.3	–	3.4	1.1	0.7	50.6
Exchange differences	1.9	8.4	1.0	–	0.3	0.1	0.1	11.8
Disposals	(0.1)	(2.1)	(0.5)	–	–	(0.3)	(0.1)	(3.1)
Impairment losses	2.8	8.9	–	–	–	–	–	11.7
Reclassifications	–	(0.3)	0.3	–	–	–	–	–
At 31 December 2020	65.2	295.7	36.2	–	19.8	2.0	1.8	420.7
Charge for the year	2.4	43.9	0.4	–	3.6	0.9	0.5	51.7
Exchange differences	(1.0)	(7.1)	(0.6)	–	(0.3)	(0.1)	(0.1)	(9.2)
Disposals	–	(1.1)	(2.5)	–	–	–	(0.1)	(3.7)
Impairment losses	–	–	–	–	–	–	–	–
Reclassifications	(0.2)	(1.1)	1.3	–	–	–	–	–
At 31 December 2021	66.4	330.3	34.8	–	23.1	2.8	2.1	469.5
<b>Net book value:</b>								
At 31 December 2021	60.7	350.3	9.0	45.1	30.6	3.2	0.8	499.7
At 31 December 2020	63.4	374.5	11.0	28.5	33.5	3.8	1.3	516.0
At 1 January 2020	67.4	374.1	12.6	18.3	35.3	4.5	1.4	513.6

Group capital expenditure contracted but not provided for in these financial statements amounted to \$nil (2020: \$nil).

### 12. Inventories

	2021 \$m	2020 \$m
Raw materials and consumables	62.5	52.5
Work in progress	17.4	15.2
Finished goods and goods purchased for resale	106.2	96.6
	186.1	164.3

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## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

Inventories are disclosed net of provisions for obsolescence of \$7.3m (2020: \$6.8m).

## 13. Trade and other receivables

	2021 \$m	2020 \$m
Trade receivables	110.6	86.4
Other receivables	20.4	12.5
Prepayments	7.9	9.4
	<b>138.9</b>	<b>108.3</b>

During the previous year the group entered into an accounts receivable purchase programme, at 31st December the net balance outstanding in relation to this programme was \$12.9m (2020: \$13.7m).

## 14. Trade and other payables

	2021 \$m	2020 \$m
Trade payables	77.8	71.4
Other payables	22.7	13.7
Accruals	60.5	47.5
	<b>161.0</b>	<b>132.6</b>

During the previous year the group entered into a supplier financing arrangement, the net balance outstanding on these arrangements totalled \$6.1m (2020: \$4.9m) at the end of the period.

## 15. Provisions

	Environmental \$m	Self Insurance \$m	Restructuring \$m	Other \$m	Total \$m
<b>At 1 January 2021</b>	<b>50.6</b>	<b>1.5</b>	<b>5.3</b>	<b>1.4</b>	<b>58.8</b>
Increase in provisions	9.0	0.8	0.1	–	9.9
Unused amounts reversed	–	–	(0.3)	–	(0.3)
Unwinding of discount	2.6	–	–	0.1	2.7
Utilised during the year	(3.1)	(1.6)	(3.6)	(0.5)	(8.8)
Currency translation differences	(0.4)	–	(0.1)	–	(0.5)
<b>At 31 December 2021</b>	<b>58.7</b>	<b>0.7</b>	<b>1.4</b>	<b>1.0</b>	<b>61.8</b>
<b>Due within 1 year</b>	<b>6.9</b>	<b>0.4</b>	<b>0.9</b>	<b>0.5</b>	<b>8.7</b>
<b>Due after 1 year</b>	<b>51.8</b>	<b>0.3</b>	<b>0.5</b>	<b>0.5</b>	<b>53.1</b>

Environmental provisions relate to manufacturing and distribution sites including certain sites no longer owned by the Group. These provisions have been derived using a discounted cash flow methodology and reflect the extent to which it is probable that expenditure will be incurred over the next 25 years. The level of environmental provision is based on management's best estimate of the most likely outcome for each individual exposure. Environmental provisions are discounted using discount rates which reflect market assessments and the risks specific to the liabilities. The discount rates used were 1.9% in the US, 1.1% in the UK and 2.0% in Canada. Included within environmental provisions are amounts in respect of all anticipated costs related to the closure and remediation of the Chromium UK site at Eaglescliffe.

The following table shows the timeframes in which undiscounted costs in relation to the environmental provisions are expected to be incurred:

	1-10 years \$m	11-20 years \$m	20-25 years \$m	Total \$m
Environmental provisions	33.3	20.2	9.6	63.1

Environmental provisions have decreased by \$1.3m due to increases in the discount rates used to discount the provisions and increased by \$10.3m due to extra remediation work identified during the year. \$8.3m of the \$9.0m increase in provisions is included within adjusting items (see Note 5) with \$0.7m included as an addition to property, plant and equipment (see Note 11).

If the cost estimates on which the provisions at 31 December 2021 are based were to change by 10%, which is reasonably possible, the provision recognised would need to increase by approximately \$5.9m. Whilst a range of outcomes is possible, the Directors believe that the reasonably possible range for the environmental provision is from \$56.1m to \$64.6m.

Self-insurance provisions relate to personal injury and other claims from former employees or third parties and represent the aggregate of outstanding claims plus a projection of losses incurred but not yet reported which together make up the full liability recognised as a provision. Insurance recoveries are recognised as a separate reimbursement asset. The self-insurance provisions are expected to be utilised within five years.

Restructuring provisions relate to costs of adjusting head count, training, relocation and other costs of restructuring where a need to do so has been identified by management. Other provisions represent payments made for right of first refusal on a quarry, payments for which are linked to the discharge of residue into another quarry owned by the same counterparty. These provisions are expected to be utilised within three years.

## 16. Deferred tax and ACT recoverable

	Retirement benefit plans \$m	Accelerated tax depreciation \$m	Amortisation of US goodwill \$m	Other intangible assets \$m	Other temporary differences \$m	Unrelieved tax losses \$m	Total \$m
<b>At 1 January 2020</b>	2.3	(32.0)	(58.5)	(59.7)	20.5	5.4	(122.0)
Reallocation	-	(15.0)	(10.7)	25.7	-	-	-
Credit/(charge) to the income statement	0.9	6.2	5.6	(1.8)	(7.2)	5.0	8.7
(Charge)/credit to other comprehensive income	(0.7)	-	-	-	0.4	-	(0.3)
Credit to retained earnings	-	-	-	-	0.1	-	0.1
Currency translation differences	(0.1)	(3.3)	-	0.4	(0.5)	0.2	(3.3)
<b>At 1 January 2021</b>	2.4	(44.1)	(63.6)	(35.4)	13.3	10.6	(116.8)
Credit/(charge) to the income statement	0.3	(1.9)	0.2	2.4	7.4	(1.9)	6.5
(Charge)/credit to other comprehensive income	(14.5)	-	-	-	(0.4)	-	(14.9)
Credit to retained earnings	-	-	-	-	1.0	-	1.0
Currency translation differences	(0.6)	3.2	-	1.6	(1.2)	(0.8)	2.2
<b>At 31 December 2021</b>	(12.4)	(42.8)	(63.4)	(31.4)	20.1	7.9	(122.0)
<b>Deferred tax assets</b>	-	-	-	-	20.1	7.9	28.0
<b>Deferred tax liabilities</b>	(12.4)	(42.8)	(63.4)	(31.4)	-	-	(150.0)

Deferred tax assets have been recognised to the extent that it is considered more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted. Where this is not the case, deferred tax assets have not been recognised.

Deferred tax liabilities are reduced for any deferred tax assets which exist within a jurisdiction where consolidated tax returns are filed and where tax assets and liabilities may be netted.

An asset of \$42.0m was recognised in 2014 relating to UK advance corporation tax (ACT) credits which had previously been unrecognised because of uncertainty over future UK taxable profits. Movements in the ACT recoverable balance are shown below:

	2021 \$m	2020 \$m
At 1 January	0.6	4.8
Utilisation	(0.6)	(4.0)
Currency translation differences	-	(0.2)
At 31 December	-	0.6

There are no material losses where deferred tax assets have not been recognised.

At the balance sheet date the aggregate amount of the temporary differences in relation to the investment in subsidiaries for which deferred tax liabilities have not been recognised was \$37.8m (2020: \$19.9m). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Group considers that it is probable that such differences will not reverse in the foreseeable future. As at the balance sheet date the Group had an unrecognised deferred tax asset of \$4.2m (gross \$20m) in relation to restricted US interest deductions and an unrecognised deferred tax asset of \$7.3m (gross \$22.1m) in respect of German net operating losses.

## 17. Share capital

	2021 \$m	2020 \$m
At 1 January	52.1	52.1
Issue of shares	0.1	-
At 31 December	52.2	52.1

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For the year ended 31 December 2021

## 18. Other reserves

	Capital redemption reserve \$m	Translation reserve \$m	Hedging reserve \$m	Share options reserve \$m	Total \$m
Balance at 1 January 2020	158.8	(69.0)	(8.4)	9.7	91.1
Share based payments	-	-	-	3.5	3.5
Exchange differences	-	20.1	-	(2.7)	17.4
Fair value of cash flow hedges transferred to the income statement	-	-	0.9	-	0.9
Effective portion of changes in fair value of cash flow hedges	-	-	(1.4)	-	(1.4)
Transfer	-	-	-	(2.9)	(2.9)
At 1 January 2021	158.8	(48.9)	(8.9)	7.6	108.6
Issue of shares	-	-	-	(3.1)	(3.1)
Share based payments	-	-	-	5.1	5.1
Exchange differences	-	(18.8)	-	-	(18.8)
Fair value of cash flow hedges transferred to the income statement	-	-	2.7	-	2.7
Effective portion of changes in fair value of cash flow hedges	-	-	(0.1)	-	(0.1)
Fair value of cash flow hedges transferred to net assets	-	-	(2.3)	-	(2.3)
Transfer	-	-	-	(1.4)	(1.4)
Balance at 31 December 2021	158.8	(67.7)	(8.6)	8.2	90.7

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The capital redemption reserve represents the nominal value of the shares redeemed.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

The share options reserve comprises amounts accumulated in equity in respect of share options and awards granted to employees.

## 19. Borrowings

	2021 \$m	2020 \$m
Bank loans	485.6	519.1
Unamortised syndicate loan fees	(3.1)	(4.8)
Carrying value of borrowings at 31 December	482.5	514.3

The borrowings are repayable as follows:

Within one year	-	3.7
Within two to four years	485.6	515.4
In the fifth year	-	-
	485.6	519.1

The weighted average interest rates paid were as follows:

	2021 %	2020 %
Bank loans	2.9	3.2

Group borrowings were denominated as follows:

	US Dollar	Taiwan Dollar	Euro	Total Bank loans
Bank loans				
31 December 2021	290.0	-	195.6	485.6
31 December 2020	306.6	2.1	210.4	519.1

Of the US dollar borrowings, \$nil was unsecured (2020: \$nil), bearing interest at the relevant interbank rates plus a margin. The US dollar borrowings consist of those secured by time deposits and in 2020 the Taiwan dollar borrowings were secured by charges over various land and buildings in Taiwan.

## 20. Cash and cash equivalents

Cash and cash equivalents for the purpose of the consolidated cash flow statement comprise the following:

	2021 \$m	2020 \$m
Cash at bank and on hand	84.6	111.0

## 21. Financial instruments

At 31 December 2021:

	Held at fair value		Held at amortised cost		Total book value \$m	Total fair value \$m
	Through profit and loss \$m	Derivatives used for hedging \$m	Loans and receivables \$m	Liabilities \$m		
<b>Current:</b>						
Trade and other receivables (see note 13)	-	-	150.7	-	150.7	150.7
Derivative financial instruments (see note 22)	-	0.2	-	-	0.2	0.2
Cash and cash equivalents (see note 20)	-	-	84.6	-	84.6	84.6
Financial assets	-	0.2	235.3	-	235.5	235.5
<b>Current:</b>						
Bank overdrafts and loans (see note 19)	-	-	-	-	-	-
Trade and other payables (see note 14)	-	-	-	(161.0)	(161.0)	(161.0)
Derivative financial instruments (see note 22)*	-	(1.4)	-	-	(1.4)	(1.4)
Lease liabilities (see note 24)	-	-	-	(6.4)	(6.4)	(6.4)
<b>Non-current:</b>						
Loans and borrowings** (see note 19)	-	-	-	(482.5)	(482.5)	(485.6)
Lease liabilities (see note 24)	-	-	-	(33.8)	(33.8)	(33.8)
Derivative financial instruments (see note 22)*	(4.0)	-	-	-	(4.0)	(4.0)
Financial liabilities	(4.0)	(1.4)	-	(683.7)	(689.1)	(692.2)
<b>Total</b>	<b>(4.0)</b>	<b>(1.2)</b>	<b>235.3</b>	<b>(683.7)</b>	<b>(453.6)</b>	<b>(456.7)</b>

At 31 December 2020:

	Held at fair value		Held at amortised cost		Total book value \$m	Total fair value \$m
	Through profit and loss \$m	Derivatives used for hedging \$m	Loans and receivables \$m	Liabilities \$m		
<b>Current:</b>						
Trade and other receivables (see note 13)	-	-	98.9	-	98.9	98.9
Derivative financial instruments (see note 22)	-	1.4	-	-	1.4	1.4
Cash and cash equivalents (see note 20)	-	-	111.0	-	111.0	111.0
Financial assets	-	1.4	209.9	-	211.3	211.3
<b>Current:</b>						
Bank overdrafts and loans (see note 19)	-	-	-	(3.7)	(3.7)	(3.7)
Trade and other payables (see note 14)	-	-	-	(132.6)	(132.6)	(132.6)
Derivative financial instruments (see note 22)*	(14.7)	(2.6)	-	-	(17.3)	(17.3)
Lease liabilities (see note 24)	-	-	-	(7.2)	(7.2)	(7.2)
<b>Non-current:</b>						
Loans and borrowings** (see note 19)	-	-	-	(510.6)	(510.6)	(515.4)
Lease liabilities (see note 24)	-	-	-	(37.2)	(37.2)	(37.2)
Contingent consideration***	-	-	-	(13.4)	(13.4)	(13.4)
Financial liabilities	(14.7)	(2.6)	-	(704.7)	(722.0)	(726.8)
<b>Total</b>	<b>(14.7)</b>	<b>(1.2)</b>	<b>209.9</b>	<b>(704.7)</b>	<b>(510.7)</b>	<b>(515.5)</b>

\* Derivatives in a liability position at 31 December 2021 and 31 December 2020 are shown within current or non current financial liabilities in the Consolidated balance sheet.

\*\* Loans and borrowings are shown net of facility fees of \$3.1m (2020: \$4.8m).

\*\*\* Contingent consideration payable of \$nil (2020: \$13.4m) is shown in the non-current financial liabilities line in the Consolidated balance sheet. The balance in 2020 was payable to the previous owners of Mondo were Elementis to be successful in an historic, pre-acquisition interest deductibility case relating to Mondo. In 2021 the case was found in favour of Elementis and so the payment to the previous owners of Mondo was made.

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## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 21. Financial instruments continued

## Fair values measurement and hierarchy

## Basis for determining fair values

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. This category includes contingent consideration.

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments:

The Group assesses that the fair values of cash and cash equivalents, trade and other receivables, trade and other payables, and the current portion of floating rate bank and other borrowings, approximate to book values due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within their book value for credit risk. The fair values of lease liabilities approximate to their book values due to the measurement of lease liabilities at the Group's incremental borrowing rate, which has not changed significantly since the inception of the lease liabilities presented. Leases are also negotiated at market rates with independent, unrelated third parties and are subject to periodic rental reviews.

## Derivatives (level 2)

Fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

## Non-derivative non-current financial liabilities (level 2)

Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## Contingent consideration payable (level 3)

Fair value has been estimated by calculating the present value of the future expected cash flows. Expected cash inflows are estimated based on the terms of the sale and purchase contract, the entity's knowledge of the business and how the current economic environment is likely to impact it.

Changes in fair value of financial liabilities classified as level 3 in the hierarchy are as follows:

	2021 \$m	2020 \$m
Contingent consideration at fair value through profit or loss:		
At 1 January	13.4	13.0
Foreign exchange losses/(gains)	(0.1)	0.4
Cash paid	(13.3)	-
At 31 December	-	13.4

## Interest rates used for determining fair value

The interest rates used to discount estimated cash flows, where applicable, are based on yield curves observable at the balance sheet date and contractual interest rates. The rates used were as follows:

	2021 %	2020 %
Borrowings	2.4-2.7	2.9-3.3

The following table shows amounts recognised in profit or loss in relation to financial assets and liabilities within the scope of IFRS 9:

	2021 \$m	2020 \$m
<b>Recognised in profit or loss</b>		
Revenue – fair value of cash flow hedges transferred from equity to the income statement	(0.3)	-
Interest income on bank deposits held at amortised cost	0.3	0.3
Fair value movement on derivatives	10.7	-
<b>Financial income</b>	<b>11.0</b>	<b>0.3</b>
Interest on bank loans	(23.3)	(22.6)
Fair value of cash flow hedges transferred from equity to the income statement	(2.4)	(0.9)
Fair value movement on derivatives	-	(10.2)
Interest on lease liabilities	(1.6)	(1.7)
<b>Financial costs</b>	<b>(27.3)</b>	<b>(35.4)</b>

The following table shows amounts recognised directly in equity in relation to financial assets and liabilities within the scope of IFRS 9:

	2021 \$m	2020 \$m
<b>Recognised directly in equity</b>		
Effective portion of changes in fair value of cash flow hedge (gain / (loss))	(0.1)	(1.4)
Fair value of cash flow hedges transferred to income statement	2.7	0.9
Fair value of cash flow hedges transferred to net assets	(2.3)	-
Effective portion of change in fair value of net investment hedge	10.7	(3.6)
Foreign currency translation differences for foreign operations	(29.1)	25.0
Recognised in:		
Hedging reserve	0.3	(0.5)
Translation reserve	(18.4)	21.4

## 22. Derivative financial instruments and hedging activities

	Contract or underlying principal amount		Fair Value	
	Assets	Liabilities	Assets \$m	Liabilities \$m
<b>At 31 December 2021:</b>				
<b>Current:</b>				
		€120m /		
Interest rate swaps – cash flow hedges	-	\$100m	-	(0.9)
Nickel swaps – cash flow hedges	-	504 MT	-	(0.5)
Aluminium swaps – cash flow hedges	2,040 MT	1,620 MT	0.2	-
<b>Total</b>			<b>0.2</b>	<b>(1.4)</b>
<b>Non current:</b>				
		\$110m /		
Cross currency swaps	-	€100m	-	(4.0)
<b>Total</b>			<b>-</b>	<b>(4.0)</b>

	Contract or underlying principal amount		Fair Value	
	Assets	Liabilities	Assets \$m	Liabilities \$m
<b>At 31 December 2020:</b>				
<b>Current:</b>				
		€120m /		
Interest rate swaps – cash flow hedges	-	\$100m	-	(2.6)
Commodity forward contracts – cash flow hedges	2,040 MT	-	1.4	-
		\$110m /		
Cross currency swaps	-	€100m	-	(14.7)
<b>Total</b>			<b>1.4</b>	<b>(17.3)</b>

### Hedging activities

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk, commodity price risk and interest rate risk.

The Group's risk management strategy is explained in Note 23.



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## Notes to the consolidated financial statements continued

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## 22. Derivative financial instruments and hedging activities continued

## Derivatives designated as hedging instruments

## Cash flow hedges

## Commodity price risk

The Group enters into commodity swap contracts to reduce the volatility attributable to price fluctuations of aluminium and gas. To the extent they continue to meet the criteria for hedge accounting, the commodity forward contracts are accounted for as cash flow hedges.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the commodity swap contracts match the terms of the expected highly probable forecast transactions (i.e. notional amount and expected payment date). As all critical terms matched during the year, hedge ineffectiveness was immaterial. The hedge ratio is 1:1.

## Interest rate risk

The Group enters into interest rate swaps to swap a portion of the interest arising from the Group's syndicated rolling credit facility from floating to fixed. Interest payments are highly probable, the hedged risk is the change in the market interest rate. The hedged items are the interest rate cash flows on \$100.0m of USD denominated debt and €120.0m of EUR denominated debt, the Group's total debt is shown in Note 19 to the financial statements.

The principal terms (notional, reset date, tenor) of the hedged items and the hedged instruments have been matched along with the contractual interest cash flows, therefore creating an exact offset for these transaction resulting in a net fixed interest payable. As the interest rate swaps and the hedged items are matched (equal and opposite terms of interest rate, date and maturity) this results in a designated hedge ratio of 1:1 or 100%.

Hedge ineffectiveness can arise from:

- Changes in timing of the hedged item
- A reduction in the amount of the hedged item considered to be highly probable
- A change in the credit risk of Elementis or the counterparty to the derivative contract
- Foreign currency basis spreads

The effect of cash flow hedges in the consolidated income statement and the consolidated statement of other comprehensive income is, as follows:

	Total hedging (loss)/ gain recognised in OCI \$m	Amount reclassified from OCI to profit or loss \$m	Amount reclassified from OCI to the Balance Sheet \$m	Line item in the statement of profit or loss \$m
<b>Year ended 31 December 2021</b>				
Interest rate swaps – cash flow hedges	(0.1)	2.4	–	Finance costs
Nickel forward contracts – cash flow hedges	(1.2)	0.3	–	Revenue
Aluminium forward contracts – cash flow hedges	1.2	–	(2.3)	Inventory
<b>Year ended 31 December 2020</b>				
Interest rate swaps – cash flow hedges	(2.5)	0.5	–	Finance costs
Commodity forward contracts – cash flow hedges	1.1	0.4	–	Cost of sales

Amounts reclassified from other comprehensive income to profit or loss are due to the hedged item affecting profit or loss in the period. There were no instances of non-occurrence of hedged cashflows in either the current or comparative period.

## IBOR reform

The Group adopted the 'Interest rate benchmark reform – Phase 1' amendments in the prior financial year. These allow the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest rate benchmark reforms. The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows. Phase 1 temporary relief is expected to cease, on a hedge-by-hedge basis, when the designated hedge relationship is amended and application of Phase 2 reliefs begins.

None of the Group's current USD LIBOR linked contracts include adequate and robust fallback provisions for a cessation of the referenced benchmark interest rate. The Group is monitoring the market and the output from various industry working groups managing the transition to new benchmark interest rates, and will look to implement fallback language for different instruments when appropriate.

Details of the hedging relationships for which the Group has applied the 'Interest rate benchmark reform – Phase 1' amendments are given below.

Hedging instrument	Notional	Asset \$m	Liability \$m	Interest rate benchmark
USD Interest rate swaps – cash flow hedges	\$100m	–	(0.8)	USD-3m- LIBOR

**Hedge of net investments in foreign operations**

The Group seeks to denominate the currency of its borrowings in Euros and US dollars in order to match the currency of its cash flows, earnings and assets which are principally denominated in those currencies.

The Euro and US dollar borrowings in Elementis Holdings Limited, are designated as net investment hedges, as the company's functional currency is GBP. The Group does not undertake derivative transactions to hedge the foreign currency translation exposures.

The Group analyses the Euro and US dollar net assets by subsidiary and the foreign currency borrowings in the name of Elementis Holdings Limited are allocated against certain tranches of net assets for a specific subsidiary. Therefore, the critical terms of the Euro and US dollar borrowings and their corresponding hedged items are the same.

The Group performs a qualitative assessment of effectiveness and it is expected that the value of the Euro and US dollar borrowings in GBP and the value of the corresponding hedged items in GBP will systematically move in the opposite direction in response to movements in the underlying exchange rates.

The main source of ineffectiveness in these hedging relationships is the impact of a decline in the carrying value of the hedged item compared to the Euro and US dollar borrowings with the result that the value of the hedged item is less than the value of hedging instrument.

Foreign currency revaluation on the Euro and US dollar borrowings in the name of Elementis Holdings Limited are recorded in other comprehensive income and deferred in the foreign currency translation reserve on the balance sheet as long as the hedge is effective. Any ineffectiveness is recognised in the Income Statement for that year.

The impact of the hedged items on the statement of comprehensive income is as follows:

	2021 Foreign currency translation reserve \$m	2020 Foreign currency translation reserve \$m
<b>Year ended 31 December</b>		
Net investment in foreign subsidiaries	(29.1)	25.0

**Impact of hedging on equity**

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Cash flow hedge reserve \$m	Foreign currency translation reserve \$m
<b>As at 1 January 2020</b>	(8.4)	(69.0)
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	(1.4)	-
Amount reclassified to profit or loss	0.9	(0.2)
Foreign currency revaluation of the net foreign operations	-	25.0
Foreign currency revaluation of borrowings	-	(3.6)
Foreign currency revaluation of pension scheme actuarial movements	-	(1.1)
<b>As at 1 January 2021</b>	(8.9)	(48.9)
Effective portion of changes in fair value arising from:		
Derivative cash flow hedging instruments	(0.1)	-
Amount reclassified to profit or loss	2.7	(0.4)
Amount reclassified to net assets	(2.3)	-
Foreign currency revaluation of the net foreign operations	-	(29.1)
Foreign currency revaluation of borrowings	-	10.7
Foreign currency revaluation of pension scheme actuarial movements	-	-
<b>As at 31 December 2021</b>	(8.6)	(67.7)

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## Notes to the consolidated financial statements continued

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**23. Financial risk management****Risk management objectives**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- 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 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. The Group's Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

**Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which customers operate, has less influence on credit risk. No single customer accounts for a significant proportion of the Group's revenue.

Each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available, and in some cases bank references. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the Board of Directors. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group applies the IFRS 9 simplified approach in establishing an allowance for expected credit losses (ECLs). Therefore, the Group does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. A provision matrix is used to calculate lifetime ECLs which takes into account the Group's historical credit loss experience adjusted for historical conditions that are not relevant to future cashflows and forward looking factors specific to the debtor and economic environment.

**Investments**

The Group limits its exposure to credit risk through a treasury policy that imposes graduated limits on the amount of funds that can be deposited with counterparties by reference to the counterparties' credit ratings, as defined by Standard & Poor's or Moody's. Management does not expect any counterparty to fail to meet its obligations.

**Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2021 \$m	2020 \$m
Trade receivables	110.6	86.4
Cash and cash equivalents	84.6	111.0
	<b>195.2</b>	<b>197.4</b>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
	2021 \$m	2020 \$m
North America	36.3	27.7
Europe	39.5	29.9
Rest of the World	34.8	28.8
	110.6	86.4

### Expected credit losses

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

	Gross 2021 \$m	Expected credit loss rate	Expected credit loss 2021 \$m	Gross 2020 \$m	Expected credit loss rate	Expected credit loss 2020 \$m
Not past due	97.7	0.1%	(0.1)	78.1	0.8%	(0.6)
Past due 0-30 days	9.3	0.0%	-	8.2	0.0%	-
Past due 31-120 days	2.6	0.0%	-	0.9	66.7%	(0.6)
Past due > 121 days	2.6	62.0%	(1.6)	1.0	60.0%	(0.6)
Total	112.2		(1.7)	88.2		(1.8)

The movement in the allowance for expected credit losses during the year was as follows:

	2021 \$m	2020 \$m
Balance at 1 January	1.8	2.4
Released to income statement – administrative expenses	-	(0.6)
Amounts written off	(0.1)	-
Balance at 31 December	1.7	1.8

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group's funding policy is to have committed borrowings in place to cover at least 125% of the maximum forecast net borrowings for the next 12 month period. At the year end the Group had \$330.3m (2020: \$314.1m) of undrawn committed facilities, of which \$295.0m (2020: \$280.0m) expires after more than 1 year. In addition, some suppliers have access to utilise the Group's supplier finance programmes, which are provided by the Group's banks. The net balance outstanding on these arrangements totalled \$6.1m (2020: \$4.9m) at the end of the period. There is no cost to the Group for providing these programmes as the cost is borne by the suppliers. These programmes allow suppliers to choose whether they want to accelerate the payment of their invoices, by the financing banks, at a low interest cost.

### Exposure to liquidity risk

The maturity analyses for financial liabilities showing the anticipated remaining contractual undiscounted cash flows, including future interest payments, at current year exchange rates and assuming floating interest rates remain at the latest fixing rates are:

	31 December 2021				Total \$m
	Within 1 year \$m	1 to 2 years \$m	2 to 5 years \$m	After 5 years \$m	
Bank overdrafts	-	-	-	-	-
Secured bank loan	12.4	405.4	93.8	-	511.6
Trade and other payables	161.0	-	-	-	161.0
Lease liabilities	6.4	4.8	12.1	26.5	49.8
<b>Total non-derivative financial liabilities</b>	<b>179.8</b>	<b>410.2</b>	<b>105.9</b>	<b>26.5</b>	<b>722.4</b>
Interest rate swaps	0.9	-	-	-	0.9
Commodity swap contracts	0.4	0.1	-	-	0.5
Cross currency swaps – outflow	-	113.7	-	-	113.7
Cross currency swaps – inflow	(1.4)	(110.8)	-	-	(112.3)
<b>Total derivative financial liabilities</b>	<b>(0.1)</b>	<b>2.9</b>	<b>-</b>	<b>-</b>	<b>2.8</b>

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## 23. Financial risk management continued

	31 December 2020				
	Within 1 year \$m	1 to 2 years \$m	2 to 5 years \$m	After 5 years \$m	Total \$m
Bank overdrafts	3.7	–	–	–	3.7
Secured bank loan	14.9	14.9	532.9	–	562.7
Trade and other payables	132.6	–	–	–	132.6
Lease liabilities	7.2	5.8	12.7	30.2	55.9
<b>Total non-derivative financial liabilities</b>	<b>158.4</b>	<b>20.7</b>	<b>545.6</b>	<b>30.2</b>	<b>754.9</b>
Interest rate swaps*	2.6	–	–	–	2.6
Cross currency swaps – outflow	–	–	122.4	–	122.4
Cross currency swaps – inflow	(1.6)	(1.6)	(111.0)	–	(114.2)
<b>Total derivative financial liabilities</b>	<b>1.0</b>	<b>(1.6)</b>	<b>11.4</b>	<b>–</b>	<b>10.8</b>

\* Assumes no change in interest rates from those prevailing at the balance sheet date.

## Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Group uses derivatives in the ordinary course of business, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board.

## Market risk – currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a foreign currency other than the respective functional currencies of Group entities, primarily the US dollar and the euro. The Group hedges up to 100% of current and forecast trade receivables and trade payables denominated in a foreign currency. The Group uses forward exchange contracts to hedge its currency risk, with a maturity of less than one year from the reporting date.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily US dollar, but also euro and pounds sterling. This provides an economic hedge in instances where hedging derivatives are not entered into. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short term imbalances.

The Group's net investment in overseas subsidiaries creates exposure to foreign exchange fluctuations. The risk is hedged by US dollar and euro denominated drawdowns under the syndicated facility designated as the hedged item in net investment hedge relationships. This mitigates the currency risk arising from the retranslation of a subsidiary's net assets into pounds sterling, the functional currency of the ultimate parent Elementis plc.

## Currency risk sensitivity analysis

The following table illustrates the effect on the income statement and items that are recognised directly in equity that would result from a 10% strengthening of US dollar against the following currencies, before the effect of tax. The analysis covers only financial assets and liabilities held at the balance sheet date and assumes that all other variables, in particular interest rates, remain constant.

	2021		2020	
	Income statement \$m	Equity \$m	Income statement \$m	Equity \$m
Gain/(loss) from US Dollar strengthening 10% against Euro	0.3	0.2	0.5	0.6
Gain/(loss) from US Dollar strengthening 10% against Sterling	0.1	(26.4)	(0.9)	(28.9)

## Market risk – interest rate

The Group's policy is to borrow at both fixed and floating interest rates and to use interest rate swaps to generate the required interest profile. These interest swaps are designated within cashflow hedging relationships with the interest payments on the borrowings they are hedging. The risk being hedged is the exposure of the Group to market rate volatility on a portion of the core Group debt. The Group policy does not require that a specific proportion of the Group's borrowings are at fixed rates of interest.

**Interest rate sensitivity analysis**

A change of 100 basis points (1%) in interest rates would have impacted profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2021		2020	
	100bps increase \$m	100bps decrease \$m	100bps increase \$m	100bps decrease \$m
Variable rate instruments – (loss)/gain	(2.1)	4.9	(2.4)	1.2

**Market risk – commodity price risk**

The group is exposed to movements in the prices of commodities it purchases and sells such as aluminium and nickel. The volatility in the prices of these commodities has led to the decision to enter into commodity swap contracts. The swap contracts do not result in physical delivery, but are designated as cash flow hedges to offset the effect of price changes.

**Commodity price sensitivity analysis**

The following table details the Group's sensitivity to a 10% increase in aluminium prices, which is management's assessment of the reasonably possible change, on average, over any given year. In 2021 and 2020 the Group's aluminium purchases were fully hedged and all aluminium swap derivatives achieved hedge accounting, there was no impact on profit or loss.

The table does not show the sensitivity to the Group's total commodity exposure or the impact of changes in volumes that may arise from increase or decrease in the respective commodity prices. The sensitivity analysis determines the potential effect on profit or loss and equity arising from the Group's aluminium swap contract positions as a result of the reasonably possible increases or decreases of the respective aluminium price.

	Effect on profit before tax \$m	2021 impact on total equity \$m	Effect on profit before tax \$m	2020 impact on total equity \$m
10% increase in aluminium prices	-	-	-	-

**Other market price risk**

Equity price risk arises from equity securities held within the Group's defined benefit pension obligations. In respect of the US schemes, management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Group's investment strategy is to maximise investment returns, without excessive risk taking. In order to meet partially the Group's unfunded benefit obligations; management is assisted by external advisers in this regard. In respect of the UK scheme, the investment strategy is set by the trustees and the Board is kept informed.

**Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence, sustain future development of the business and maximise shareholder value. The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent comprising capital, reserves and retained earnings.

The Group utilises a mix of debt funding sources including term loans and revolving credit facilities (RCF) from the Group's syndicated borrowing facility with differing maturities to ensure continuity and provide flexibility. The group is subject to two financial covenants which apply to the Group's syndicated borrowing facility. Following the covenant relaxations granted during 2020 the group is required to maintain a ratio of net debt to EBITDA (pre IFRS 16) of less than 3.75x for all measurement points up to and including 31 December 2021 and less than 3.25x for all periods thereafter and a minimum net interest cover of 3.0x (in relation to earnings before net interest expense and tax). The Net debt to EBITDA ratio stood at 2.6x times at 31 December 2021 (2020: 3.2x) and the Directors anticipate the strong cash generation of the Enlarged Group to drive a material deleveraging profile going forwards, with leverage reducing to a net debt to EBITDA ratio of around 1.5x in the medium term. Net interest cover at 31 December 2021 was 4.8x (2020: 3.7x).

The Board monitors the adjusted return on operating capital employed (ROCE) both including and excluding goodwill, as defined on page 184. The Group's target is to achieve an adjusted ROCE (including goodwill) in excess of our weighted average cost of capital.

The dividend policy is set out in the Chairman's statement on page 7.

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**24. Leases****Group as Lessee**

The Group has lease contracts for various items of property, plant, machinery, vehicles and other equipment used in its operations. Disclosures in relation to Right of Use Assets are included within Note 11 – Property, plant and equipment.

The Group also has certain leases with lease terms of 12 months or less and leases of low-value assets to which the Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions.

The weighted average incremental borrowing rate applied to lease liabilities is 3% (2020: 4%).

The following are the amounts recognised in profit or loss:

	2021 \$m	2020 \$m
Depreciation expense on right-of-use assets	5.0	5.2
Interest expense on lease liabilities	1.6	1.7
Expense related to short-term leases and low-value assets	0.8	1.0
Expense relating to variable lease payments not included in lease liabilities	0.9	0.9

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2021 \$m	2020 \$m
As at 1 January	44.4	46.9
Additions	2.0	1.4
Disposals	(0.1)	–
Interest expense	1.6	1.7
Payments	(6.7)	(6.7)
Foreign exchange movements	(1.0)	1.1
<b>As at 31 December</b>	<b>40.2</b>	<b>44.4</b>

The maturity analysis of lease liabilities is as follows:

	2021 \$m	2020 \$m
Within one year	6.4	7.2
In the second to fifth years inclusive	15.2	16.5
After five years	18.6	20.7
	<b>40.2</b>	<b>44.4</b>

**25. Retirement benefit obligations**

The Group has a number of contributory and non-contributory post retirement benefit plans providing retirement benefits for the majority of employees and Executive Directors. At 31 December 2021 the main schemes in the UK and US were of the defined benefit type, the benefit being based on number of years of service and either the employee's final remuneration or the employee's average remuneration during a period of years before retirement. The assets of these schemes are held in separate trustee administered funds or are unfunded but provided for on the Group balance sheet.

The UK defined benefit scheme had a surplus under IAS 19 of \$56.6m (2020: \$7.9m). In accordance with the requirements of IFRIC 14 management have concluded that the right to reduce the minimum funding contributions when the deficit falls below \$10.4m in conjunction with the unconditional right to a refund of any surplus under any winding up of the plan provides sufficient evidence that an asset ceiling does not exist and as such the full surplus has been recognised.

In addition the Group operates an unfunded post retirement medical benefit (PRMB) scheme in the US. The entitlement to these benefits is usually based on the employee remaining in service until retirement age and completion of a minimum service period.

Other employee benefit schemes included in the table overleaf relate to two unfunded pension schemes, a long term service award scheme in Germany and a special benefits programme for a small number of former employees of the Eaglescliffe plant. The Group also acquired two further unfunded pension schemes and two long term service award schemes all in Germany as part of the SummitReheis acquisition in 2017. These are included within this category.

The Group also operates a small number of defined contribution schemes and the contributions payable during the year are recognised as incurred. The pension charge for the defined contribution pension schemes for the year is \$6.2m (2020: \$3.1m).

**Net defined benefit liability**

The net liability was as follows:

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
<b>2021</b>					
Total market value of assets	774.9	130.1	-	-	905.0
Present value of scheme liabilities	(718.3)	(131.8)	(6.6)	(9.0)	(865.7)
Net asset/(liability) recognised in the balance sheet	56.6	(1.7)	(6.6)	(9.0)	39.3
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
<b>2020</b>					
Total market value of assets	788.9	130.7	-	-	919.6
Present value of scheme liabilities	(781.0)	(142.5)	(6.5)	(9.8)	(939.8)
Net asset/(liability) recognised in the balance sheet	7.9	(11.8)	(6.5)	(9.8)	(20.2)

Employer contributions in 2021 were \$0.7m (2020: \$nil) to the UK scheme and \$1.0m (2020: \$0.8m) to US schemes. Top up contributions to the UK scheme in 2022 will be \$0.7m based on the 2020 triennial valuation. Expected contributions to the US schemes in the next year are \$0.6m.

**Movement in net defined benefit liability**

The following table shows a reconciliation from the opening balances to the closing balances for the net defined benefit liability and its components.

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
<b>2021</b>					
Balance at 1 January	7.9	(11.8)	(6.5)	(9.8)	(20.2)
Liabilities assumed as part of the acquisition of ICL Laboratories	-	-	-	(0.7)	(0.7)
<b>Included in profit or loss</b>					
Current service cost	(0.7)	(0.8)	(0.1)	(0.3)	(1.9)
Past service cost	-	-	-	-	-
Running costs	(1.7)	(0.4)	-	-	(2.1)
Net interest income/(expense)	0.1	(0.2)	(0.2)	(0.1)	(0.4)
	(2.3)	(1.4)	(0.3)	(0.4)	(4.4)
<b>Included in other comprehensive income</b>					
Re-measurements:					
Return on plan assets excluding interest income	24.9	4.4	-	-	29.3
Actuarial gains arising from demographic assumptions	11.1	(0.4)	-	-	10.7
Actuarial losses arising from financial assumptions	2.0	5.9	(0.5)	1.1	8.5
Actuarial (losses)/gains arising from experience adjustment	14.0	1.1	0.2	(0.2)	15.1
Exchange differences	(1.6)	-	-	0.7	(0.9)
	50.4	11.0	(0.3)	1.6	62.6
<b>Contributions:</b>					
Employers	0.6	0.5	0.5	0.3	1.9
<b>Surplus / (deficit) in schemes at 31 December</b>	<b>56.6</b>	<b>(1.7)</b>	<b>(6.6)</b>	<b>(9.0)</b>	<b>39.3</b>



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## 25. Retirement benefit obligations continued

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Other \$m	Total \$m
<b>2020</b>					
Balance at 1 January	7.4	(9.9)	(6.0)	(8.6)	(17.1)
<b>Included in profit or loss</b>					
Current service cost	(0.6)	(0.8)	(0.1)	0.1	(1.4)
Past service cost	–	(1.1)	–	–	(1.1)
Running costs	(1.2)	(0.4)	–	–	(1.6)
Net interest income/(expense)	0.1	(0.3)	(0.1)	(0.1)	(0.4)
	(1.7)	(2.6)	(0.2)	–	(4.5)
<b>Included in other comprehensive income</b>					
Re-measurements:					
Return on plan assets excluding interest income	61.6	12.3	–	–	73.9
Actuarial gains arising from demographic assumptions	–	0.3	–	–	0.3
Actuarial gains arising from financial assumptions	(65.4)	(11.9)	(0.4)	(0.6)	(78.3)
Actuarial losses arising from experience adjustment	5.9	(0.4)	(0.3)	(0.3)	4.9
Exchange differences	0.1	–	–	(0.8)	(0.7)
	2.2	0.3	(0.7)	(1.7)	0.1
<b>Contributions:</b>					
Employers	–	0.4	0.4	0.5	1.3
<b>Surplus / (deficit) in schemes at 31 December</b>	<b>7.9</b>	<b>(11.8)</b>	<b>(6.5)</b>	<b>(9.8)</b>	<b>(20.2)</b>

## Plan assets

Plan assets comprise:

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
<b>2021</b>				
Equities	231.7	45.8	–	277.5
Bonds*	466.0	14.0	–	480.0
Cash/liquidity funds	77.2	70.3	–	147.5
	<b>774.9</b>	<b>130.1</b>	<b>–</b>	<b>905.0</b>
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
<b>2020</b>				
Equities	289.1	56.1	–	345.2
Bonds*	436.9	13.8	–	450.7
Cash/liquidity funds	62.9	60.8	–	123.7
	<b>788.9</b>	<b>130.7</b>	<b>–</b>	<b>919.6</b>

\* Including LDI repurchase agreement liabilities.

To reduce volatility risk a liability driven investment (LDI) strategy forms part of the Trustees' management of the UK defined benefit scheme's assets, including government bonds, corporate bonds and derivatives. The bond assets category in the table above includes gross assets of \$778.2m (2020: \$845.3m) and associated repurchase agreement liabilities of \$312.2m (2020: \$408.4m). Repurchase agreements are entered into with counterparties to better offset the scheme's exposure to interest and inflation rates, whilst remaining invested in assets of a similar risk profile. Interest rate and inflation rate derivatives are also employed to complement the use of fixed and indexed linked bonds in matching the profile of the scheme's liabilities.

All equities, bonds and liquidity funds have quoted prices in active markets. Other assets include insured annuities, an insurance fund and various swap products.

Within the UK pension scheme, the current asset allocation is approximately 43% in a liability matching fund consisting of gilts (fixed interest and index linked), bonds, cash and swaps, 17% in a buy and maintain fund and 40% in an investment fund that includes various equity and equity like funds. The aim of the trustees is to manage the risk relative to the liabilities associated with the scheme's investments through a combination of diversification, inflation protection and hedging of risk (currency, interest rate and inflation risk). The US scheme currently has approximately 35% of its asset value invested in a range of equity funds designed to target higher returns and thus reduce the pension deficit, with the balance invested in fixed income bonds and cash. The strategy is that as the deficit reduces, a greater proportion of investments will be made into liability matching funds. Changes in the fair value of plan assets for the major schemes are as follows:

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
<b>2021</b>				
Opening fair value of plan assets	788.9	130.7	-	919.6
Expected return	10.1	2.8	-	12.9
Running costs	(1.7)	(0.4)	-	(2.1)
Actuarial gains	24.9	4.4	-	29.3
Contributions by employer	0.6	0.5	-	1.1
Contributions by employees	0.1	0.1	-	0.2
Benefits paid	(40.7)	(8.0)	-	(48.7)
Exchange differences	(7.3)	-	-	(7.3)
Closing fair value of plan assets	774.9	130.1	-	905.0
	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
<b>2020</b>				
Opening fair value of plan assets	724.2	122.5	-	846.7
Expected return	13.6	3.5	-	17.1
Running costs	(1.2)	(0.4)	-	(1.6)
Actuarial gains	61.6	12.3	-	73.9
Contributions by employer	-	0.5	-	0.5
Contributions by employees	0.1	-	-	0.1
Benefits paid	(35.2)	(7.7)	-	(42.9)
Exchange differences	25.8	-	-	25.8
Closing fair value of plan assets	788.9	130.7	-	919.6

### Defined benefit obligation

Changes in the present value of the defined benefit obligation for the major schemes are as follows:

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
<b>2021</b>				
Opening defined benefit obligation	(781.0)	(142.5)	(6.5)	(930.0)
Service cost	(0.7)	(0.8)	(0.1)	(1.6)
Past service cost	-	-	-	-
Interest cost	(10.0)	(3.0)	(0.2)	(13.2)
Contributions by employees	(0.1)	(0.1)	-	(0.2)
Actuarial gains/(losses)				
- demographic assumptions	11.1	(0.4)	-	10.7
- financial assumptions	2.0	5.9	(0.5)	7.4
- experience adjustments	14.0	1.1	0.2	15.3
Benefits paid	40.7	8.0	0.5	49.2
Exchange differences	5.7	-	-	5.7
Closing defined benefit obligation	(718.3)	(131.8)	(6.6)	(856.7)

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## 25. Retirement benefit obligations continued

	UK pension scheme \$m	US pension schemes \$m	US PRMB scheme \$m	Total \$m
<b>2020</b>				
Opening defined benefit obligation	(716.8)	(132.4)	(6.0)	(855.2)
Service cost	(0.6)	(0.8)	(0.1)	(1.5)
Past service cost	–	(1.1)	–	(1.1)
Interest cost	(13.5)	(3.9)	(0.1)	(17.5)
Contributions by employees	(0.1)	–	–	(0.1)
Actuarial gains/(losses)				
– demographic assumptions	–	0.3	–	0.3
– financial assumptions	(65.4)	(11.9)	(0.5)	(77.8)
– experience adjustments	5.9	(0.4)	(0.3)	5.2
Benefits paid	35.2	7.7	0.5	43.4
Exchange differences	(25.7)	–	–	(25.7)
Closing defined benefit obligation	(781.0)	(142.5)	(6.5)	(930.0)

## Actuarial assumptions

A full actuarial valuation was carried out on 30 September 2020 for the UK scheme and at 31 December 2015 for the US schemes.

The principal assumptions used by the actuaries for the major schemes have been updated by the actuaries at the balance sheet date and were as follows:

	UK %	US %
<b>2021</b>		
Rate of increase in salaries	4.6	3.0
Rate of increase in pensions in payment	3.4	N/A
Discount rate	1.8	2.6
Inflation	3.6	2.3
<b>2020</b>		
Rate of increase in salaries	3.9	3.0
Rate of increase in pensions in payment	2.9	N/A
Discount rate	1.3	2.2
Inflation	2.9	2.3

The assumed life expectancies on retirement are:

	UK		US	
	2021 years	2020 years	2021 years	2020 years
<b>Retiring at 31 December</b>				
Males	22	22	21	20
Females	24	24	22	22
<b>Retiring in 20 years</b>				
Males	23	24	21	21
Females	26	26	23	23

The main assumptions for the PRMB scheme are a discount rate of 2.6% (2020: 2.2%) per annum and a health care cost trend of 5.7% (2020: 6.4%) per annum for claims pre age 65 reducing to 4.4% per annum by 2028 (2020: 4.4%). Actuarial valuations of retirement benefit plans in other jurisdictions have either not been updated for IAS 19 purposes or disclosed separately because of the costs involved and the considerably smaller scheme sizes and numbers of employees involved.

At 31 December 2021, the weighted average duration of the defined benefit obligations for the major schemes was as follows:

UK: 13 years

US: 10 years.

## Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on UK scheme	Impact on US scheme
Discount rate	Increased/decreased by 0.5%	Decreased/increased by 7%	Decreased/increased by 5%
Rate of inflation	Increased/decreased by 0.5%	Increased/decreased by 4%	Increased/decreased by 0%
Rate of salary growth	Increased/decreased by 0.5%	Increased/decreased by 0%	Increased/decreased by 0%
Rate of mortality	Increased by 1 year	Increased by 5%	Increased by 4%

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. These sensitivities have been calculated to show the movement of the defined obligation following a change in a particular assumption in isolation, assuming no other changes in market conditions.

## 26. Share based payments

The Group maintains a number of active share option and award plans and schemes for its employees. These are as follows:

### Savings-related options

Options are granted under the tax-advantaged Save As You Earn (SAYE) share option scheme in the UK. The SAYE allows UK-based eligible employees to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. Options are normally exercisable during the six month period following either the third or fifth anniversary of the start of the relevant savings contract. Savings contracts are subject to the statutory savings limit of £500 per month.

US-based employees can enter into a similar share save scheme (Share Save). Employees can enter into two year savings contracts saving up to a maximum of \$2,000 per month, allowing eligible employees to acquire options over the Company's shares at a discount of up to 15% of their market value at the date of grant.

### Long-term incentive plan (LTIP) awards

The LTIP is a discretionary employee share scheme for Executive Directors and senior managers. The vesting of the awards are subject to performance conditions over a three year period at the discretion of the Remuneration Committee. The performance conditions of the LTIP are detailed in the Remuneration Report on pages 92 and 93. As approved at the 2018 AGM, restricted shares (i.e. shares that vest based on time only) are awarded to participants below Board level. Shadow LTIPs are in place for senior managers based in China and Malaysia.

### Deferred share bonus plan (DSBP) awards

The DSBP operates exclusively for the Executive Directors. Under this scheme, 50% of any cash bonus payable is awarded in shares and deferred for two years. There are no other performance conditions other than continued employment.

### Legacy Schemes

Prior to the introduction of the LTIP for senior managers, certain employees participated in the Executive Share Option Scheme ('ESOS'). The ESOS which (except for outstanding awards which will run their course) has been discontinued. The Company operated shadow ESOS for a number of senior managers, who were employed or based in China or Malaysia.

Options were valued (as shown in the table below) using the binomial option pricing model. The fair value per option granted and the assumptions used in the calculations are as follows:

	2021	2020
Fair value per option (pence)	114.6	38.0
Expected volatility (%)	64	59
Risk free rate (%)	0.2	0.0
Expected dividend yield (%)	4.3	4.3

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous five years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The Group recognised total expenses of \$5.1m (2020: \$3.5m) related to share based payment transactions during the year.

## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 26. Share based payments continued

At 31 December 2021 the following options/awards to subscribe for ordinary shares were outstanding:

Year of grant	Exercise price (p) <sup>1</sup>	Exercisable		At 1 January 2021 '000	Granted '000	Exercised '000	Expired '000	At 31 December 2021 '000
		From	To					
<b>UK savings related share option scheme</b>								
2017	207.40	01/10/20	01/04/21	11	–	–	11	–
2018	163.91	01/01/22	01/07/22	29	–	–	9	21
2019	121.33	01/11/22	01/05/23	21	–	–	3	18
2019	121.33	01/11/24	04/05/25	–	–	–	–	–
2020	58.00	01/11/23	01/05/24	941	–	9	28	904
2020	58.00	01/11/25	01/05/26	52	–	10	41	–
2021	117.00	01/11/24	01/05/25	70	–	–	–	70
				1,124	–	20	91	1,013
<b>US savings related share option scheme</b>								
2018	160.14	05/12/20	05/03/21	195	–	–	195	–
2019	133.96	11/09/21	11/12/21	260	–	74	186	–
2020	63.11	16/09/22	16/12/22	1,372	–	–	92	1,280
2021	133.71	15/09/23	15/12/23	123	–	–	5	118
				1,950	–	74	478	1,398
<b>Executive share option schemes/ awards granted under the LTIP<sup>a</sup></b>								
2010	52.16	06/04/13	06/04/20	–	–	–	–	–
2011 <sup>*</sup>	137.18	04/04/14	04/04/21	83	–	–	83	–
2012 <sup>**</sup>	177.81	27/06/15	27/06/22	238	–	–	–	238
2015	290.20	01/04/18	01/04/25	16	–	–	–	16
2015	Nil	27/04/18	27/04/25	7	–	–	–	7
2016	218.17	04/04/19	04/04/26	21	–	–	–	21
2017 <sup>a</sup>	Nil	07/03/17	07/03/27	92	–	–	–	92
2017 <sup>a</sup>	Nil	07/03/19	07/03/27	7	–	–	–	7
2017 <sup>c</sup>	Nil	07/03/20	07/03/27	17	–	–	–	17
2017 <sup>a</sup>	264.66	03/04/20	03/04/27	31	–	–	–	31
2017 <sup>**</sup>	Nil	03/04/20	03/04/27	–	–	–	–	–
2018 <sup>a</sup>	Nil	05/03/20	05/03/28	73	–	–	–	73
2018 <sup>i</sup>	Nil	30/04/21	30/04/21	550	–	546	4	–
2018 <sup>i</sup>	Nil	30/04/21	30/04/28	1,194	–	–	1,194	–
2018	Nil	27/06/21	27/06/21	7	–	7	–	–
2018	Nil	29/10/21	29/10/21	36	–	36	–	–
2018	Nil	21/12/21	21/12/21	–	–	–	–	–
2018	Nil	21/12/21	21/12/21	361	–	305	56	–
2019	Nil	03/01/21	30/01/29	–	–	–	–	–
2019	Nil	03/01/22	30/01/29	124	–	–	124	–
2019	Nil	03/01/22	03/01/22	33	–	33	–	–
2019 <sup>0</sup>	Nil	06/03/21	06/03/21	110	–	110	–	–
2019 <sup>a</sup>	Nil	06/03/21	06/03/29	49	–	–	–	49
2019 <sup>**</sup>	Nil	01/04/22	01/04/29	2,273	–	–	36	2,237
2019 <sup>**</sup>	Nil	01/04/22	01/04/22	1,069	–	24	36	1,009
2019	Nil	01/04/22	01/04/22	5	–	–	2	3
2019	Nil	19/10/22	19/10/22	16	–	–	–	16
2020	Nil	04/01/23	04/01/23	20	–	–	–	20
2020 <sup>0</sup>	Nil	05/03/23	05/03/23	188	–	–	–	188
2020 <sup>a</sup>	Nil	05/03/23	05/03/30	76	–	–	–	76
2020 <sup>**</sup>	Nil	07/04/23	07/04/30	5,085	–	–	229	4,856
2020	Nil	07/04/22	07/04/22	106	–	–	–	106
2020 <sup>**</sup>	Nil	07/04/23	07/04/23	2,720	–	–	–	2,460
2020 <sup>**</sup>	Nil	03/08/23	03/08/23	178	–	–	18	160
2020	Nil	11/09/23	11/09/23	16	–	–	–	16

2020**	Nil	30/12/23	30/12/23	137	-	-	-	137
2021*	Nil	06/04/24	06/04/31	-	2,696	-	-	2,696
2021*	Nil	06/04/24	06/04/31	-	1,545	-	-	1,545
2021	Nil	07/04/24	24/05/31	-	13	-	-	13
2021	Nil	06/04/24	16/08/31	-	20	-	-	20
2021	Nil	06/04/24	01/09/31	-	9	-	-	9
2021	Nil	06/04/24	13/09/31	-	23	-	-	23
2021*	Nil	06/04/24	01/10/31	-	159	-	-	159
2021	Nil	29/10/21	29/10/21	-	2	2	-	-
2021	Nil	06/04/24	13/12/31	-	84	-	-	84
				14,938	4,551	1,063	2,042	16,384

Footnotes to table on page 184

- 1 Where necessary option prices were adjusted for by a factor of 1.082715 to reflect the dilutive effects of the 2018 Rights Issue.
- + These options include cash settled shadow executive options granted to a number of executives on the same basis as the executive options (with the same performance conditions and exercise provisions). These shadow options are included in the calculation of the total expenses recognised by the Group related to share based payments. The closing balance of the 2011 and 2017 options shown above include no shadow options.
- Δ Awards made as one-off agreements that borrow from the terms of the LTIP.
- ? These options include cash settled shadow LTIPs granted to a number of executives on the same basis as the LTIP (with the same performance conditions and exercise provisions). These shadow LTIPs are included in the calculation of the total expenses recognised by the Group related to share based payments.
- # Conditional share award under the Deferred Share Bonus Plan.
- ~ Awards made as one-off agreements under the Deferred Share Bonus Plan (nil cost options).
- \* The closing balance of 2012, 2019, 2020 and 2021 LTIPs shown above include approximately 17,568, 52,772, 195,856 and 133,878 shadow LTIPs respectively.
- Conditional share award under the Deferred Share Bonus Plan (nil cost award, structured as restricted share units).

The weighted average remaining contractual life of the above shares outstanding at 31 December 2021 was 5.8 years (2020: 5.3 years).

The weighted average exercise prices of options disclosed in the previous table were as follows:

	2021 Average exercise price (p)	2020 Average exercise price (p)
At 1 January	17.6	44.4
Granted	-	13.0
Exercised	9.4	1.3
Expired	31.4	83.8
At 31 December	11.8	14.6
Exercisable at 31 December	111.1	114.1

The weighted average share price at the date of exercise of share options exercised during the year was 118.9 pence (2020: 32 pence). The number of exercisable options outstanding as at 31 December 2021 was 551,857 (31 December 2020: 631,868).

## 27. Related party transactions

The Company is a guarantor to the UK pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105% of its liabilities, calculated in accordance with section 179 of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund (PPF) guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

The Group consists of the Parent Company, Elementis plc, incorporated in the United Kingdom and its subsidiaries and associates. In accordance with Section 409 of the Companies Act 2006 a full list of related undertakings, the country of incorporation and the effective percentage of equity owned as at 31 December 2020 is disclosed in Note 11 to the parent company financial statements.

The remuneration of key management personnel of the Group, which is defined as the Board of Directors, is shown below:

	2021 \$m	2020 \$m
Salaries and short term employee benefits	4.2	2.1
Other long term benefits	0.3	0.3
Share based payments	1.1	0.7
	5.6	3.1

Full details of all elements of the remuneration of Directors is set out in the Directors' Remuneration report on pages 87 to 113.

## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

## 28. Movement in net borrowings

	2021 \$m	2020 \$m
Change in net cash resulting from cash flows:		
(Decrease)/increase in cash and cash equivalents	(23.6)	3.2
Decrease/(increase) in borrowings repayable within one year	3.7	(1.4)
Decrease in borrowings repayable after one year	15.0	57.7
	(4.9)	59.5
Currency translation differences	12.0	(13.4)
Decrease in net borrowings	7.1	46.1
Net borrowings at beginning of year	(408.1)	(454.2)
Net borrowings at end of year	(401.0)	(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	(17.3)	(1.1)	(18.4)	3.9	(14.5)
Business disposed (see note 32)	–	–	–	0.5	0.5
Cash flows from financing activities	56.3	5.0	61.3	(56.3)	5.0
Other movements	–	(1.4)	(1.4)	59.0	57.6
At 31 December 2020	(519.1)	(44.4)	(563.5)	111.0	(452.5)
Exchange rate adjustments	14.8	1.0	15.8	(2.8)	13.0
Business disposed (see note 32)	–	–	–	0.5	0.5
Cash flows from financing activities	18.7	5.1	23.8	(25.3)	(1.5)
Other movements	–	(1.9)	(1.9)	1.2	(0.7)
At 31 December 2021	(485.6)	(40.2)	(525.8)	84.6	(441.2)

## 29. Dividends

An interim dividend was not paid in 2021 (2020: nil) and the Group is not proposing a final dividend (2020: nil) for the year ended 31 December 2021. The total dividend for the year is nil cents per share (2020: nil).

The amount payable for the final dividend is \$nil.

	2021			2020		
	Interim	Final	Full-year	Interim	Final	Full-year
Dividend per share (cents)	–	–	–	–	–	–

## 30. 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.

The Group has not received any notice of litigation relating to events arising prior to the balance sheet date that is expected to lead to a material exposure.

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 31 December 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. The UK Government's appeal against the European Commission's decision was heard by the General Court of the European Union during October 2021 with a decision expected during 2022.

### 31. Events after the balance sheet date

There were no significant events after the balance sheet date.

### 32. Business exits

On 21 June the Group disposed of Eisenbacher Dentalwaren ED GmbH and Adentatec GmbH, the dental alloys businesses located in Würth am Main, 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:

	Year ended 31 December 2021 \$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 tax	0.3
Attributable tax expense	-
Net profit	0.3

Revenue includes \$nil related to inter-segment sales in 2021 (2020: \$nil). Net cash outflow on disposal of \$0.7m comprised consideration received of \$5.7m less cash disposed of \$3.4m and disposal costs of \$1.6m.

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

	Year ended 31 December 2021 \$m
Consideration received	5.7
Net assets disposed of (see table below)	(6.2)
Disposal costs	(1.6)
Recycling of deferred foreign exchange gains	0.4
Loss on disposal	(1.7)

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

	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

### 2020 Business exits

On 30 November 2020 the Group disposed of Elementis Specialties (Changxing) Ltd for consideration of RMB 12.6m (\$1.9m).

The results of Elementis Specialties (Changxing) Ltd, which have been included in the consolidated income statement were as follows:

	Year ended 31 December 2020 \$m
Revenue	-
Expenses	-
Profit before tax	-
Attributable tax expense	-
Net profit	-



## Financial statements

## Notes to the consolidated financial statements continued

For the year ended 31 December 2021

**32. Business exits continued**

Revenue includes \$nil related to inter-segment sales in 2020. Net cash outflow on disposal of \$0.5m comprised consideration received of \$1.9m less cash disposed of \$1.3m and disposal costs of \$0.1m.

During the year, Elementis Specialties (Changxing) Ltd contributed \$nil to the Group's net operating cash flows and paid \$nil in respect of investing activities.

The Group recognised a total loss on disposal of:

	Year ended 31 December 2020 \$m
Consideration received	1.9
Net assets disposed of (see table below)	(1.7)
Disposal costs	(0.1)
Recycling of deferred foreign exchange gains	0.2
Profit on disposal	0.3

Net assets disposed of are analysed as follows:

	2020 \$m
Goodwill	–
Intangible assets	–
Property, plant and equipment	0.4
Inventories	–
Trade and other receivables	–
Cash and bank balances	1.3
Total assets	1.7
Trade and other payables	–
Pensions	–
Tax liabilities	–
Total liabilities	–
Net assets	1.7

**33. Acquisitions**

On 1 October 2021 the Group acquired a quality assurance business and associated laboratory based in Ludwigshafen, Germany for consideration of €0.15m. The assets and liabilities acquired were as follows:

	Note	Book value at acquisition \$m	Fair value adjustments \$m	Fair value of assets/(liabilities) acquired \$m
Intangible assets	10	0.1	–	0.1
Property, plant and equipment	11	0.3	–	0.3
Retirement benefit obligations	25	(0.7)	–	(0.7)
Total identifiable net liabilities acquired		(0.3)	–	(0.3)
Goodwill				0.5
Total consideration				0.2
of which:				
Consideration paid, satisfied in cash				0.2

The consideration for the acquisition has been allocated against identified net assets with the remaining balance recorded as goodwill. The goodwill recognised on acquisition reflects both the capabilities of the acquired entity's personnel and the synergistic opportunities going forward, neither of which can be allocated to an identifiable intangible asset.

## Company balance sheet

at 31 December 2021

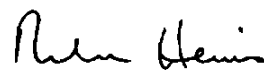
	Note	2021 £m	2020 £m
<b>Non-current assets</b>			
Investments	6	780.1	776.6
Debtors	7	12.6	–
<b>Total non-current assets</b>		<b>792.7</b>	<b>776.6</b>
Debtors	7	–	12.7
Creditors: amounts falling due within one year			
Creditors	8	(0.6)	(0.6)
<b>Net current (liabilities)/assets</b>		<b>(0.6)</b>	<b>12.1</b>
<b>Total assets less current liabilities</b>		<b>792.1</b>	<b>788.7</b>
<b>Creditors: amounts falling due after more than one year</b>			
Amounts due to subsidiary undertakings		(190.2)	(188.5)
<b>Net assets</b>		<b>601.9</b>	<b>600.2</b>
<b>Capital and reserves</b>			
Called up share capital	9	29.1	28.9
Share premium account		178.8	176.5
Capital redemption reserve	9	83.3	83.3
Other reserves		250.5	250.5
Share option reserve	9	20.7	20.4
Profit and loss account		39.5	40.6
<b>Equity shareholders' funds</b>		<b>601.9</b>	<b>600.2</b>

The Company recognised a loss for the financial year ended 31 December 2021 of £2.1m (2020: £0.3m).

The financial statements of Elementis plc, registered number 3299608, on pages 185 to 192 were approved by the Board on 3 March 2022 and signed on its behalf by:



Paul Waterman  
CEO



Ralph Hewins  
CFO

## Financial statements

Statement of changes in equity  
for the year ended 31 December 2021

	Share capital £m	Share premium £m	Capital redemption reserve £m	Other reserves £m	Share options reserve £m	Retained earnings £m	Total £m
<b>Balance at 1 January 2020</b>	<b>28.9</b>	<b>176.5</b>	<b>83.3</b>	<b>250.5</b>	<b>17.7</b>	<b>40.9</b>	<b>597.8</b>
Comprehensive income							
Loss for the year	-	-	-	-	-	(0.3)	(0.3)
Total other comprehensive loss	-	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-	(0.3)	(0.3)
Transactions with owners							
Issue of shares by the Company	-	-	-	-	-	-	-
Share based payments	-	-	-	-	2.7	-	2.7
Dividends received	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	2.7	-	2.7
<b>Balance at 31 December 2020</b>	<b>28.9</b>	<b>176.5</b>	<b>83.3</b>	<b>250.5</b>	<b>20.4</b>	<b>40.6</b>	<b>600.2</b>
<b>Balance at 1 January 2021</b>	<b>28.9</b>	<b>176.5</b>	<b>83.3</b>	<b>250.5</b>	<b>20.4</b>	<b>40.6</b>	<b>600.2</b>
Comprehensive income							
Loss for the year	-	-	-	-	-	(2.1)	(2.1)
Total other comprehensive loss	-	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-	(2.1)	(2.1)
Transactions with owners							
Issue of shares by the Company	0.2	2.3	-	-	(2.3)	-	0.2
Share based payments	-	-	-	-	3.6	-	3.6
Dividends received	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Transfer	-	-	-	-	(1.0)	1.0	-
Total transactions with owners	0.2	2.3	-	-	0.3	1.0	3.8
<b>Balance at 31 December 2021</b>	<b>29.1</b>	<b>178.8</b>	<b>83.3</b>	<b>250.5</b>	<b>20.7</b>	<b>39.5</b>	<b>601.9</b>

The Company's distributable reserves amount to £39.5m (2020: £40.6m) at the end of the period. The Company regularly reviews its distributable reserves and makes dividend recapitalisations as and when necessary to ensure it can make all expected dividend payments. The Company has sufficient subsidiary reserves to enable such recapitalisations in 2022 and going forward.

For more information on the dividend issued and the dividend per share please see Note 29 of the Group financial statements.

## Notes to the company financial statements of Elementis plc for the year ended 31 December 2021

### 1. General information

Elementis plc is a public company limited by shares and is incorporated and domiciled in England. The address of its registered office is Caroline House, 55-57 High Holborn, London, WC1V 6DX. The principal activity of the Company is to act as the ultimate holding company of the Elementis Group of companies.

### 2. Basis of preparation

The Company's financial statements have been prepared under the historical cost convention, in compliance with applicable United Kingdom accounting standards, including Financial Reporting Standard 101 – 'Reduced disclosure framework – Disclosure exemptions from EU -adopted IFRS for qualifying entities' ('FRS 101'), and with the Companies Act 2006. The Company has presented its results under FRS 101.

As a qualifying entity whose results are consolidated in the Elementis plc Consolidated financial statements on pages 128 to 174, the Company has taken advantage of the exemption under FRS 101 from preparing a statement of cashflows and associated notes, the effects of new but not yet effective IFRSs, disclosures in respect of transactions and the capital management of wholly owned subsidiaries and key management personnel compensation disclosures.

As the consolidated financial statements include equivalent disclosures, the Company has also taken the disclosure exemptions under FRS 101 in respect of group settled share-based payments under IFRS 2 Share based payment, IFRS 16 leases, disclosures required by IFRS 7 Financial Instruments Disclosures and by IFRS 13 Fair Value Measurement.

By virtue of section 408 of the Companies Act 2006 the company is exempt from presenting an income statement and disclosing employee numbers and staff costs.

As a consequence of the majority of the Company's assets, liabilities and expenses originating in UK pound sterling, the Company has chosen the UK pound sterling as its reporting currency.

### 3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 101 in these financial statements.

#### Foreign currencies

Transactions in foreign currencies are recorded at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the profit and loss account.

#### Investments

Investments in subsidiaries are included in the balance sheet at cost less accumulated impairment losses.

Potential indicators of impairment including the market capitalisation of the group dropping below the net assets of Elementis plc have been considered. The recoverable amounts of cash generating units as determined for the impairment testing of goodwill also support the recoverable amounts of the parent company's investments.

#### Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company.

#### Pensions and other post-retirement benefits

The Company participates in the Elementis Group defined benefit pension scheme. The assets of the scheme are held separately from those of the Company. Details of the latest actuarial valuation carried out in September 2017 can be found in the 2018 Elementis plc Annual report and accounts. Following the introduction of the revised reporting standard, any surplus or deficit in the Elementis Group defined benefit pension scheme is to be reported in the financial statements of Elementis UK Ltd, which employs the majority of active members of the scheme and is responsible for making deficit contributions under the current funding plan.

## Financial statements

Notes to the company financial statements of Elementis plc continued  
for the year ended 31 December 2021**3. Summary of significant accounting policies continued****Taxation**

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

There were no significant judgements or estimates necessary in 2021.

**Changes in accounting policies**

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of IFRS 16 Leases. There has been no impact from this standard on the Company's financial statements.

**Share based payments**

The fair value of share options granted to employees is recognised as an expense with a corresponding increase in equity. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises in its individual financial statements an increase in the cost of investment in its subsidiaries equivalent to the equity settled share based payment charge recognised in its subsidiaries' financial statements, with the corresponding credit being recognised directly in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

**Classification of financial instruments issued by the Company**

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- a. They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company.
- b. Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that the definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

**4. Profit for the financial year attributable to shareholders**

As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account. A loss of £2.1m (2020: £0.3m loss) is dealt with in the financial statements of the Company.

**5. Directors' remuneration**

Details of Directors' remuneration for the Company are included in the Directors' Remuneration report within the Elementis plc Annual Report and Accounts on pages 101-127.

## 6. Investments

	Unlisted shares at cost £m	Unlisted loans £m	Capital contributions £m	Total £m
Cost at 1 January 2021	0.1	759.0	17.5	776.6
Additions	–	–	3.5	3.5
<b>Net book value 31 December 2021</b>	<b>0.1</b>	<b>759.0</b>	<b>21.0</b>	<b>780.1</b>
Net book value 31 December 2020	0.1	759.0	17.5	776.6

The investment in unlisted loans is with Elementis Holdings Ltd, an indirect wholly owned subsidiary. The investments in unlisted shares are in Elementis Group BV and Elementis Overseas Investments Ltd, both wholly owned subsidiaries. Capital contributions relate to share based payment awards made to employees of subsidiary companies.

The trading subsidiaries and associates of Elementis plc, all of which are wholly owned, excluding Alembic Manufacturing Limited, where the Group holds a 25% interest, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Alembic Manufacturing Ltd	Personal Care products	United Kingdom <sup>1</sup>
Deuchem Co., Ltd	Additives and resins	Taiwan <sup>2</sup>
Deuchem (HK) Trading Co Ltd	Additives and resins	People's Republic of China – Hong Kong
Deuchem (Shanghai) Chemical Co. Ltd	Additives and resins	Special Administrative Region <sup>3</sup>
Elementis Chromium Inc	Chromium chemicals	People's Republic of China <sup>4</sup>
Elementis Chromium LLP	Chromium chemicals	United States of America <sup>5</sup>
Elementis (Shanghai)		United Kingdom <sup>6</sup>
New Material Co. Ltd	Additives and resins	People's Republic of China <sup>4</sup>
Elementis LTP Inc	Chromium chemicals	United States of America <sup>5</sup>
Elementis Minerals BV	Talc products	Netherlands <sup>7</sup>
Elementis Specialties (Anji) Ltd	Organoclays	People's Republic of China <sup>8</sup>
Elementis Specialties do Brasil Quimica Ltda	Coatings additives	Brazil <sup>9</sup>
Elementis Specialties Inc	Rheological additives, colourants, waxes, other specialty additives	United States of America <sup>5</sup>
Elementis SRL Inc	Personal Care products	United States of America <sup>5</sup>
Elementis UK Limited trading as: Elementis Specialties	Rheological additives, colourants, waxes, other specialty additives	United Kingdom <sup>6</sup>
Elementis Pharma GmbH	Personal Care products	Germany <sup>10</sup>
Mondo Minerals Deutschland GmbH	Talc products	Germany <sup>11</sup>
Elementis Minerals Nickel Oy	Talc products	Finland <sup>12</sup>
Mondo Trading (Beijing) Company Ltd	Talc products	People's Republic of China <sup>13</sup>

1 Registered office Unit 6 Wimbourne Buildings, Atlantic Way, Barry Docks, Barry, South Glamorgan CF63 3RA, UK.

2 Registered office 92, Kuang-Fu North Road, Hsinchu Industrial Park, Hukou, Hsinchu Taiwan, ROC.

3 Registered office Flat P, 14/F, Haribest Industrial Building, 45-47 Au Pui Wan Street, Foton, Shatin N.T Hong Kong.

4 Registered office 99 Liyang Road, Songjiang Industrial Zone, Shanghai, China.

5 Registered office 1209 Orange Street, Wilmington, Delaware, 19801, US.

6 Registered office Caroline House, 55-57 High Holborn, London WC1V 6DX, UK.

7 Registered office: Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.

8 Registered office Huibutai, Majiadu Village, Dipu Town, Anji County, Huzhou City, Zhejiang Province, China.

9 Registered office Rodovia Nelson Leopoldino, SP 375, Km 13,8, s/n, Bairro Rural, Palmital, São Paulo, Brazil.

10 Registered office Giulinistr. 2, 67065 Ludwigshafen, Germany.

11 Registered office Friedrichsallee 14, 42117, Wuppertal, Germany.

12 Registered office Talkkitie 7, 83500, Outokumpu, Finland.

13 Registered office Nan Zhugan Hutong no.6, floor 9, 01-007, Dongcheng District, 100010, Beijing, China.

## Financial statements

Notes to the company financial statements of Elementis plc continued  
for the year ended 31 December 2021

## 6. Investments continued

Non-trading and dormant subsidiaries of Elementis plc, all of which are wholly owned within the Group, are as follows:

Subsidiary undertakings		Country of incorporation and operation
Agrichrome Ltd	Non-trading	United Kingdom <sup>1</sup>
American Chrome & Chemicals Inc	Dormant	United States of America <sup>2</sup>
Elementis America Shared Services Inc	Dormant	United States of America <sup>2</sup>
Elementis Australia Ltd	Dormant	United Kingdom <sup>1</sup>
Elementis Benelux NV	Non-trading (in liquidation)	Belgium <sup>3</sup>
Elementis Catalysts Inc	Dormant	United States of America <sup>2</sup>
Elementis Chemicals Inc	Dormant	United States of America <sup>2</sup>
Elementis Chromium America Inc	Dormant	United States of America <sup>2</sup>
Elementis Export Sales Inc	Non-trading	United States of America <sup>2</sup>
Elementis Finance (Australia) Ltd	Dormant	United Kingdom <sup>1</sup>
Elementis Finance (Europe) Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis Finance (Germany) Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis Finance (India) Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis Finance (Ireland) Ltd	Non-trading	Ireland <sup>4</sup>
Elementis Finance (Jersey) Ltd	Non-trading	Jersey <sup>5</sup>
Elementis Finance (US) Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis Germany GmbH	Non-trading	Germany <sup>6</sup>
Elementis Germany Ltd	Dormant	United Kingdom <sup>1</sup>
Elementis Global LLC	Non-trading	United States of America <sup>2</sup>
Elementis GmbH	Non-trading	Germany <sup>6</sup>
Elementis Group (Finance) Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis Group BV	Non-trading	Netherlands <sup>7</sup>
Elementis Group Ltd	Dormant	United Kingdom <sup>1</sup>
Elementis Holdings Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis London Ltd	Dormant	United Kingdom <sup>1</sup>
Elementis Minerals Holding BV	Non-trading	Netherlands <sup>8</sup>
Elementis Nederlands BV	Non-trading	Netherlands <sup>7</sup>
Elementis New Zealand Ltd	Dormant	United Kingdom <sup>1</sup>
Elementis NZ Ltd	Non-trading	New Zealand <sup>9</sup>
Elementis Overseas Investments Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis Pigments Inc	Dormant	United States of America <sup>2</sup>
Elementis S.E.A. (Malaysia) Sdn Bhd	Non-trading	Malaysia <sup>10</sup>
Elementis Securities Ltd	Non-trading	United Kingdom <sup>1</sup>
Elementis Services GmbH	Non-trading	Germany <sup>7</sup>
Elementis Specialties (India) Private Ltd	Non-trading	India <sup>12</sup>
Elementis US Holdings Inc	Non-trading	United States of America <sup>2</sup>
Elementis US Ltd	Non-trading	United Kingdom <sup>1</sup>
H & C Acquisitions Ltd	Dormant	United Kingdom <sup>1</sup>
H & C Lumber Inc	Dormant	United States of America <sup>2</sup>
Harcros Chemicals Canada Inc	Dormant	Canada <sup>12</sup>
Iron Oxides S.A. de CV	Dormant	Mexico <sup>13</sup>
Mondo Minerals International BV	Dormant	Netherlands <sup>7</sup>
NB Chrome Ltd	Dormant	United Kingdom <sup>1</sup>

Subsidiary undertakings		Country of incorporation and operation
Reheis, Inc.	Non-trading	United States of America <sup>2</sup>
SRL Coöperatief U.A.	Non-trading	Netherlands <sup>3</sup>
SRLH Holdings Inc	Non-trading	United States of America <sup>2</sup>
SRL International Holdings, LLC	Non-trading	United States of America <sup>2</sup>
Talc Holding Finance Oy	Non-trading	Finland <sup>14</sup>
Talc Holding Oy	Non-trading	Finland <sup>14</sup>
WBS Carbons Acquisitions Corp	Non-trading	United States of America <sup>2</sup>

1 Registered office: Caroline House, 55-57 High Holborn, London WC1V 6DX, UK.

2 Registered office: 1209 Orange Street, Wilmington, Delaware, 19801, US.

3 Registered office: Regus Brussels Airport, Pegasuslaan 5, 1831 Diegem, Belgium.

4 Registered office: 8th Floor, Block E, Iveagh Court, Harcourt Road, Dublin 2, Ireland.

5 Registered office: 3rd Floor, 44 Esplanade, St Helier, Jersey, JE4 9WG.

6 Registered office: Stolberger Str.370, 50933, Köln, Germany.

7 Registered office: Strawinskylaan 411, 1077XX Amsterdam, Netherlands.

8 Registered office: Kajuitweg 8, 1041 AR, Amsterdam, Netherlands.

9 Registered office: KPMG, P O Box 1584, 18 Vlieduct Harbour Avenue, Maritime Square, Auckland, New Zealand.

10 Registered office: 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P. Ramlee, 50250 Kuala Lumpur, Malaysia.

11 Registered office: Unit-B, Ground Floor, Jaswanti Landmark, Mehra Industrial Estate, L.B.S. Marg, Vikhroli (W), Mumbai 400079, India.

12 Registered office: C/o Stewart McKelvey Stirling Scales, 44 Chipman Hill, Suite 1000 ONE2L 4S6, Canada.

13 Registered office: Calle San Ignacio N 105, 22106 Tijuana, Baja California Mexico.

14 Registered office: Kajaanintie 54, 88620, Korholaanmaki, Finland.

#### Notes:

- Other than Elementis Export Sales Inc, Elementis Group BV and Elementis Overseas Investments Ltd, none of the undertakings is held directly by the Company. Equity capital is in ordinary shares and voting rights equate to equity ownership.
- All undertakings listed above have accounting periods ending 31 December, with the exceptions of (i) Elementis Specialties (India) Private Ltd for which the relevant date is 31 March; (ii) Elementis Finance (India) Limited for which the relevant date is 31 March, and (iii) Elementis Finance (Germany) Limited for which the relevant date is 30 September.
- Undertakings operating in the United Kingdom are incorporated in England and Wales. In the case of corporate undertakings other than in the United Kingdom their country of operation is also their country of incorporation.
- All undertakings listed above have been included in the Consolidated financial statements of the Group for the year.

## 7. Debtors

	2021 £m	2020 £m
<b>Debtors: amount falling due after more than one year</b>		
Group relief receivable		-
<b>Debtors: amount falling due within one year</b>		
Group relief receivable		12.7

## 8. Creditors: amount falling due within one year

	2021 £m	2020 £m
<b>Accruals</b>	<b>0.6</b>	<b>0.6</b>



## Financial statements

Notes to the company financial statements of Elementis plc continued  
for the year ended 31 December 2021

## 9. Share capital and reserves

	2021 Number '000	2021 £m	2020 Number '000	2020 £m
<b>Called-up allotted and fully paid:</b>				
Ordinary shares of 5 pence each				
At 1 January	580,801	28.9	580,518	28.9
Issue of shares	1,057	0.2	283	–
At 31 December	581,858	29.1	580,801	28.9

During the year a total of 1,057,211 ordinary shares with an aggregate nominal value of £52,860 were allotted and issued for cash to various employees at subscription prices between 0 pence and 134 pence on the exercise of options under the Group's share option schemes. The total subscription monies received by the Company for these shares was £0.2m.

The Company can redeem shares by repaying the market value to the shareholder, whereupon the shares are cancelled. Redemption must be from distributable profits. The Capital redemption reserve represents the nominal value of the shares redeemed.

The share options reserve comprises amounts accumulated in equity in respect of share options and awards granted to employees.

Details of the shared based payments in the year are set out in Note 26 to the Elementis plc consolidated financial statements.

## 10. Related party transactions

The Company is a guarantor to the Elementis Group defined benefit pension scheme under which it guarantees all current and future obligations of UK subsidiaries currently participating in the pension scheme to make payments to the scheme, up to a specified maximum amount. The maximum amount of the guarantee is that which is needed (at the time the guarantee is called on) to bring the scheme's funding level up to 105% of its liabilities, calculated in accordance with section 179 of the Pensions Act 2004. This is also sometimes known as a Pension Protection Fund ('PPF') guarantee, as having such a guarantee in place reduces the annual PPF levy on the scheme.

## 11. UK registered subsidiaries exempt from audit

The following UK subsidiaries will take advantage of the audit exemption set out within section 479A of the Companies Act 2006 for the year ended 31 December 2021. Unless otherwise stated, the undertakings listed below are all 100% owned, either directly or indirectly, by Elementis plc. The Company will guarantee the debts and liabilities of the UK subsidiaries listed below at the balance sheet date in accordance with section 479C of the Companies Act 2006. The Company has assessed the probability of loss under the guarantee as remote.

Name	Proportion of shares held by the Company (%)	Proportion of shares held by subsidiary (%)	Company Number
Agrichrome Limited	100	–	2228826
Elementis Finance (Germany) Limited	100	–	5531634
Elementis Finance (India) Limited	100	–	12521304
Elementis Finance (US) Limited	100	–	9303101
Elementis Germany Limited	100	–	48664
Elementis Group (Finance) Limited	100	–	9303017
Elementis Group Limited	100	–	4048541
Elementis Overseas Investments Limited	100	–	8008981
Elementis Securities Limited	100	–	597303
Elementis US Limited	100	–	8005226
Elementis Finance (Europe) Limited	100	–	11717371

## Alternative performance measures and unaudited information

### 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 45 to 50.

	2021 Profit and loss \$m	2020 Profit and loss \$m
<b>Profit/(loss) for the year</b>	<b>2.5</b>	<b>(67.0)</b>
Adjustments for		
Finance income	(11.0)	(0.3)
Finance costs and other expenses after adjusting items	29.9	41.2
Tax (credit)/charge	3.3	(1.8)
Depreciation and amortisation	68.3	66.7
Excluding intangibles arising on acquisition	(16.0)	(15.5)
Adjusting items before finance costs and depreciation	81.5	109.5
<b>Adjusted EBITDA</b>	<b>158.5</b>	<b>132.8</b>

There are also a number of key performance indicators (KPIs) on pages 30 and 31, the reconciliations to these are given below.

### 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 taxes paid or received, interest paid or received, pension contributions net of current service cost and adjusting items.

	2021 \$m	2020 \$m
<b>Net cash flow from operating activities</b>	<b>66.7</b>	<b>107.1</b>
Less: Capital expenditure	(52.4)	(40.0)
Add:		
Income tax paid or received	30.9	8.5
Interest paid or received	23.5	23.7
Pension contributions net of current service cost	0.1	0.1
Adjusting items – non cash	(13.2)	(1.8)
Adjusting items – cash	20.4	12.2
<b>Adjusted Operating cash flow</b>	<b>76.0</b>	<b>109.8</b>

### Adjusted operating cash conversion

Adjusted operating cash conversion is defined as operating profit after adjusting items divided by operating activities less net capital expenditure but excluding income taxes paid or received, interest paid or received, pension contributions net of current service cost, provisions including share based pay and adjusting items.

	2021 \$m	2020 \$m
<b>Operating profit from total operations after adjusting items</b>	<b>106.6</b>	<b>81.6</b>
Operating cash flow	76.0	109.8
Add:		
Provision and share based payments	(1.9)	1.7
	74.1	111.5
<b>Adjusted operating cash flow conversion</b>	<b>70%</b>	<b>137%</b>

### Contribution margin

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

	2021 \$m	2020 \$m
<b>Revenue</b>	<b>880.1</b>	<b>751.3</b>
Variable costs	(479.2)	(410.8)
Non variable costs	(66.0)	(83.2)
<b>Cost of sales</b>	<b>(545.2)</b>	<b>(494.0)</b>

## Financial statements

## Alternative performance measures and unaudited information continued

**Adjusted Group profit before tax**

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

**Adjusted return on operating capital employed**

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

	2021 \$m	2020 \$m
<b>Operating profit after adjusting items</b>	<b>106.6</b>	<b>81.6</b>
Fixed assets excluding goodwill	722.1	740.7
Working capital	164.0	141.4
Operating provisions	(61.8)	(58.8)
<b>Operating capital employed</b>	<b>824.3</b>	<b>823.3</b>
<b>Adjusted return on capital employed %</b>	<b>13%</b>	<b>10%</b>

**Average trade working capital to sales ratio**

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

**Adjusted operating profit/operating margin**

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

**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.

	2021 \$m	2020 \$m
Revenue	880.1	751.3
Adjusted operating profit	106.6	81.6
Adjusted operating margin	12.1%	10.9%
Adjusted EBITDA	158.5	132.8
IFRS 16 adjustment	(6.8)	(6.4)
Adjusted EBITDA pre IFRS 16	151.7	126.4
Net Debt <sup>1</sup>	401.0	408.1
<b>Net Debt / EBITDA*</b>	<b>2.64</b>	<b>3.23</b>

\* 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.

<sup>1</sup> See Note 28 – Net Debt excludes lease liabilities.

## Five year record

	2021 \$m	2020 \$m	2019 \$m	2018 \$m	2017 \$m
<b>Turnover</b>					
Continuing operations	880.1	759.3	883.4	833.2	797.7
Discontinued operations	–	–	–	4.8	47.8
Group turnover	880.1	759.3	883.4	838.0	845.5
<b>Operating profit after adjusting items</b>					
Continuing operations	106.6	81.6	123.0	132.6	122.7
Discontinued operations	–	–	–	(0.6)	5.4
	106.6	81.6	123.0	132.0	128.1
Adjusting items before interest	(81.9)	(109.5)	(31.1)	(57.5)	(30.9)
<b>Profit/(loss) before interest</b>	<b>24.7</b>	<b>(27.9)</b>	<b>91.9</b>	<b>74.5</b>	<b>97.2</b>
Other expenses	(2.1)	(1.6)	(1.5)	(1.6)	(1.2)
Net interest payable	(16.8)	(39.3)	(29.4)	(17.9)	(11.7)
<b>Profit/(loss) before tax</b>	<b>5.8</b>	<b>(68.8)</b>	<b>61.0</b>	<b>55.0</b>	<b>84.3</b>
Tax	(3.3)	1.8	(14.6)	(13.6)	33.3
<b>Profit/(loss) attributable to equity holders of the parent</b>	<b>2.5</b>	<b>(67.0)</b>	<b>46.4</b>	<b>41.4</b>	<b>117.6</b>
	2021 \$m	2020 \$m	2019 \$m	2018 \$m	2017 \$m
<b>Basic</b>					
Earnings/(loss) per ordinary share (cents)	0.4	(11.5)	8.0	7.9	23.3
Earnings per ordinary share after adjusting items (cents)	10.7	6.6	12.6	17.0	18.1
<b>Diluted</b>					
Earnings/(loss) per ordinary share (cents)	0.4	(11.3)	7.9	7.9	23.0
Earnings per ordinary share after adjusting items (cents)	10.6	6.5	12.4	16.9	17.9
<b>Dividend per ordinary share (cents)</b>	<b>–</b>	<b>–</b>	<b>8.55</b>	<b>8.65</b>	<b>8.80</b>
<b>Dividend per ordinary share rebased<sup>2</sup> (cents)</b>	<b>–</b>	<b>–</b>	<b>8.55</b>	<b>8.40</b>	<b>8.05</b>
<b>Interest cover (times)<sup>1</sup></b>	<b>4.8</b>	<b>3.7</b>	<b>5.5</b>	<b>8.0</b>	<b>13.5</b>
<b>Equity attributable to equity holders of the parent</b>	<b>901.0</b>	<b>860.4</b>	<b>906.2</b>	<b>915.6</b>	<b>702.3</b>
<b>Net (debt)/cash</b>	<b>(401.0)</b>	<b>(408.1)</b>	<b>(454.2)</b>	<b>(498.1)</b>	<b>(291.1)</b>
<b>Weighted average number of ordinary shares in issue during the year (million)</b>	<b>588.8</b>	<b>593.7</b>	<b>588.5</b>	<b>526.3</b>	<b>513.0</b>

<sup>1</sup> Ratio of operating profit after adjusting items to interest on net borrowings.

<sup>2</sup> Following the rights issue in October 2018, dividend per share for periods prior to this have been rebased to reflect the bonus element resulting from this rights issue.

## Shareholder information

### Shareholder services

#### Registrars

Enquiries concerning shares or shareholdings, such as the loss of a share certificate, consolidation of share certificates, amalgamation of holdings or dividend payments, should be addressed to the Company's registrars:

Equiniti Group plc  
Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA  
Tel: 0371 284 2379 or +44 (0) 121 415 7043

For shareholders with hearing difficulties:  
Tel: 0371 384 2255 or +44 (0) 121 415 7028

Lines are open between 8.30am and 5.30pm Monday to Friday (excluding public holidays in England and Wales).

In any correspondence with the registrars, please refer to Elementis plc and state clearly the registered name and address of the shareholder. Please notify the registrars promptly of any change of address.

#### Website

Our website ([www.elementis.com](http://www.elementis.com)) provides the following information:

- Company news and information
- Details of our strategy
- The Company's approach to sustainability and innovation
- A dedicated Investors' section on the website which contains up to date information for shareholders including:
  - Share price and index chart information
  - Financial results
  - History of dividend payment dates and amounts
  - Access to current and historical shareholder documents such as the Annual Report and Accounts

#### Share dealing services

Equiniti provides a share dealing service that enables shares to be brought or sold by UK shareholders by telephone or over the internet. For telephone share dealing, please call 0345 603 7037 between 8.30am and 4.30pm (lines are open until 6.00pm for enquiries), and for internet share dealing, please visit: [www.shareview.co.uk/dealing](http://www.shareview.co.uk/dealing).

#### Electronic communications

Shareholders can elect to receive shareholder documents electronically by registering with Shareview at [www.shareview.co.uk](http://www.shareview.co.uk). This will save on printing and distribution costs, creating environmental benefits. When you register, you will be sent an email notification to say when shareholder documents are available on our website and you will be provided with a link to that information. When registering, you will need your shareholder reference number, which can be found on your share certificate or proxy form. Please contact Equiniti if you require any assistance or further information.

#### Share fraud

Share or investment scams are often run from 'boiler rooms' where fraudsters cold call investors offering them worthless, overpriced or even non-existent shares, or offer to buy their shares in a company at a higher price than the market value. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the company. Even seasoned investors have been caught out by such fraudsters. The FCA has some helpful information.

#### Report a scam

If you are contacted by a cold caller, you should inform the Company Secretary by email and also the FCA by using its share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams) or calling its Consumer Helpline on 0800 111 6768.

If you have already paid money to a share fraudster, please contact Action Fraud on 0300 123 2040 or [www.actionfraud.police.uk](http://www.actionfraud.police.uk).

## Corporate information

### Financial calendar

26 April 2022  
26 April 2022  
28 July 2022  
October 2022

Annual General Meeting  
Q1 Trading Update  
Interim results announcement for the half year ending 30 June 2022  
Q3 Trading Update

### Annual General Meeting

The Annual General Meeting of Elementis plc will be held on 26 April 2022 at 10.00am at the offices of Herbert Smith Freehills LLP, Exchange House, Primrose Street, London, EC2A 2EG. Shareholders will also be able to attend the meeting online.

The Notice of Meeting is included in a separate document.

### Company Secretary

Laura Higgins

### Registered number

03299608

### Registered office

Caroline House  
55-57 High Holborn  
London  
WC1V 6DX  
UK

### Principal offices

**Elementis plc**  
Caroline House  
55-57 High Holborn  
London  
WC1V 6DX  
UK

Tel: +44 (0)20 7067 2999

**Elementis Global**  
469 Old Trenton Road  
East Windsor  
NJ 08512  
US

Tel: +1 609 443 2000

### Independent auditors

Deloitte LLP  
1 Little New Street, London, EC4A 3TR

### Joint corporate broker

JP Morgan Cazenove  
60 Victoria Embankment, London, EC4Y 0JP

### Joint corporate broker

Numis  
Cheapside House, 138 Cheapside, London, EC2V 6LH

### Public relations

Tulchan Communications  
2nd Floor, 85 Fleet Street, London, EC4Y 1AE

### Solicitors

Herbert Smith Freehills LLP  
Exchange House, Primrose Street, London, EC2A 2EG

### Email

company.secretariat@elementis.com

### Website

www.elementis.com

## Shareholder information

## Glossary

ACT	Advance Corporation Tax
AGM	Annual General Meeting
AP	Anti-perspirant
ART	Annual Report team
AWC	Average working capital
BEIS	Department for Business, Energy and Industrial Strategy
Board	Board of Directors of Elementis plc
Brexit	The withdrawal of the UK from the EU
CapEx	Capital expenditure
CDP	Carbon disclosure project
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash generating unit
CH <sub>4</sub>	Methane
CHRO	Chief Human Resources Officer
CO <sub>2</sub>	Carbon dioxide
CO <sub>2</sub> eg	Carbon dioxide equivalent
Code	UK Corporate Governance Code
Company	Elementis plc
COSMOS	Cosmetic Organic and Natural Standard
COVID-19	Coronavirus pandemic
CSA	Climate scenario analysis
DEFRA	Department for Environment and Rural Affairs
DE&I	Diversity, Equality and Inclusion
DNED	Designated Non-Executive Director
DSBP	Deferred share bonus plan
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECC	Ethics and compliance council
ECL	Expected credit losses
ELT	Executive Leadership team
EMEA	Europe, Middle East and Africa
EPS	Earnings per share
ERG	Employee resource group
ESC	Elementis Sustainability Council
ESG	Environmental, Social and Governance
ESOS	Executive share option scheme
ESOT	Employee share ownership trust
EU	European Union
FCA	Financial Conduct Authority
FRS	Financial Reporting Council
FRS	Financial Reporting Standards
FTSE	Financial Times Stock Exchange
GAAP	Generally Accepted Accounting Principles
GDP	Gross domestic product
GDPR	General Data Protection Regulation
GHG	Greenhouse gases
GJ	Gigajoule
GO	Guarantee of Origin
Group	Elementis plc and its subsidiaries
HMRC	HM Revenue and Customs
H&S	Health and safety
HGV	Heavy goods vehicle
HSE	Health, safety and environment
IAS	Investment Association Standards
IASB	International Accounting Standards Board

ICDA	International Chromium Development Association
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPCC	Intergovernmental Panel on Climate Change
ISDA	International Swaps and Derivatives Association
kg	Kilogram
KPI	Key performance indicator
kWh	Kilowatt per hour
LTA	Lost time accident
LTIP	Long term incentive plan
M <sup>3</sup>	Cubic metres
M&A	Merger and acquisitions
MWh	Megawatt per hour
Mondo	Mondo Minerals Holdings B.V. and its subsidiaries
MT	Metric ton
N <sub>2</sub> O	Nitrous oxide
NED	Non-Executive Director
NGFS	Network for Greening the Financial Systems
NiSATS	Non-ionic associative thickeners
OECD	Organisation for Economic Co-operation and Development
OSHA	Occupational Safety and Health Administration
PBT	Profit before tax
PPA	Power purchase agreement
PPF	Pension protection fund
PRMB	Post retirement medical benefit
R&D	Research & Development
RCF	Revolving credit facility
REACH	Registration, Evaluation, Authorisation and restriction of Chemicals
REC	Renewable Energy Certificate
Rights Issue	A one to four Rights Issue that was undertaken by the Company in October 2018
ROCE	Return on capital employed
s.172	Section 172 of The Companies Act 2006
SAYE	Save as you earn
SID	Senior Independent Director
SRSOS	US savings-related share option scheme
SummitReheis	SRLH Holdings, Inc. and its subsidiaries
SVP	Senior Vice President
TCFD	The Task Force on Climate-related Financial Disclosures
te	Tonnes
TRIR	Total recordable incident rate
TSR	Total shareholder return
UK	United Kingdom
UN	United Nations
UNGC	United Nations Global Compact
UN SDGs	United Nations Sustainable Development Goals
US	United States
VOC	Volatile organic compound