ELEMENTIS

A global specialty chemicals company

31 July 2018

ELEMENTIS plc
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

Good H1 performance and 2018 outlook unchanged
Reignite Growth strategy delivering a higher quality Elementis with attractive growth potential

Good growth in first half in line with expectations

- Revenue from continuing operations up 10% from $384m to $421m, driven by good performance in Personal Care and Coatings.

- Statutory operating profit increased by 10% to $56m, and adjusted operating profit[1] increased 16% to $68m with improved profitability in Coatings along with growth in the high margin Personal Care business despite raw material cost inflation.

- Continued strong cash generation – net debt to adjusted EBITDA[1] reduces to 1.7x (2.3x at 30 June 2017).

- Interim dividend of 2.95c per share declared, up 9% on the prior year.

Portfolio transformation delivering a more focused, higher quality business

- New segmental reporting improves performance transparency across business segments. Personal Care is the highest operating margin business, and represents approximately 40% of first half 2018 adjusted operating profit.

- Surfactants disposal completed as planned, reallocating capital and resources to higher margin growth opportunities.

Strong momentum and 2018 outlook remains unchanged

- Positive momentum moving into second half, 2018 outlook unchanged – expect continued strategic and financial progress.

FINANCIAL SUMMARY

	Six months ended 30 June 2018	Six months ended 30 June 2017	% Change
Revenue	**$421.4m$^{\Delta}$**	$383.5m$^{\Delta}$	+10%
Statutory profit for the period	**$30.8m**	$43.2m	-29%
Statutory Basic earnings per share[2]	**6.6c**	9.3c	-29%
Adjusted operating profit[1]	**$67.6m$^{\Delta}$**	$58.4m$^{\Delta}$	+16%
Profit before tax	**$46.8m$^{\Delta}$**	$44.9m$^{\Delta}$	+4%
Adjusted diluted earnings per share[2]	**9.9c$^{\Delta}$**	8.9c$^{\Delta}$	+11%
Operating cash flow[3]	**$25.5m**	$52.0m	-51%
Net debt[4]	**$259.6m**	$313.3m	
Interim dividend to shareholders	**2.95c**	2.70c	+9%

Business performance overview

- **Personal Care** statutory revenue up 45%. On a constant currency basis and excluding the impact of business disposals, revenue* up 38% to $112m. Adjusted operating profit up 47%; strong adjusted operating margin of 26.7%.
  - Additional quarter of the former SummitReheis business, and increased earnings due to pricing actions, improved mix and synergy delivery.
  - Positive sales momentum and pricing actions to benefit H2 performance.
- **Coatings** statutory revenue up 5%. On a constant currency basis and excluding the impact of business disposals, revenue* up 4% to $198m. Adjusted operating profit up 11% to $30m with adjusted operating margins increasing from 14.3% to 15.1%.
  - Growth in Americas and Asia and benefits from recent implementation of a global Coatings organisation.
  - Further efficiency measures and pricing actions to contribute to H2 performance.
- **Energy** statutory revenue down 8%, on a constant currency basis revenue* down 9% to $27m; adjusted operating profit of $3m.
  - Performance against strong growth comparatives in 2017, with drilling activity negatively impacted by infrastructure constraints in North America.
  - Modest improvement expected in H2.
- **Chromium** statutory revenue down 5% to $91m; adjusted operating profit down 12% to $14m.
  - Performance impacted by extreme cold weather conditions at Castle Hayne which led to previously announced three week production outage in January.
  - Improving global industry utilisation levels and pricing actions expected to support full year performance in line with 2017.

Commenting on the results, CEO, Paul Waterman said:

“Our strategy to Reignite Growth at Elementis is delivering and there is strong momentum in the business. The work we have been doing to focus the business portfolio, drive working capital initiatives, and simplify our supply chain have enabled us to focus our capital and resources on higher margin growth opportunities. Adjusted operating profit growth of 16% to $68m, driven by Personal Care and Coatings, is a good first half performance.

“Looking forward, we see positive momentum moving into the second half of the year and are confident of making strategic and financial progress in 2018 and over the long term.”

Further information

A presentation for investors and analysts will be held at 09:30 BST on 31 July 2018. The presentation will be webcast on www.elementisplc.com. Conference call dial in details:

UK: 020 3936 2999 Other locations: +44 20 3936 2999
Participant access code: 028621

Enquiries
Elementis
James Curran, Investor Relations 020 7067 2994

Tulchan
Martin Robinson 020 7353 4200
David Allchurch

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

Δ - Continuing operations
1 - See note 5
2 - See note 9
3 - See finance report
4 - See note 12

– ENDS –

Business review

CEO's report

This has been a positive start to the year for Elementis, with good adjusted operating profit growth and further strategic progress. As set out in the 2017 Annual Report this set of results introduces our new reporting segmentation (see note 4) and provides more clarity on the performance drivers of the business. Our Reignite Growth strategy is starting to build momentum as we seek to create a higher quality, higher margin group with attractive growth potential.

Group performance

Personal Care

In the six months to 30 June 2018, Personal Care statutory revenue rose 45% to $112m, driven by an extra quarter's contribution from the acquired SummitReheis business, and modest growth in our hectorite based cosmetics and anti-perspirant (AP) actives businesses. On a constant currency basis and excluding business disposals, revenue* rose 38%.

Adjusted operating profit for Personal Care rose 47% to $30m, with adjusted operating margins at 26.7%, broadly in line with the prior year. Adjusted operating profit growth was driven by the delivery of cost synergies related to the SummitReheis acquisition, price increases implemented in response to raw material inflation and mix improvement.

Coatings

In Coatings, statutory revenue rose 5% to $198m. On a constant currency basis and excluding business disposals, revenue* rose by 4%.

- Americas revenue* rose 9% with strong performance in both decorative and industrial applications at key accounts in North America due to continued adoption of our New Martinsville technologies. In Latin America our performance benefited from improved macroeconomic conditions.
- Asia revenue* improved by 3% with good performance in China and North Asia in both decorative and industrial coatings partially offset by weaker demand levels in India and South East Asia.
- EMEA revenue* was flat on the prior year period with good performance in central Europe, particularly in industrial coatings, offset by soft demand in Southern Europe and the Middle East.

Adjusted operating profit in Coatings rose 11% to $30m and adjusted operating margins increased from 14.3% to 15.1% with initial efficiency and improvement performance steps being taken by the new global Coatings organisation such as product rationalisation initiatives and pricing actions. As the transformation of running Coatings as a global business continues, we expect further efficiency improvements.

Energy

In the first six months of the year, Energy revenue fell 8% on a statutory basis, and 9% on a constant currency basis to $27m on lower volumes and a soft Q2. Whilst oil prices remained stable in the period, drilling activity levels were negatively impacted by infrastructure constraints in Canada and a one time inventory reduction as two key customers merged.

Adjusted operating profit fell 26% to $3m on lower volumes. Pricing actions and an improved customer order pipeline are anticipated to result in a modest second half improvement.

Chromium

Gross revenue in the period was $91m compared to $95m in the previous year, a decrease of 5% on a constant currency basis. Improved pricing was offset by lower volumes due to a previously announced three week production outage at Castle Hayne in the first quarter of the year, a result of extreme weather conditions in the area – the first seven days of January were the coldest since 1918.

Adjusted operating profit for the first six months of the year was $14m, down 12% versus the prior year period. Adjusted operating profit margins declined from 16.6% to 15.4% due to lower volumes. Strong global demand, further supported by the removal of some capacity in the market and pricing actions, are all anticipated to result in an improved second half of the year. As previously guided, we continue to see 2018 performance as in line with 2017.

Surfactants

In February 2018 we completed the disposal of the Surfactants business to Kolb Distribution AG for EUR 39m. As a result, Surfactants is classified as a discontinued operation in the six months to 30 June 2018.

Tax

The adjusted continuing tax rate of 19.8% is in line with 19.6% in the prior year period. For the full year 2018, we currently estimate an effective tax rate of around 20%.

Balance sheet

At the end of June 2018, net debt was $260m, down from $291m at 31 December 2017, representing a net debt to adjusted EBITDA ratio of 1.7x. Cash generation in the period was driven by proceeds from the Surfactants business disposal and organic cash generation.

The IAS 19 deficit on the Group's post-retirement benefit plans, improved from $24m at the end of 30 June 2017, to $10m as at 30 June 2018, partly due to the benefit from good investment returns. The UK pension plan accounts for the majority of the Group's pension obligations. The triennial review of the UK pension plan is ongoing and a conclusion is anticipated in the second half of 2018.

Interim dividend

The Board is declaring an interim dividend of 2.95 cents per share, up from 2.70 cents per share in the previous year, which will be paid on 28 September 2018, in pounds sterling at an exchange rate of $1.3141:£1.00 to shareholders on the register on 31 August 2018.

Strategic progress

The Reignite Growth strategy announced in November 2016 is central to our aim of creating a higher quality and higher growth Group. Now halfway through the second year of strategic implementation, the business has made considerable progress across its four key strategic pillars.

1. **Pursue the best growth opportunities**

   Global key account management (GKAM) is about accelerating how we work and grow with our major customers. Following the implementation in 2017 of our GKAM business model, organisation, toolkit and performance management systems our dialogue with key customers has improved. In the first half of the year, revenue from global key accounts rose 8% on the prior year period, and looking forward we see further sustained momentum.

   In Asia the opportunity is clear: expanding our Coatings presence, including building our coatings activities in China and beyond. With new leadership in India and South Asia we have identified several attractive business development opportunities in the region.

   In Personal Care we have a high quality business that is a market leader in rheology modifiers for cosmetics and active ingredients for AP deodorants. These markets are characterised by attractive growth dynamics driven by trends such as the premiumisation of products, demand for natural ingredients and strong consumer demand in emerging markets. With a market leading technology and innovation platform, and a global manufacturing footprint, Elementis is well placed to capture such growth opportunities.

2. **Pursue supply chain transformation**

   Elementis has high quality manufacturing sites. However we have opportunities to be more efficient. The disposal of our Surfactants business in February 2018, for EUR 39m to Kolb Distribution AG, not only generated cash but eliminated a strategically disadvantaged asset, simplified our supply chain and allowed for the reallocation of capital to higher margin growth opportunities.

The sale of our Jersey City site, the home of our US Colourants business divested in 2017, continues to progress and we expect the disposal to be completed in the second half of 2018.

Elementis' working capital intensity compares relatively favourably to peers. However there is room for improvement, particularly within Coatings. Our aim is to reduce working capital by $18m by 2020 and in 2018 we have begun to deliver this. Standardised service level agreements, new inventory management systems and the removal of low sales and low margin items that create excess inventory, mean we are well placed to deliver this sustainable reduction in working capital over the next three years.

3. **Innovate for high margins and distinctiveness**
   Innovation is core to Elementis and to our customers we deliver Enhanced Performance Through Applied Innovation. Reflective of this, Elementis won the Sensory Gold award at in-cosmetics® Global in Amsterdam in April 2018. Judged against leading innovative texture and sensation concepts by suppliers from around the world, the Elementis Rheoluxe® submission illustrated our unique ingredients and formulas that enhance skin care experience.

   Following the combination of R&D and technical functions, and the introduction of various pipeline management tools, Elementis is further focused on delivering material innovation opportunities to customers. As a result, our innovation pipeline is improving and we have several attractive late stage development projects, with an increased focus towards Personal Care.

4. **Create a culture of high performance**
   At the start of this year we made several changes to how we run the business to foster a high performance culture. The introduction of a new reporting structure, splitting out the profitability of the Personal Care, Coatings and Energy businesses, provides a new level of disclosure that will improve transparency and accountability.

   Our new Global Coatings organisation, established at the start of 2018, is making immediate progress as we transform the focus of our Coatings organisation from a regional led business to an integrated global team. Actions taken so far in 2018 include implementation of global price increases, the roll out of standardised service level agreements, internal re-organisation and a shift in focus towards core activities (e.g. exit of Surfactants and US Colourants businesses). This progress will continue throughout the year and we anticipate updating the market on the transformation in Coatings at our year end results.

Outlook

Looking forward we see significant potential for Elementis. Our management team is focused on the delivery of our Reignite Growth strategy and we are building financial and strategic momentum.

Moving into the second half of the year we see good momentum in the business and we will continue to pursue our key growth and supply chain transformation initiatives, and continue to innovate for high margins and distinctiveness. We are on track and are confident of making further progress in 2018.

Notes:

Where we refer to adjusted performance measures (e.g. adjusted operating profit), see note 5
Where we refer to constant currency, see finance report
* Adjusted for constant currency (where constant currency reflects prior year results translated at current year exchange rates) and the impact of business disposals (US Colourants business and Surfactants, Coatings and Personal Care portfolio elimination following the Delden asset sale). See finance report.

Finance report

Revenue for the six months ended 30 June	Revenue 2017 $m	Effect of exchange rates $m	Impact of business disposal $m	Increase/ (decrease) 2018 $m	**Revenue 2018 $m**
Personal Care	77.1	5.9	(2.0)	30.8	**111.8**
Coatings	188.1	10.7	(8.1)	6.9	**197.6**
Energy	29.3	0.4	-	(2.7)	**27.0**
Chromium	95.4	-	-	(4.9)	**90.5**
Inter-segment	(6.4)	-	-	0.9	**(5.5)**
Revenue on continuing operations	383.5	17.0	(10.1)	31.0	**421.4**
Revenue on discontinued operations excluding inter-segment sales	31.3	1.7	(28.2)	-	**4.8**
Revenue on total operations	414.8	18.7	(38.3)	31.0	**426.2**

Adjusted operating profit for the six months ended 30 June	Adjusted operating profit* 2017 $m	Effect of exchange rates $m	Impact of business disposal $m	Increase/ (decrease) 2018 $m	**Adjusted operating profit* 2018 $m**
Personal Care	20.3	1.6	(0.5)	8.5	**29.9**
Coatings	26.9	2.4	(3.2)	3.8	**29.9**
Energy	4.3	0.1	-	(1.2)	**3.2**
Chromium	15.8	-	-	(1.9)	**13.9**
Central costs	(8.9)	(0.6)	-	0.2	**(9.3)**
Adjusted operating profit on continuing operations	58.4	3.5	(3.7)	9.4	**67.6**
Adjusted operating profit on discontinued operations	9.2	0.5	(10.1)	-	**(0.4)**
Adjusted operating profit on total operations	67.6	4.0	(13.8)	9.4	**67.2**

* See note 5

Group results

Group revenue from continuing operations for the first six months of 2018 was $421.4m, compared to $383.5m in the same period last year, an increase of $37.9m (10%), or 5% excluding currency movements. The majority of the additional revenue came from an extra quarter's contribution from the acquired SummitReheis business, with increased revenue in Personal Care and Coatings offset by declines in Energy and Chromium.

Group adjusted operating profit on continuing operations was $67.6m, compared to $58.4m in the same period last year, an increase of 16%, and 9% excluding currency movements. Increased adjusted operating profit was the result of the extra quarter's earnings from the acquired SummitReheis business and improved earnings in Personal Care and Coatings.

Central costs

Central costs are costs that are not identifiable as expenses of a particular business and comprise the Board of Directors and corporate offices in the UK and US. Central costs for the first half of 2018 were $0.4m higher at $9.3m, driven by year on year exchange rate movements.

Adjusting items

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

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating profit on continuing operations	**56.2**	51.2	91.4
Adjusting items:			
Restructuring	**0.9**	0.7	0.6
Business transformation	**-**	0.9	3.4
Environmental provisions			
Increase in provisions due to additional remediation work identified	**-**	-	2.1
SummitReheis acquisition costs	**-**	6.0	9.7
Uplift due to fair value of SummitReheis inventory	**-**	-	4.0
Sale of Colourants business and closure of Jersey city site	**-**	(3.5)	(2.5)
Sale of Surfactants business	**0.5**	-	2.2
Cost associated with other M&A activity	**2.8**	-	-
Amortisation of intangibles arising on acquisition	**7.2**	3.1	11.8
Net adjusting items on continuing operations	**11.4**	7.2	31.3
Adjusted operating profit on continuing operations	**67.6**	58.4	122.7

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating profit on discontinued operations	**(0.4)**	9.2	5.8
Adjusting items:			
Release of legal provision	**-**	-	(0.7)
Sale of Surfactants business	**-**	-	0.3
Net adjusting items on discontinued operations	**-**	-	(0.4)
Adjusted operating profit on discontinued operations	**(0.4)**	9.2	5.4

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating profit on continuing and discontinued operations	**55.8**	60.4	97.2
Adjusting items:			
Restructuring	**0.9**	0.7	0.6
Business transformation	**-**	0.9	3.4
Environmental provisions			
Increase in provisions due to additional remediation work identified	**-**	-	2.1
SummitReheis acquisition costs	**-**	6.0	9.7
Uplift due to fair value of SummitReheis inventory	**-**	-	4.0
Sale of Colourants business and closure of Jersey city site	**-**	(3.5)	(2.5)
Release of legal provision	**-**	-	(0.7)
Sale of Surfactants business	**0.5**	-	2.5
Cost associated with other M&A activity	**2.8**	-	-
Amortisation of intangibles arising on acquisition	**7.2**	3.1	11.8
Net adjusting items on continuing and discontinued operations	**11.4**	7.2	30.9
Adjusted operating profit on total operations	**67.2**	67.6	128.1

Restructuring costs of $0.9m relate to the IFRS 2 cost of buyouts associated with the new CEO and CFO appointed in 2016 and are accounted for in the period to which they relate. An adjustment of $0.5m has been made to remove the loss on the disposal of the Surfactants business, as this is a non-recurring event. During the first half of 2018, costs of $2.8m have been incurred in relation to M&A activity. To the extent that these will subsequently be accounted for as a larger roll up of acquisition costs in the second half or are deemed to have no consequence on the underlying performance of the business, these are treated as adjusting items. Amortisation of intangibles arising on acquisition are treated as an adjusting item following the conclusion of the Directors, and implemented for the first time in 2017, that the exclusion of such a charge from the operating profit would provide readers of the accounts with a better understanding of the Group's results on its operating activities. An explanation of other adjusting items relating to the previous period can be found within the Finance Report of the 2017 Annual Report and Accounts.

Other expenses

Other expenses are administration costs incurred and paid by the Group's pension schemes, which relate primarily to former employees of legacy businesses, and were $1.3m in the period compared to $1.4m in the previous year.

Net finance costs

	30 June 2018 $m	30 June 2017 $m
Finance income	**0.3**	0.1
Finance cost of borrowings	**(7.7)**	(4.3)
	(7.4)	(4.2)
Net pension finance expense	**(0.2)**	(0.1)
Discount on provisions	**(0.5)**	(0.6)
Net finance costs	**(8.1)**	(4.9)

Net finance costs for the first six months of the year of $8.1m were $3.2m higher than the same period last year. Within this total, net interest costs were $3.2m higher at $7.4m due to the higher average levels of borrowing across the period following the acquisition of SummitReheis in March 2017. Net pension finance costs in the period were $0.1m higher at $0.2m. The discount on provisions relates to the time value cost of certain environmental provisions, which are calculated on a discounted cash flow basis. With no change in the discount rate, the charge was slightly lower than last year due to a lower brought forward provision value at the start of the period.

Tax

The Group reports an adjusted tax charge on continuing operations for the first half of 2018 of $11.5m (2017: $10.2m); giving rise to an adjusted effective tax rate of 19.8% (2017: 19.6%).

Tax on adjusting items for the first half of 2018 amounts to a charge of $4.4m (2017: $1.8m credit); resulting in a total statutory tax charge for the period of $15.9m (2017: $8.4m) and a reported effective tax rate of 34.0% (2017: 18.7%).

For the full year 2018, we currently estimate an effective adjusted tax rate of around 20%.

Earnings per share

Statutory basic earnings per share were 6.6 cents for the period compared to 9.3 cents in the prior period.

Continuing basic adjusted and diluted adjusted earnings per share for the first half of 2018, calculated on the adjusted earnings of $46.7m (2017: $41.9m), were 10.1 cents and 9.9 cents respectively compared to 9.0 cents and 8.9 cents respectively in the same period last year.

Cash flow

Cash flow is summarised below:

	30 June 2018 $m	30 June 2017 $m
Profit before interest, tax, depreciation and amortisation (EBITDA)*	**76.5**	77.7
Change in working capital	**(27.9)**	(9.7)
Capital expenditure	**(20.5)**	(14.9)
Other	**(2.6)**	(1.1)
Operating cash flow	**25.5**	52.0
Pension deficit payments	**-**	(6.5)
Interest and tax	**(8.6)**	(7.3)
Other	**0.2**	(2.1)
Free cash flow	**17.1**	36.1
Dividends	**(28.2)**	(65.3)
Acquisitions	**-**	(361.2)
Disposals	**42.9**	-
Currency fluctuations	**(0.3)**	(0.4)
Movement in net (debt)/cash	**31.5**	(390.8)
Net (debt)/cash at start of period	**(291.1)**	77.5
Net debt as at end of period	**(259.6)**	(313.3)

* See note 5

The net decrease in debt in the first six months of 2018 of $31.5m includes a net inflow of $42.9m from the disposal of the Surfactants business. In 2017 the movement was primarily due to an outflow of $361.2m for the purchase of SummitReheis.

Operating cash flow in the period declined from $52.0m to $25.5m driven mainly by an increase in the working capital outflow from $9.7m to $27.9m. Of this movement, $11.5m related to an increase in inventories, predominantly within Chromium as the business rebuilt chrome ore supplies. EBITDA in the period was in line with last year, with reduced earnings from Surfactants offset by earnings growth in the current period.

Capital expenditure in the period of $20.5m was $5.6m higher than the previous year. Of the increase, $2.5m was attributable to Chromium and incremental spending on SummitReheis amounted to $0.2m. Spending across the plants that serve the Personal Care, Coatings and Energy segments increased by $3.4m. Capital spending for the year as a whole is expected to be approximately $40-45m (2017: $41.6m).

There were no pension deficit payments in the period (2017: $6.5m), mainly resulting from the UK pension scheme being in surplus under IAS 19. Interest and tax payments in the period were $1.3m higher than the previous year, mostly due to interest on the Group's increased borrowings following the acquisition of SummitReheis in March 2017.

Dividend payments were $28.2m compared to $65.3m in the first six months of 2017, the decrease being due to the absence of a special dividend for 2017 (2016: 8.35c/share, paid in 2017) as the Group moved into a net debt position during of 2017 following the acquisition of SummitReheis. Overall, the Group had a net debt position on its balance sheet of $259.6m at the end of the period, a reduction of $53.7m from the comparable period last year, driven by organic cash generation and the disposal of the Surfactants business in February 2018 for EUR 39m.

Working capital

Working capital days	**30 June 2018**	30 June 2017	31 December 2017
Inventory	**94**	99	95
Debtors	**47**	49	47
Creditors	**56**	65	71
Average working capital to sales (%)	**19.4**	19.9	18.8

Total working capital for the Group was $15.1m higher than at the end of June 17. Debtor days showed a minor decrease at 47 days, compared to 49 days last year, but was consistent with the year end position. Inventory levels were $12.0m higher compared to the end of June 2017, driven mainly by strategic purchasing of chrome ore, but overall inventory days improved by 5 days, reflecting the full 12 months impact of SummitReheis in the calculation. Average working capital levels as a percentage of revenue of 19.4% showed an improvement of 0.5% over the comparable period last year, as the increase in revenue more than offset the increase in working capital.

Balance sheet

	30 June 2018 $m	30 June 2017 $m	31 December 2017 $m
Property, plant and equipment	**223.2**	241.3	219.5
Other net assets	**744.4**	701.1	773.9
Net debt	**(259.6)**	(313.3)	(291.1)
Equity	**708.0**	629.1	702.3

Property, plant and equipment decreased by $18.1m compared to the value at 30 June 2017, with the disposal of Surfactants accounting for a reduction of $38.0m. In the current period, capex of $20.5m exceeded depreciation of $13.0m and minor FX movements.

Other net assets increased by $43.3m to $744.4m due to a working capital increase of $15.1m, a net reduction in pensions and provisions liabilities of $22.2m and an increase in valuation of goodwill and other intangibles of $10.0m due to the impact of FX revaluation offset by net tax liabilities increasing by $6.4m.

Equity increased by $78.9m as a result of profit for the intervening period of $105.2m offset by dividends paid of $40.7m, actuarial gains net of tax of $14.2m and negative exchange movements of $3.8m.

The main dollar currency exchange rates as at 30 June 2018 and average rates in the period were:

	2018 30 June	**2018 Average**	**2017 30 June**	**2017 Average**
Sterling	**0.76**	**0.72**	0.77	0.79
Euro	**0.86**	**0.83**	0.88	0.93

Pensions and post retirement plans

	UK $m	US $m	Other $m	**Total $m**
Movement in net deficit				
Net surplus/(deficit) in schemes at 1 January 2018	21.9	(21.1)	(11.3)	(10.5)
Current service cost	(0.3)	(0.1)	(0.5)	(0.9)
Contributions	0.2	-	0.5	0.7
Administration costs	(0.9)	(0.4)	-	(1.3)
Net interest expense	0.3	(0.3)	(0.1)	(0.1)
Actuarial gain	(3.1)	5.3	-	2.2
Currency translation differences	(0.5)	-	0.3	(0.2)
Net surplus/(deficit) in schemes at 30 June 2018	**17.6**	**(16.6)**	**(11.1)**	**(10.1)**

During the period the deficit, under IAS 19, on the Group's pension and post retirement medical plans improved by $0.4m to $10.1m. During the first six months of 2018 the UK scheme had an annualised return of -4% (2017: 5%), liabilities decreased by 5% (2017: increased by 4%) and the net surplus declined by $4.3m. This movement was driven by the adverse impact of actual investment performance being only partially offset by the benefit of actuarial assumptions on the pension obligations. Within the US schemes the net deficit reduced by $4.5m mainly due to an increase in the discount rate assumption of 55 bps. Contributions in the period totalled $0.7m (2017: $7.4m), the decline being due to the continuing strong position of the UK fund and the resulting impact on the current funding plan.

Cautionary statement

The Elementis plc interim results announcement for the half year ended 30 June 2018, which comprises the CEO's report, Finance report and the Directors' responsibility statement (which taken together constitute the Interim management report) and the interim financial statements and accompanying notes (incorporating a Condensed consolidated balance sheet at 30 June 2018, Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, Condensed consolidated cash flow statement and Condensed consolidated statement of changes in equity, each for the six months ended 30 June 2018) (altogether 'Half yearly financial report'), contains information which viewers or readers might consider to be forward looking statements relating to or in respect of the financial condition, results, operations or businesses of Elementis plc. Any such statements involve risk and uncertainty because they relate to future events and circumstances. There are many factors that could cause actual results or developments to differ materially from those expressed or implied by any such forward looking statements. Nothing in this Half yearly financial report should be construed as a profit forecast.

Related party transactions

There were no material related party transactions entered into during the first half of the year and there have been no material changes to the related party transactions disclosed in the Company's 2017 Annual report and accounts on page 126.

Directors' responsibility statement

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

The Directors confirm that to the best of their knowledge:

- The condensed set of financial statements set out in this half-yearly financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

- The condensed set of consolidated financial statements, which has been prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or the undertakings included in the consolidation as a whole as required by DTR 4.2.4R; and

- The interim management report contained in this half-yearly financial report includes a fair review of the information required by:

    - DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

    - DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in related party transactions described in the 2017 Annual report and accounts that could have a material effect on the financial position or performance of the entity during the first six months of the current financial year.

Approved by the Board on 31 July 2018 and signed on its behalf by:

Paul Waterman	Ralph Hewins
CEO	CFO
31 July 2018	31 July 2018

INDEPENDENT REVIEW REPORT TO ELEMENTIS PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
31 July 2018

Condensed consolidated income statement
for the six months ended 30 June 2018

	Note	**2018 Six months ended 30 June $m**	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Revenue	4	**421.4**	383.5	782.7
Cost of sales		**(265.9)**	(241.5)	(487.6)
Gross profit		**155.5**	142.0	295.1
Distribution costs		**(56.3)**	(47.1)	(98.1)
Administrative expenses		**(43.0)**	(43.7)	(105.6)
Operating profit	4	**56.2**	51.2	91.4
Other expenses		**(1.3)**	(1.4)	(1.2)
Finance income	6	**0.3**	0.1	0.2
Finance costs	7	**(8.4)**	(5.0)	(11.9)
Profit before income tax	4	**46.8**	44.9	78.5
Tax	8	**(15.9)**	(8.4)	34.2
Profit from continuing operations		**30.9**	36.5	112.7
(Loss)/profit from discontinued operations	15	**(0.1)**	6.7	4.9
Profit for the period		**30.8**	43.2	117.6
Attributable to:				
equity holders of the parent		**30.8**	43.2	117.6
Earnings per share				
From continuing operations				
Basic (cents)	9	**6.7**	7.9	24.3
Diluted (cents)	9	**6.6**	7.8	24.0
From continuing and discontinued operations				
Basic (cents)	9	**6.6**	9.3	25.4
Diluted (cents)	9	**6.6**	9.2	25.0

Condensed consolidated statement of comprehensive income
for the six months ended 30 June 2018

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Profit for the period	**30.8**	**43.2**	117.6
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain on pension and other post retirement schemes	**2.2**	5.4	18.1
Deferred tax associated with pension and other post retirement schemes	**(0.6)**	0.1	(7.3)
	1.6	5.5	10.8
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**0.5**	9.7	(0.2)
Effective portion of change in fair value of net investment hedges	**(6.9)**	10.3	22.9
Recycling of deferred foreign exchange losses on disposal	**4.2**	-	-
Effective portion of changes in fair value of cash flow hedges	**2.4**	(1.0)	0.1
Fair value of cash flow hedges transferred to income statement	**0.1**	0.3	0.3
Exchange differences on translation of share options reserves	**-**	-	0.1
	0.3	19.3	23.2
Other comprehensive income, net of tax	**1.9**	24.8	34.0
Total comprehensive income for the period	**32.7**	68.0	151.6
Attributable to:			
Equity holders of the parent	**32.7**	68.0	151.6
Total comprehensive income for the period	**32.7**	68.0	151.6

Condensed consolidated balance sheet
at 30 June 2018

	2018 30 June $m	2017 30 June $m	2017 31 December $m
Non-current assets			
Goodwill and other intangible assets	**707.8**	697.8	717.2
Property, plant and equipment	**223.2**	241.3	219.5
ACT recoverable	**12.6**	18.0	16.2
Deferred tax assets	**0.5**	14.7	0.2
Total non-current assets	**944.1**	971.8	953.1
Current assets			
Inventories	**151.8**	139.8	143.6
Trade and other receivables	**139.1**	150.2	124.6
Derivatives	**2.1**	-	0.9
Current tax asset	**4.5**	13.5	4.3
Cash and cash equivalents	**57.4**	74.6	55.0
Total current assets	**354.9**	378.1	328.4
Assets classified as held for sale	**-**	-	58.2
Total assets	**1,299.0**	1,349.9	1,339.7
Current liabilities			
Bank overdrafts and loans	**(4.7)**	(6.5)	(2.7)
Trade and other payables	**(114.2)**	(128.4)	(117.7)
Derivatives	**-**	(0.3)	-
Current tax liabilities	**(26.3)**	(6.4)	(14.1)
Provisions	**(9.0)**	(10.5)	(10.8)
Total current liabilities	**(154.2)**	(152.1)	(145.3)
Non-current liabilities			
Loans and borrowings	**(312.3)**	(381.4)	(343.4)
Employee retirement benefits	**(10.1)**	(24.1)	(10.5)
Deferred tax liabilities	**(92.9)**	(135.0)	(93.4)
Provisions	**(21.5)**	(28.2)	(21.9)
Total non-current liabilities	**(436.8)**	(568.7)	(469.2)
Liabilities classified held for sale	**-**	-	(22.9)
Total liabilities	**(591.0)**	(720.8)	(637.4)
Net assets	**708.0**	629.1	702.3
Equity			
Share capital	**44.4**	44.4	44.4
Share premium	**22.1**	21.2	21.9
Other reserves	**101.2**	95.9	99.0
Retained earnings	**540.3**	467.6	537.0
Equity attributable to equity holders of the parent	**708.0**	629.1	702.3
Total equity and reserves	**708.0**	629.1	702.3

Condensed consolidated cash flow statement
for the six months ended 30 June 2018

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating activities:			
Profit for the period	**30.8**	43.2	117.6
Adjustments for:			
Other expenses	**1.3**	1.4	1.2
Finance income	**(0.2)**	(0.1)	(0.2)
Finance costs	**8.4**	4.9	11.9
Tax	**15.6**	10.9	(33.3)
Depreciation and amortisation	**20.7**	17.3	39.7
Decrease in provisions	**(5.1)**	(2.4)	(8.5)
Pension contributions net of current service cost	**-**	(6.5)	(6.3)
Share based payments	**1.9**	1.4	2.8
Loss on disposal of business	**0.5**	-	-
Operating cash flows before movements in working capital	**73.9**	70.1	124.9
(Increase)/decrease in inventories	**(11.5)**	2.1	(2.2)
Increase in trade and other receivables	**(17.6)**	(23.4)	(2.4)
Increase in trade and other payables	**1.2**	11.6	11.5
Cash generated by operations	**46.0**	60.4	131.8
Income taxes paid	**(2.0)**	(4.2)	(9.1)
Interest paid	**(6.9)**	(3.2)	(8.0)
Net cash flow from operating activities	**37.1**	53.0	114.7
Investing activities:			
Interest received	**0.3**	0.1	0.1
Disposal of property, plant and equipment	**-**	0.2	3.3
Purchase of property, plant and equipment	**(18.5)**	(14.7)	(43.2)
Purchase of business	**-**	(361.2)	(361.8)
Disposal of business	**42.9**	-	-
Acquisition of intangibles	**(2.0)**	(0.4)	(1.7)
Net cash flow from investing activities	**22.7**	(376.0)	(403.3)
Financing activities:			
Issue of shares	**0.2**	0.3	1.0
Dividends paid	**(28.2)**	(65.3)	(77.8)
Purchase of shares by the ESOT	**-**	(2.4)	(2.4)
(Decrease)/increase in borrowings	**(28.0)**	380.0	336.0
Net cash used in financing activities	**(56.0)**	312.6	256.8
Net increase/(decrease) in cash and cash equivalents	**3.8**	(10.4)	(31.8)
Cash and cash equivalents at beginning of period	**55.0**	82.6	82.6
Foreign exchange on cash and cash equivalents	**(1.4)**	2.3	4.2
Cash and cash equivalents at end of period	**57.4**	74.5	55.0

Condensed consolidated statement of changes in equity
for the six months ended 30 June 2018

	Share capital $m	Share premium $m	Translation reserve $m	Hedging reserve $m	Other reserves $m	Retained earnings $m	Total equity $m
At 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	537.0	702.3
Impact following adoption of IFRS 15	-	-	-	-	-	(0.9)	(0.9)
Revised 1 January 2018	44.4	21.9	(57.2)	(6.9)	163.1	536.1	701.4
Profit for the period	-	-	-	-	-	30.8	30.8
Other comprehensive income:							
Exchange differences	-	-	(6.4)	-	-	-	(6.4)
Recycling of deferred foreign exchange losses on disposal	-	-	4.2	-	-	-	4.2
Movement in cash flow hedges	-	-	-	2.5	-	-	2.5
Actuarial gain on pension scheme	-	-	-	-	-	2.2	2.2
Deferred tax adjustment on pension scheme deficit	-	-	-	-	-	(0.6)	(0.6)
Transactions with owners:							
Issue of shares	-	0.2	-	-	-	-	0.2
Purchase of shares	-	-	-	-	-	-	-
Share based payments	-	-	-	-	1.9	-	1.9
Dividends paid	-	-	-	-	-	(28.2)	(28.2)
At 30 June 2018	**44.4**	**22.1**	**(59.4)**	**(4.4)**	**165.0**	**540.3**	**708.0**

	Share capital $m	Share premium $m	Translation reserve $m	Hedging reserve $m	Other reserves $m	Retained earnings $m	Total equity $m
At 1 January 2017	44.4	20.9	(79.9)	(7.3)	162.4	486.6	627.1
Profit for the period	-	-			-	43.2	43.2
Other comprehensive income:							
Exchange differences	-	-	20.0	-	-	-	20.0
Movement in cash flow hedges	-	-	-	(0.7)	-	-	(0.7)
Actuarial gain on pension scheme	-	-	-	-	-	5.4	5.4
Deferred tax adjustment on pension scheme deficit	-	-	-	-	-	0.1	0.1
Transactions with owners:							
Issue of shares	-	0.3	-	-	-	-	0.3
Purchase of shares	-	-	-	-	-	(2.4)	(2.4)
Share based payments	-	-	-	-	1.4	-	1.4
Dividends paid	-	-	-	-	-	(65.3)	(65.3)
At 30 June 2017	**44.4**	**21.2**	**(59.9)**	**(8.0)**	**163.8**	**467.6**	**629.1**

Notes to the interim financial statements for the six months ended 30 June 2018

1 General Information

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

2 Accounting policies

Basis of preparation

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

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of financial statements has been prepared applying the same accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 December 2017, except that a number of new standards and amendments to standards have been issued and are now effective for the Group. The most significant of these, and their impact on the Group's accounting, are set out below:

IFRS 9 Financial Instruments (effective from 1 January 2018)

IFRS 9 ' Financial Instruments' has been implemented by the Group from 1 January 2018. The Standard replaces the provisions of IAS 39 that relate to the recognition, classification, measurement and de-recognition of financial instruments, impairment of financial assets and hedge accounting. The financial impact of the new standard on the measurement of, and provisioning for, the Group's financial assets is immaterial at both period opening and closing dates. The comparative financial information has not been restated with this change applied retrospectively from 1 January 2018.

The Group applied IFRS 9 simplified approach to measuring expected credit loss which uses a life time expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. On that basis Group determined loss allowance for trade receivables as at 1 January 2018 will not give rise to an additional loss allowance under IFRS 9.

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

The standard is based on the principle that revenue is recognised when performance obligations within a customer contract are fulfilled rather than when risk, reward and control passes to a customer.

There has been no material impact of the new standard to the Group's recognition of revenue. The comparative financial information has not been restated with this change applied prospectively from 1 January 2018.

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

The preparation of these interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of income, expense, assets and liabilities. The significant estimates and judgements made by management were consistent with those applied to the consolidated financial statements for the year ended 31 December 2017 except where amended by the adoption of the new standards listed above.

The following new standard has been issued but is not yet effective and has therefore not been adopted by the Group.

IFRS 16 Leases (effective from 1 January 2019)

> The standard requires lessees to recognise a right-of-use asset and related lease liability representing the obligation to make lease payments. Interest expense on the lease liability and depreciation on the right-of-use asset will be recognised in the consolidated income statement.
>
> The Directors have performed an initial assessment of IFRS 16 and they do not believe it will have a material impact on the net profit of the Group in future periods.

The information for the year ended 31 December 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

3 Going concern

The Directors have assessed the Group as a going concern, having given consideration to its business plans and financial forecasts, as well as to the risks and material uncertainties to the Group's trading performance arising therefrom. The Group is in a net debt position at the end of 30 June 2018 of $259.6m but has facilities available in excess of $100m.

The Directors are satisfied that, after considering all of the above, the Group has adequate resources to remain in operational existence for the foreseeable future, that it is appropriate for the Group to adopt the going concern basis of accounting in preparing these interim financial statements, and that there are no material uncertainties to the ability of the Group and Company to continue to do so over a period of at least twelve months from the date of approval of the interim financial statements.

4 Segment reporting

As indicated in the 2017 annual report Elementis has moved towards a flatter and more transparent structure. Reflective of this, the previous Specialty Products segment has now been divided into three segments – Personal Care, Coatings and Energy, which are reported alongside the existing Chromium segment which remains unchanged.

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
Energy – production of rheological modifiers and additives for oil and gas drilling and stimulation activities.
Chromium – production of chromium chemicals.

	Six months ended 30 June 2018			Six months ended 30 June 2017			Year ended 31 December 2017		
	Gross $m	**Inter-segment $m**	**External $m**	Gross $m	Inter-segment $m	External $m	Gross $m	Inter-segment $m	External $m
Revenue									
Personal Care	**111.8**	-	**111.8**	77.1	-	77.1	179.3	-	179.3
Coatings	**197.6**	**-**	**197.6**	188.1	-	188.1	372.9	-	372.9
Energy	**27.0**	**-**	**27.0**	29.3	-	29.3	58.8	-	58.8
Chromium	**90.5**	**(5.5)**	**85.0**	95.4	(6.4)	89.0	186.7	(15.0)	171.7
Revenue on continuing operations	**426.9**	**(5.5)**	**421.4**	389.9	(6.4)	383.5	797.7	(15.0)	782.7
Revenue on discontinued operations	**4.8**	**-**	**4.8**	31.4	(0.1)	31.3	47.8	(0.2)	47.6
Revenue total operations	**431.7**	**(5.5)**	**426.2**	421.3	(6.5)	414.8	845.5	(15.2)	830.3

All revenues relate to the sale of goods

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Adjusted operating profit			
Personal Care	**29.9**	20.3	44.6
Coatings	**29.9**	26.9	54.7
Energy	**3.2**	4.3	9.7
Chromium	**13.9**	15.8	30.1
Central costs	**(9.3)**	(8.9)	(16.4)
Adjusted operating profit on continuing operations	**67.6**	58.4	122.7
Adjusting Items on continuing operations	**(11.4)**	(7.2)	(31.3)
Operating profit on continuing operations	**56.2**	51.2	91.4
Other expenses	**(1.3)**	(1.4)	(1.2)
Finance income	**0.3**	0.1	0.2
Finance costs	**(8.4)**	(5.0)	(11.9)
Profit before tax	**46.8**	44.9	78.5

5 Adjusting items and alternative performance measures

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

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating profit on continuing operations	**56.2**	51.2	91.4
Adjusting items:			
Restructuring	**0.9**	0.7	0.6
Business transformation	**-**	0.9	3.4
Environmental provisions			
Increase in provisions due to additional remediation work identified	**-**	-	2.1
SummitReheis acquisition costs	**-**	6.0	9.7
Uplift due to fair value of SummitReheis inventory	**-**	-	4.0
Sale of Colourants business and closure of Jersey city site	**-**	(3.5)	(2.5)
Sale of Surfactants business	**0.5**	-	2.2
Cost associated with other M&A activity	**2.8**	-	-
Amortisation of intangibles arising on acquisition	**7.2**	3.1	11.8
Net adjusting items on continuing operations	**11.4**	7.2	31.3
Adjusted operating profit on continuing operations	**67.6**	58.4	122.7

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating profit on discontinued operations	**(0.4)**	9.2	5.8
Adjusting items:			
Release of legal provision	**-**	-	(0.7)
Sale of Surfactants business	**-**	-	0.3
Net adjusting items on discontinued operations	**-**	-	(0.4)
Adjusted operating profit discontinued operations	**(0.4)**	9.2	5.4

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating profit on continuing and discontinued operations	**55.8**	60.4	97.2
Adjusting items:			
Restructuring	**0.9**	0.7	0.6
Business transformation	**-**	0.9	3.4
Environmental provisions			
Increase in provisions due to additional remediation work identified	**-**	-	2.1
SummitReheis acquisition costs	**-**	6.0	9.7
Uplift due to fair value of SummitReheis inventory	**-**	-	4.0
Sale of Colourants business and closure of Jersey city site	**-**	(3.5)	(2.5)
Release of legal provision	**-**	-	(0.7)
Sale of Surfactants business	**0.5**	-	2.5
Cost associated with other M&A activity	**2.8**	-	-
Amortisation of intangibles arising on acquisition	**7.2**	3.1	11.8
Net adjusting items on continuing and discontinued operations	**11.4**	7.2	30.9
Adjusted operating profit on total operations	**67.2**	67.6	128.1

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Adjusted operating profit			
Personal Care	**29.9**	20.3	44.6
Coatings	**29.9**	26.9	54.7
Energy	**3.2**	4.3	9.7
Chromium	**13.9**	15.8	30.1
Central costs	**(9.3)**	(8.9)	(16.4)
Adjusted operating profit on continuing operations	**67.6**	58.4	122.7
Other expenses	**(1.3)**	(1.4)	(1.2)
Finance income	**0.3**	0.1	0.2
Finance costs	**(8.4)**	(5.0)	(11.9)
Adjusted profit before tax on continuing operations	**58.2**	52.1	109.8

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Adjusted operating profit			
Surfactants	**(0.4)**	9.2	5.4
Adjusted operating profit on discontinued operations	**(0.4)**	9.2	5.4
Adjusted profit before tax on discontinued operations	**(0.4)**	9.2	5.4

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Adjusted operating profit			
Personal Care	**29.9**	20.3	44.6
Coatings	**29.9**	26.9	54.7
Energy	**3.2**	4.3	9.7
Chromium	**13.9**	15.8	30.1
Surfactants	**(0.4)**	9.2	5.4
Central costs	**(9.3)**	(8.9)	(16.4)
Adjusted operating profit on total operations	**67.2**	67.6	128.1
Other expenses	**(1.3)**	(1.4)	(1.2)
Finance income	**0.3**	0.1	0.2
Finance costs	**(8.4)**	(5.0)	(11.9)
Adjusted profit before tax on total operations	**57.8**	61.3	115.2

Adjusted operating margin is the ratio of Adjusted operating profit to sales.
The adjusted tax rate is defined as the provision for tax on profits after adjusting items, divided by the adjusted profit before income tax.

Within 2018 first half adjusting items, restructuring costs of $0.9m relate to the IFRS 2 cost of buyouts associated with the new CEO and CFO appointed in 2016 and are accounted for in the period to which they relate. An adjustment of $0.5m has been made to remove the profit element on the disposal of the Surfactants business, as this is a non-recurring event. During the first half of 2018, costs of $2.8m have been incurred in relation both to M&A activity. To the extent that these will subsequently be accounted for as a larger roll up of acquisition costs in the second half or are deemed to have no consequence on the underlying performance of the business, these are treated as adjusting items. Amortisation of intangibles arising on acquisition are treated as an adjusting item following the conclusion of the Directors, and implemented for the first time in 2017, that the exclusion of such a charge from the operating profit would provide readers of the accounts with a better understanding of the Group's results on its operating activities.

Other adjusting items in 2017 included costs related to the business transformation exercise started in 2016 involving key account management and a working capital improvement project. Other items included adjustments following on from the acquisition of SummitReheis and the disposal of the Jersey City site and Surfactants business, and those relating to both environmental and legal provisions.

EBITDA is defined as operating profit on total operations for a period excluding the charge for depreciation and amortisation for that period.

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Operating profit on total operations	**55.8**	60.4	97.2
Add : depreciation and amortisation	**20.7**	17.3	39.7
EBITDA for the period	**76.5**	77.7	136.9

Adjusted EBITDA is defined as the operating profit on total operations after adjusting items (except where those adjusting items relate to interest, depreciation or amortisation) excluding the charge for depreciation and amortisation for that period.
Net Debt to Adjusted EBITDA is defined as the ratio of Net Debt to Adjusted EBITDA for the prior 12 months.

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Adjusted operating profit on total operations	**67.2**	67.6	128.1
Less : amortisation of intangibles arising on acquisition	**(7.2)**	(3.1)	(11.8)
Add : depreciation and amortisation	**20.7**	17.3	39.7
Adjusted EBITDA for the period	**80.7**	81.8	156.0

Adjusted EBITDA for the 12 months to 30th June 2018 is $154.9m and therefore Net Debt to Adjusted EBITDA at 30th June 2018 is 1.7 times.

	2017 Six months ended 30 June $m	2016 Six months ended 30 June $m	2016 Year ended 31 December $m
Adjusted operating profit on total operations	**67.6**	53.6	96.9
Less : amortisation of intangibles arising on acquisition	**(3.1)**	(1.3)	(2.7)
Add : depreciation and amortisation	**17.3**	13.9	28.0
Adjusted EBITDA for the period	**81.8**	66.2	122.2

Adjusted EBITDA for the 12 months to 30th June 2017 is $137.8m and therefore Net Debt to Adjusted EBITDA at 30th June 2017 is 2.3 times.

6 Finance income

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Interest on bank deposits	**0.3**	0.1	0.2

7 Finance costs

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Interest on bank loans	**7.7**	4.3	9.7
Unwind of discount on provisions	**0.5**	0.6	1.1
Pension and other post-retirement liabilities	**0.2**	0.1	1.1
	8.4	5.0	11.9

8 Tax

The provision for tax on profits of $15.9m, or 34.0% (2017: $8.4m, or 18.7%) is based on the probable tax charge in those jurisdictions where profits arise. Within this figure is a tax debit of $4.4m (2017: credit $1.8m) in respect of adjusting items.

9 Earnings per share

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Continuing operations			
Earnings for the purposes of basic earnings per share	**30.9**	36.5	112.7
Adjusting items net of tax	**15.8**	5.4	(25.4)
Adjusted earnings	**46.7**	41.9	87.3
Discontinued operations			
Earnings for the purposes of basic earnings per share	**(0.1)**	6.7	4.9
Adjusting items net of tax	**-**	-	(0.4)
Adjusted earnings	**(0.1)**	6.7	4.5
Total of all operations			
Earnings for the purposes of basic earnings per share	**30.8**	43.2	117.6
Adjusting items net of tax	**15.8**	5.4	(25.8)
Adjusted earnings	**46.6**	48.6	91.8
	Number(m)	Number(m)	Number(m)
Weighted average number of shares for the purposes of basic earnings per share	**463.7**	463.6	463.2
Effect of dilutive share options	**5.7**	5.4	6.3
Weighted average number of shares for the purposes of diluted earnings per share	**469.4**	469.0	469.5

	2018 Six months ended 30 June cents	2017 Six months ended 30 June cents	2017 Year ended 31 December cents
Continuing operations			
Earnings per share:			
Basic	**6.7**	7.9	24.3
Diluted	**6.6**	7.8	24.0
Adjusted earnings per share:			
Basic	**10.1**	9.0	18.8
Diluted	**9.9**	8.9	18.6
Discontinued operations			
Earnings per share:			
Basic	**-**	1.4	1.1
Diluted	**-**	1.4	1.0
Adjusted earnings per share:			
Basic	**-**	1.5	1.0
Diluted	**-**	1.5	0.9
Total of all operations			
Earnings per share:			
Basic	**6.6**	9.3	25.4
Diluted	**6.6**	9.2	25.0
Adjusted earnings per share:			
Basic	**10.0**	10.5	19.8
Diluted	**9.9**	10.4	19.5

10 Dividends

The following dividends were declared and paid by the Group:

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Dividends paid on ordinary shares	**28.2**	65.3	77.8

An interim dividend of 2.95 cents per share (2017: 2.70 cents) has been declared by the Board of Directors and will be paid on 28 September 2018 to shareholders on the register at 31 August 2018. The interim dividend will be paid in sterling at an exchange rate of $1.3141:£1.00.

11 Pension

Valuations for IAS 19 purposes were conducted as of 30 June 2018. The Group is reporting a deficit on its combined retirement benefit obligations of $10.1m at the end of June 2018, compared to balances of $24.1m at the same time last year and $10.5m at the end of December 2017. Additional commentary is included in the Finance Report.

12 Movement in net cash/(borrowings)

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Change in net cash/(borrowings) resulting from cash flows			
Increase/(decrease) in cash and cash equivalents	**3.8**	(10.4)	(31.7)
Decrease/(increase) in borrowings	**28.0**	(380.0)	(336.0)
	31.8	(390.4)	(367.7)
Currency translation differences	**(0.3)**	(0.4)	(0.9)
Increase/(decrease) in net cash	**31.5**	(390.8)	(368.6)
Net (debt)/cash at beginning of period	**(291.1)**	77.5	77.5
Net debt at end of period	**(259.6)**	(313.3)	(291.1)

13 Financial risk management

The Group has exposure to the following financial risks:

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

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's Audit Committee, assisted by Internal Audit, oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. These interim financial statements do not include all the financial risk management information and disclosures that are required in the Annual report and accounts and should be read in conjunction with the financial statements for the year ended 31 December 2017. The Group's risk management policies have not changed since the year end.

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

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

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

Level 3: Valuation techniques using significant unobservable inputs.

The Group carried its trade and other receivables and payables, excluding derivatives, at amortised cost and consider fair value approximates carrying value. Derivatives are categorised within level 2. All other financial instruments, including cash and loans are categorised within level 1. At both 30 June 2018 and 31 December 2017 there was no difference between the carrying value and fair value of financial instruments.

14 Contingent liabilities

As is the case with other chemical companies, the Group occasionally receives notices of litigation relating to regulatory and legal matters. A provision is recognised when the Group believes it has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where it is deemed that an obligation

is merely possible and that the probability of a material outflow is not remote, the Group would disclose a contingent liability.

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

15 Discontinued operations

On 28 February the Group disposed of Elementis Specialties Netherlands BV, which carried out all of the Group's Surfactants operations. The disposal generated cash flow for the expansion of the Group's other businesses.

The results of the discontinued operations, which have been included in the consolidated income statement on the line "Profit from discontinued operations", were as follows:

	2018 Six months ended 30 June $m	2017 Six months ended 30 June $m	2017 Year ended 31 December $m
Revenue net of inter-segment sales	**4.8**	31.3	47.6
Expenses net of cost of inter-segment sales	**(5.2)**	(22.1)	(41.8)
Profit before tax*	**(0.4)**	9.2	5.8
Attributable tax expense	**0.3**	(2.5)	(0.9)
Net profit attributable to discontinued operations	**(0.1)**	6.7	4.9

* 2017 H1 excludes $0.1m of head office cost allocations that were included in the figures reported in August 2017.

During the period, Elementis Specialties Netherlands BV absorbed $1.1m of the Group's net operating cash flows and paid $0.6m in respect of investing activities.

16 Disposals

In the first half of 2018, the Group disposed of the following business:

	Country	Date of disposal	Shares/asset deal
Elementis Specialties Netherlands BV	Netherlands	Feb 2018	Shares

The Group recognised a total gain on current year disposal of

	2018 two months ended 28 February $m
Consideration received	**47.9**
Net assets disposed of	**(42.0)**
Disposal costs	**(2.2)**
Recycling of deferred foreign exchange gains	**(4.2)**
Gain on disposal	**(0.5)**

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

	2018 two months ended 28 February $m
Property, plant and equipment	**38.0**
Goodwil and intangible assets	**5.6**
Inventories	**8.6**
Receivables	**11.1**
Payables	**(20.3)**
Pensions	**(0.4)**
Deferred tax	**(3.4)**
Net cash	**2.8**
Total net assets disposed of	**42.0**

The net inflow/(outflow) of cash in respect of the disposal of businesses is as follows:

	2018 two months ended 28 February $m
Cash consideration received (net of cash disposed of)	**45.1**
Disposal costs	**(2.2)**
Net cash inflow	**42.9**

Principal risks and uncertainties

The Group has policies, processes and systems in place to help identify, evaluate and manage risks at all levels throughout the organisation. Certain key risks, because of their size, likelihood and/or severity, are reviewed regularly by the executive leadership team and the Board, to ensure that appropriate action is taken to eliminate, reduce or mitigate, wherever practicable, significant risks that can lead to financial loss, harm to reputation, business failure or which threaten the safety of our employees.

The following is a summary of the principal risks faced by the Group that could impact the second half of the year: (i) uncertain global economic conditions and competitive pressures in the marketplace (including from currency movement); (ii) business interruption as a result of a major event (e.g. operations/HSE, IT, transport or workplace incident caused by process/system failure and/or human error, or by fire, storm and/or flood), or a natural catastrophe (e.g. a hurricane or pandemic); (iii) business interruption as a result of supply chain failure of key raw materials (e.g. clays) and/or third party service provision (e.g. infrastructure, transport or IT failure); (iv) increasing regulatory and product stewardship challenges; (v) major regulatory enforcement action, litigation and/or other claims arising from products and/or historical and ongoing operations; (vi) industrial espionage, workplace security and loss/theft of intellectual property; (vii) disruptive technology advances: failure to identify and mitigate the threat posed by new or imitation technology; (viii) talent management and succession planning: failure to attract, manage, develop and/or retain talent; and (ix) cyber security incident: systems security breach and loss of network connectivity and integrity and/or loss of business and personal data. A full description of these risks and the mitigating actions taken by the Company can be found in the 2017 Annual report and accounts on pages 32 to 36.

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