Delivering Growth in Speciality Chemicals

Synthomer plc Annual Report 2018

Highlights of 2018

Delivering growth in speciality chemicals

Commercial highlights

+ **Fourth consecutive year of growth and record profitability:**
  - Investment in organic and inorganic growth combined with geographic diversity and product differentiation underpinned solid progress in 2018
  - Underlying profit before tax up 3.9% at £135.1m (2017: £130.0m)
  - IFRS profit before tax up 39.2% at £120.3m (2017: £86.4m)
+ **Europe and North America (ENA) resilient in challenging market conditions:**
  - Market leading position in aqueous polymers in Europe
  - Volume growth driven by acquisition of BASF Pischelsdorf (Austria)
  - Unit margins stable, recognising transactional impact of weak USD and significant raw material price volatility
  - Underlying operating profit £5.9m lower at £111.2m (2017: £117.1m)
  - IFRS operating profit up 18.5% at £91.8m (2017: £77.5m)
+ **Asia and Rest of the World (ARW) results driven by strong growth in Nitrile latex demand:**
  - Nitrile latex market growth in excess of 10% during 2018
  - Nitrile latex unit margins strengthened due to improved supply/demand balance
  - Successful commissioning of 90ktes Nitrile latex expansion at Pasir Gudang in Q4 2018, safely on time and on budget
  - Underlying operating profit £10.6m higher at £45.7m (2017: £35.1m)
  - IFRS operating profit up 76.0% at £54.9m (2017: £31.2m)
+ **Continued focus and investment in organic and inorganic growth:**
  - £75.7m investment in capital expenditure, the most significant investment in Group history, securing future growth
  - £17.1m investment in research and development continuing to drive innovation and new product formulations
  - Successful acquisition and integration of the BASF Pischelsdorf SBR business, enhancing European SBR business and increasing market share in paper and packaging market
+ **Record return on R&D investment:**
  - 21% of sales volumes from new products launched in past 5 years
  - Board approval for £5m investment in state-of-the-art Asian Innovation Centre based in Malaysia commissioning 2020
+ **Strong earnings per share performance:**
  - 6.8% rise in underlying earnings per share to 32.8p (2017: 30.7p)
  - Reduced effective tax rate to 17.0% (2017: 19.0%), consistent with geographical profit mix and prior year items
  - 34.9% rise in IFRS earnings per share to 29.4p (2017: 21.8p)
+ **Improved dividend per share in line with dividend policy:**
  - Dividend per share up 7.4% at 13.1p (2017: 12.2p) representing circa 40% of earnings per share

Financial highlights

	Underlying		IFRS	
	2018	2017	**2018**	2017
Volume (ktes)	**1,517.6**	1,443.8	**1,517.6**	1,443.8
Revenue (£m)	**1,618.9**	1,480.2	**1,618.9**	1,480.2
EBITDA (£m)	**181.0**	176.2	**–**	–
Operating profit (£m)	**142.1**	139.0	**128.7**	95.4
Profit before tax (£m)	**135.1**	130.0	**120.3**	86.4
Earnings per share (p)	**32.8**	30.7	**29.4**	21.8
Dividends per share (p)	**13.1**	12.2	**13.1**	12.2
Net borrowings (£m)	**214.0**	180.5	**214.0**	180.5

The Group's management uses Underlying performance to plan for, control and assess the performance of the Group. Underlying performance differs from the statutory IFRS performance as it excludes the effect of Special Items, which are detailed in note 3. The Board's view is that Underlying performance provides additional clarity for the Group's investors and stakeholders and so it is the primary focus of the Group's narrative reporting. Where appropriate IFRS performance inclusive of Special Items is also described. References to 'unit margin' and 'margin' are used in the commentary on Underlying performance. Unit margin (or margin) is calculated on selling price less variable raw material and logistics costs. Further explanations can be found in notes 4, 5 and 6.

Synthomer is a speciality chemicals company and one of the world's leading suppliers of aqueous polymers. With strong geographic diversity and product differentiation, Synthomer holds leadership positions in a wide range of markets including coatings, construction, textiles, paper and healthcare.

We continue to make positive progress towards our strategic objectives, delivering strong growth through capital investment and strategic acquisitions, coupled with an increasingly global approach to serving our customers and end markets.

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Synthomer today

Revenue split

"We understand customers' needs and provide innovative formulations to a range of industries throughout the world."

Calum MacLean
Chief Executive Officer

As announced during November 2018, the Group structure has been reorganised with effect from 1 January 2019. Three new business groups have been created to better service our customers and markets by leveraging our global product portfolio expanding the reach of our R&D capabilities and by bringing greater operational focus to our global markets.

Synthomer tomorrow

From 2019 our new structure will allow us to better leverage:

+ Commercial relationships
+ Operational excellence
+ Technology

The new structure combines sales, marketing, research and production by business group into dedicated global teams whilst retaining very strong regional strength and local focus.

For more information on our new global business structure, see pages 20-27.

Highlights

Volume by market

Europe and North America (ENA)

Volumes

1,115.2ktes
2017: 1,067.7ktes

Revenue	Underlying operating profit
£1,228.4m 2017: £1,134.9m	£111.2m 2017: £117.1m

EBITDA	IFRS operating profit
£135.8m 2017: £140.9m	£91.8m 2017: £77.5m

1	Construction & Coating	**20.7%**
2	Functional Polymers	**16.4%**
3	Health & Protection	**1.8%**
4	Paper	**28.1%**
5	Carpet & Foam	**13.4%**
6	Specialities	**11.4%**
7	Other	**8.2%**

Asia and Rest of the World (ARW)

Volumes

402.4ktes
2017: 376.1ktes

Revenue	Underlying operating profit
£390.5m 2017: £345.3m	£45.7m 2017: £35.1m

EBITDA	IFRS operating profit
£59.7m 2017: £48.2m	£54.9m 2017: £31.2m

1	Construction & Coating	**23.7%**
2	Functional Polymers	**2.5%**
3	Health & Protection	**71.7%**
4	Paper	**0.0%**
5	Carpet & Foam	**0.8%**
6	Specialities	**1.3%**
7	Other	**0.0%**

Performance Elastomers

Volumes	Revenue
859.5ktes	£704.5m

EBITDA	Underlying operating profit
£107.9m	£87.2m

1	Paper	**36.4%**
2	Health & Protection	**35.9%**
3	Carpet	**10.3%**
4	Compounds	**10.0%**
5	Foam	**7.4%**

Functional Solutions

Volumes	Revenue
526.0ktes	£680.1m

EBITDA	Underlying operating profit
£64.1m	£53.0m

1	Coatings	**40.4%**
2	Textiles	**22.8%**
3	Construction	**21.6%**
4	Adhesives	**13.9%**
5	Other	**1.3%**

Industrial Specialities

Volumes	Revenue
132.1ktes	£234.3m

EBITDA	Underlying operating profit
£23.5m	£16.7m

1	Coatings	**29.2%**
2	Polymer Additives	**21.9%**
3	Other	**48.9%**

What makes us different

Adding capacity with safety as our priority

SHE Principles

Synthomer recognises that to be a successful global business we must seek to continually improve and prioritise our SHE performance. We have our SHE Principles and 10 Golden Rules embedded across all of our global operations

Read more about our safety principles on pages 52-53

2018 has seen the largest organic investment programme in the Group's history, focused on securing future growth by introducing additional low cost capacity across our network and to support long-term profitable business development.

The 'Synthomer Way' is to maximise the utilisation of our assets, identify value enhancing debottlenecks and add further capacity to improve our economies of scale, and grow in our chosen markets and leverage our leadership positions. Combining this with operational and functional excellence allows us to deliver our strategy.

We continually seek to identify best practice in all areas of our business and ensure that relevant learnings are embedded throughout the business. Above all we place Safety, Health and Environmental (SHE) activities as our priority in everything that we do.

£75.7m
Investment in capex 2018

90ktes
Investment in new Pasir Gudang (Malaysia) NBR capacity to support market growth in the Nitrile gloves market – safely commissioned on time and on budget Q4 2018

48ktes
Investment in new 48ktes combined speciality dispersion capacity in Worms (Germany) and Roebuck (USA) to support growth in the coatings, adhesive and construction markets. Due to be commissioned Q2 2019.

Three year rolling recordable injury case rate has reduced by more than 60% compared to the prior three year period.

All injury rate (AIR) and Recordable case rate (RCR) 2010-2018

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Global approach to customers and markets

The way we do business has become increasingly global as we follow our customers' requirements, extend our global operating network and leverage our continued focus on research and development and innovation. Our new global structure will improve both our market alignment and close customer relationships.

Read more about our new global business structure on pages 20-27

Read more about our approach to SHE on pages 44-57

Key

Sales office

Operational head office

Manufacturing site

Manufacturing site and R&D centre

The new structure will enable Synthomer to better service its customers and markets through leveraging its global product portfolio, expanding the reach of its R&D capabilities, bringing greater operational focus to our global markets.

The objective of our organisational change is to sharpen our commercial focus, accelerate sales growth and drive further operational efficiencies. Our sales, marketing, innovation and production will be combined by business group into dedicated global teams whilst retaining very strong regional strength and local focus.

Our long established blue chip customer relationships and the high barriers to entry in our chosen speciality chemicals markets, combined with our market leading positions and broad exposure to a diverse set of end markets underpins our strategy of delivering sustainable growth.

25
global plant network

4000+
Customers

15 years+
Average length of customer relationships

4
Technical centres globally

15
Product range launches in 2018

21
Percentage of sales volume in 2018 generated from products launched in the last five years

Strategy driving sustainable growth

Three bolt-on acquisitions completed in past three years:

BASF Pischelsdorf
January 2018

Speciality Additives
March 2017

PAC (Dispersions)
June 2016

Read more about our strategic priorities on pages 18-19

Synthomer delivered a fourth consecutive year of growth in profitability in 2018. This performance is underpinned by our strong balanced strategy which focuses on organic and inorganic acquisition led growth.

Inorganic growth through acquisitions in the speciality chemical sector remains a key part of our growth strategy. We focus on two types of transaction; bolt-on acquisitions in similar chemistry or transformational step change transactions not limited by geography or chemistry. In the past three years we have completed three bolt-on acquisitions allowing us to secure our market leadership position in our core European aqueous polymers segment, optimise and consolidate our network and add new technology and geographies to our business.

Our experienced management team diligently assess the strategic fit of potential opportunities for the Group and apply strict criteria on the type, quality and valuation of targets.

25
Manufacturing sites

18
Countries

8
Newly acquired sites in the last three years

2016
First manufacturing site acquired in North America

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Strengthening governance and performance

Neil Johnson
Chairman

Governance highlights

+ Board re-balanced with increased diversity
+ Revised code of conduct and whistleblowing hotline launched to support values and culture
+ Non-executive director designated for workforce engagement
+ Policies and practices developed to implement 2018 Governance Code

Results

I am pleased to report a year of good progress, highlighted by a fourth consecutive year of growth in Underlying profitability. Our progress has been underpinned by capital investment in higher growth markets, a continued focus on innovation, and our disciplined M&A strategy, overcoming a challenging market environment.

We saw strong organic growth from our Asia and Rest of the World (ARW) segment which helped to offset adverse currency and raw material headwinds in Europe and North America (ENA). One of the Group's strengths is our geographic diversity and product differentiation and this was once again clearly demonstrated in 2018.

Underlying profit before tax increased from £130.0m to £135.1m, an increase of 3.9% and IFRS profit before tax increased by 39.2% from £86.4m in 2017 to £120.3m in 2018. As well as taking into account the improvement in Underlying performance, the increase in IFRS profits is mainly the result of the gains on disposal of land in Malaysia (£16.4m) and a reduction in amortisation of intangible assets (£14.6m).

Focus on investment for future growth

Organic growth remains a key part of our strategy and we continue to see significant opportunities to drive improvement from our existing businesses with the support of our conservatively leveraged balance sheet. In 2018 we made a record investment in capital expenditure to strengthen our platform for future growth. This investment programme introduced new capacity in each of our business segments with further capacity due to be commissioned in 2019. Our largest investment, the 90ktes plant expansion at our Pasir Gudang (Malaysia) Nitrile latex plant, was completed safely, on time and on budget in Q4 2018 and is now producing state of the-art products to support this high growth market. In ENA our capital commitments to expand our capabilities in Oulu (Finland) and Sant'Albano (Italy) are complete and came online in Q3 and Q4 2018 increasing capacity by 12ktes and 5ktes respectively. There will be further new capacity installed in 2019 in Functional Solutions as our two major plant expansions, the 36ktes Worms (Germany) and 12ktes Roebuck (North America), are due to be commissioned in Q2 2019. These investments have further optimised our dispersion polymer network, providing large scale, low cost plants with incremental capacity to support growth of our higher margin speciality products.

Inorganic growth remains core

Inorganic growth also remains a core aspect of our strategy and the Group has now completed three bolt on acquisitions in the past three years: BASF Pischelsdorf in January 2018, adding to the acquisitions of Speciality Additives and PAC which were completed in 2017 and 2016 respectively. The Pischelsdorf site expands our SBR assets and customer base, supports our strategy to strengthen our paper packaging coatings business and will provide further options for our network optimisation in the SBR market. The site was successfully integrated into the business in the first half of 2018. With this acquisition complete Synthomer has secured its market leadership position in its core European aqueous polymers segment, another milestone for our business. We continue to actively evaluate appropriate acquisition opportunities.

Governance and Board

We were in full compliance with the 2016 UK Corporate Governance Code throughout 2018 other than in respect of Board balance which was addressed in September 2018 by the appointment of Holly A. Van Deursen, replacing Jinya Chen who retired from the Board on 31 December 2017.

Holly was appointed to the Board as an independent non executive director and brings a wealth of chemical industry, global business and significant boardroom experience.

The Board was pleased to endorse the promotion of the Company's values and culture through the launch, towards the end of the year, of a revised and updated code of conduct. As the main vehicle for explaining and communicating our standards for carrying on business, people policies and corporate citizenship responsibilities, it was issued to every employee. We also put in place an externally hosted whistle blowing hotline accessible by telephone and online.

We have policies and practices well in hand to implement the 2018 Governance Code and as part of this work Alex Catto has been designated by the Board as the lead non executive director to undertake workforce engagement. Alex, with his longstanding connection with and deep knowledge of the Group, was considered the ideal non-executive director to lead this process.

European Commission investigation

As announced on 8 June 2018, the European Commission (the Commission) initiated an investigation into practices relating to the purchase of styrene monomer by companies, including Synthomer, operating in the European Economic Area. The Company takes competition laws very seriously and will continue to fully cooperate with the Commission during its ongoing investigation.

Sustainability

Synthomer manufactures speciality chemicals using large scale and complex manufacturing processes that consume hazardous raw materials. Our standards relating to safety, health and the environment are high and maintaining these is fundamental to the way we operate our business. We have clear policies and procedures that underpin all of our processes and we remain resolute to our commitment to learn lessons from our activities, share best practices and continually improve.

Synthomer recognises the significance and importance of being a responsible company. We take responsibility for the complete life cycle of our products and the impact our operations have on people and the environment. We are committed to approaching our business in an ethical and environmentally sound manner and have been committed to the International Council of Chemical Associations (ICCA) Responsible Care project since the early 1990's.

Our commitment to quantifying, improving and communicating the sustainability of all our activities will be further strengthened in 2019 as a result of the introduction of Global Reporting Initiative (GRI) Standards. With increased interest in sustainability, our programme identifies key issues affecting our stakeholders and communicates the activities being undertaken and sets key performance targets for the Group.

The Group's risk management processes include consideration of the potential impact of corporate responsibility issues on Synthomer's performance. The Group's investment decisions take into account appropriate evaluations of potential consequences for its employees, customers, suppliers and the environment. We are not complacent and remain focused in our campaign for continuous and sustainable improvement.

Our people

Our people agenda has made further progress in 2018. With mentoring, graduate recruitment, leadership and learning development programmes established, and a strengthening employee brand, we have made good progress in all pillars of our framework to create an open and positive work environment. Our organic and inorganic growth strategy means that our employee numbers now stand at 2,900 across our 30 manufacturing sites and offices. It is pleasing to see the adoption of our values and culture which continues to unify the way Synthomer does business and underpins the success of the Group.

The Group's employees continue to deliver improvements in profitability and manage change in a dynamic organisation committed to long term sustainable growth. The success of the Group relies much on the commitment and professionalism of all our employees and I would like to thank all of them for their support in 2018.

Dividend

The Board has recommended a final ordinary dividend of 9.1p (2017: 8.5p) per share, a 7.1% increase. Taken with the 2018 interim ordinary dividend of 4.0p (2017: 3.7p) per share, the total ordinary dividend is 13.1p (2017: 12.2p), representing an increase of 7.4% in total dividend in 2018. This is in line with the Group's dividend policy with the dividend representing 40% of the Underlying earnings per share. The final dividend per share is subject to shareholder approval at the Annual General Meeting on 25 April 2019 and will be payable on 5 July 2019 to those shareholders registered at the close of business on 7 June 2019

Outlook

Looking forward, the Group's leading market positions, incremental low cost production capacity, geographic diversity and product differentiation, ensure we are well placed to navigate the current global political and economic uncertainties. Given this, we are confident of making further progress in 2019 and the Board's expectations remain unchanged.

Neil Johnson
Chairman
4 March 2019

Delivering growth in speciality chemicals

Calum MacLean
Chief Executive Officer

Strategic highlights

+ Fourth consecutive year of growth and record Underlying profitability
+ Continued organic and inorganic investment to strengthen platform for future growth
+ Significant raw material price volatility successfully managed
+ Record return on R&D investment – 21% of sales volumes from new products launched in the past five years
+ New global business structure launched on 1 January 2019 to further enhance customer and product focus
+ Well capitalised and conservatively financed balance sheet to fund future organic and inorganic growth (Net debt/ EBITDA: 1.2x)

Performance

Despite some challenging market conditions in 2018 Synthomer has delivered solid growth in Underlying profitability, achieving our fourth consecutive year of growth and another year of record Underlying profits. ARW delivered especially strong growth in Underlying profits helping to offset the impact of currency and raw material volatility in ENA. Our strategy of driving organic and inorganic growth, complemented by the Group's geographic diversity and product differentiation, continues to deliver sustainable growth.

Underlying profit before tax increased by 3.9% from £130.0m to £135.1m. This reflected a 30.2% increase in ARW Underlying operating profits up from £35.1m to £45.7m. This significant increase reflects strong organic growth with improving volumes and unit margins as Nitrile latex growth remained strong and market utilisation increased. ENA Underlying operating profits were lower, going from £117.1m to £111.2m. This was principally due to the USD invoicing from Europe which led to an unfavourable transaction currency impact of £5.3m. ENA was also impacted by sharply falling raw material prices in Q4 2018 which affected customer buying behaviour and led to a softer trading environment in the final quarter of the year.

IFRS profit before tax increased by 39.2 from £86.4m in 2017 to £120.3m in 2018. Alongside the improvement in Underlying performance, the increase was mainly the result of the gains on disposal of land in Malaysia (£16.4m) and a reduction in amortisation of intangible assets (£14.6m), as intangibles acquired with the PolymerLatex acquisition became fully amortised.

The operating cash flows of the Group of £124.9m (2017: £162.6m) were again strong and absorbed the investment in working capital of £35.2m which was driven by the volatility in raw material prices and the knock on impact on customer buying behaviour. The cash performance of the business over the year meant that the Group's leverage at the year end was 1.2 times net debt: EBITDA, well within our preferred range of 1 – 2 times. Capital spend increased to a record £75.7m, a little higher than guidance, and consistent with our stated strategy to invest in our principal large scale, low cost sites. We also invested in our inorganic growth strategy with the acquisition of the BASF Pischelsdorf SBR business, the third bolt on acquisition under the current management team, for £25.8m.

Safety, health and environment

Synthomer sets high standards in relation to safety, health and environment (SHE) activities which are supported by appropriate levels of investment, improvement initiatives and by rigorous assurance under the supervision of the Group SHE team. Our performance against those standards is reported at each executive team and Board meeting.

In 2018, our recordable injury rate increased modestly as a result of the higher levels of contractor activity related to our capacity expansion programme, but our underlying trend continues to improve. Our recordable injury rate has improved in excess of 60% for the three year period 2016-2018 compared to 2013-2015. This is underpinned by our SHE Principles and 10 Golden Rules and our relentless focus on our Permit to Work and Management of Change procedures. To improve reporting, cross company learning and the induction of newly acquired sites to Synthomer standards, a new Global portal was introduced so that sites, regions and businesses can report performance on a consistent and timely basis. The portal has also improved communications and the ability to accelerate the implementation of actions to improve the safe operation of our sites.

Synthomer has introduced a programme that focuses on higher risk activities and has identified gaps which are the action in our site SHE Improvement Plans. All sites have now completed this process. Our Group Process Safety key performance indicators show continued improvement.

Innovation

Innovation continues to be a core pillar of business growth allowing Synthomer to secure improved market positions and provide solutions to generate added value for our customers. In 2018, the Group had fifteen new product platform launches across a broad base of ten application areas. Our key performance indicator for innovation is sales volumes of new products launched in the past five years, which increased to 21%, ahead of our stated target of 20%, building on our strong performance in this area in 2017 and 2016. We continue to focus on protecting our proprietary intellectual property through patents with eight filings in 2018.

The Group has four innovation centres across its global network. We have made strong progress to further leverage and extend our innovation capabilities, helping to accelerate the delivery of our business strategies. In order to enhance our innovation activities, we have committed to invest in a state-of-the-art Innovation Centre in Malaysia which will open in 2020. Over the past four years we have progressively reduced the time to market for new innovations. The recently introduced SyNovus' product, which includes patented proprietary technology, was developed from inception to commercialisation in 18 months. The shortened innovation process, representing a reduction of almost 50% on previous new product developments, is a testament to the dedication, skill and expertise of our in-house R&D team and will be further enhanced via the investment in improved facilities.

Our operational excellence teams have also supported our innovation success. Through the transfer of products and new technologies across our network, we can more effectively introduce new products, utilise our capacity more efficiently and deliver synergies from newly acquired assets. Each of our plants has developed a 'value gap' to identify the monetary value associated with best in class and best in Group standards which provides the action plan for operational excellence and financial improvement.

Strategy delivering sustainable growth

Our conservatively leveraged balance sheet provides a strong foundation from which to deliver our strategy of sustainable growth in the speciality chemical sector. Synthomer has a broad blue chip customer base with long term established relationships, producing speciality chemicals characterised by high barriers to entry. Our market leading positions, passion for innovation and global asset network provide the basis for our organic growth strategy.

2018 has seen the largest organic growth investment programme in the Group's history. This programme commenced in 2017 and we spent £75.7m of capex in 2018 across the Group. Our Project Excellence approach has been introduced Group-wide and aims to ensure that all projects are completed safely, on time and within budget. With global mega trends of urbanisation, ageing demographics, an evolving middle class, increasing mobility and ever more stringent environmental legislation, there is increasing demand from the market for our speciality chemical products which drives our plans for better capacity utilisation, plant debottlenecking and new capacity expansions.

Our 90ktes Nitrile latex capacity expansion at Pasir Gudang (Malaysia) was successfully completed in Q4 2018 safely, on time and on budget. The capacity will allow us to support the ongoing expansion in this high growth market and provide capacity for our SyNovus' and other market leading products. A further investment to introduce an additional 60ktes at Pasir Gudang will be made which we expect to come online in 2020. In addition to our Nitrile latex investment, our 2018 capital programme expanded capacity at our Speciality Polyester Powder Coating facility in Sant'Albano, (Italy) and our SBR facility in Oulu (Finland) to allow the Group to support the growing packaging and speciality paper markets.

In 2019, our organic capacity investment programme will see additional new capacity commissioned in:

+ Dispersions: 36ktes capacity of made to order speciality acrylic lines in Worms (Germany) in mid 2019

+ Dispersions: 12ktes increase in acrylic capacity in Roebuck (USA) scheduled to be complete in mid-2019.

+ SBR latex: Enhancement to our Marl (Germany) site to improve output levels to take advantage of opportunities in the foam market.

Discipline in capital allocation remains a key focus for the Group, with hurdle rates for capital expenditure growth projects remaining unchanged at a payback of less than five years or a 12% IRR. Recognising the very significant investment made in organic growth capex in 2017 and 2018, the Long Term Incentive Plan (LTIP) performance criteria included Return on Invested Capital (ROIC) for the first time in 2018, aligning management and shareholder delivery expectations. The overall LTIP ROIC target has been set at circa 20%, broadly aligned with the ROIC delivered by the Group in 2018.

In order to consider and mitigate the potential impact of a hard Brexit, Synthomer established a cross functional group to focus on supply chain, regulation, trade compliance and human resources. We continue to believe that our ability to do business will not be significantly affected but have plans in place to manage, as far as possible, our ability to service our customers and take any mitigating actions necessary.

Delivering M&A growth

Inorganic growth through acquisitions remains a key priority for the Group and a core facet of our growth strategy. The speciality chemicals M&A market remained buoyant in 2018 with a number of bolt on and transformational deals, many at elevated valuation multiples. We evaluated a number of opportunities but continued to exercise rigorous discipline on the type, quality and valuation of targets.

We completed one bolt on acquisition in 2018 being BASF Pischelsdorf (Austria). This has been successfully integrated into our SBR network and positions us as the market leader in European aqueous polymers.

The integration of PAC (Dispersions) is substantially complete with the final two major actions, the sale of the Leuna (Germany) site completed in the year and the restructuring of Ribécourt (France) site underway. We have successfully delivered run rate synergies of $12m by the end of 2018 and confirmed that additional run rate synergies of $2m will be delivered in 2019.

Synthomer continues to assess acquisition opportunities, but we will be disciplined in our approach. The Group is well positioned to make both bolt on and transformational acquisitions with a conservatively leveraged balance sheet and the Board's support to drive further shareholder value through inorganic growth.

New global organisational structure

As announced during November 2018, in order to better serve our customers, provide a global product offering and drive operational efficiencies, the Group structure has been reorganised with effect from 1 January 2019. Three new business groups have been created: Performance Elastomers (Styrene Butadiene Rubber and Nitrile Butadiene Latex), Functional Solutions (Dispersions) and Industrial Specialities.

The new structure will enable Synthomer to leverage its global product portfolio, expanding the reach of its R&D capabilities and bring greater operational focus to our global markets. Similarly the new structure combines sales, marketing, research and production into dedicated global business teams, whilst retaining very strong regional strength and local focus.

Outlook

Looking forward, the Group's leading market positions, incremental low cost production capacity, geographic diversity and product differentiation, ensure we are well placed to navigate the current global political and economic uncertainties. Given this, we are confident of making further progress in 2019 and the Board's expectations remain unchanged.

Calum MacLean
Chief Executive Officer
4 March 2019

Segmental review

Europe and North America (ENA)

Highlights

+ Market leading position in aqueous polymers in Europe
+ Volume growth driven by the acquisition of BASF Pischelsdorf (Austria)
+ Unit margins stable recognising transactional impact of weak USD and significant raw material price volatility
+ BASF Pischelsdorf successfully integrated
+ Commissioning complete of expansions in Sant'Albano (Italy) and Oulu (Finland)
+ Delivery of annualised $12m synergies from PAC Acquisition

Revenue % of Group

Underlying operating profit % of Group

Underlying performance

	2018	2017	Increase/(decrease) % reported	Increase/(decrease) % constant currency
Volumes (ktes)	**1,115.2**	1,067.7	4.4	
Revenue (£m)	**1,228.4**	1,134.9	8.2	7.1
EBITDA (£m)	**135.8**	140.9	(3.6)	(4.5)
Operating profit – Underlying performance (£m)	**111.2**	117.1	(5.0)	(5.8)
Operating profit – IFRS (£m)	**91.8**	77.5	18.5	

Constant currency revenue and profit is based on current year results for existing business translated at the prior year's average exchange rates and include the impact of acquisitions.

Robust results in challenging market conditions

Europe and North America (ENA) delivered a robust performance in a market characterised by volatile raw material prices and a weaker USD, which adversely impacted European unit margins on products sold to customers in USD.

The acquisition of the BASF Pischelsdorf SBR business completed on 31 January 2018 and was fully integrated into our European SBR business in the first half of the year. The acquisition underpins Synthomer's market leading position in European aqueous polymers and also provides greater exposure to the growing packaging paper market.

The acquisition of the BASF Pischelsdorf site contributed to the strong overall volume growth during the year with volumes rising 4.4% to 1,115.2ktes. Excluding the impact of the acquisition, the business delivered volume growth across most markets in the first half of the year reporting an increase of 2.6%. However, the marked reduction in petrochemical raw material prices in the final quarter of the year exacerbated normal year end customer de-stocking activities resulting in a fall in volumes of 1.3% over the full year.

Weakness in the USD relative to the prior year, particularly evident in H1 2018, resulted in lower unit margins on products sold from Europe in USD, causing a net reduction in margin relative to the prior year of £5.3m. Excluding the impact of the weaker USD and the impact of the BASF Pischelsdorf acquisition, overall unit margins were broadly in line with the prior year. Once again we demonstrated our ability to manage changing raw material prices and the benefits of our geographic diversity and product differentiation.

Our ENA business spends approximately £800m on procuring primary raw materials for the sites and accordingly an effective, efficient and reliable supply is critical in driving the financial performance of the business. In 2018 we secured additional storage tanks to further optimise our supply chain, providing greater optionality in raw materials supply and mitigating supply interruption risk such as the low Rhine river level seen in Q4 2018.

The ENA business continued to benefit from the delivery of PAC related synergies, helping to mitigate the costs of incremental storage tanks and underlying inflationary pressures. The synergies in 2018 largely related to the sale of the Leuna site (Germany) and commencement of the restructuring and simplification of the Ribécourt site (France). The programme at Ribécourt will continue in 2019 and result in the additional $2m of synergies announced earlier in the year, bringing the total PAC synergies to $14m.

Notwithstanding the challenging market conditions ENA reported robust results, with Underlying operating profit 5.0% lower at £111.2m (2017: £117.1m), and IFRS operating profit 18.5% higher at £91.8m (2017: £77.5m). The increase in IFRS operating profit mainly reflected a reductions in intangible amortisation (£14.7m) and restructuring charges (£5.3m).

In addition to inorganic growth generated by incremental earnings from BASF Pischelsdorf and the further PAC synergies, ENA continued to invest in organic growth capital expenditure during 2018.

The capital expenditure included:

+ 12ktes styrene acrylic expansion at Oulu (Finland), expanding the site's capability to supply the growing packaging and speciality paper markets. The expansion was commissioned during Q3 2018.

+ 5ktes powder coating expansion at Sant'Albano (Italy) increasing site capacity by more than 20%. The expansion was commissioned during Q4 2018.

+ 36ktes acrylic dispersions expansion at Worms (Germany), increasing the site's capacity in excess of 30%, and significantly enhancing its capability to produce made-to-order speciality acrylics. Commissioning due Q2 2019.

+ 12ktes acrylic dispersions expansion at Roebuck (USA) increasing the site capacity by in excess of 20% through the installation of a new acrylic reactor train. Commissioning due Q2 2019.

The significant investments made in ENA are focused in those markets where we are capacity constrained and where we expect to see strong market growth.

Asia and Rest of the World (ARW)

Highlights

+ Nitrile latex market growth in excess of 10% during 2018
+ Nitrile latex unit margins strengthened due to improved supply/demand balance
+ Successful commissioning of 90ktes Nitrile latex expansion at Pasir Gudang Q4 2018, safely on time and on budget
+ Board approval of £5m investment in state-of-the-art innovation centre in Malaysia

Revenue % of Group

Underlying operating profit % of Group

Underlying performance

	2018	2017	Increase/(decrease) % reported	Increase/(decrease) % constant currency
Volumes (ktes)	**402.4**	376.1	7.0	
Revenue (£m)	**390.5**	345.3	13.1	9.8
EBITDA (£m)	**59.7**	48.2	23.9	19.5
Operating profit – Underlying performance (£m)	**45.7**	35.1	30.2	25.6
Operating profit – IFRS (£m)	**54.9**	31.2	76.0	

Constant currency revenue and profit now reflect current year results for existing business translated at the prior year's average exchange rates and include the impact of acquisitions.

Good results driven by continued strong growth in Nitrile latex demand

Asia and Rest of the World (ARW) reported a significant rise in Underlying operating profits driven by continued strong growth in Nitrile latex demand.

ARW volumes increased by 7.0% to 402.4ktes primarily as a result of record Nitrile latex volumes, partly reflecting the benefit from the newly commissioned Pasir Gudang (Malaysia) capacity brought on line in Q4 2016 and partly reflecting the weaker H1 2017 comparative, which was adversely impacted by raw material price volatility.

The 90ktes capacity expansion of our Pasir Gudang asset brings our total Nitrile latex capacity to approximately 350ktes and underpins our position as a market leading producer and innovator of Nitrile latex. We are committed to our customers and their increasing Nitrile latex demands in a market that continues to report significant growth and we have taken a range of actions to strengthen our long term contractual relationships with our customers.

This capacity expansion, the largest single capital investment undertaken by the Group at £45m, was completed on time and on budget. From a safety perspective, this project represented 1.4 million safe hours worked. The new facility was officially opened by The British High Commissioner, Mrs Vicki Treadell, CMG MVO with the Group Board and over 100 key industry leaders in attendance in September 2018. We have confirmed that we will introduce a further 60ktes as the next stage of the Pasir Gudang expansion. Work has begun on this expansion, building on pre prepared infrastructure and civil engineering and is expected to complete in 2020.

ARW unit margins also improved year on year, reflecting the strong market demand for Nitrile latex and tightening of the supply/demand balance. This improvement was also due to sales of the newly launched higher margin Nitrile latex SyNovus™ product. As with ENA, ARW was successful in managing the impact on margins from the volatile raw material prices, which were largely absorbed by the market. Similarly, ARW was also adversely impacted compared to prior year by the weaker USD relative to the Malaysian Ringgit, with Nitrile latex pricing denominated in USD. The weaker USD resulted in a reduction in margin of £4.8m.

Operating costs have increased in the year reflecting the expansion in capacity which resulted in higher production costs and depreciation charges combined with higher bonus costs in a successful financial year.

With strong overall volume and unit margin growth ARW reported strong results. Underlying operating profit was 30.2% higher at £45.7m (2017: £35.1m), and IFRS operating profit was 76.0% higher at £54.9m (2017: £31.2m) with the marked rise in IFRS operating profit mainly reflecting the improvement in Underlying operating profit (£10.6m) and the profit on sale of the final tranche of Malaysian land (£16.4m).

Our commitment to research and development has been underpinned by Board approval for the construction of a new £5m state of the art innovation centre in Malaysia which will be completed in 2020. This flagship facility will provide leadership in research and development and will ensure we stay at the forefront of product development. It will create the right environment to allow us to attract and retain the best talent and allow creative and technical skills to be developed.

SyNovus™, our ground breaking patented new product, launched in September 2017, was well received by our customers. Our customers have been working with us to integrate this product into their processes and several customers are nearing full commercialisation. SyNovus™ is Synthomer's response to the demands of end users and glove manufacturers for a product with significantly reduced maturation time, superior tensile strength properties, higher levels of durability and improved chemical resistance. SyNovus™ delivers a superior end product for our customers while improving the efficiency of their operations.

As we expand capacity in Nitrile latex, we have taken the opportunity to assess the viability of several non-core product lines. In October 2018 we announced that we were ceasing production of natural rubber and polyester resins on our site in Kluang, Malaysia. Some of the assets of these businesses were sold and our intention is to redeploy the workers to other production lines on the Kluang site. In 2019 we will transform the Kluang site with the removal of the discontinued production lines to provide space for future expansion projects.

Strategy at a glance

Delivering against our strategic targets

Strategic priority

2018 achievements

1. Research and development and technical expertise to exploit new markets

We anticipate market trends and customer requirements to deliver improved products with improved margin and product differentiation.

+ Sales volumes of new products launched in the past five years was at 21.0% – a record performance for Synthomer.
+ Introduction of fifteen new product platforms across ten application areas.
+ Market approval and commercialisation of patented *SyNovus™ next generation Nitrile latex product.*
+ Board approval to invest in new state-of-the-art innovation centre in Asia.

2. Driving efficiency and excellence through operations

We operate continuous improvement across our operations to improve production efficiency, sales effectiveness and functional excellence. We seek to identify good practice in all areas of our business and ensure that relevant learnings are disseminated throughout the business.

+ Utilised value gap analysis to embed operational excellence tools and drive improved performance and site restructuring opportunities.
+ Portal introduced to standardise global SHE reporting and accelerate learning and action delivery.
+ Completed the roll out of our global customer relationship management system across the business to trace new product leads, capitalise on customers' needs and enhance cross selling opportunities.
+ Strong progress of strategic procurement initiatives, securing additional tankage to enhance our supply chain resilience, mitigate risk and further leverage procurement of raw materials.

3. Capacity utilisation

Our aim is to drive profitability through maximum utilisation of our assets. This involves identifying the root causes of production bottlenecks and finding innovative solutions.

+ Completed debottlenecking of our site in Marl (Germany) to increase production of foam latex.
+ Completed disposal of Leuna (Germany) site and commenced restructuring of Ribécourt (France), Kluang (Malaysia) and Sokolov (Czech Republic) sites as part of the development of the manufacturing network.

4. Investment in capacity

We seek to add capacity in growth markets where investment opportunities meet our stringent capital management policies.

+ 90ktes Nitrile latex capacity at Pasir Gudang (Malaysia) safely on time and on budget in Q4 2018.
+ Completed capacity and capability expansions at SBR plants in Marl (Germany) and Oulu (Finland), and powder coatings in Sant'Albano (Italy).

5. Business growth through acquisitions

We actively seek opportunistic bolt-on acquisitions in similar chemistries or transformational step change transactions not limited by geography or chemistry.

+ We completed the acquisition of BASF Pischelsdorf (Austria) on 31 January 2018 with one strategically positioned plant, and improved penetration of the growing packaging paper market.
+ Delivered PAC (Dispersions) synergies run rate savings of $12m by end of 2018 with commitment to further $2m of run rate savings by end of 2019.

Key performance indicators	Risk	2019 priorities
21% Sales volumes from new products launched in the past five years	+ Protection of IP + Competition and failure to innovate + Volatility in chemicals and polymers market	**+ Commence investment in state-of-the-art Asian innovation centre for 2020 completion.** **+ Further market penetration of SyNovus and new product launches.** **+ Accelerate product transfer activities to support new global business structure growth strategies.**
£181.0m Underlying EBITDA £135.1m Underlying PBT 3.52 Energy consumption (GJ/tonne) 0.23 Recordable accident frequency rate	+ Volatility in chemicals and polymers market + SHE + Loss or failure of a Synthomer site + Ethics + Financial risks + Brexit	**+ Continued use of our Manufacturing Excellence process to drive improved performance.** **+ Roll out new tools in commercial, supply chain, HR and Procurement to further improve efficiency and effectiveness.** **+ Under new business structure drive sharing of best practice globally.**
£181.0m Underlying EBITDA £135.1m Underlying PBT 32.8p Underlying EPS 1,517.6 Volume (Wet ktes)	+ Competition and failure to innovate + Volatility in chemicals and polymers market + Loss or failure of a Synthomer site + Brexit	**+ Use value gap methodology to identify and unlock 'hidden capacity' in our assets.** **+ Progress site restructure plans and new opportunities to optimise manufacturing network and extract value.**
£181.0m Underlying EBITDA £135.1m Underlying PBT 32.8p Underlying EPS 1,517.6 Volume (Wet ktes)	+ Manufacturing capacity expansion projects + Volatility in chemicals and polymers market + Brexit	**+ Complete capacity expansion of Functional Solutions 36ktes speciality acrylic dispersions facility in Worms (Germany).** **+ Complete capacity expansion of Functional Solutions 12ktes speciality acrylic dispersions facility in Roebuck (USA).**
£181.0m Underlying EBITDA £135.1m Underlying PBT 32.8p Underlying EPS	+ Availability of suitable opportunities + Failure of acquisition to deliver benefits + Valuation and financial market volatility + Brexit	**+ We remain highly active in identifying, targeting and reviewing opportunities, both in relation to bolt-on acquisitions and transformational step change transactions in adjacent chemistries.** **+ Drive synergies.**

Read more on pages 30-31

Read more on pages 32-37

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Our new global business structure

Maximising opportunities for growth

From 1 January 2019, Synthomer has changed its structure from two regional businesses (ENA – Europe and North America and ARW – Asia and Rest of the World) to three global businesses – Performance Elastomers, Functional Solutions and Industrial Specialities.

Performance Elastomers is focused on healthcare, carpet and paper markets through our Nitrile butadiene rubber latex (NBR) and Styrene butadiene rubber latex (SBR) products. Functional Solutions is focused on coatings, construction, adhesives and technical textiles markets through our acrylic and vinylic based dispersions. Industrial Specialities is focused on our speciality chemical additives and non aqueous based chemistry for a broad range of applications from polymer additives to emerging materials and technologies.

Our former regional structure served us well but with our customer base increasingly global and the development of technology accelerating market opportunities, our new structure will provide closer proximity to our customers and their global requirements, accelerate our sales growth, sharpen our commercial focus and drive operational efficiencies. The new structure will enable Synthomer to better leverage its global product portfolio and customer relationships, better exploit its R&D capability within chemistries, and bring greater operational focus to production sites.

Sales, marketing, research and development and production will be focused by business group into dedicated global teams whilst retaining very strong regional strength and local focus.

Read more about our Business Model and Strategy on page 28

1 Performance Elastomers

Market position

No 2 producer globally in Nitrile *butadiene rubber latex.*

No 1 producer in European Styrene butadiene rubber latex No 1 producer globally of high solids styrene butadiene rubber.

Principal markets served

Medical gloves, medical devices and healthcare markets

Coated board, speciality *and graphic papers and* packaging, mattresses, pillows and footwear.

Compounds for residential, industrial, automotive, carpets and artificial turf.

Profile

Twelve manufacturing plants located in Malaysia, Italy, Germany, Finland, Austria, the Netherlands and Egypt producing in excess of 850ktes per annum.

Performance Elastomers is focused on markets where scale is important and manufacturing operations differentiated by the ability to handle high hazard raw materials and complex processes. Assets utilise advanced proprietary *technology and* innovation chemistry.

Revenues (2018)

£704.5m

Customers

The world's leading medical *glove and healthcare* producers. Global and regional paper, packaging and board companies, and leading bedding and footwear producers. Carpet and artificial turf producers.

Outlook

High growth in end user demand for Nitrile latex gloves, supported by investment in *capacity expansion and next* generation patented new product development. Foam, carpets and compounds growing, graphic paper declining, partly offset by speciality paper and packaging

Priorities for 2019

Drive organisational synergies through efficiency and effectiveness in the new global *business organisation.*

Finalise planning for the next phase of Nitrile latex expansion following the successful completion of the 90ktes expansion in Pasir Gudang in 2018.

Market penetration of SyNovus and delivering plans for Asian innovation centre.

Increase the focus on the development of new business opportunities for our chemistry and M&A opportunities.

Progress transformation programme at Kluang (Malaysia).

2 Functional Solutions

Market position
Top five global aqueous polymer producer, with leadership positions in dispersions in Europe, Middle East and Asia.

Principal markets served
Construction, coatings, adhesives, technical textiles and oilfield.

Profile
Fourteen manufacturing plants located in Germany, UK, Spain, Italy, France, Czech Republic, Saudi Arabia, Malaysia, Vietnam, Thailand, and the USA producing in excess of 500ktes per annum.

Functional Solutions is focused on speciality markets with mid-scale complex manufacturing operations to supply differentiated water based dispersions to localised markets. Manufacturing assets utilise advanced proprietary technology and innovative chemistry. Research and development, technical service and deep application knowledge are key to growth.

Revenues (2018)
£680.1m

Customers
The world's leading coating, construction, adhesives, technical textiles and oil field companies. Specialist producers of cement modifiers, primers, flooring adhesives, specialist tapes, flexible roof coatings, emulsion and specialist paints and coatings and oilfield chemicals.

Outlook
Markets are seeing good growth as environmental regulations move to water based products.

Priorities for 2019
Drive efficiency and effectiveness in new global organisation and operational network.

Utilise innovation pipeline to strengthen differentiation of product range.

Use European market leadership position to drive global and regional growth through accelerated transfer of products and applications.

Successful completion of capital investment programme in Worms (Germany) and Roebuck (USA).

Progress transformation programmes at Ribecourt (France) and Sokolov (Czech Republic).

3 Industrial Specialities

Market position
Leading positions in selected niche speciality chemical markets globally.

Principal markets served
Specialist markets including PVC manufacture, construction, catalyst, automotive and polymer manufacture.

Profile
Six manufacturing plants located in UK, Italy, Czech Republic and Belgium producing in excess of 130ktes.

Industrial Specialities has a range of manufacturing operations focused mainly on specialist niche manufacturing in non-water-based speciality chemical manufacture.

Revenues (2018)
£234.3m

Customers
Leading global PVC and polyester polymer producers. Manufacturers of specialist sealant and adhesives producers. Specialist powder coating manufacturers. Gas processing companies.

Outlook
Positive outlook due to broad base of specialist applications.

Priorities for 2019
Drive efficiency and reliability across the operational network.

Utilise innovation pipeline to strengthen differentiation of product range.

Market penetration following capacity expansion of Italian Powder Coatings and PVOH assets in 2018.

Progress transformation programme at Sokolov (Czech Republic).

Our new global business structure continued

Performance Elastomers

Overview

+ The Performance Elastomers division represents 44% of Synthomer's 2018 revenue.
+ Focuses on healthcare, paper, carpet and foam markets.
+ The division has as its core Nitrile Butadiene Rubber latex 'NBR' and Styrene Butadiene Rubber latex 'SBR' including high solid variants.
+ The division produces over 850ktes from its twelve plants operating in Europe, Middle East and South East Asia.

Derick Whyte
President,
Performance
Elastomers

Performance Elastomers division combines Synthomer's market leadership position in NBR, where we are the second largest producer globally. SBR where we are the market leader in Europe and high solids SBR where we are the global leader. The division operates globally utilising some of Synthomer's largest production facilities.

Performance Elastomers serves a diverse market and customer base. NBR is focused on the healthcare market, which is characterised by increasing levels of demand for Nitrile latex gloves supported by capacity expansion and significant innovation. These markets are driven by the global mega trends of increasing hygiene standards and emerging market population growth. SBR, which serves the paper coating, carpet backing and foam markets, faces a long-term shift away from the use of graphic coated paper to digital media. This is balanced by growth in packaging consumption driven by on line purchasing. The carpet and foam markets cover a range of differentiated applications in flooring, bedding and footwear. Product innovation remains core, particularly in NBR, where new products have continued to support glove market demand for lower glove weights and accelerator free materials.

Strategic priority 1:
With a new global organisation comprising 12 plants and 1,000 people to optimise and drive efficiencies in the organisational and operational model.

Strategic priority 2:
To commercialise the 90ktes Nitrile latex investment in Pasir Gudang (Malaysia), finalise plans for the next phase of capacity expansion scheduled for 2020 and progress the commercialisation of SyNovus®.

Strategic priority 3:
To optimise the innovation process across the division to deliver efficiency and effectiveness and complete the Asia innovation centre investment scheduled for early 2020.

Why innovation matters

Innovation 1: Speed to market is key to driving competitive advantage
Over the past four years the Asian innovation team has reduced the time to market for new product introduction with our latest generation patented NBR technology being introduced in half the time compared to previous generations. The new Asian innovation centre to be opened in 2020 will deliver state of the art facilities to drive further efficiency and effectiveness in our R&D activities.

Innovation 2: Efficiency and excellence through operations
In our Marl (Germany) high solid SBR facility, a cross functional team of Synthomer experts focused on the 'value gap' identified to deliver an initial 15% capacity debottleneck and expansion of speciality high solids SBR products to meet growing customer demand. The delivery of additional capacity of differentiated products to serve the high growth bedding and footwear markets globally was the first step in a phased debottleneck and expansion of our facilities.

Innovation 3: Patented new product development
Innovation has been at the core of the NBR expansion strategy in recent years with successful launches of our third and fourth generation glove dipping latex. SyNovus®, is the latest product launch from the NBR team and is a patented product offering the benefit of an accelerator free product, which reduces the risk of allergic reactions for glove users, and the additional benefit of lower operating costs through improved efficiencies and greater sustainability for the glove producer. The product has undergone successful plant trials and approvals with further commercialisation growth anticipated in 2019.

Our new global business structure continued

Functional Solutions

Overview

+ The Functional Solution division represents 42% of Synthomer's revenue.
+ Focuses on the Coatings, Construction, Adhesives, Textile and Oilfield markets.
+ The division has at its core aqueous acrylic and vinylic polymer dispersions which are used as speciality binders in the formulation of environmentally compliant materials.
+ The division produces over 500ktes from its fourteen plants operating in Europe, Middle East, Asia and USA.

Rob Tupker
President,
Functional
Solutions

Functional Solutions is Synthomer's top five global aqueous polymer business with leadership positions in dispersions in Europe, Middle East and Asia. The division is ideally placed to grow across all geographies both organically and inorganically to meet the expanding regulatory driven market for solvent free differentiated applications. Using proprietary technology and innovative chemistry, Functional Solutions is focused on specialist markets with assets strategically positioned to serve localised markets

As a global business, Functional Solutions is ideally positioned to better leverage its global product portfolios and customer relationships, exploit its R&D capabilities and drive operational efficiencies further developing its global network. With Functional Solutions markets continuing to grow in excess of GDP, and new capacity being introduced in 2019, the division looks forward to further sustainable growth

Strategic priority 1:
Drive growth globally and regionally by utilising its market leadership positions in Europe, Middle East and Asia through more focused sharing of technology, applications and products.

Strategic priority 2:
Focus on specialisation and delivery of the innovation pipeline. To focus on accelerated development of differentiated product platforms of key segments via global product strategies.

Strategic priority 3:
Optimise the network and cost competitiveness. To complete the strategic capacity investment programme in Worms (Germany) and Roebuck (USA) and restructuring programme in Ribécourt (France) and drive further operational efficiencies.

Why innovation matters

Innovation 1: Patented new product development
Synthomer aqueous polymer dispersions are widely used in the adhesives markets globally. In the USA our patented High Shear Adhesion Failure Temperature (SAFT) technology has been developed to allow solvent based technology to be replaced by more environmentally sustainable water-based products in speciality tape and label applications. Regionally developed technology with access to a global manufacturing network, application testing and technical sales force allows accelerated product development and commercialisation and enabling customer, environmental and consumer benefits to be delivered quickly.

Innovation 2: Collaborative business development
The battery market is being driven by the growth of electric vehicles with an underlying growth rate of 15% per annum. leading to forecasts of 25% of all vehicles being electric by 2040. Synthomer has developed a technology platform and is working with an industry wide consortium to accelerate the development of its current and next generation binders for high performance anode and cathode materials.

Innovation 3: Market focused new product development
Synthomer is expanding its product range in technical textiles to introduce state-of-the-art binders for glass fibre mesh coatings to improve the performance of products in the construction industry. This expanded product range meets the market need for significantly faster curing combined with excellent alkali resistance and a formaldehyde free cross-linking system. The product future proofs our customer requirements through compliance with the latest international regulations and increasingly challenging environmental demands in the industry.

Industrial Specialities

Overview

+ The Industrial Specialities division represents 14% of Synthomer's revenue and holds leading positions in selected speciality chemical markets globally.
+ The division focuses on specialist market positions in non-aqueous polymer chemistry to serve the PVC, construction, automotive, catalyst and polymer manufacturing sectors producing a range of performance additives and acrylic ester monomers for supply into polymer manufacturers.
+ The division produces over 130ktes from its six European manufacturing plants which serve markets globally.

Neil Whitley
President,
Industrial
Specialities

Industrial Specialities is Synthomer's platform for high value specialist performance additives and acrylate monomers, which hold some leading positions in selected niche markets globally. Our European assets support our aqueous polymer segmental focus allowing Synthomer to offer a more comprehensive range of products to our coatings, construction, automotive and polymer additive segments and allow us to expand our foot print into wider speciality chemical markets. The division serves leading global PVC and polymer producers, specialist sealant and adhesive manufacturers, powder coating and gas processing producers. The division offers a platform for both inorganic and organic growth in speciality chemicals for Synthomer with innovation core to its strategy.

Strategic priority 1:
Drive efficiency and excellence through operations. To utilise operational excellence and our business focused 'value gap' analysis to debottleneck capacity, drive reliability, complete site transformation programmes to deliver growth in profitability.

Strategic priority 2:
To optimise our innovation processes to accelerate new product development and further strengthen the differentiation of our product range.

Strategic priority 3:
Focus on growth opportunities in speciality chemicals markets to extend the footprint of the Industrial Specialities division.

Why innovation matters

Innovation 1: Market focused new product development
Synthomer's Lithene liquid polybutadiene products offer excellent compatibility with rubber substrates, allowing modifications to be made to polymers to meet the increasingly demanding performance properties of advanced materials. In both peroxide and sulphur cure systems, new Lithene grades demonstrate significant tensile, heat age and mixing time improvements to allow customers' needs to be met in the automotive and specialist industrial markets.

Innovation 2: Accessing high growth markets
Synthomer continues to invest in the development of advanced materials to access their high growth potential. In absorbents, Synthomer has launched its Duraguard range of high capacity granular finished absorbants offering unrivalled durability to natural gas processing operators. In other advanced materials, graphene is an exciting and innovative new material which has the potential to open new markets and even replace existing technologies. Synthomer has developed exceptionally high-quality graphene products available under the Gographene range, which can be accessed via a newly introduced innovative marketing channel to service both the development and industrial scale customer. With applications under development from superior performance tyres to footwear, our high purity products offer excellent opportunities for growth.

Innovation 3: Global network drives faster innovation
Synthomer innovation is delivered through a global network with our four innovation centres in Asia, Europe and North America. Our R&D teams are embedded within the businesses to allow close access to customers and to ensure that we provide solutions that deliver value where it matters. In our Speciality Additive business, which we acquired from Perstorp in 2017, we have a new focused team in place to utilise the strength of the Synthomer network. This allows us to develop coating and polyester additives and associated applications required to deliver differentiated materials and access to higher rates of growth globally.

Business model

Creating and sustaining value through innovative solutions

Our strategy

Our strategy is to create shareholder value by creating a global speciality chemical business focused on providing customers with innovative and high performance solutions that enable them to efficiently produce their own high quality products.

Our strategy is composed of five key elements:

1. Research and development and technical expertise to exploit new markets
We anticipate market trends and customer requirements to deliver improved products with improved margin and product differentiation

2. Driving efficiency and excellence through operations
We operate continuous improvement across our operations to improve production efficiency, sales effectiveness and functional excellence. We seek to identify good practice in all areas of our business and ensure that relevant learnings are disseminated throughout the business.

3. Capacity utilisation
Our aim is to drive profitability through maximum utilisation of our assets. This involves identifying the root causes of production bottlenecks and finding innovative solutions to eliminate them.

4. Investment in capacity
We seek to add capacity in growth markets where investment opportunities meet our capital management policies.

5. Business growth through acquisition
We actively seek opportunistic bolt on acquisitions in similar chemistries or transformational step change transactions not limited by geography or chemistry.

Synthomer is a speciality chemical company which uses its technical service expertise and R&D capability to understand and anticipate customer needs to drive competitive advantage.

We produce chemical formulations for thousands of customers in a range of industries, from construction and coatings to healthcare and automotive. Our strategic procurement specialists acquire the upstream raw materials used in our complex production processes *which involves controlling the pressure,* temperature and duration of mixing reactions in order to create specific formulations. Our highly skilled and experienced operations teams, supported by R&D, deliver cost effective and flexible operational capabilities to maximise output and quality.

Our production sites are local to our customers to better understand their needs and reduce the cost of logistics and our environmental impact. We have leading market positions in Europe and South East Asia, which continue to be underpinned by our drive for environmentally friendly technology and exposure to global mega-trends.

Effective risk management is the key method we deploy to ensure our strategy is delivered and sustainable value created.

Our sustainable value chain

1. Research and development
Under central leadership, our four research and development 'centres of excellence' work to both develop products that meet our customers' needs and to improve the efficiency of their manufacture.

2. Consumers
We monitor mega-trends and market developments to ensure our formulations meet the requirements not only of our customers but also the end users of their products.

3. Technical services
Our technical service teams work with our customers to ensure we provide the right formulation for their needs.

4. Formulations
Our formulations are designed for use in customer specific products.

5. Sourcing raw materials
We work closely with our suppliers to obtain competitive prices, correct specification and to improve supply chain resilience.

6. Production
Experienced operations teams continue to optimise the production process to be most efficient by using complex production techniques and removing bottlenecks.

7. Quality control
Our quality control procedures and laboratories ensure that we manufacture and store finished products in a manner that assures quality.

8. Logistics
Our specialist logistics teams work on ensuring safe and timely deliveries of excellent products in more than 140 countries.

Our value chain beneficiaries

Customers
Our customers expect us to provide them with innovative, high quality, competitive products. We seek to work in partnerships with customers, using our skilled R&D and technical services teams, to develop products that support their goals.

Employees
Our employees are a critical part of our success. Employees contribute to all aspects of our value chain and all employees benefit from the success of our business. We are committed to providing a safe and rewarding environment in which to work.

Communities
We look to be a valued part of communities in which we operate, providing highly skilled employment opportunities, being aware of how our plans may impact on a community and demonstrating that we respect the community and its environment.

Suppliers
Our suppliers are an important part of our business and we look to work closely with them using the skills of our strategic sourcing teams to ensure we get the right specification of products for our needs at competitive prices.

Shareholders
Our shareholders, as the owners of our business, should see the benefits of our focus on long-term sustainable growth, regulatory compliance and strong governance.

Governments
We see local safety and environment legislative compliance as the minimum level at which we should operate and strive for higher standards. We look to ensure that we follow the letter and spirit of tax regulations within each of the jurisdictions in which we operate and contribute fairly to public policy goals.

Measuring our progress

Key performance indicator	Strategic focus	KPI definition
Volume (Wet ktes)	3 4 5	Volume of our products sold in thousands of tonnes (ktes). The volume is based on wet volumes – i.e. the volumes including water content
Underlying EBITDA (£m)	1 2 3 4 5	Underlying operating profit before depreciation, amortisation and Special Items
Underlying profit before tax (£m)	1 2 3 4 5	Underlying profit before tax comprising IFRS profit before tax excluding Special Items
Underlying earnings per share (pence)	3 4 5	Basic Underlying earnings per share before Special Items
Sales volume from new products (%)	1	Percentage of sales volume in the year that can be attributed to new products launched in the past five years
Recordable accident frequency rate	2	Recordable injury rate for accidents involving more than first aid treatment, expressed as accidents per 100,000 hours worked by employees and all contractors
Energy consumption per tonne (GJ/Tonne)	2	Energy (GJ) (including gas, electricity, steam and fuel oil) used at each of our plants divided by the number of tonnes of product made. The energy excludes transport of goods to and from site and the movement of the associated vehicles on site, but internal transport on site is included

Comment

+ Underlying growth supported by the acquisition of BASF Pischelsdorf (Austria) and capacity expansion in Pasir Gudang (Malaysia), Oulu (Finland) and Sant'Albano (Italy).

+ Record year for Underlying EBITDA benefitting from the acquisitions, performance improvements and foreign currency translation gains.
+ Innovation, capacity expansion and cost control critical to continuing improvement.
+ Sustainable growth underpinned by organic and inorganic growth more than compensating for the transactional impact of the weaker USD and weaker Q4 due to falling raw material prices and buying behaviour.

+ Record year for Underlying profit before tax benefitting from the acquisitions, performance improvements and foreign currency translation gains.
+ Innovation, capacity expansion and cost control critical to continuing improvement.
+ Sustainable growth underpinned by organic and inorganic growth more than compensating for the transactional impact of the weaker USD, and weaker Q4 due to falling raw material prices and buying behaviour.

+ 6.8% growth in Underlying EPS in the year benefiting from improvement in Underlying profit before tax.
+ Reduction in effective tax rate reflecting geographical profits mix and prior year items.

+ Continued success in our strategy to innovate and create products to meet market and customer needs.
+ Investment in R&D continuing to drive strong innovation pipeline.

+ Increase in the 2018 recordable accident rate related to increased contractor activities associated with major capex investment across the Group. On three year rolling basis 60%+ improvement recorded.
+ Best ICCA Process Safety Event rate at 0.14 per 100,000 hours.

+ Specific Energy Consumption decreased by 0.5% but overall primary energy consumption increased by 3.8% due to BASF Pischelsdorf (Austria) acquisition and production mix in Malaysia.
+ Projects identified and in the pipeline which will deliver energy and emissions improvement.

Link to strategy

1 **R&D and technical expertise to exploit new markets**

2 **Driving efficiency and excellence through operations**

3 **Capacity utilisation**

4 **Investment in capacity**

5 **Business growth through acquisition**

Read more on pages 18-19

Managing risk

Synthomer achieves its strategic objectives by good risk management practices which enable good decision making and the pursuit of opportunities whilst protecting our sites, systems, staff and other stakeholders. Successful risk management enables Synthomer to achieve its corporate objectives faster and more efficiently and recognises that we only achieve reward by taking an appropriate level of risk through setting the risk appetite and risk tolerance.

How Synthomer manages risk:

Risk oversight

Synthomer plc Board

The Board is responsible for creating the framework for the Group's risk management to operate effectively. The Board continues to strengthen its definitions and measurement of:

+ the risk appetite, which is the target range of risk the Board believes Synthomer should take to achieve its corporate objectives;
+ *the risk tolerance, which is the degree* of variance from the targeted risk appetite that the Board is willing to tolerate.

Audit Committee

The Audit Committee is responsible for overseeing the management of the principal risks, controls and the assurance processes. To help further embed successful risk management within Synthomer, the Audit Committee in 2018 conducted 'deep dives' into a number of business unit and functional risk registers. These deep dives allow management to explain directly to the Audit Committee the risks and associated mitigating actions in place and in development.

The risk management system, Audit Committee 'deep dives' and associated assurance work are designed to ensure that risk is managed to within the risk tolerance rather than to eliminate risk completely, and reviews provide reasonable assurance in line with good practice.

Executive management

Executive management is responsible for the management of our strategic, operational, compliance and financial risks using the risk management framework. This includes ensuring there are to the extent possible mitigating actions and controls in place.

Identification and assessment of risk

We have a structured risk management framework operated at business unit, functional and Group level. The Business Risk Assessment Methodology defines a standard set of risk categories with generic risk descriptions to assist management in identifying areas of risk. There is also a simple scoring methodology to quantify risk. We rank risks, taking into account the mitigating controls in place, by combining their economic, operational or reputational impact and the likelihood that they may occur.

We use a barrier based 'bow tie' method to help management define and assess the most critical risk events. The method brings structure to the identification of hazards or risk events, potential causes of those hazards and the consequences of the hazard occurring. The bow tie method also identifies barriers or controls in place or needing to be developed to mitigate the likelihood of the threats occurring or impact of the effects of the risk event. We encourage our management to be cognisant of good practice on risk management including from our professional advisers and the World Economic Forum Global Risks report.

Risk output

Business units individually conduct a bottom up assessment of the principal risks and record them in a risk register using the Business Risk Assessment Methodology. Group Functions and the Executive Board conduct a top down review of strategic risks taking into account the input from the business units and prepare a Group risk register using the same methodology.

The Board reviews and approves the Group risk register.

Bow tie methodology

A barrier-based bow tie methodology is used to clearly show the relationship between the potential causes (threats), consequences and controls (barriers) associated with undesired hazardous events.

Hazard

Threat 1 | Proactive barrier | Proactive barrier | Recovery barrier | Recovery barrier | Consequence

Top event

Threat 2 | Proactive barrier | Proactive barrier | Recovery barrier | Recovery barrier | Consequence

Escalation factor | Escalation factor barrier | Escalation factor barrier | Escalation factor

Assessment of principal risks

Our key risks and assessment of their likelihood and potential impact are illustrated in the probability / impact matrix opposite:

Strategic
1 Volatility in chemicals and polymers market
2 Competition and failure to innovate
3 Intellectual property
4 Manufacturing capacity expansion projects
5 Strategic projects including M&A

Operational
6 Safety, health and environment (SHE)
7 Loss or failure of a Synthomer site
8 Security, complexity and reliability of systems
9 Disorderly Brexit

Compliance
10 Ethics

Financial
11 Financial risks

New risk Risk that has moved from 2017

Each region undertakes a formal risk assessment and prepares a register using the Business Risk Assessment Methodology.

Risk management review and assurance

Group risk function

The Group risk function, an integral part of our Group operations function, challenges the assumptions, risks identified, prioritisation and response actions in place or proposed.

Assurance providers

Synthomer operates a 'three lines of defence' model. A number of different internal assurance providers (for example, Group SHE, ISO audits and Internal Audit) review the effectiveness of the mitigating actions and controls. External assurance is provided by our Statutory Auditors and also by an external specialist in ISO standards.

Our key risks

Risks affect us in many ways. Across our business, we identify the likelihood and potential impact of risks through our formal twice-yearly risk assessment submissions encompassing the business units and Group functions and also more regularly through empowering management to consider and react to risks. These reviews, together with our three lines of defence model, enable us to establish effective controls to mitigate (to the extent possible) their effects.

We categorise our risks taking into account the effectiveness of mitigating actions and controls, in the following areas:

+ Strategic risks that could prevent us from achieving our strategic objectives.
+ Operational risks which, if not successfully managed, would threaten our viability. These relate to our ability to operate a sustainable and safe business
+ Compliance risks where a breach of regulations or laws could lead to fines from regulators and reputational risk that may be disproportionate to the size of the event leading to a breach.
+ Financial risks relating to the funding and fiscal security of the Group.

The table on pages 34 to 37 shows more detail of the key risks identified at the end of 2018. Our Board and management consider that these pose the greatest threats to our business and they score highest on our risk table. They fall into categories that relate closely to our business model. Not all risks facing Synthomer are listed and the risks are not listed in any order of priority.

The nature of risk changes over time with new risks emerging and the impact of others changing. Our risk management and assurance programme can only provide reasonable, not absolute, assurance that key risks are managed to an acceptable level.

The three lines of defence

Board/Audit Committee

Senior management

+ **1st line of defence**
+ Policies
+ Procedures
+ Management controls

Functions that own and manage risks

+ **2nd line of defence**
+ Risk management
+ Group finance
+ Group SHE
+ ISO audits
+ Regulatory affairs
+ Legal department
+ Quality

Functions that oversee risks

+ **3rd line of defence**
+ Internal audit

Functions that provide independent assurance

External auditor

Regulators (E.g. HSE, EA, ICO, CMA, FCA)

Investors and rating agencies

Principal risks and uncertainties

The Group's strategic objectives can only be achieved if certain risks are taken and managed effectively.

We have listed below the key risks that affect our business, although there are other lower level risks that occur and impact the Group's performance which are also actively managed through our risk management framework.

Strategic risks

Risk	Response	2019 plans
Volatility in chemicals and polymers market		
The markets in which we operate are inherently volatile, including in raw material input prices, affecting volumes and margins and may adversely affect the results of the Group. 1 4 V	The Group continues to maintain a balanced portfolio of products serving a wide range of end markets around the globe. Segment performance at business unit level is closely monitored and corrective actions are taken as necessary.	Our acquisition strategy continues to target expansion in new geographic regions and also adjacent speciality chemicals businesses to help us diversify the risk further. New product development will continue to diversify the Group's risk in 2019.
Competition and failure to innovate		
We operate in highly competitive markets and the Group could lose market share to other producers of speciality chemicals if we fail to remain competitive, or to other products that can be substituted for the products of the Group if we fail to identify threats and innovate to mitigate them. 1 3 V	The Group continues to invest in enhancing existing products and developing new products through our R&D programme and our acquisition strategy includes technologies that are new to the Group. Our technical services teams work with customers to understand and anticipate their future needs and to help them drive efficiencies in their own manufacturing processes. All sites operate quality management systems including assurance processes to ensure the quality of products meets agreed standards. We continue to review our cost base and sales effectiveness to ensure we can price our products competitively.	We have reorganised the business along chemistry lines in order to bring our businesses closer to the customers and we expect this, together with our Customer Relationship Management (CRM) system enabling our sales teams to better identify and secure opportunities, to drive growth in 2019 and beyond. Our integrated business planning process will allow us to operate more efficiently.
Intellectual property		
The value of the Group is dependent on our ability to identify and protect our own intellectual property and ensure we do not breach third party intellectual property (IP) rights which could lead to reputational damage and additional costs. 1	The Group improved its IP management with new hires in 2018 and will continue its active patent programme and monitoring for infringements.	Where appropriate, and where we are legally able to, we will patent or otherwise protect more IP in products, processes and technologies. We will continue to improve IT security in our networks, ERPs, recipe change control system and industrial controls systems, to protect IP from theft and unauthorised use.
Manufacturing capacity expansion projects		
Enhancements to our plants to increase manufacturing capacity to take advantage of growth markets are dependent on good project management. Poor execution of our various projects could impact on our ability to deliver the capacity enhancements. 4 V	This risk is perceived to be increasing as we spend more on capex and have to secure professional project management and contractor resources to design and build capacity expansion. We have a robust capital appraisal process in place to assess proposed projects to ensure they deliver value which includes regular reporting to the Board. Project Excellence methodology is in place for all significant capex projects. The outcome of completed projects with costs in excess of £1m are reviewed by Internal Audit and the Audit Committee.	We will deliver two significant capacity enhancements in early 2019 and have announced a further capacity expansion in our NBR plant in Malaysia. Our Project Excellence methodology will be reviewed to ensure any lessons learned are addressed and further training given as required. Return on Invested Capital (ROIC) for our significant capital projects is being introduced to the Long Term Incentive Plan (LTIP) performance measures in 2019 to ensure appropriate management focus.

Link to strategy

1 Research and development and technical expertise to exploit new markets

2 Driving efficiency and excellence through operations

3 Capacity utilisation

4 Investment in capacity

5 Business growth through acquisition

Read more on pages 18-19

Change in risk

No change

Increase

Decrease

V Sensitivity for risk made in assessing viability

Risk

Strategic projects including M&A

The Group's strategic plan includes significant M&A activity to grow our business. There is a risk that we fail to identify and secure any targets or identify the wrong targets, paying too high a price, fail to integrate acquired assets and drive planned synergies, or we encounter performance, funding and cashflow issues or other potentially unknown liabilities.

5

Response

Executive management has extensive experience of successful M&A transactions including integration of the acquired business.

External advice is used to help identify targets, prepare bids and conduct due diligence.

Detailed integration plans are prepared as part of the due diligence exercise.

2019 plans

M&A activity will continue to be closely scrutinised and challenged by the Board.

We will increase the efficiency of our existing processes and continue to invest in our ERP systems to enable smoother integration of acquired businesses.

Ongoing review of acquisition process and implementation of lessons learned to future transactions.

Operational risks

Risk

Safety, health and environment

The chemical industry is inherently dangerous involving the safe transport, storage and manufacture of hazardous chemicals. Failure to manage the impact on our staff, manufacturing sites and the environment of these risks could lead to regulatory fines, reputational damage and lost production.

2

Response

Synthomer operates a central safety audit function dedicated to SHE issues and it provides advice to and monitors our sites to enable continuous improvement across all major SHE areas. Increasingly, the focus is on process safety risk to mitigate the risk of major incidents.

Maintenance programmes are undertaken to mitigate the risks.

2019 plans

Our Group SHE audits will continue to focus on higher risk areas including process safety. We will make further progress on our long term ambition to implement a proactive approach to maintenance as a preventative measure.

We will focus specifically on completing the actions from our Process Hazard Assessments.

Risk

Loss or failure of a Synthomer site

A manufacturing site or a raw material storage site might be unable to operate, whether temporarily or longer term, due to a risk event, including natural disaster, safety incident, failure of a key supplier or the supply chain, sabotage or cyber attack, which would have an adverse impact on operations and business unit profitability.

2 3 V

Response

Crisis management procedures are in place for all sites to respond to risk events which are reviewed and tested regularly.

Sourcing strategies are in place Group wide to access multiple sources for key raw materials and the Group works closely with key suppliers to ensure availability. Single sourced materials are identified and inventory retained, where appropriate, to mitigate risk of supply chain failure.

2019 plans

We will continue to improve preventative measures to reduce the risks and develop our business continuity plans including crisis management response, disaster recovery for key systems and data as well as longer term recovery of operations.

Operational risks continued

Security, complexity and reliability of systems

Risk

We are reliant on various legacy systems to run our business and the complexity of our systems continues to increase with acquisitions, compliance requirements and automation of processes. We also expect the inherent risk from cyber security attacks to continue to grow, and although mitigated by our increasingly sophisticated defences, all of our systems, including our industrial control systems, ERPs and communications could be compromised. We could lose intellectual property and customer data which might undermine our competitive position or a cyber-attack could leave one of our plants out of action or subject to blackmail.

1 2 3

Response

We have increased resources in our IT systems and security teams to improve our systems, processes and security.

Cyber defences continue to be enhanced and appropriate employees complete IT Security Awareness training.

2019 plans

Further security process improvements are planned in 2019 including penetration testing and review of good security practices.

We will test IT resilience through our programme of disaster recovery testing.

Disorderly Brexit

Risk

We reassessed the Brexit risks throughout our business in 2018 as a 'no deal' outcome was perceived to be more likely. There is a risk that a no deal scenario will lead to financial costs such as tariffs, and affect the UK and EU manufacturing plants' ability to import raw materials and export products on a timely basis, and also impact REACh regulation compliance costs.

2 3 4 5 V

Response

A Brexit task force has been established to consider and mitigate, as far as possible, the potential impact of a disorderly Brexit, monitoring impact on supply chain, regulation, trade compliance, operations and human resources.

2019 plans

We will continue to monitor the impact of a no deal scenario or any delays to settling future trading arrangements. We will review our trading arrangements, processes and systems to ensure that we take, as far as possible, any mitigating actions necessary.

Compliance risks

Ethics

Risk

The Group could suffer substantial penalties, damage to reputation and other sanctions for any failure to control, for example anti-competitive behaviour, bribery and corruption, or breaches of trade sanctions. The General Data Protection Regulation is now law and has greater potential penalties that could impact the Group.

2 V

Response

The Code of Conduct has been updated to address the new regulations. The new Code of Conduct includes real examples and scenarios to aid employee understanding and e-training is available. Malpractice reporting and protection for reporters are similarly covered in the new Code of Conduct and an external, confidential reporting helpline has been made available. Group legal and local management provide regular training to targeted groups of employees on anti-competitive behaviour, bribery and corruption.

We have terminated all business activities in certain sanctioned countries to avoid the risk of breaching trade sanctions but continue to monitor all our customers using trade compliance tools.

2019 plans

We will ensure that senior management and local business units continue to emphasise the provisions in the Code of Conduct and that Group legal and other relevant functions continue to provide training and advice on its applicability.

We will continue to review our approach to legal compliance including the new GDPR law.

Link to strategy

1 Research and development and technical expertise to exploit new markets

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Read more on pages 18-19

Change in risk

No change

Increase

Decrease

V Sensitivity for risk made in assessing viability

Financial risks

Risk	Response	2019 plans
Financial risks A significant proportion of the Group's turnover and assets are in currencies other than UK sterling and fluctuations in currency exchange rates may significantly impact the results and net assets of the Group. The Group has funding risks relating to defined benefit pension scheme obligations, the value of which are highly dependent on volatile financial markets. 2 5 V	The Group has a policy of hedging all significant foreign exchange transactional exposure (principally receivables and payables denominated in a currency other than the entity's reporting currency) at operating company level. The Group regularly reviews its net assets and borrowing currency exposures, borrowing in overseas currencies to hedge the net assets held in those currencies as appropriate. The UK defined benefit pension scheme was closed to future accrual in 2009. Additional contributions and careful asset management should reduce the deficit over the longer term. Overseas defined benefit pension schemes are reviewed annually by actuaries to ensure appropriate contributions are made and liabilities are recognised appropriately.	We will continue to hedge transactional currency risks. The UK scheme's pension deficit is expected to reduce over the longer term as the Group pays the additional contributions to the UK scheme agreed with the Trustees in 2016. The timescale will be affected by movements in the financial markets and the discount rate. A Group-wide review of pension and other long term employee liabilities will be undertaken in 2019.

Viability statement

In accordance with the provision of section C.2.2 of the 2014 revision of the UK Corporate Governance Code, the directors have assessed the viability of the Group over a five-year period to December 2023, being the period covered by the Group's approved strategic plan. This plan is updated annually, in a process led by the executive management team with input from the respective businesses and functions. It includes analysis of product and segmental performance, cash flow, investment programmes and returns to shareholders. The plan is presented to the Board each year as a part of its annual strategic review.

The directors consider five years to be an appropriate time horizon for the strategic plan, being the period over which the Group actively focuses on its long-term product development and capital expenditure investments. A period above five years is considered by the directors to be too long, given the uncertainties that exist beyond this time frame.

In making their assessment, the directors have considered the diverse activities and product offering of the Group in terms of geographies, chemistry and end markets. The directors have also considered the Group's current strong financial position, including the existing committed unsecured bank facilities, which have been assumed to be refinanced at maturity, and the fixed interest rate hedges entered into 2018.

Furthermore, a sensitivity analysis has been undertaken, focusing on the impact of the principal risks (detailed above on pages 34 to 37) over the five year period. The risks have been assessed for their potential impact on the Group's business model, future trading and funding structure. The sensitivity analysis has considered a number of severe but plausible scenarios linked to the risks. In all cases, the impact was considered on both liquidity and borrowing covenants.

The scenarios included trading volatility, increased competition, disruption as a result of a disorderly Brexit, delays in project delivery, failure of new products and the temporary loss of a manufacturing site. They also included the risk of potential significant changes in foreign exchange rates, which is deemed to be outside the control of the Group. A combined sensitivity was also performed, aggregating all of the scenarios considered. The results also took into account the availability and likely degree of effectiveness of mitigating actions available.

While this sensitivity analysis did not consider all of the risks that the Group may face, the directors consider that it is reasonable in the circumstances of the inherent uncertainty involved.

Based on the results of this analysis, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period.

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Continued earnings growth underpinned by geographic diversity, product differentiation and sound balance sheet financing

Stephen Bennett
Chief Financial Officer

Strategic highlights

+ Fourth consecutive year of Underlying earnings growth
+ Robust performance underpinned by geographic diversity and product differentiation
+ A further year of record investment in growth capex
+ Group refinancing and interest rate fix completed
+ Balance sheet remains conservatively leveraged

Overview

The Group has reported a further solid improvement in Underlying profit before tax, up 3.9% at £135.1m, benefitting from geographic diversity and product differentiation and overcoming challenging foreign currency and raw material price movements.

The key drivers behind the improvement in *overall performance were:*

+ A strong year for ARW with Underlying profit growth driven by increased Nitrile latex volumes and unit margins in a Nitrile latex market that continues to report significant demand growth.
+ Robust results in ENA, adversely impacted by both the weaker USD reducing margins on products sold from Europe in USD and falling raw material prices in Q4, adversely impacting customer buying behaviour.
+ The bolt on acquisition of BASF Pischelsdorf (Austria) completed on 31 January 2018 and which was successfully integrated into the Group.
+ The continuing weakness of sterling which resulted in a positive translational impact on the Group's reported results.

Alternative performance measures

The Group has consistently used two significant Alternative Performance Measures ('APMs') since its adoption of International Financial Reporting Standards ('IFRS') in 2005:

+ Underlying performance, which excludes Special Items from IFRS profit measures; *and*
+ EBITDA, which excludes Special Items, amortisation and depreciation from IFRS operating profit.

The Board's view is that Underlying performance provides additional clarity for the Group's investors and so it is the primary focus of the Group's narrative reporting. Further information and the reconciliation to the IFRS measures are included in notes 2, 5 and 6.

Income statement

Operating profit

The table below bridges the 2017 and 2018 IFRS operating profit, showing:

+ the changes in profitability in existing businesses;
+ the impact of the 2018 acquisition of BASF Pischelsdorf;
+ the impact of the weakness of sterling on translation; and
+ the effect of the Special Items.

	Europe & North America £m		Asia & Rest of World £m		Unallocated corporate expenses £m		Total £m	
2017 – IFRS	77.5		31.2		(13.3)		95.4	
Add: 2017 Special Items	39.6		3.9		0.1		43.6	
2017 – Underlying performance	117.1		35.1		(13.2)		139.0	
2018 – Underlying business changes	(9.4)	(8.0)%	9.0	25.6%	(1.6)	(12.1)%	(2.0)	(1.4)%
2018 – Underlying existing business at 2017 exchange rates	107.7		44.1		(14.8)		137.0	
2018 – Acquisition of BASF Pischelsdorf	2.6				-		2.6	
2018 – Impact of 2018 exchange rates	0.9		1.6		-		2.5	
2018 – Underlying performance at 2018 exchange rates	111.2	(5.0)%	45.7	30.2%	(14.8)	(12.1)%	142.1	2.2%
(Deduct)/add: 2018 – Special Items	(19.4)		9.2		(3.2)		(13.4)	
2018 – IFRS	91.8	18.5%	54.9	76.0%	(18.0)	(35.3)%	128.7	34.9%

The following should be noted:

+ The reduction in ENA existing business operating profit of £9.4m primarily reflects the adverse impact of both the weaker USD reducing margins on products sold from Europe in USD (£5.3m) and falling raw material prices in Q4, resulting in weaker volumes as customers delayed Q4 orders in a falling price environment.
+ The marked improvement in ARW existing business operating profit of £9.0m mainly reflects strong growth in Nitrile latex volumes and unit margins, more than offsetting the adverse impact of the weaker USD reducing margins on products priced in Malaysia in USD (£4.8m).
+ Underlying unallocated corporate expenses increased by £1.6m reflecting the annualisation of costs related to the strengthening of the management team in the London Head Office in 2017.
+ The continuing weakness of sterling during the year resulted in an increase in the Group's reported profit in sterling. For the European businesses, the rate used for translating profit moved from £1:€1.1430 in 2017 to £1:€1.1284 in 2018, with a resulting uplift in the 2018 ENA operating profit of £0.9m. For the Malaysian businesses the Malaysian Ringgit moved from £1:MYR5.5560 in 2017 to £1:MYR5.3661, with a resulting uplift in the ARW operating profit of £1.6m.

Special Items

	2018 £m	2017 £m
Restructuring and site closures	**(12.2)**	(11.6)
Sale of business	**3.8**	
Sale of land	**16.4**	1.3
Acquisition costs	**(0.5)**	(2.3)
Amortisation of acquired intangibles	**(16.4)**	(31.0)
Aborted bond costs	**(1.7)**	
UK Guaranteed Minimum Pension equalisation	**(2.8)**	-
	(13.4)	(43.6)

The following items of income and expense have been reported as Special Items:

+ Restructuring and site closure relates to the natural rubber and polyester resins production lines in Kluang (Malaysia), which closed in Q4 2018, and an increase in the onerous lease and related provisions for the Ossett site due to a change in circumstance relating to the subletting of the site. In 2017, it primarily related to the rationalisation of the Ribécourt (France) site and the initial onerous lease provision for the Ossett site.

+ Sale of business relates to the disposal of the Leuna (Germany) site and the disposal of 51% of our sales entities in Dubai.

+ Sale of land in 2018 relates to the Group's profit on disposal of the final tranche of Malaysian land at Kluang. The profit on sale of land in 2017 related to a disposal of land in Hapton (UK).

+ Amortisation of acquired intangibles decreased significantly during 2018 due to the full amortisation during the year of the PolymerLatex customer relationships acquired during 2011. The amortisation includes £1.4m in respect of intangibles relating to the acquisition of BASF Pischelsdorf (Austria) in 2018.

+ Ahead of the Group refinancing during the year a process was undertaken to issue fixed rate unsecured senior notes. Despite a strong response from investors the Group decided not to complete the transaction due to unfavourable market conditions. The costs of this process are not reflective of Underlying performance.

+ Following a UK High Court ruling during the year in relation to the equalisation of male and female Guaranteed Minimum Pensions (GMP) a pension plan amendment is deemed to have occurred. The actuarial estimate of this irregular cost was £2.8m.

Finance costs & profit before taxation

	2018			2017		
	Underlying performance £m	**Special Items £m**	**IFRS £m**	Underlying performance £m	Special Items £m	IFRS £m
Operating profit (including share of JV's)	**142.1**	**(13.4)**	**128.7**	139.0	(43.6)	95.4
Finance Costs	**(7.0)**	**(1.4)**	**(8.4)**	(9.0)	-	(9.0)
Profit/(loss) before taxation	**135.1**	**(14.8)**	**120.3**	130.0	(43.6)	86.4
Increase/(decrease) in profit/loss before tax %	**3.9%**		**39.2%**			

Finance costs were lower than 2017 reflecting a number of factors: the Group borrowing predominantly in Euro in the year compared with multiple currencies in 2017; lower variable Euro interest rates in the first half of the year, and a lower pensions interest charge as a result of the reduced discount rate in relation to the UK and Overseas defined benefit pension schemes. This was partly offset by the higher cost fixed Euro interest rate swap in the second half of the year.

As part of the refinancing in July 2018 the Group entered into swap arrangements to fix interest rates on the full value of the €440m committed unsecured revolving credit facility. The fair value of the unhedged derivatives relates to the mark to market of the swap arrangements at 31 December 2018 in excess of the current borrowings of the Group. This has been taken through Special Items as it is not reflective of the Underlying performance.

Taxation

	2018			2017		
	Underlying performance	**Special Items**	**IFRS**	Underlying performance	Special Items	IFRS
Taxation (charge)/credit £m	**(23.0)**	**6.0**	**(17.0)**	(24.7)	13.1	(11.6)
Effective tax rate %	**17.0**	**40.5**	**14.1**	19.0	30.0	13.4

The IFRS effective tax rate is impacted by the tax credit on the Special Items. It is therefore helpful to consider the Underlying and Special Items affecting tax rates separately:

+ The effective tax rate on Underlying performance reduced in the year as a result of changes in the geographic mix of profits, prior year items and decreases in tax rates in certain jurisdictions.

+ The effective tax rate for Special Items is principally driven by the deferred tax credit on the amortisation of acquired intangibles and the zero corporate tax rate on the profit on sale of Malaysian land.

Non-controlling interests

	2018			2017		
	Underlying performance £m	**Special Items £m**	**IFRS £m**	Underlying performance £m	Special Items £m	IFRS £m
Non-controlling interests	**0.5**	**3.0**	**3.5**	0.8	–	0.8

The Group continues to have a 70% holding in Revertex (Malaysia) Sdn Bhd and its subsidiaries. This company and its subsidiaries are now a relatively minor part of the Group and hence the non-controlling interests impact on the Underlying performance is not significant.

The Special Items in 2018 reflects the non controlling interests share (30%) in the Malaysian land sale and restructuring costs associated with the Kluang site, referred to in the Special Items section above. The land was owned by Kind Action Sdn Bhd, a 100% subsidiary of Revertex (Malaysia) Sdn Bhd.

Earnings per share

	2018			2017		
	Underlying performance	**Special Items**	**IFRS**	Underlying performance	Special Items	IFRS
Earnings per share (pence)	**32.8**	**(3.4)**	**29.4**	30.7	(8.9)	21.8
Growth %	**6.8**	**–**	**34.9**			

As set out in note 13, the average number of shares in issue remains similar to last year at 340 million. The changes in Underlying and IFRS earnings per share shown in the table are therefore driven predominantly by the same factors that influence the change in profit before taxation and taxation described above.

Cash performance

The Group's primary focus is on managing net borrowings rather than on cash. The following summarises the movement in net borrowings and is in the format used by management:

	2018 £m	2017 £m
Underlying operating profit (excluding joint ventures)	**141.7**	138.0
Movement in working capital	**(35.2)**	9.5
Depreciation and amortisation (Underlying)	**38.9**	37.2
Purchase of property, plant and equipment	**(75.7)**	(60.3)
Business cash flow	**69.7**	124.4
Interest paid (net)	**(4.5)**	(4.8)
Tax paid	**(23.0)**	(26.1)
IAS 19 Interest charge	**(3.2)**	(4.3)
Pension funding in excess of IAS 19 interest charge	**(13.8)**	(12.5)
Share based payments variance to IFRS2 charge	**(3.9)**	(0.3)
Non-controlling interest and joint venture dividends	**(0.4)**	1.5
Underlying operating cash flow	**20.9**	77.9
Cash impact of restructuring and site closure	**(3.3)**	(6.0)
Cash impact of aborted bond costs	**(1.2)**	
Sale of property, plant and equipment	**17.5**	2.2
Purchase of business and acquisition costs	**(26.3)**	(66.2)
Sale of business	**3.7**	7.6
Dividends paid	**(42.5)**	(39.1)
Foreign exchange and other movements	**(2.3)**	(6.6)
Movement in net borrowings	**(33.5)**	(30.2)

Net debt increased by £33.5m (2017: £30.2m) in the year, rising from £180.5m at 31 December 2017 to £214.0m at 31 December 2018.

The rise in net debt reflects:

+ An increased investment in working capital partly reflecting higher raw material prices in the final quarter of 2018 relative to the comparative period and higher inventories as a result of reduced sales activity in the same period. Working capital remains at circa 10% of sales on a twelve month rolling basis.

+ The capital expenditure in 2018 reflects the cash spend on the previously announced Nitrile latex capacity expansion in Pasir Gudang (Malaysia), the made to order speciality acrylic lines in Worms (Germany), the increase in acrylic capacity in Roebuck (USA), *debottlenecking of Marl (Germany) for foam production and capacity expansion of Sant'Albano (Italy). Our spend on sustenance capital* expenditure is £24m compared with £20m in 2017.

+ The tax paid amount of £23.0m represents 17.0% of Underlying profit before tax and is broadly in line with the effective tax rate (2017: 20.1%). The reduction in tax paid is consistent with the change in geographic mix of profits, with proportionately more profits generated in Malaysia in 2018 relative to 2017.

+ The amount shown as pension funding in excess of the IAS19 charge mainly reflects the UK defined benefit deficit recovery funding of £15.5m (2017: £14.7m). The rise in the deficit recovery payment in 2018 reflects the schedule of contributions agreed with the Trustees in 2016 as a part of the 2015 triennial pension scheme valuation which was based on the forecast increase in the pension payroll, allowing for retiring employees.

+ Sale of property, plant and equipment primarily relates to the Group's Malaysian land sale proceeds in 2018, and the Hapton land sale in 2017.

+ The outflow for purchase of business principally relates to the purchase of BASF Pischelsdorf (Austria) for £25.8m completed on 31 January 2018. The prior year outflow of £66.2m mainly relates to the acquisition of Speciality Additives (Belgium).

+ The sale of business proceeds of £3.7m mainly relates to the proceeds from the disposal of 51% of the Dubai sales entities. The prior year proceeds of £7.6m is the amount received from the disposal of Synthomer Leuna (Germany)

+ Substantial amounts of the Group's borrowings have been maintained in Euros as a natural hedge against the net asset base in this *currency. With the devaluation of sterling referred to above, the translation at the year-end rates has resulted in an exchange loss* recognised in reserves and therefore a higher borrowings amount (offset by an increase in the Euro net asset base).

Financing and liquidity

The Group refinanced in July 2018 securing lower interest margins and entering into a new committed unsecured four year multicurrency revolving credit facility of €440m expiring July 2022 (RCF) with an option to request an extension to July 2023. At the same time we secured an additional committed unsecured short term bank loan facility of €55m expiring in July 2019. The Group also entered into agreements to fix the Euribor interest rate on €440m of borrowings for a period of seven years expiring 2025, fixing the cost of borrowing at an historically low rate and insulating the Group from future increases in the Euribor interest rate.

	2018 £m	2017 £m
Committed facilities	**444.4**	418.9
Drawn at 31 December	**292.0**	246.7
Facility headroom	**152.4**	172.2

In addition to the facility headroom, the Group had cash and cash equivalents at 31 December 2018 of £96.9m (2017: £89.6m) net of overdrafts of £20.7m (2017: £24.2m)

	2018 £m	2017 £m
Cash and cash equivalents	**96.9**	89.6
Current borrowings (including overdrafts)	**(70.1)**	(73.1)
Non current borrowings	**(240.8)**	(197.0)
Net borrowings	**(214.0)**	(180.5)

The financial covenant for the new RCF is that net borrowings must be less than 3.25 times EBITDA.

	2018 £m	2017 £m
Net borrowings	**214.0**	180.5
EBITDA	**181.0**	176.2
Net borrowings/EBITDA	**1.2**	1.0

The significant facility and covenant headroom demonstrate the continued financial strength of the Group, which is well positioned to fund future organic growth and bolt on acquisitions.

Pensions

The table below sets out the total pension charge included in the income statement and the total defined benefit obligations included in the balance sheet.

	Charge to income statement		Post retirement benefit obligations	
	2018 £m	2017 £m	**2018 £m**	2017 £m
UK	**7.4**	5.1	**53.2**	78.3
Overseas	**7.1**	7.2	**79.3**	78.9
	14.5	12.3	**132.5**	157.2

The UK pension costs includes an irregular cost (included in Special Items) for the equalisation to Guaranteed Minimum Pension (GMP) of £2.8m.

The reduction in UK defined benefit pension liabilities of £25.1m primarily relates to an increase in the discount rate from 2.5% to 2.8% (£16.9m) combined with updated membership data (£11.1m reduction) and offset by the GMP equalisation increase of £2.8m.

Acquisition and disposal accounting

For the acquisition, the assets and liabilities have been included at fair value with the balance of consideration shown as goodwill. KPMG LLP were engaged to advise on the fair value of the property, plant and equipment (PPE). Overall their conclusion was that the total fair value of the PPE should be increased by £0.6m. KPMG LLP also performed a valuation of the intangibles, which mainly comprised of customer relationships. Accordingly on acquisition, the Group recognised goodwill and acquired intangibles of £1.2m and £17.6m respectively and the valuation is now final. These intangibles are being amortised over periods of 5 to 15 years.

Stephen Bennett
Chief Financial Officer
4 March 2019

Moving forward on Sustainability

Tim Hughes
President – Corporate Development

Sustainability highlights

+ Group Sustainability Committee established
+ Launch of new global Code of Conduct
+ Second best year for recordable injury rate on record – 60%+ improvement on three year rolling basis
+ Best ever Process Safety Event rate
+ Strengthening of our employer brand
+ Launch of 'We Care' initiative – linking our employees to our communities
+ Move to align reporting to GRI Standards and completion of stakeholder assessment

Foreword

Synthomer is a specialist chemical company and one of the world's leading suppliers of aqueous polymers. We produce innovative formulations to support customers in a range of industries from construction and coatings to healthcare.

Synthomer is built on its reputation and the trust and confidence of each of its stakeholders - not only our shareholders and employees, but also our suppliers, customers and the wider community and environment in which we operate. At Synthomer we hold the highest standards and work together to protect our values and build an ethical and sustainable business.

Synthomer recognises the significance and importance of being a responsible company. As a leading speciality chemical company, we focus on continuous improvement to enhance the sustainability of everything we do from developing less energy intensive water-based products to helping customers meet more stringent regulations, to attracting and retaining the best talent in the market through our employee brand.

We focus on sustainability through our Group Sustainability Committee using six pillars – our strategy, governance and compliance, people, sustainable value chain, health and safety and environment. In 2018 we focused our sustainability activities on broadening our sustainability reach more widely across the Group using Global Reporting Initiative (GRI) Standards. This has involved assessing stakeholder expectations, building key performance indicators against which we can be judged, engaging our employees through our 'We Care' initiative and then communicating our progress through our annual Sustainability Report.

We strongly believe our sustainability activities build shareholder value and will drive a positive contribution to our business performance and values.

Tim Hughes
President Corporate Development

Non-financial information statement

The Company has complied with the Non-Financial Reporting Directive contained in sections 414CA and 414CB of the Companies Act 2006.

Pillar	Highlights and achievements
Strategy	+ Sustainability Committee established to coordinate global sustainability activities, reporting directly to the executive team + Completed programme of work to identify initial set of GRI Standards matched to the six key pillars identified by the materiality assessment + Stakeholder engagement project completed to validate initial materiality assessment
Governance and compliance	+ New interactive global Code of Conduct launched across the Group, available in thirteen languages + New independent whistleblowing helpline established
People	+ New global 'SmartHR' system roll-out completed across the Group + Successful launch of Synthomer Talent Development Programme + Asia HR training and development programme recognised with three Malaysian awards
Sustainable value chain	+ Strengthened sustainability assessment within procurement processes, implemented revised supplier audit methodology + Litex QuickShield technology awarded 'Best Innovation in Textile Chemistry' at Future Textile Awards 2018 – new formula eliminates need for formaldehyde and ammonia
Health and Safety (Occupational and Process safety)	+ Wellness programmes established across several countries + SHE Engagement – global site management and SHE management conferences + Completion of main phase of Process Hazard Revalidation exercise + Process safety event rate reduced + Development of new internal process safety training programme
Environment	+ No environmental reportable incidents – best year on record + 1.8% reduction in GHG (greenhouse gases) emissions per tonne of production

Progress against 2018 targets and objectives

	Target Year	Progress
Strategy		
Complete materiality assessment review	2018	●○○
Formalise data gathering and monitoring of relevant GRI disclosures	2018	○●○
Align sustainability reporting against GRI 'Core' Standards	2019 onward	○●○
Achieve and sustain 'Gold' rating from EcoVadis	by 2020	○●○
Governance and compliance		
Launch updated Code of Conduct	2018	●○○
Introduce externally hosted ethical whistleblowing helpline (phone/web)	2018	●○○
People – employment conditions / diversity and development		
Implement global HR information system	2018	●○○
Deploy global, market aligned, role and compensation framework	2018	○●○
Design and launch new executive leadership global people report	2018	○●○
Develop the Synthomer diversity and inclusion plans	2018	○●○
Launch an enhanced Synthomer leadership development programme	2018	●○○
Sustainable Value Chain		
Revise supplier audit process to include sustainability requirements	2018	●○○
Define sustainability criteria for product and technology development projects	2018	●○○
Undertake initial assessment of active R&D projects against sustainability criteria	2019	○●○
Complete five key supplier audits for each procurement function (at least one per region)	2021	○●○
Complete desktop sustainability assessment of top ten key suppliers (in each region)	2022	○●○
Health and safety		
0.25 Recordable Case Rate (incidents per 100,000 working hours)	2018	●○○
0.20 Process Safety Event Rate (incidents per 100,000 working hours)	2018	●○○
Environment		
The first four metrics below are based on revised 2017 baseline		
>30% site emissions calculated using market-based emissions factors	2018	○●○
6% reduction in specific energy consumption (GJ/t production)	end 2021	○●○
9% reduction in greenhouse gas emissions (t CO e /t production)	end 2021	○●○
6% reduction in water consumption (m_3 / t production)	end 2021	○●○
7.5% reduction in waste to land (metric ton / metric ton production)	end 2021	○●○

Sustainability activities

Strategy

Synthomer recognises the significance and importance of being a responsible company, taking into consideration the complete life cycle of our products and the impact our operations have on people and the environment.

Synthomer considers issues that are material to its business and seeks to respond to them in a manner appropriate to the interests of all its stakeholders. We are committed to approaching our business in an ethical and environmentally sound manner.

Our work in this area has been highlighted through the Group's inclusion in the FTSE4Good Index since 2004. The FTSE4Good Index is operated by FTSE Russell and highlights the performance of stock market listed companies against a range of environmental, social and governance criteria. To be eligible for inclusion in the index, companies must demonstrate a high level of commitment in areas such as climate change, environmental management and human rights

The Group's risk management processes described earlier in the Strategic report include consideration of the potential impact of corporate responsibility issues on Synthomer's performance. The Group's investment decisions take into account appropriate evaluations of the potential consequences for its employees, customers, suppliers and the environment.

The Group also recognises the impact that M&A activities can have on its overall sustainability profile and performance. In 2018, Synthomer introduced changes to its assessment approach to strengthen our processes for evaluating these potential impacts, risk and opportunities

2018 saw the acquisition of an SBR latex production facility in Pischelsdorf, (Austria) from BASF, and its impact on our environmental performance, alongside, full year impact of the Speciality Additives (Belgium) plant purchased from Perstorp in March 2017, is discussed later in this section.

Materiality assessment review and Global Reporting Initiative (GRI) alignment

A key commitment made in early 2018 was to begin alignment of our corporate reporting to the international GRI Standards.

During 2018, a detailed review of the GRI reporting requirements was made, gaps were identified and a plan to address them was prepared and accomplished. Alongside this a project was undertaken to develop further the materiality assessment work described in the 2017 CSR Report that identified a first pass list of key sustainability aspects for Synthomer and relevant stakeholder groups.

The initial materiality assessment was reviewed to better identify the key sustainability aspects for Synthomer and relevant stakeholder groups and to align with the principles defined by GRI.

In order to collect the relevant stakeholder groups feedback in a more systematic way, a survey tool was designed. Using the survey, the seven main stakeholder groups previously identified were questioned to determine the importance of the 22 sustainability topics sitting in the six sustainability pillars selected by the Company. Approximately 400 stakeholders were surveyed worldwide representing all business areas.

The survey resulted in eighteen topics rated as very important and four topics as important. All the topics within the environment, safety, and governance and compliance areas were rated as very important.

More details will be provided in the Sustainability Report at www.synthomer.com

Plan for 2019 and beyond

During 2019, the Group will use the stakeholder engagement findings to identify where further engagement or action is required. Internally this will include more engagement with employees in the form of a pilot culture survey.

In addition, we will continue to look at opportunities for improving the systems used for reporting and data gathering / analysis to give greater confidence and provide more transparency and clarity around the identified key material risk areas.

To ensure the safe management and use of its products, Synthomer is committed to sharing relevant health and safety information throughout the value chain. To achieve this, we work closely with our suppliers and customers to fully understand the environmental impact of our raw materials, processes and products on the overall product life cycle. We identify potential improvement areas and focus efforts on delivering those improvements. Growing sustainably is a challenge, but it is one that we are committed to taking on.

The Group's international operations fulfil their responsibility to record, monitor and make publicly available the potential impact of its activities. In pursuing its corporate strategy, Synthomer's aim is to adopt business practices that are economically, socially and environmentally sustainable, and to promote these to its stakeholders in order to strengthen relationships, share knowledge and encourage best practice.

In 2017, a review of sustainability management and reporting mechanisms was undertaken, with a view to identifying how to move the Company forward in meeting both its own and its stakeholders' expectations in this area. This led in early 2018 to the establishment of a new Sustainability Committee which meets at least three times a year. This is led by the President Corporate Development who sits on, and reports back to, the executive committee, with membership made up of functional department heads representing areas such as HR, R&D, procurement and corporate governance, as well as senior members of the corporate SHE network. There is also active engagement with the wider business across the Group.

A key commitment made last year was to seek to align our sustainability reporting to the internationally recognised Global Reporting Initiative (GRI) Standards. Our 2018 Sustainability Report (previously CSR Report) will be published early in Q2 2019 and will be aligned to meet the GRI 'Core' reporting level. An overview of the work undertaken across the six identified pillars is presented here, with more comprehensive data provided in the 2018 Sustainability Report.

The Group also remains committed to both the global chemical industries' Responsible Care® (RC) initiative and to the principles of sustainable development (SD) as set out in the UK Chemical Industries Association (CIA) SD guiding principles, to which we have been a signatory since 2005.

This commitment was re-asserted in 2017 when the Chief Executive Officer endorsed the updated UK CIA Responsible Care® Guiding Principles.

Governance and compliance

Ensuring and demonstrating a high standard of effective and compliant corporate governance is a key priority of the Group and expectation of our stakeholders. Our governance structures are covered in more detail on pages 62 to 66.

Code of Conduct
2018 saw significant activity in this area as Synthomer published its new Code of Conduct, drawing together all its key policies in one easy-to-read and interactive document.

Our code

Our code reflects both how we work together and with third parties and exemplifies our beliefs and values. All employees have been issued with the code, and it is publicly available on our website at: www.synthomer.com/code-of-conduct/

The policies are in place to ensure our daily business is conducted in a sustainable and responsible manner. These policies play a key role in maintaining our reputation with our internal and external stakeholders. They also set out the standards to which we hold ourselves, our employees and our business partners.

Our values are visible in all corporate communications and are prominently displayed at all Synthomer sites. Around the globe we have multiple ways in which we communicate our values in an engaging way and bring our values to life including induction processes, training interventions, communications and awards and recognition campaigns.

All the Group's employees are encouraged to measure their activities against our long term goals and to work towards achieving them. Managers in particular are expected to use these goals when setting targets for themselves, for their teams and for the staff who report to them.

Corruption and anti-competitive behaviour

Synthomer is committed to complying with the laws and regulations of all the countries in which it operates (including those covering corruption and anti competitive behaviour). This applies whether Synthomer is acting directly in a country through employees, or indirectly through agents, distributors or other intermediaries. Alongside the Code of Conduct roll-out, new guidance was published on Bribery, Corruption and Tax Evasion and Competition Law. All relevant employees are required to complete online training modules.

Whistleblowing helpline

At Synthomer we always encourage people to speak up about any concerns they may have about unlawful or unethical behaviour.

2018 saw the launch of a third party hosted helpline (available both online and via telephone) for employees and other stakeholders to report unlawful or unethical behaviour or concerns and to raise queries regarding the application of the Code of Conduct.

Human rights

The Group is committed to operating a culture that values meritocracy, openness, fairness and transparency and encourages a safe and trusting work environment.

The new Code of Conduct reasserts our commitment to diversity, human rights, equal opportunities and respect in the workplace, and includes links to our most recent Modern Slavery Act statement, available here: https://www.synthomer.com/company/corporate responsibility/group policies/

People

Diversity and human rights

Diversity is one of Synthomer's core values, and we remain focused on increasing diversity within the Group. We continue to attract and retain employees from a wide variety of national and cultural backgrounds, and in the UK, where we have around 500 employees, we have people from over 20 different countries represented within our workforce. The rate at which we are attracting female talent continues to increase. New recruits to our European Graduate Scheme and participants in our Synthomer Talent Development Programme comprised approximately an equal proportion female and male employees.

As part of national 'Girls and Boys Day' during 2018, children of employees in Germany came to our Marl office and Chemical Park to experience a workplace in the chemical industry. We are proud to support this initiative aimed at school children aged between 10 and 15. The event included time spent in our laboratories and manufacturing facilities.

Attraction, retention and employee development

We were pleased to appoint Holly A. Van Deursen to our Board of Directors in 2018, as a non executive director. Holly brings a wealth of chemical industry experience having worked for BP and boardroom experience from various executive and non-executive roles.

Synthomer's Asian HR function was formally recognised by a number of external agencies for the key initiatives supporting continuous commitment to the development of its human talent. Throughout the year, there were a range of HR key initiatives delivered and it was good opportunity to externally benchmark these against other industries in the country. This year, the HR Team has participated in three external HR awards which were organised by the Ministry of Human Resource, IChemE and MIHRM respectively.

In 2018, we continued to offer a bonus scheme that extends to all levels in our organisation, not just to senior leaders.

Given our global focus on delivering and sustaining world class levels of Safety, Health and Environment (SHE) all employees have some elements of their bonus based on safety performance measures which pay out, if targets are met, irrespective of Group financial performance.

To support a more global approach to HR, 2018 saw the launch of our SmartHR system, empowering employees and managers to work together more effectively.

Leadership Development

In 2018 we relaunched and expanded our European graduate scheme with thirteen new recruits joining our 2018 cohort orientation event in October. Scheme participants have joined us in several functions including manufacturing, engineering, finance, R&D, procurement and commercial.

This year also saw the launch of our new Synthomer talent development programme: a twelve month structured development programme aimed at providing existing employees at an early stage of their management career with an accelerated development experience that includes workshops, virtual learning events, 360 degree feedback and an opportunity to work with a mentor drawn from our senior leadership team.

Jennifer Peake, as one of our talent development programme members, won the Prestigious National Chemical Industry Association's (CIA) Young Ambassador of the Year Award in June and will lead the CIA's Future Forum for 12 months from September 2018, playing a vital role in representing the ideas, concerns and aspirations of young people in the chemical industry.

	Male	Female	Total
Board	7	2	9
Senior management	43	4	47
Employees	2,301	606	2,907

People continued

We Care about our communities

Amongst the activities supporting our communities in 2018 were:

+ Our Head Office charity auction raised £20,000 for the Make a Wish Foundation
+ Collections for several charities and day care centres, including hundreds of items collected in a 'reverse Advent Calendar' appeal in Harlow and a 'Wish Tree' campaign across our German sites supporting local hospitals
+ Kuala Lumpur Office members engaged in several fund-raising activities to support the 'Lend a Hand' programme in Malaysia, supporting shelters for abandoned or neglected children

'We Care'

Synthomer engages with its employees and communities in various ways on sites around the world. In order to heighten awareness, visibility and promotion of these activities, the Group launched its 'We Care' initiative. CSR/sustainability ambassadors rolled out the campaign on several sites, aimed at creating engagement, inspiring opportunities and empowering Synthomer employees who are passionate about making a difference to those around them to reach out and champion work in this area.

In 2019, 'We Care' will be expanded as a key part of our sustainability identity externally as well as internally, highlighting promotion not just of our community engagement but our focus on more sustainable and environmentally friendly products.

Our commitment to science and education

We continue to be active supporters of the SCI (Society of Chemical Industry) with Robin Harrison, Global Innovation Director, on the Board of Trustees and several of our senior leaders active committee members.

In 2019, we will again be a lead sponsor of the Bright SCIdea Challenge, having been a sponsor of the launch of this initiative in 2018. This competition is aimed at university students developing entrepreneurial skills. The competition asks participants to develop innovative scientific ideas and present them as part of a business presentation to a panel of industry experts.

We are active in supporting the SCI 'mid careers workstream', a group of industry leaders looking at ways to develop the careers of scientists mid way through their careers.

Our CEO, Calum MacLean, is a member of the SCI's Chemistry Council, a group comprising some of the most senior leaders in the UK Chemical sector with a focus on understanding and advancing the strategic needs of the industry in the UK.

In 2018 we continued to support academic study in the form of sponsorship of PhD and Masters students in the UK and Malaysia.

Our business in Malaysia hosted 38 undergraduate industrial placements in 2018 and our R&D staff worked with several Malaysian universities to contribute to the development of their syllabus and in delivering lectures. We supported universities, colleges and secondary schools across Malaysia by supplying latex gloves for use by staff and students.

As the polymer industry technical representative, we were appointed by Malaysia Institute of Chemistry to join the JTC IKM Working Committee under instruction of the Malaysia Qualification Agency, (MQA) to draft Malaysia chemistry degrees program standards, which will serve as a primary reference for all universities in Malaysia when they form their syllabus for chemistry degree programmes. The standard will be used as a mandatory reference for the accreditation of chemistry degree programmes by the MQA.

Synthomer once again participated in the Chemistry at Work showcase in the UK. This has now become an annual event in the Essex local section of the Royal Society of Chemistry Outreach programme, with members of R&D presenting on Synthomer products and processes, and actively promoting science, technology, engineering and mathematics (STEM) careers.

Sustainable value chain

Following our materiality assessment, product safety has now been included within the value chain pillar, reflecting its fit within the R&D and regulatory affairs organisational structure in Synthomer.

Supply chain engagement
Synthomer requires any individual or entity acting on its behalf, whether as a consultant, representative, agent or distributor to know, understand and abide by the laws and regulations applicable in the country or countries in which they act for Synthomer. The requirements are set out in detail within the Business Policies in our Code of Conduct described earlier.

Before a vendor is on boarded and approved for purchase and use, Synthomer employs multiple assessment processes. A periodic review of key suppliers is carried out to assess performance of the supplier against criteria covering technical support, commercial performance, reputation including REACh, and local regulatory compliance. We also carry out periodic supply chain risk reviews and continually build and improve the raw materials and vendor on-boarding processes and procedures.

Following a review of our practices and identification of areas for improvement in relation to our CSR rating from EcoVadis, in 2018 we undertook an exercise to improve how we assessed the performance of suppliers with regard to sustainability. This included changes to audit processes and questionnaires, and the initial roll out of a supplier audit schedule as per the targets and objectives described in our 2017 CSR Report. The 2018 Sustainability Report will provide more details on the status of this work.

R&D and new product development
Synthomer prides itself on its innovative product development, and in 2018 successfully launched new formaldehyde free SBR binders for textile (Litex AlkaShield 1543 and Litex QuickShield 1545), with the new products being awarded 'Best Innovation in Textile Chemistry' at the Future Textile Awards 2018.

In addition in 2018, a comprehensive life cycle analysis was undertaken on our SyNovus™ glove product, which demonstrated that we deliver significantly lower environmental impact than previous products, driven by lower energy use on the glove dipping line.

Product safety
The majority of Group products are water based emulsions that are not deemed to be hazardous chemicals.

However, for those that are hazardous, Synthomer is committed to providing its customers with comprehensive and legally compliant safety data sheets in all the markets we serve.

Our central regulatory affairs department also manages our ongoing REACh compliance activities through our supply chain and has been active in preparing for the potential impact of Brexit on chemicals registered within and transported to the UK.

Health and safety, and environment

Management of Safety, Health and the Environment is the most mature aspect of the Group's sustainability activities and remains a critical material aspect for both internal and external stakeholders.

In line with our SHE Policy, the Board, Chief Executive Officer and executive committee are fully committed to improving SHE performance and engaging and involving employees at all levels in all locations in our SHE programmes. Effective SHE leadership to deliver SHE performance is a primary duty and expectation of management at all levels in the Group, aligned to our three long term goals:

1. To have no accidents or incidents.
2. To have no adverse impact on the health of those who work in, or live near our operations, nor on the health of those who use our products; and
3. To minimise any environmental burden created by our activities.

Key practices and programmes
The table below highlights some of the SHE management practices and activities undertaken in 2018 and planned for 2019.

Key measures, SHE performance indicators and SHE audit results are reported to the Board, the executive committee and to the regional management meetings on a monthly basis.

Environmental work programmes are focused on ensuring both legal compliance and driving continual improvement as part of our commitment to our matrix ISO 14001 certification (all operating sites now certified) and ISO 50001 certification in the UK, Germany and Czech Republic.

Embedding of SHE routines
Following the 2017 implementation of our Permit to Work (PTW) and Management of Change (MOC) improvement programme in 2017, 2018 saw increased focus on tracking and learning from 'Fundamental Issues' identified during monitoring, and the establishment of standardised monthly and quarterly routines to formally monitor progress at site level.

Key SHE programmes	2018 SHE key actions	2019 SHE key focus
Group's Safety, Health and Environment Management System (SHEMS) standards and policies	Completion of revised Lock-Out Tag-Out guidance; development of self-assessment questionnaires to assist internal audit process.	Supporting sites in meeting our standards through generation of 'Statements of Essential Requirements' – setting out in more detail what good compliance looks like.
Group SHE audits	New cycle of auditing with continued process safety focus; move to risk based frequency of auditing.	Continuing Self Assessment Questionnaires audit activity and increased networking / cross-site auditing to share best practice.
The Group Accident and Incident Management System (AIMS)	Effective use of lessons learnt and site review of high potential incidents to help prioritise where to focus resource to improve performance.	Continuous improvement including reviews and audit input.
SHE training, communication and support	Development of modular in-house process safety training tailored to our technologies and processes. Increased level of support vs. audit to achieve targeted improvements in performance based on findings from last audit cycle. Working with sites to develop a programme of standardised SHE routines to back-up all other major SHE initiatives.	Full roll-out of internal process safety training, linked to bowtie and barrier analysis of sites' own identified significant hazards.
Process Hazard Assessment (PHA)	Continuation of PHA revalidation process across lower risk profile sites. KPI tracking of significant actions from 2017 PHAs as high priority SHE improvement plan items – >50% all high priority actions completed.	Completion of high priority PHA actions.

Alongside further evolution of our web based KPI dashboard, more structured and regular reviews are allowing sites and the Group to quickly identify performance trends and potential areas of weakness, as well as showing positive improvements as the effects of some of our actions – such as 'Fundamental Issues' lessons learned, and improved training on specific risk hazards – are realised.

Health and wellness

As part of our health management programme in Germany, we offered twelve-week running coaching for beginners and advanced runners. A total of 33 employees signed up to take advantage of the opportunity to start running or improve their running training under the guidance of an expert running coach.

As part of our SHE Principles 'Look After Yourself' and 'Look After Each Other' this year we promoted the 'Be Supported' campaign, which aims to support employees and their families facing difficulties by providing a confidential helpline, and useful information via a website. In partnership with AXA PPP Healthcare we aim to give every UK employee access to information, support and counselling to help with any aspects of daily work and home life that have become challenging. The service includes guidance when experiencing a medical issue as well as practical impartial information and support on everyday matters such as dealing with debt, buying a house and consumer rights.

We also continued to run health and wellness sessions in Germany for our shift based manufacturing staff on topics selected by the employees beforehand, including nutrition and meal design during shift work, sleeping and relaxation. Sessions included input from external experts and practical learning.

Black Book

Synthomer has always been committed to ensuring that we learn lessons from both external and internal incidents.

In 2018 we introduced our 'Black Book', a collection of lessons learned from across the Group highlighting 20 incidents and significant near misses from the past two decades, using the bowtie format to highlight which barriers, that should have been in place, were either missing or failed.

All operating site managers were issued with copies and on the anniversary of these incidents have been tasked with revisiting the events and, where applicable, the response that they made to any original lessons learnt to validate that the actions taken have been embedded.

These events will continue to be revisited on an annual or bi-annual basis to ensure we embed the learning and strengthen corporate memory.

Sustainability performance

The following performance data predominantly covers the health, safety and environmental areas – progress against some of the new KPIs for the other pillars, aligned with the GRI Standards, will be covered in the Sustainability Report.

Health and safety

Occupational safety

+ Recordable injury case rate (RCR) of 0.23 per 100,000 hours worked
+ >3 day lost time injury rate of 0.14 per 100,000 hours worked

The Group's main lagging indicator of SHE injury performance is the recordable injury rate for accidents involving more than first aid treatment. 2018 regrettably saw an increase in the number of recordable injuries up to sixteen, from the record low of nine in 2017. The associated frequency rate of 0.23 per 100,000 hours worked was the second *best rate in the Company's history.*

Our objective is to have no accidents or injuries on our sites, and analysis of the injuries reported found a significant number related to 'line of fire' incidents involving contractors. In 2019, we will be looking to improve our contractor management, induction and permit systems, focussing on permit acceptor training, including our 'line of fire' and high hazard work guidance, now expanded to include videos on hot work and confined space entry work.

There were no reported cases of disease attributed to occupational factors during the year.

Process safety

+ Best ICCA Process Safety Event rate since tracking started of 0.14 per 100,000 hours
+ No incidents resulting in serious injury or damage

Ensuring the safety of our operations is of paramount importance to the Group. Since 2015 we have recorded, rated and tracked process safety events (PSE) using *a 4 tier scoring system where tier 1 and 2* incidents (tier 1 being more severe) meet the definition for a 'Reportable PSE' from the International Council of Chemical Association's (ICCA).

There was a 23% improvement in the PSE rate, with ten incidents reported compared to thirteen in 2017. Ongoing focus on improving engineering standards and addressing human factors issues will help us continue to drive this rate lower. More information will be provided in our Sustainability Report.

Environment

2018 was a challenging year with regard to meeting our environmental performance targets. *The figures reported below* reflect the new acquisition in Austria (from February 2018) and the full year impact (compared to ten months in 2017) of the Specialities site in Belgium.

Achieving the 2021 targets set last year remains our objective, with continued focus on the 'Tier 1' sites contributing most to the overall figures.

As noted earlier, the Group has better awareness and recognition of the impact that M&A activities can have on its overall sustainability profile and performance. In 2018, it introduced changes to its assessment approach to strengthen our processes for evaluating these potential impacts, risk and opportunities.

Several adjustments to the 2017 baseline data have been made following internal *review and verification* – in particular, all intensity figures have been revised following a review of how the Czech plant's production sales volumes had been accounted for in the calculations. *This has led to an increase in the* intensity factor numbers for 2016 and 2017. Other changes are noted in the following sections where relevant.

Energy

+ Overall primary energy consumption increased 3.9% to 5,560,467 GJ
+ Specific energy consumption decreased 0.5% to 3.524 GJ per tonne sales production

The increase in absolute consumption is related to increased production volumes on larger sites, high production of low monomer conversion grades in Malaysia, as well as the BASF Pischelsdorf (Austria) acquisition.

Several projects that have both energy and emissions improvement benefits are in the pipeline that will improve performance, targeted on the six sites with the largest energy and carbon *footprint, but achievement in 2018 was* slightly behind target. More information on current and planned activities will be in the Sustainability Report.

Water withdrawal

+ Water withdrawal increased 7.4% to 6,159,664 m^3
+ Specific water withdrawal rose 2.9% to 3.904 m^3 per tonne

In previous years Synthomer has reported 'water usage' as metered water totals excluding river water used for once through cooling on several sites, and 'water consumption' as all metered water.

To align properly with GRI Standards *definitions moving forward, metrics on* 'water withdrawal' will cover all metered usage (as per the previous "water consumption" figure), and we will also look to report water usage / consumption in our sustainability report.

The absolute increase in 2018 is related to both production increases on some larger sites in Asia, commissioning activities and in particular increased requirement for *cooling water (once through) on one of* our German sites owing to high river water temperatures. There were also significant reductions in water withdrawal on other sites as a result of process optimisation and reduced demands for cleaning.

Variance is expected year to year since the majority of our products are water based dispersions with some changes down to product mix and volumes. As with energy, opportunities to improve water efficiency will be built in to sites' manufacturing strategies and environmental targets on a prioritised basis in order to bring us back on track with the longer term targets.

Waste

+ Total waste generated increased 21% to 34,190 tonnes and waste to landfill increased 49% to 8,018 tonnes
+ Specific waste generation rose 16% to 0.022 tonnes per tonne sales production and specific waste to landfill 42% to 0.005 tonnes per tonne

An expectation of increased one off waste levels was highlighted in last year's CSR Report with significant one-off waste quantities associated with major capital projects in Malaysia and Germany, removal of old waste materials and asbestos

Part of the increase is associated with production, where some sites have had quality issues that resulted in non hazardous coagulum waste levels increasing. Process improvement projects and quality control work is focused on reducing these figures, and we continue to seek opportunities to divert waste streams away from landfill.

Greenhouse gas emissions

The Group reports environmental KPIs in the format recommended by the Department of Environment, Food and Rural Affairs (DEFRA), with Annual Reports containing data for each year since 2005 on a three year rolling basis.

Reporting parameters

The 2018 financial year reporting includes all manufacturing operations, all office locations co located with manufacturing and those listed as contact locations in the Annual Report or on the Company's website. It does not include some very small locations such as home offices. These locations will have no material effect on the Group's overall GHG emissions, being estimated at considerably less than 0.1% of the Group total.

All known emissions from manufacturing processes have been included. Specifically this covers direct energy usage and the indirect energy costs of heating, cooling and other site services where these are provided by a third party. They include estimates for the effects of the release of volatile organic compounds (VOCs) and refrigerant gases. The only known emissions which have not been included are direct emissions of CO_2 from on site waste treatment facilities that have not currently been quantified but which are not believed to have significant material impact on the overall figures reported.

The Group has no known uses or releases of perfluorocarbons or sulphur hexafluoride. All releases of NO_x are associated with energy production and are not separately quantified. The Group continues to report Scope 1 & 2 emissions. No estimate has been made of Scope 3 emissions owing to the complexity of the company supply chain. The Group continues to use emissions per production tonne as its intensity ratio.

Calculation methods

Data sources for emissions factors (CO_2e) are DEFRA (dataset with published in June 2018) and the IEA (International Energy Authority.

All direct energy production from fossil fuels has been aggregated on a Group wide basis and converted to CO_2e by using the appropriate DEFRA emissions factors. No allowance has been made for possible country to country variation in calorific value or CO_2 emission factors for primary fuels.

Electricity has been converted to CO_2e on a country by country basis. Emissions factors from DEFRA were used for UK grid electricity and for overseas grid electricity from the relevant IEA "World CO_2 Emissions from Fuel Combustion" databases. In accordance with UK government guidance, factors used for 2018 reporting are based on 2016 validated data.

Several sites within the Group purchase certified 'green' electricity. Electricity for these locations has been given a CO_2e emissions factor of zero in calculating energy related emissions totals. These include the sites in the Netherlands, Marl (Germany) and all sites in the UK. For this year's reporting, we have also sought to obtain market-based emissions factors for electricity from suppliers of standard grid fuel mix tariffs. This data is still under review so was not available in time for publication of this report – however, we remain confident that we can obtain this data for all our European operations as a minimum.

Synthomer's site in Stallingborough (UK) takes most of its electricity from an exclusive contract with an adjacent waste incinerator operated by Newlincs. This electricity is certified as 'green' by the UK government As a mixture of waste is deemed both renewable and non renewable, it does not have a zero emission factor. For 2018, the applied emission factor for electricity from Newlincs is based around that determined for the site's Climate Change Agreement (CCA) reporting of around 0.50 kg CO_2e per kWh. The site is also provided with indirect heating in the form of hot water from Newlincs.

Figure 1 Recordable Injury Case Rates
(Injuries per 100,000 hours)

Figure 2 Total Net Primary Energy Usage
(Giga Joules per production tonne)

Figure 3 Total Water Withdrawal
(m^3 per production tonne)

Figure 4 Total Waste Disposed To Land
(Tonnes waste per production tonne)

Figure 5 Global Warming Burden
(Tonnes CO_2 equivalent released per production tonne; (Includes CO_2 from energy generation use)

Figure 6 Recordable Process Safety Event Rate
(Incidents per 100,000 hours)

VOCs have been aggregated on a Group basis and converted to CO_2e using a factor of eleven. This figure has been used by UK CIA member companies since 2005 and is at the upper end of the range for VOCs. Information on the release of refrigerant gases has been collected for the past six years. Releases of each individual gas have been aggregated each year to give a Group release total and then converted to CO_2e using the equivalence factors given by DEFRA for each gas. The emissions factors applicable to refrigerant release in 2018 are as per those in 2016 and 2017 as no changes were reported by DEFRA- Global Warming Potential (GWP) factors from the IPCC 4th assessment report.

Performance in 2018

+ Total CO_2 equivalent emissions increased 2.4% to 311,893 tonnes
+ Emissions per tonne sales production decreased 1.8% to 0.198 tonnes per tonne against the revised 2017 baseline
+ VOC emissions dropped 14% to 141 tonnes
+ Increase of 33% in reported refrigerant losses to 2.355 tonnes / equivalent CO_2 losses rose to 7,627 tonnes

The absolute increase in emissions was largely due to higher production and therefore demand on our larger sites, but this higher output also meant that the intensity of our emissions in terms of releases per tonne were reduced. 15% of the absolute increase related to emissions from the plant in the Czech Republic that uses brown coal and the Group is reviewing options relating to the fuel balance on this site.

The reduction in reported VOC emissions, full realisation of some energy related projects implemented during 2017 and some smaller projects completed in 2018, as well as the purchase of "green" grid electricity for all UK and Dutch sites, also helped us make progress towards our 2021 target. Whilst year on year we are currently slightly behind target, we are confident we can achieve the 2021 goals.

Changes in the emissions factors in different countries have a significant impact over which the Company has no control. For 2018, reporting the emissions factors for several countries showed an improvement, reflecting work done at national level to improve the renewables proportion of the grid supplies.

Energy and GHG KPIs

This table presents environmental KPIs for 2016-18, with a coverage and format in line with DEFRA's 2013 guidance, to comply with the reporting required under the Companies Act 2006 (Strategic Report and Report of the Directors' Report) Regulations 2013.

	2018	2017	2016	% change 2016 – 2018[6]	% change 2017 – 2018[6]
Energy consumption[1,7]					
GJ	**5,560,467**	5,352,562	5,279,491	5.3%	3.9%
Gas	**1,561,042**	1,459,411	1,375,411	13.5%	7.0%
Light oil	**22,625**	24,990	24,933	9.2%	10.5%
Heavy oil	**5,533**	4,651	4,452	24.3%	18.9%
Steam (metered)	**751,545**	756,890	792,785	-5.2%	-0.7%
Electricity (primary basis)	**2,633,115**	2,523,661	2,551,197	3.2%	4.3%
GJ/tonne production	**3.524**	3.541	3.452	2.1%	-0.5%
Emissions to air[2]					
Carbon dioxide (CO_2) equiv. from energy tonnes[3,8]	**302,717**	298,163	296,487	2.1%	1.5%
Tonnes CO_2 equivalent/tonne production	**0.192**	0.197	0.194	1.0%	2.7%
Sulphur dioxide (SO_2) (tonnes)	**142.5**	158.3	140.6	1.4%	-10.0%
Kilos SO_2/tonne production	**0.0903**	0.1047	0.0919	1.7%	-13.7%
Nitrogen oxides (NO_x) tonnes[4]	**129.97**	121.33	112.54	15.5%	7.1%
Kilos NOx/tonne production	**0.0824**	0.0803	0.0736	11.9%	2.6%
Volatile organic compounds (VOC) tonnes	**141**	164	184	-23.6%	-14.3%
Kilos VOC/tonne production	**0.089**	0.109	0.121	-26.0%	-17.9%
Refrigerant releases (HCFC and others) kilos	**2,355**	1,773	1,681	40.1%	32.9%
Tonnes CO_2 equivalent	**7,627**	4,485	5,930	28.6%	70.1%
Kilos refrigerant/tonne production	**0.0015**	0.0012	0.0011	35.8%	27.3%
Total Scope 1 CO_2 equiv. emissions (tonnes)	**147,527**	139,285	130,505	13.0%	5.9%
Total Scope 2 CO_2 equiv. emissions (tonnes)	**164,365**	165,170	173,940	-5.5%	-0.5%
Total carbon dioxide (CO_2) equiv. tonnes[5]	**311,893**	304,454	304,445	2.4%	2.4%
Tonnes CO_2 equivalent / tonne production	**0.198**	0.201	0.199	-0.7%	1.8%

Notes

1. Data relates to site usage of all fuels, excluding transport of goods to and from site and the movement of these vehicles on site. Internal transport on site is included.
2. Emissions to air have been calculated from the usage of all fuels, excluding transport fuel. They, therefore, include both direct emissions and indirect emissions related to bought in electricity, steam, compressed air, cooling water etc. with the exception of transmission and distribution losses for electricity (these losses are in Scope 3, this report is for Scope 1 & 2).
3. CO_2 equivalent emissions include contributions from CH_4 and N_2O associated with combustion.
4. NOx emissions are predominantly those from combustion processes. The CO_2 equivalent Global Warming Potential contribution from these releases is already included in the CO_2 from energy figure above.
5. The total CO_2 e figure is the total of the CO_2 equivalent from energy + the VOC contribution (assuming an average factor of 11 kg CO_2 e per kg VOC) + the refrigerant contribution.
6. Percentage changes are calculated from the base data and may differ slightly from changes calculated from the data in the tables because of rounding.
7. Minor changes to reported energy consumption (gas) made following corrections to reported conversion factors for two sites.
8. [illegible] for 2017 have [illegible] additional release source at [illegible] specialty plant [illegible] where light and heavy [illegible] are incinerated. This has also led to a correction in the baseline for Synthomer's targets to 2021.

By order of the Board.

R Atkinson
Company Secretary
4 March 2019

Introduction to governance

Proactively focusing on corporate governance agenda

Neil Johnson
Chairman

Dear Shareholders

I am pleased to report on our corporate governance compliance for 2018 in what has been a busy year with much accomplished by your Board and its Committees.

This will be our final year of reporting against compliance with the 2016 UK Corporate Governance Code and we were fully compliant throughout the year other than in respect of board balance which was addressed by the appointment of Holly A. Van Deursen in September 2018. Details of the work of the Nomination Committee in carrying out the search process which led to the nomination of Holly are set out in the Nomination Committee report.

Our 2018 AGM resolutions all received near or above 90% support as did our June 2018 EGM resolution to increase the Company's borrowing limit.

Corporate governance developments were monitored closely during the year and a suite of policies and practices approved during 2018 are now being implemented. This will ensure we will be well placed to be fully compliant with the 2018 UK Corporate Governance Code which became effective for us from 1 January 2019. The Company's culture and values was a key governance focus for the Board with the launch of a new Code of Conduct and independently hosted whistleblowing helpline toward the end of the year which the Board will assess and monitor on an ongoing basis.

The Board is also focused on improving diversity and a review of its succession plan which is underway will take into account the need to develop a diverse pipeline as well as assessing the skills and experience required for its future needs.

The internal performance evaluation of the Board and its Committees carried out at the end of the year built on the externally facilitated evaluation carried out in 2017 and drew out further ways to improve our boardroom processes which we will implement in 2019. These improvements will increase the effectiveness of the Board and the way it operates so that the non executive directors can concentrate on those areas where they can make the most impact.

Looking ahead the governance agenda remains full and will include the triennial review of our remuneration policy which we will consult shareholders on in the autumn ahead of seeking approval at the 2020 AGM.

Further details of the work of the Board and its Committees in support of the Group strategy during 2018 is contained in the following pages of the governance section.

Neil Johnson
Chairman
4 March 2019

Compliance with the UK Corporate Governance Code

The Board considers that it has complied throughout the financial year ended 31 December 2018 with the provisions set out in the 2016 UK Corporate Governance Code (the Code)*, other than in respect of Code Provision B.1.2 (board balance). Further details on how this non compliance was remedied during the year is contained in the letter from the Chairman and the Nomination Committee report on pages 58 and 72 respectively.

Application of the Code

The main principles of the Code were applied as follows:

Leadership and effectiveness

Operation of the board

The activities of the Company are controlled by the Board which, during 2018, comprised two executive directors and six non-executive directors until the appointment of Holly A. Van Deursen in September 2018 when the number of non-executive directors increased to seven. The roles of Chairman and Chief Executive Officer are clearly divided between Neil Johnson who heads the Board in his capacity as non-executive Chairman and Calum MacLean who has responsibility for the running of the Company's business as Chief Executive Officer. The non-executive directors all have wide business and boardroom experience gained in a broad range of business sectors, details of which are given on pages 60 and 61.

The Board has reserved to itself a schedule of matters which includes setting long-term objectives for the Group and the strategies to be employed in achieving them. The Board has delegated to the Chief Executive Officer responsibility for the development and preparation of the business plan and the annual budget for recommendation to the Board. As the senior executive director, the Chief Executive Officer is responsible for all aspects of day to day operational control of the Group and execution of the Group strategy. The Chief Executive Officer has established and chairs an Executive Committee (whose other members are the Chief Financial Officer, the Chief Counsel and Company Secretary, and the operational and functional presidents for the Group) to assist him in the performance of his duties and which meets once a month.

The Chairman has available to him the minutes of the Executive Committee and all directors receive a monthly management report comprising business, financial and safety, health and environmental reviews from the Chief Financial Officer.

The Board has established Audit, Nomination, Remuneration and Disclosure Committees which are discussed on page 65.

Note

* A full version of the Code can be found on the Financial Reporting Council's (FRC) website www.frc.org.uk

Governance snapshot

Board diversity – nationality

1	British	6
2	Dutch	1
3	Malaysian	1
4	American	1

Board diversity – gender

1	Male	7
2	Female	2

Board tenure

1	0-5 years	4
2	5-10 years	3
3	>10 years	2

Board of Directors

N A Johnson
Chairman

Nationality: British

Position and date of appointment: *Chairman of the Board and the Nomination and Disclosure Committees.* Neil joined the Board in 2011 and was appointed Chairman in May 2012.

Key appointments: Neil is Chairman of Motability Operations Group plc (retiring April 2019), Centaur Media plc and Electra Private Equity plc and the senior independent non-executive director of the Business Growth Fund.

Skills and experience: Neil held senior executive positions at British Aerospace and in the UK motor manufacturing industry before becoming Chief Executive of RAC Holdings from 1995-1999. Neil has considerable experience as an independent non-executive director and public *company chairman gained in multiple sectors* and geographies.

C G MacLean
Chief Executive Officer

Nationality: British

Position and date of appointment: *Chief Executive* Officer since January 2015, member of the Disclosure Committee.

Key appointments: Calum was appointed as a non-executive director of Saudi Basic Industries (SABIC) headquartered in Riyadh in October 2017 and of Clariant Limited, an associated company of SABIC, in October 2018.

Skills and experience: Calum was previously a senior board executive of INEOS and was a founder member of the business in 1998. At INEOS he was executive chairman of INEOS Olefins and Polymers Europe and chairman of Styrolution, INEOS's joint venture with BASF, and Petroineos Refining, INEOS's joint venture with PetroChina. Calum had been Chief Executive of a number of its principal business units and actively involved in merger and acquisitions strategy and implementation. Prior to INEOS, he spent six years at Inspec (International Speciality *Chemicals), a publicly listed company on the London* Stock Exchange that was originally formed through a management buyout of BP Chemicals.

Dr J J C Jansz
Independent non-executive director

Nationality: Dutch

Position and date of appointment: *Independent* non-executive director since April 2012, member of the Audit and Remuneration Committees.

Key appointments: Just is founder and managing director of Expertise Beyond Borders BV, an independent business and technology management consultancy providing services to the global chemical industry. He is Chairman of Econic Technologies Limited and a senior advisor at Natrium Capital Limited.

Skills and experience: Just has over 30 years chemical industry experience at Shell, Basell and LyondellBasell. Until July 2010 Just was president, Technology Business, and a member of the management team of LyondellBasell, overseeing *process technology licensing, polyolefin catalyst* and new ventures. Just has extensive experience in the polyolefin industry and related value chain, in commercialising innovation and in monetising IP. Just has previous experience as a non-executive director in the US and as an advisor in Saudi Arabia.

C A Johnstone
Independent non-executive director

Nationality: British

Position and date of appointment: *Independent* non-executive director since March 2015; Chair of the Audit Committee, member of the Nomination and Remuneration Committees.

Key appointments: Caroline is Chair of Reece Group Limited, non-executive director and Chair of the Audit Committee of Shepherd Building Group Limited and is a member of the governing council of the University of Leeds. She was appointed as a non-executive director of Spirax-Sarco Engineering plc with effect from 1 March 2019. She also provides consulting services to a range of global chemical and industrial organisations.

Skills and experience: Caroline is a chartered accountant and member of the Institute of Chartered Accountants of Scotland. She was a partner in PricewaterhouseCoopers (PwC) until 2009, having worked extensively with large global organisations on turnaround, culture change, delivering value from mergers and acquisitions and cost optimisation programmes. She sat on the board of the Assurance practice of PwC in the UK.

Dato' Lee Hau Hian
Non-executive director

Nationality: Malaysian

Position and date of appointment:
Non-executive director since 2002, first joined the board in 1993 and stood down in 2000 to become an alternate director.

Key appointments: Hau Hian is a director of Kuala Lumpur Kepong Bhd and is the president of the Perak Chinese Maternity Association. He also serves as a director of Yayasan De La Salle.

Skills and experience: Hau Hian is the managing director of Batu Kawan Bhd, a listed Malaysian investments holding company, with interests in plantations and chemicals manufacturing.

S G Bennett
Chief Financial Officer

Nationality: British

Position and date of appointment: Chief Financial Officer since May 2015, member of the Disclosure Committee.

Key appointments: No external appointments

Skills and experience: Stephen was previously at INEOS where he had been Chief Financial Officer at Petroineos Refining since 2006. In addition to this role, Stephen had acted as Chief Financial Officer of INEOS Upstream Limited, a start-up oil and gas exploration business, and of INEOS Olefins and Polymers South and INEOS Phenol. He joined Coopers & Lybrand in 1986 and is a qualified chartered accountant. He was at Full Circle Industries plc as company secretary and group controller before moving to PricewaterhouseCoopers LLP (PwC) in 1997 as a director in transaction services. At PwC, he specialised in public and private equity transactions across a variety of sectors including chemicals.

The Hon. A G Catto
Non-executive director

Nationality: British

Position and date of appointment: Non-executive director since 1981.

Key appointments: Alex is managing director of CairnSea Investments Limited, a private investment company, and a non executive director of several early stage companies that have been backed by CairnSea. His current other directorships include Neptune Investment Management Limited.

Skills and experience: Prior to the establishment of CairnSea Alex was a director of Morgan Grenfell & Co and then Lazard Brothers & Co Ltd.

B W D Connolly
Senior Independent Director

Nationality: British

Position and date of appointment: Independent non executive director since January 2014; Chair of the Remuneration Committee, member of the Audit, Disclosure and Nomination Committees. Senior Independent Director since April 2015.

Key appointments: Brendan is a non executive director of Victrex PLC and two private equity backed companies, one of which he chairs.

Skills and experience: Brendan has over 30 years experience in the oil and gas industry. Until June 2013 Brendan was a senior executive at Intertek Group plc and had previously been chief executive officer of Moody International (which was acquired by Intertek in 2011). Prior to Moody, he was managing director of Atos Origin UK, and spent more than 25 years of his career with Schlumberger in senior international roles over three continents. Brendan has previous experience as chairman of the remuneration committee of a UK listed company.

H A Van Deursen
Independent non-executive director

Nationality: American

Position and date of appointment: Independent non executive director since September 2018; member of the Audit and Remuneration Committees from 1 March 2019.

Key appointments: Holly is a non executive director of Bemis Company, Capstone Turbine Corporation and Actuant Corporation.

Skills and experience: Until 2005, Holly was Group Vice President, Petrochemicals, at BP. She has worked in the global chemical industry for over [illegible] years and held senior positions across North America, Europe and Asia. In addition, Holly has 11 years' experience as a non-executive director in the USA.

R Atkinson
Chief Counsel & Company Secretary

Nationality: British

Position and date of appointment: Company Secretary since 1998; Group Chief Counsel

Key appointments: No external appointments

Skills and experience: Richard qualified as a solicitor in 1988 practising as a corporate lawyer before moving into industry.

	Division of Responsibilities
Chairman	+ primarily responsible for the working and effectiveness of the Board + facilitating an effective contribution from the non executive directors and a constructive relationship with the executive directors + *ensuring the balance of membership of the Board is appropriate* + ensuring that the Board is in full control of the Group's affairs and has an effective dialogue with its shareholders + leading on all aspects of corporate governance
Chief Executive Officer	+ senior executive responsible for operational management of the Group + development, preparation and implementation of the Group's strategy as approved by the Board + *communication of the Group's culture and values* + communicating the Group's financial performance to investors in conjunction with the Chief Financial Officer + keeping the Board fully informed of all material issues
Senior Independent Director	+ to be available to shareholders when concerns have not been resolved through normal channels + to lead the annual appraisal of the Chairman + *to develop a balanced understanding of the issues and concerns of major shareholders* + to provide a sounding board for the Chairman
Non-executive Directors	+ to bring an independent and objective judgement to bear on issues of strategy, performance and resources of the Group + to challenge constructively and scrutinise management performance
Board reserved matters	+ *setting of long term objectives and strategies to be employed in achieving them including the approval* of annual budgets + policy setting for safety, health and environmental matters, business conduct, diversity and human rights, recruitment and employment, risk management and treasury + material decisions on capital raising, financial commitments, capital expenditure, acquisitions and disposals *and the prosecution, defence and settlement of litigation* + approval of information contained in communications to shareholders + the review and monitoring of performance

Board structure

Board

Audit Committee

Disclosure Committee

Remuneration Committee

Nomination Committee

Company Secretary

+ provides advice and services to the Board and its Committees + supports the Chairman in all governance matters

CEO
Executive Committee

Chief Financial *Officer*

Company Secretary *& Chief Counsel*

President – *Performance* Elastomers

President – *Functional Solutions*

President – Industrial Specialities, M&A and Global HR

President – Corporate Development

President – Operations

During 2018 the Board held nine meetings with an additional half day dedicated to an annual strategy development review. The directors receive in advance full information on all matters to be discussed at Board meetings as well as a detailed review of performance. The non executive directors met once without the Chairman to appraise his performance. The Board met once without the executive directors to appraise their performance.

In addition, arrangements are made each year for the Board to visit up to two of the Group's operational sites and meet local management. Ad hoc site visits are facilitated for individual non executive directors on request. During 2018 the Board held one of its meetings in Malaysia and in conjunction with that meeting attended the opening ceremony for the latest phase of the Group's Nitrile latex capacity expansion in Pasir Gudang. Presentations were given by local senior management on strategic issues relating to the Group's Asian businesses during the visit.

Board activity in 2018

Safety, health and environment

Innovation

Investing in organic growth

Internal control and risk management

Growth through acquisition

Governance and stakeholder relations

Financial performance

Leadership and people

Board activity in 2018 – Framework focused on strategy

Safety, health and environment (SHE)
SHE performance and initiatives are reviewed at every meeting supported by a written report and presentation by the President for Operations.

Investing in organic growth
Material capital expenditure projects are subject to Board review and approval. During the year investment in a new innovation centre for the Asian region located in Johor Bahru, Malaysia, and capacity expansion projects at sites in the UK, France, and the USA were approved. Progress on the major capacity expansion projects approved in 2016 at sites in Malaysia and Germany were monitored throughout the year.

Growth through acquisition
The final review of the integration and synergy achievement of the PAC (Dispersions) acquisition which completed in June 2016 was carried out. Reports were received on the integration of the Speciality Additives and BASF Pischelsdorf acquisitions. Several acquisition opportunities were reviewed and the 'deal log' was considered at each meeting.

Financial performance
Financial, operational performance and strategic initiatives are reviewed at every meeting supported by reports and presentations from the executive directors and presidents. Detailed reviews of specific business areas were provided by the responsible president or functional head in conjunction with budget and strategy discussions and capital expenditure project reviews. Proposals for the refinancing of the Group's main borrowing facilities were reviewed and approved.

Leadership and people
Succession planning processes and progress were reviewed with support from the Global HR Director. Regular reports were received from the Chief Executive Officer on planning for the introduction of the new global business structure which was implemented with effect from 1 January 2019. The recommendation of the Nomination Committee for the appointment of an additional independent non executive director was approved.

Governance and stakeholder relations
Routine reports on governance and investor relations matters were given at each meeting. The progress and implementation of UK legislative and regulatory corporate governance reforms during the course of the year were monitored and the Board's response was developed. An internal evaluation of the Board and its Committees was carried out.

Internal control and risk management
As well as receiving regular reports from the Audit Committee on the Company's internal control and risk management processes particular attention was paid to Brexit contingency planning.

Innovation
As a core pillar of business growth the global innovation function and its resources together with the product development pipeline was reviewed at the annual strategy development meeting.

Site visits
The Board visited the Group's Nitrile latex plant at Pasir Gudang (Malaysia). A visit was also made by some of the non-executive directors to the Group's plants in Italy.

Board membership and balance

The Chairman, Chief Executive Officer, Chief Financial Officer and Senior Independent Director together with Chairs and members of the Audit, Nomination, Remuneration and Disclosure Committees are identified on pages 60 and 61. The Board considers that Holly A. Van Deursen, Caroline Johnstone, Just Jansz and Brendan Connolly are independent in accordance with the provisions of the Code. The Board composition remained unchanged until the appointment of Holly A. Van Deursen on 21 September 2018 which addressed the imbalance between the number of independent and non independent directors which had pertained since 1 January 2018.

Non-executive directors are appointed for one-year terms. All directors submit themselves for annual election at each Annual General Meeting.

The table below sets out the number of meetings of the Board, Audit, Remuneration, Nomination and Disclosure Committees held during the year and the number of meetings attended by each director. Where a director is unable to attend a Board or Committee meeting his or her views on agenda items are canvassed in advance of the meeting and incorporated into the discussions. The non executive directors disclose to the Board their other significant commitments.

	Board		Committees			
	Scheduled	Called at short notice	Audit	Remuneration	Nomination	Disclosure
Number of meetings held	6	3	4	3	1	6
Number of meetings attended						
Stephen Bennett	6/6	3/3	N/A	N/A	N/A	6/6
Alex Catto	6/6	3/3	N/A	N/A	N/A	N/A
Brendan Connolly	6/6	3/3	4/4	3/3	1/1	6/6
Holly A. Van Deursen	1/1	N/A	N/A	N/A	N/A	N/A
Just Jansz	6/6	3/3	4/4	3/3	N/A	N/A
Neil Johnson	6/6	3/3	N/A	N/A	1/1	6/6
Caroline Johnstone	6/6	3/3	4/4	3/3	1/1	N/A
Lee Hau Hian	6/6	1/3*	N/A	N/A	N/A	N/A
Calum MacLean	6/6	3/3	N/A	N/A	N/A	6/6

* Two Board meetings were called at short notice to consider the terms of the refinancing of the Group's main borrowing facility which Lee Hau Hian was unable to join. He was however fully briefed and provided with relevant supporting papers and documentations and his views on the matters discussed were obtained in advance of both meetings.

Induction and training

Induction arrangements are in place in order to ensure new directors receive a full formal and tailored induction on appointment. Following the appointment of Holly A. Van Deursen, induction requirements were discussed and agreed and commenced in November 2018 with briefings from the Company's lawyers and auditors on the UK regulatory regime for listed companies and governance and corporate reporting requirements respectively. Meetings were also arranged with members of the Executive Committee and functional leaders to give an overview of the Group's operations, markets and head office departments. Arrangements will be made with Holly in 2019 for selected site visits. The Chairman reviews and agrees the training and development needs of the directors and the skills and knowledge of the Board as a whole are updated by briefings provided by the Company's internal resources and materials, workshops and seminars offered by external advisers. During 2018 briefings were delivered to the Board on developments in corporate governance reporting and to the Remuneration Committee on governance and best practice in remuneration. The Audit Committee was provided with updates on governance and corporate reporting by PwC and a UK pensions workshop was held by Lane Clark & Peacock LLP.

Performance evaluation

Following the externally facilitated evaluation of the performance of the Board, its Committees and directors carried out in 2017 the performance evaluation carried out in 2018 involved the following internal processes:

+ the performance of the executive directors was reviewed against their personal objectives for 2018 by the non-executive directors and the Chairman;
+ a meeting of the non executive directors (in the absence of the Chairman) chaired by the Senior Independent Director was held to evaluate the performance of the Chairman, taking into account the views of the executive directors;
+ the effectiveness of the Board and its Committees (Audit, Nomination, Remuneration) was evaluated by way of an internal self assessment questionnaire process; and
+ an assessment of the performance of individual non executive directors was carried out informally by the Chairman.

Board and Committee evaluation process

The effectiveness of the Board and its Committees was assessed internally in 2018. Questionnaires were developed and produced by the Company Secretary in conjunction with the Chairman of the Board and the Chair of each of the Audit, Remuneration and Nomination Committees. The questionnaire comprised open questions on the workings and effectiveness of the Board and its Committees. All directors were requested to complete questionnaires relating to the Board and each of the Committees. In addition regular attendees from management at the Audit Committee meetings were also requested to complete the questionnaire relating to that Committee. A report was prepared by the Company Secretary for the Chairman of the Board and the Committee Chairs and the results of the evaluations were reviewed and discussed at the Committee and Board meetings held in February 2019. The outcome of that process is reviewed in the Chairman's letter on page 58.

Board Committees

The Board has formally established Audit, Nomination, Remuneration and Disclosure Committees, each with their own terms of reference which set out their respective roles and the authority delegated to them by the Board. Copies of the terms of reference are available upon request from the Company Secretary and can also be downloaded from the Company's website. All non-executive directors have a standing invitation to attend Committee meetings unless they are notified otherwise.

The Audit, Nomination and Remuneration Committee reports are set out at the end of this Corporate Governance report.

Relations with shareholders

Dialogue with institutional investors is conducted on a regular basis by the Chief Executive Officer, Chief Financial Officer and the President - Corporate Development and meetings take place following the announcement of half and full year results and at other times according to circumstances. In addition to half and full year reporting, the Board has decided to continue with the practice of providing interim management statements notwithstanding that it is no longer a regulatory requirement to do so.

The Board has adopted a set of shareholder communication principles in order to ensure that Board members develop an understanding of the views of the Group's major shareholders. These principles require the Chairman to be present with the Chief Executive Officer and the Chief Financial Officer at sufficient shareholder presentations and meetings that he fully understands the issues and concerns of major shareholders. Alternatively, the Chairman is also available for meetings with major shareholders at their request.

The Chief Executive Officer reports on shareholder relations at each Board meeting. Communications with shareholders relating to corporate governance matters are conducted by the Chairman with the assistance of the Chairs of the Audit and Remuneration Committees. Reports on all meetings between non executive directors and institutional shareholders and their representative bodies are given to the Board at the first opportunity following such meetings, as is all correspondence with them.

The Senior Independent Director is available to shareholders if they have concerns and where contact through the normal channels of the Chairman or the Chief Executive Officer has failed to resolve or for which such contact is inappropriate.

The Board seeks to encourage participation of all shareholders, and in particular private investors, at the Company's Annual General Meeting and endeavours to ensure all Board members are in attendance. In particular, the Chairs of the Audit, Nomination and Remuneration Committees are available to answer questions.

The Company makes use of its website www.synthomer.com to communicate with its shareholders and also publishes half and full year results, Company announcements, share price and corporate governance and other investor information there.

Information on the Company's major shareholdings and share capital is included in the Report of the Directors on pages 89 to 91.

Accountability

An explanation of the directors' responsibilities for preparing the financial statements, their report that the business is a going concern, a viability statement, a responsibility statement and their statement as to disclosure of information to the auditor are set out on pages 90 to 92. Statements by the auditor about its reporting responsibilities are set out on pages 93 to 99.

A report on the approach to internal control is set out on the next page. The directors endeavour to make the Annual Report and financial statements as informative and understandable as possible.

Risk management and internal control

The Board of Directors has ultimate responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness and sets appropriate policies to ensure that the Code requirements are met. The systems of risk management and internal control deployed within the Group are designed to reduce the risks of failure to meet business objectives, but these risks cannot be eliminated. The risk management and internal control systems adopted can therefore only provide reasonable, not absolute, assurance about meeting such business objectives or against material misstatement or loss. The Group risk management framework is set out on pages 32 to 37. Risks associated with safety, health and the environment are, by the nature of the Group's business, always of the utmost concern and the Sustainability report on pages 44 to 57 reviews the Group's performance in this regard in 2018. The Board confirms that a robust assessment of the principal risks facing the Group has been carried out and that it has monitored and reviewed the effectiveness of the Group's risk management and internal control systems in 2018.

The Group's internal controls over the financial reporting and consolidation processes are designed under the supervision of the Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's published financial statements for external reporting purposes in accordance with IFRS.

The processes which are used by the Board either directly or, where appropriate, through the Audit Committee to review the effectiveness of the internal control and risk management systems in relation to the financial reporting process and the process for preparing consolidated accounts include the following:

+ a review of the external and internal audit work plans;
+ consideration of reports from management and external parties, including the internal and external auditors, on the system of internal financial control and any material control weaknesses;
+ discussion with management of the actions taken on any possible problem areas for the business that are identified.

In addition, the Board:

+ receives copies of the minutes from all Audit Committee meetings.
+ receives regular written and oral reports from management on all aspects of production, operations, financial and risk management matters.

Safety, health and environmental matters

The maintenance of high standards of environmental (together with health and safety) protection is central to the Group's business. A separate statement on safety, health and environmental (SHE) matters has been a feature of the Annual Report for a number of years and is contained in the Sustainability section of the Strategic Report on pages 44 to 57.

Code of Conduct

During 2018 the Group's explanation and communication of its standards for conducting business, people policies and corporate citizenship responsibilities were reviewed leading to the launch of a consolidated and updated Code of Conduct toward the end of the year. The revised Code of Conduct was published in thirteen languages in interactive online and hard copy formats and delivered to all of the Group's employees by e-mail and/or hard copy. Code of Conduct "champions" were appointed in each country in which the Group operates to assist with the launch at a local level. In order to support the values contained in the Code of Conduct and promote the Group's open culture, an externally hosted whistleblowing helpline, which can be accessed by telephone and online, was put in place in conjunction with the launch of the Code of Conduct. The whistleblowing helpline offers all Group employees and stakeholders an anonymous platform (where legally able to do so) available at all times to report unlawful or unethical behaviour, workplace incidents or concerns and to raise any queries regarding the application of the Code of Conduct. During 2019 workshops will be held across the Group to reinforce the importance of applying the highest ethical standards set out in the Code of Conduct.

The Code of Conduct (which also contains details of how to access the whistleblowing helpline) is available at www.synthomer.com. In accordance with the 2018 UK Corporate Governance Code the Board will undertake a regular review of the operation of the helpline, the reports arising from it and the arrangements in place for their investigation and any follow-up actions.

Further details of the standards, policies, practices and responsibilities contained in the Code and their application are contained in the Sustainability section of the Strategic Report on pages 48 and 49.

Audit Committee report

Caroline Johnstone
Audit Committee Chair

Audit Committee Membership
Since 1 January 2018

	Position	Appointment date	Number of meetings attended
Caroline Johnstone	Chair	April 2016	4/4
Just Jansz	Independent non executive director	May 2012	4/4
Brendan Connolly	Senior independent non executive director	March 2014	4/4
Holly A. Van Deursen	Independent non executive director	1 March 2019	n/a

Other attendees – by invitation	
Chief Executive Officer	Company Secretary (Secretary to the Committee)
Chief Financial Officer	Group Operational Review Manager
Director of Group Finance	External Auditors

Dear Shareholders

I am pleased to present the Audit Committee report for the year ended 31 December 2018.

As part of our core remit, the Committee has continued to focus on our oversight of the Group's internal control and risk management processes and the development of our finance, internal audit and other control functions. This is particularly important as we realign our group structure from a regional to a global focus and as the risk environment continues to evolve, both in the UK and overseas. In 2018, senior management from the Europe, Americas and Asia regions as well as Group procurement and trading, IT and manufacturing met with us to present the risks identified in their business area using the Group's risk management approach together with mitigating controls to manage the risks. We also asked for regular updates to the Board on particular aspects from the developing procurement and trading function.

Alongside our formal meetings, members of the Committee visited our facility in Pasir Gudang (Malaysia) with the rest of the Board and had the opportunity to meet both staff and customers of the Asia business. Members of the Committee also separately visited our Filago and Sant'Albano sites in Italy as part of an ongoing programme of engagement with the business. These visits enable us to meet with a wide range of employees to hear directly how the business is developing and any issues faced by our people. We are also pleased to hear how all levels of the business are involved in understanding and managing our business risks. Feedback on these visits is provided to the Audit Committee and Board and we ask management to consider or address matters raised during our visits. In 2019, Group management will reflect on the support given by Group procurement to some of our smaller sites as a result of feedback received.

During the year, the Group introduced a new Code of Conduct across all geographies and launched a new external Code of Conduct and Ethics (whistleblowing) helpline (which is outlined in more detail on page 66) and the Committee had oversight of this work. The new arrangements were rolled out in December 2018 and the Board will monitor the implementation and use of the Code of Conduct and helpline during 2019.

In 2019, the Committee will focus on the Group's internal control and risk management processes as well as reviewing our recent acquisitions and capital investments, with a focus on payback from these investments. We will also have a general review of our key accounting controls across the business and site reporting, particularly around costs.

We set out further details of our work in the following pages.

On 1 March 2019, we added to the Committee and welcomed our new independent non executive director, Holly A. Van Deursen, who brings significant industry experience.

I am happy to answer any questions the shareholders may have at any time and look forward to meeting those who attend the AGM.

Caroline Johnstone
Audit Committee Chair
4 March 2019

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Audit committee report continued

Committee membership and meetings

The Committee is made up of myself (Chair), Brendan Connolly and Just Jansz our experience is set out on pages 60 and 61. In March 2019, Holly A Van Deursen joined the Committee. I have recent and relevant financial experience for the purposes of Provision C.3.1 of the UK Corporate Governance Code as a Chartered Accountant, my roles chairing other Audit Committees and my previous position as a partner at PwC. Together, the Committee members have a wide range of financial, operational and commercial experience across the chemicals and engineering sectors and the Board has agreed that the Committee has experience relevant to the sectors we operate in.

In order to address our remit effectively, I believe it is important to have those with the technical or business knowledge in our meetings and I am pleased that the Chief Executive Officer and the Chief Financial Officer both attend our Committee meetings as well as other senior members of the Group finance team and the Group Operational Review Manager (who leads the Internal Audit function). PwC, led by audit partner Matthew Mullins, also attend our meetings. Other senior managers have regularly attended Committee meetings in 2018, at our request. Other members of the Board have a standing invitation to attend meetings unless notified otherwise and we regularly have the full board in attendance.

Activities during the year

The Committee met formally four times during 2018 with the following principal activities:

	Feb	Apr	Aug	Nov
Financial reporting				
Full year results preliminary announcement and Annual Report	✓			
Half year results and interim announcement			✓	
Significant accounting judgements and estimates	✓		✓	
Going concern and viability statements	✓		✓	
Fair, balanced and understandable statement	✓			
FRC updates and guidance				✓
Alternative Performance Measures	✓			
Update on new accounting standards	✓	✓	✓	✓
Internal controls and risk management				
Update and specific areas of risk review*	✓	✓	✓	✓
Formal review internal controls & risk assessment processes	✓			
External audit				
Assessment of external auditor's independence, objectivity and effectiveness	✓			
Reappointment of external auditor	✓			
Management representation letter	✓		✓	
Non-audit fees and services policy	✓	✓		
External audit plan				✓
Internal audit				
Reviewing internal audit reports, progress to plan, actions implementation	✓	✓	✓	✓
Assessment of internal audit effectiveness	✓			✓
Internal annual audit programme discussion and approval	✓			✓
Other				
Interest rate risk review and refinancing	✓			
Update on implementation of GDPR	✓	✓	✓	
Review of mandatory training across the Group			✓	✓
Revision of the Code of Conduct and whistleblowing helpline		✓	✓	
Tax strategy review and approval				✓
Report on whistleblowing, bribery & fraud prevention	✓	✓	✓	✓
Review and update on the funding arrangements of the Group's pensions "teach in" and update on global pension arrangements			✓	✓
Review of transfer pricing arrangements across the Group		✓		
Audit Committee workplan, report and terms of reference update	✓			✓
Audit Committee evaluation and actions arising	✓			

* [illegible]
Working capital
Business continuity planning
Capital expenditure reviews
IT including manufacturing control systems
Procurement

The Group refinancing proposals were also presented at full Board meetings

The Committee also meets on a regular basis with PwC and with the Group Operational Review Manager separately without management present. The Committee meets privately as required to discuss our views on matters such as how we see the company culture developing and forthcoming agendas

In addition, outside of the formal meetings, I meet regularly on a one to one basis with the Chief Executive Officer, the Chief Financial Officer, other senior members of the Group finance team and PwC to develop the Committee's programme of work as well as review progress in addressing actions agreed by the Committee.

I also focus on ensuring that we have sufficient time to address key issues in Committee meetings.

As set out in my introductory comments, members of the Committee visited Pasir Gudang (Malaysia) and also the manufacturing sites in Italy during the year as part of an ongoing programme of engagement with the business.

The role and responsibilities of the Audit Committee

The Committee has a detailed remit focused on the integrity of our financial reporting, internal controls and risk management, with oversight of both external and internal audit.

The full terms of reference, reviewed and updated during the year, are available on the Company's website www.synthomer.com.

Addressing our remit

Significant areas of judgement and estimate

As part of our monitoring of the integrity of the financial statements, the Committee assesses whether suitable accounting policies have been adopted and considers particular areas where management has had to exercise judgement or make estimates. The main areas which we reviewed during the year ended 31 December 2018, together with a summary of our work, are set out below:

+ Taxation:
  With operations across eighteen countries, significant judgement has to be exercised by management, with advice from appropriate tax advisors, to arrive at tax provisions, given that the final tax outcome is uncertain and may not be known for several years. The Group Head of Tax presented to the Committee the basis for calculating the effective tax rate including whether any local tax audits were ongoing, and the rationale and judgement for each of the provisions. The Committee reflected on the provisions in the light of our Group tax strategy and also reflected on the work done by the external auditor who also reviewed the judgements that had been made, using tax specialists as appropriate, and provided the Committee with their assessment of the appropriateness of management judgements. The Committee concurred with management's view.
+ Pensions:
  The Group operates a number of defined benefit schemes (particularly in the UK and Germany) which have significant liabilities as outlined in note 26 to the Group financial statements. Although the UK schemes were closed to future accrual during 2009, they are still sensitive to changes in actuarial assumptions. The Group uses appropriately qualified external actuarial advisers to help establish the actuarial assumptions used in the valuation of the Group's pension liabilities. During their audit, the external auditor evaluated the assumptions and methodologies used by the Group's actuarial advisers and management and assessed whether the assumptions made were appropriate and not materially different from external benchmarks for similar types of schemes. The external auditors reported to us that they were satisfied with the assumptions used and with the way that the schemes had been accounted for. The Committee reviewed the assumptions and methodology used by management, including comparisons to those used by other companies and concurred with their conclusions.
+ Purchase of business:
  The accounting for the acquisition of the BASF Pischelsdorf SBR business (Austria) is shown in the note 31 to the accounts. For the acquisition, the assets and liabilities have been included at fair value with the balance of consideration shown as goodwill. KPMG LLP were engaged to advise on the fair value of the property, plant and equipment (PPE). Overall, their conclusion was that the total fair value of the PPE was marginally higher than the carrying value, mainly in relation to Land and Buildings. KPMG LLP also performed a valuation of the intangibles, of which the only one of significant value was the customer relationships. The external auditors reviewed the work undertaken by KPMG LLP. The Committee reviewed the methodology used by KPMG LLP along with their conclusions and discussed them with the external auditor. The Committee concurred with management's view on the fair value of the acquired business.

During the year, we had regular updates on the likely impact of new accounting standards. Several new accounting standards were adopted in the year.

+ IFRS 9 (Financial Instruments) had no material impact on our results;
+ IFRS15 (Revenue from Contracts with Customers) - management undertook a complete review of revenue recognition in 2017, with a detailed questionnaire sent to all sites and concluded that no material changes were required to how the Group accounts for revenue; and
+ IFRS 16 (Leases) will be adopted by the Group on 1 January 2019 using the modified retrospective implementation method which was deemed the most appropriate and the required disclosure is contained in the notes to the financial statements.

Fair, balanced and understandable

The work undertaken by management (and reviewed by the Committee) to support the Board's statement included.

+ establishing a working group of key individuals, who are appropriately qualified, within the Group to oversee the drafting of the Annual Report;
+ the Chief Executive Officer and Chief Financial Officer confirming that, in their opinion, the drafting of the Annual Report was 'fair, balanced and understandable';
+ where appropriate, requesting that certain key contributors to sections of the Annual Report (for example, presidents and chief financial officers of business units) sign a declaration confirming the accuracy of the information provided;
+ arranging for Deloitte LLP, the Company's remuneration consultants, to review the Directors' Remuneration Report and having our design agency, Luminous, proofread drafts of the whole Annual Report;
+ an audit trail was completed by the Director of Group Finance for material data underpinning non-financial information in the Annual Report;
+ circulating drafts of the Annual Report to PwC, the Committee and the Board for review; and
+ discussing material disclosure items at a meeting of the Committee held in February 2019.

The Committee discussed the 'fair, balanced and understandable' statement at a meeting in February 2019 in the light of the above and, having done so, recommended that the Board provide it in the form set out on page 92.

Going concern

The process conducted by management was reviewed by the Committee to support the Board's statement - the process included:

+ Reviewing the Group's available sources of funding and, in particular, testing the covenant and assessing the available headroom using a range of sensitivities.
+ Reviewing the short, medium and long-term cash flow forecasts in various severe but plausible scenarios.
+ Assessing the level of available facilities, which are considered necessary to support the Group's ability to trade and deliver future growth.
+ *Assessing the Group's current and forecast activities, including any* long-term contracts and order books, and those factors considered likely to affect its future performance and financial position.

The Committee discussed the going concern statement at a meeting in February 2019 and, having done so, recommended that the Board provide it in the form set out on page 91.

Viability statement

The Board has chosen to consider the prospects of the Group over a five year period ending 31 December 2023, consistent with *the five year Strategic Plan of the Group, as they consider it to be* a period over which the Group actively focuses on its long term product development and capital expenditure investments.

The Committee's robust assessment of the principal risks facing the Group *included a review of the potential impact of severe but* plausible scenarios that could threaten the viability of the Group *and the potential mitigations that management believes would be* available. These scenarios included trading volatility, increased competition, disruption as a result of Brexit, delays in capacity improvement, failure of new products and the temporary loss of a manufacturing site. They also included significant foreign currency *exchange rate and interest rate movements, which are deemed to* be outside the control of the Group. The Committee discussed the viability statement at a meeting in February 2019 and, having done so, recommended that the Board provide it in the form set out on page 37.

External audit

At its meetings in November 2018 and February 2019, the Committee discussed the 2018 audit process:

November 2018	Outcome/action taken *by the Committee*
PwC's audit plan	Challenged and agreed by the Committee
PwC's audit risk assessment (discussed with key function and group managers)	Discussed with PwC including [illegible]
Materiality level for the audit	Agreed with PwC (at a similar level to 2017) after reviewing local materiality, local statutory accounts *required and site visits by PwC group team*
PwC's resources	Reviewed and discussed with PwC, in particular the experience of PwC audit partners in our key territories
Audit fee and terms of engagement	Reviewed, challenged and approved by the Committee
February 2019	
[illegible]	[illegible] changes made to agreed plan
Audit findings [illegible] and other accounting judgements	[illegible]
Management representation letter	Reviewed and approved by the Committee
PwC's independence and objectivity and quality control procedures	Independence and objectivity [illegible] quality control procedures reviewed

The Chair of the Committee was in regular discussion with PwC's lead audit partner to discuss the progress of the audit. Ahead of and following the conclusion of the February 2019 meeting, the *Committee met PwC without management being present; no* significant issues were raised.

Systems of risk management and internal controls effectiveness

Each year, the Board is required to conduct a review of the effectiveness of the Group's systems of risk management and internal control. The Board's statement about this review is set out on page 66. At a meeting in February 2019, the Committee reviewed management's assessment of the key elements of these systems and confirmed their overall effectiveness. In forming its conclusion, the Committee reflected on matters such as:

+ The internal audit programme completed during 2018 and the progress in implementing actions arising therefrom.
+ Our own programme of risk reviews and discussions with senior managers across the Group throughout the year.
+ Assurance (Committee papers, Board and Committee presentations and discussions) that management continued to *review the Group's key financial controls to ensure that they* supported the Group's continued growth.
+ The key controls questionnaire, which is completed and signed by each operating unit across the Group on a quarterly basis.
+ Half yearly representations from financial and commercial *management in the business to the Chief Financial Officer.*

Whistleblowing

At each Committee meeting during the year, the Committee was provided details of the issues reported during the period and how management had investigated them, together with any update on ongoing investigations. No material issues were reported *during the year. As discussed above, a new Code of Conduct* and a new external (whistleblowing) helpline was implemented in December 2018.

Internal audit

The Group Operational Review Manager (who leads the internal audit function) was appointed in 2016. We have a dedicated and *focused in-house internal audit function, which draws on specialist* resources as required. At each meeting, the Committee reviewed progress against the internal audit annual plan and explored areas identified for action. The Committee also reviewed completed audit reports, focusing on recurring themes, which might require group actions, and areas where there was divergence from self assessments prepared.

To assess the effectiveness of internal audit, the Committee reflected on:

+ Internal audit reports during the year.
+ *Feedback from operational and finance functions on the quality* of the internal audit reports and activities in the form of a questionnaire, which was circulated to key managers.
+ Compliance with appropriate internal audit professional standards.
+ Implementation of internal audit recommendations.

Responses to the questionnaire included positive feedback around planning and quality of internal audit and there was a request to engage local language resources to make the audits more efficient. In the coming year, the function will focus on concluding the audit reporting process and ensuring implementation of recommendations on a timely basis. On the basis of our review, the Committee concluded that the function was operating effectively although we continue to review the resources required for the developing Group.

The internal audit plan for 2019 was reviewed at our meeting in November 2018 and includes auditing areas which account for more than 85% of operating profit as well as certain key central functions such as capital expenditure approval processes and compliance. Specialists will be included in a number of audits as appropriate.

External audit relationship

Auditor objectivity and independence and non-audit services provided by the auditor

With effect from 1 January 2018, the Committee adopted a revised policy on the provision of non-audit services by the external auditor. We have more clearly defined the very limited non-audit services which can be provided by the external auditors. Services can only be provided if approved by the Committee and subject to a cap of 70% of the average of audit fees for the preceding three years – with discretion to exceed this until January 2020. The policy is in compliance with the FRC Ethical Standard for Auditors effective from April 2017 and a full copy of our policy on the provision of non-audit services by the external auditor is available on the Company website, www.synthomer.com

Details of audit and non audit fees paid to the auditor in 2018 are set out in note 8 on page 117. Non-audit fees principally relate to reporting accounting work on the aborted bond offering and to the interim review at the half year. The Committee concluded that PwC's independence and objectivity was not compromised by providing these services and that, as a result of its knowledge of the Group and its financial statements, it was in the Group's interests to engage PwC to do so.

As part of the 2018 audit, PwC confirmed that it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account and having considered the steps taken by PwC to preserve its independence and the approach to non audit services set out above, the Committee concluded that PwC continues to demonstrate appropriate independence and objectivity.

Effectiveness of the external audit

During the year the Committee evaluated the performance and effectiveness of the external auditors, PwC and Matthew Mullins, our audit partner. Feedback was obtained from people across the business who were involved with the external audit and the Committee reflected on the effectiveness of Matthew Mullins and team members, both in Committee meetings and in discussions with the Audit Committee Chair.

The Committee assessed the robustness of the audit, the quality of delivery of the audit against the agreed plan and the competence with which the auditors handled key accounting estimates and judgements.

We also reviewed the FRC's report highlighting their conclusions from a review of a selection of PwC audits.

Having considered all of these factors the Committee concluded that the external auditors were effective.

Re-appointment of the auditor

PwC was re appointed external auditor in 2016, following a full retender process, having been the Group's auditors since 2012. Having assessed the effectiveness of the external audit referred to above and the independence of PwC, the Committee recommends the re-appointment of PwC at the 2019 Annual General Meeting.

Statement of compliance

The Committee confirms that, during the year ended 31 December 2018, the Company complied with the applicable provisions of the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Committee evaluation

In 2018, we undertook a thorough internal evaluation of the Committee's performance using a questionnaire process, with input from regular attendees as well as the Committee members. We covered all aspects of the Committee's agenda and approach, including composition, remit and culture of the Committee. The feedback was positive about our progress in overseeing and challenging the systems of risk management and supportive of continuing to develop this in 2019. Like most businesses, we continue to consider the appropriate level of internal audit resource and this will be closely monitored as we continue to grow and develop.

Nomination Committee report

Neil Johnson
Nomination Committee
Chair

Nomination Committee
Since 1 January 2018

	Position	Appointment date	Number of meetings attended
Neil Johnson	Chair	May 2012	1/1
Brendan Connolly	Senior independent non executive director	March 2011	1/1
Caroline Johnstone	Independent non executive director	April 2015	1/1

Role

The Committee's remit includes responsibility for:

+ The regular review of the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and the making of recommendations with regard to any changes;
+ leading the process for Board appointments and nominating candidates for non executive positions; and
+ considering succession planning for directors and senior executives and reviewing the succession plans put forward for ensuring the executive leadership needs of the Company are met

Activities in 2018

The Nomination Committee held one formal meeting during 2018 as well as meetings in combination with other formal meetings of the Board where it was appropriate to do so. In addition, a number of informal meetings and telephone calls plus several interviews took place in connection with the nomination process referred to below.

The Committee reviewed progress against the 2018 management succession action plan presented to the Board at the start of the year and initiated a review of the Board succession plan which will be completed during 2019. Following Jinya Chen's retirement from the Board at the end of 2017 the Committee commenced a search for a replacement independent non-executive director. The Committee led the process for nominating Holly A. Van Deursen as an independent non executive director which involved a thorough review of a range of candidates put forward by an independent recruitment consultancy, Egon Zehnder (with which the Company has no other connection). The consultancy conducted an extensive search exercise and were briefed on the Board's policy on diversity. The Board's approval of the Committee's nomination of Holly A. Van Deursen addressed outcomes from previous Board evaluation processes regarding the Board composition and was also in accordance with the Board's diversity policy.

Diversity

The Board adopted its current policy on diversity in 2014 in recognition of the importance of diversity in strengthening decision making and competitiveness. This policy seeks to ensure that diversity in its broadest sense is taken into account in the process of making appointments on merit against objective selection criteria. Gender and ethnicity are acknowledged as significant elements of diversity and the Committee is mindful of the recommendations of the Hampton Alexander, Parker and McGregor Smith Reviews but has not recommended to the Board the setting of quotas for female or other representation at this time.

A copy of the diversity policy is available at www.synthomer.com. Further details on the Company's approach to, and reporting on, diversity are contained within the Strategic report.

Neil Johnson
Chair
4 March 2019

Brendan Connolly
Remuneration Committee
Chair

Remuneration Committee membership
Since 1 January 2018

	Position	Appointment date	Number of meetings attended
Brendan Connolly	Chair	March 2014	3/3
Just Jansz	Independent non-executive director	May 2012	3/3
Caroline Johnstone	Independent non-executive director	April 2015	3/3
Holly A. Van Deursen	Independent non-executive director	1 March 2019	N/A
Other attendees:			
Chief Executive Officer		Company Secretary	
President Global HR		Deloitte LLP	
Group HR Director			

Dear Shareholders
I would like to thank our shareholders for their continued support in 2018, specifically for the Remuneration Report where 97% approval was given at the 2018 AGM. Our existing policy was originally approved at the 2017 AGM and is still current, and no changes have been proposed or made during this reporting period. We will present a new policy for approval at the 2020 AGM, which means that we will consult with our shareholders during 2019 on our proposed policy.

Remuneration outcomes in 2018
Base salaries: Salary levels for the Chief Executive Officer and Chief Financial Officer were last reviewed with effect from 1 January 2016, and were frozen at that level for a three year period. From 1 January 2019, the Chief Executive Officer's salary was increased by 3.0%, in line with the average pay increase for the Group's UK employee population. The Chief Financial Officer's salary was increased by 4.8% from 1 January 2019 following careful consideration by the Remuneration Committee. This adjustment has been made to reflect a combination of performance in the role since his appointment in May 2015 and the increasing size and complexity of the business.

Variable pay outcomes:

Plan	KPI	Range	2018 Performance	Achieved
Bonus	Underlying PBT	£123.5m to £143m	£135.5m	61.5%
	SHE RIR	0.20 or less	0.23	0.0%
	SHE PSER	0.20 or less	0.14	5.0%
	Strategic goals	Includes M&A activity, the development of risk management processes and controls and strengthening of organisational capabilities	Met in full	10.0%
	Total (% of maximum opportunity)			76.5%
LTIP	EPS Growth	24.5p to 28.6p	32.8p	40.0%
	Relative TSR	Median to Upper quartile	Between median and upper quartile	32.0%
	Strategic – New product sales (by volume)	15% to 20%	21%	10.0%
	Strategic – M&A cumulative underlying PBT	£31.7m to £63.4m	£33.2m	4.2%
	Total (% of maximum opportunity)			86.2%

Bonus plan: 76.5% of maximum opportunity achieved.

The bonus plan consists of three parts: Financial (80% on Underlying PBT); SHE (10%); and Strategic Personal Goals (10%).

+ Financial: 61.5% achieved. Underlying PBT of £135.5m (PY £121.1m) was achieved against an on target goal of £130m with adjustments related to currency and M&A activity. We saw strong organic growth from the Asia and Rest of the World segment which more than compensated for headwinds in Europe and North America.
+ SHE: 5% achieved. This goal is split equally between Reportable Injury Rate (RIR) and Process Safety Event Rate (PSER). The journey towards a 'best in class' culture continues in SHE and though we understood that the 2017 result was exceptional, we challenged Management to continue the downward long-term trend in safety incidents, which they have done despite not hitting the RIR target but achieving the PSER goal.
+ Personal Strategic goals: 10% achieved. Both the Chief Executive Officer and Chief Financial Officer have delivered excellent performance against their specific personal goals in 2018, leading to significant progress in a number of key strategic areas. These include:
  - delivery of strengthened risk management processes and controls
  - continued drive in the M&A area, with sound scrutiny and discipline shown in the selection and rejection of opportunities, as well as the acquisition processes undertaken
  - the strengthening of Synthomer's people structure
  - the design and implementation of a new global organisational structure focused on customers and markets

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LTIP: 86.2% achieved.

The plan consists of EPS growth (40%), Relative TSR (40%) and Strategic goals (20%).

+ EPS growth: 40% achieved. The 21.5p EPS base from 2015 has grown substantially during the last three years and the outcome of 32.8p is above the maximum target of 28.6p.
+ Relative TSR: 32% achieved. The Group performance against the FTSE 250 (excluding investment and financial services) landed at just below the Upper Quartile.
+ Strategic goals: 14.2% achieved. New Products as a % of Group sales (by volume) was 21%, over the 20% maximum, excluding turnover attributable to acquisitions made subsequent to the setting of the performance condition where there is no scope for new product development. The cumulative PBT (over 3 years) from M&A was £39.2m, and therefore fell short of the maximum.

When stepping back and reviewing the bonus and LTIP outcomes versus the overall performance of the Group, the Committee considered whether the outcomes were aligned to the 'look and feel' of what we have observed during the year and felt that they were an accurate reflection of the overall performance.

Chairman's Fee: The Chairman's fee was reviewed for the first time in two years. Based on the continued increase in the complexity of the business and time commitment in the role, as well as external market positioning for equivalent roles, a fee increase from £170,000 p.a. to £180,000 p.a. was agreed with effect from 1 January 2019.

Activities during the year

The introduction of the 2018 Governance Code and new corporate governance reporting requirements has been discussed and appropriate training has been given to the Committee and wider Board, with the Committee's terms of reference updated to reflect the changes. Below is a brief list of the discussions held and decisions taken in 2018 during the Committee's three meetings.

Activity of the Committee in 2018
Approval of participants in LTIP
Approval of KPI components of the LTIP
Approval of bonus plan outcomes for 2018
Approval of LTIP outcomes for 2018
Approval of salary increases for executive directors
Approval of salary increases for senior management
Review of remuneration structure for the wider Group
Review and approval of Gender Pay Gap data
Evaluation of Committee performance
Review of EC styrene investigation
Training in corporate governance and reporting developments
Review of market practices and trends
Review and approval of Chairman's fee
Review and updating of terms of reference
Review and gap analysis on guidance from Proxy agencies
Review and gap analysis on new governance regime
Discussion on 'employee voice' to take to the Board
Discussion of post employment shareholding and pension payments under the new Code
Review of training and development within the Group
Interaction with remuneration consultants on various topics

Alignment to Group strategy

In line with the prior year, the strong link and alignment between the remuneration structure and the Group strategy of innovation, excellence and growth is a key focus for the Committee.

Innovation: using R&D and process engineering to deliver new and improved products in the medium and long term to successfully compete in the speciality chemical sector is reflected in the LTIP where the management and all the LTIP participants are challenged to deliver a percentage of volume from new products over a five year period.

Excellence: safety, health and environmental performance is critical for risk management and being able to deliver a safe and environmentally controlled workplace, avoiding potential physical and reputational damage. Measures for both personal and process safety are captured in the bonus plans of the Chief Executive Officer, the Chief Financial Officer and the wider organisation. Excellence also includes operational processes, efficiency, cost management, utilisation, product quality and an array of other measures which are all captured through objectives for the key operational executives and those directly involved in managing the plants.

Growth: organic year on year growth, M&A and internal capital investment remain important strategic initiatives to drive financial growth, increase capacity and a wider speciality product base to achieve increased market share. The bonus plan and the LTIP through PBT, EPS, TSR and specific expansion objectives are aligned and weighted heavily towards driving a healthy growth. Due to the large amount of investment in projects in 2017 and 2018, we have added a ROIC measure to the LTIP seeking quantified returns on specific projects.

UK Corporate Governance Code and other regulatory changes

As noted above, the Committee is closely monitoring developments in the corporate governance and regulatory environment, including areas such as post employment shareholding requirements and executive pension alignment. We will present a new policy for approval at the 2020 AGM, and will consult with our shareholders on all aspects of our proposed remuneration policy during 2019.

Following the 2018 announcement of the regulations around the methodology to be used in respect of CEO to employee pay ratio disclosures, the Group is working on collating the appropriate data needed to meet the new requirements, and will comply with the full regulations in our 2019 Annual Report.

Remuneration Report

The Directors Remuneration report will not require a binding vote for the policy at the 2019 Annual General Meeting, however the Annual Report on Remuneration, will, as in previous years, be subject to an advisory vote.

I would like to thank the Committee for their work, debate and input during the year and look forward to interacting with our stakeholders during the policy renewal process in 2019.

Brendan Connolly
Chair
4 March 2019

At a glance

2018 outcomes:

+ Base salaries were increased for the Chief Executive Officer and Chief Financial Officer by 3.0% and 4.8% respectively from 1 January 2019. Salary levels had been frozen from 1 January 2016 for a three year period.
+ Annual bonus plan – 76.5% of maximum opportunity achieved.
+ 2016 LTIP award vested at 86.2% of maximum opportunity.

Directors' remuneration – policy principles

The key principles for executive directors' remuneration at Synthomer are as follows:

+ Sufficient to attract and retain executive directors of the ability and expertise necessary to achieve the strategic goals of the Company.
+ Incentivise executive directors by rewarding performance and driving the right behaviours.
+ Align executive director reward with the experience of shareholders.

In setting executive directors' remuneration, the Committee takes account of pay and conditions throughout the Group. The Committee also considers corporate governance requirements and best practice in terms of remuneration structures and the process of setting executive remuneration.

The Committee reviews performance targets regularly to ensure that they do not encourage or motivate inappropriate risk taking. Furthermore, the Committee, when necessary, will take into account any environmental, social and governance (ESG) events and the Audit Committee's reviews of the effectiveness of internal controls and risk management when assessing performance.

The following diagram provides an overview of the key elements of reward for executive directors and the performance measures used.

Key elements of reward

Base salary	Pension & benefits	Annual bonus	Performance Share Plan
		At least 70% Profit before tax **Up to 30%** Strategic and operational measures, including personal objectives **2019 awards:** 80% Profit before tax 10% SHE 10% Individual strategic and operational goals	**At least 80%** Based on financial measures **Up to 20%** Strategic measures **2019 awards:** 40% Relative TSR 40% EPS growth 20% Strategic measures

Directors' remuneration – policy summary

Set out in the table below is a summary of our Directors' Remuneration Policy ("the Policy") as it applies to executive directors.

The Policy was put forward, and received shareholder approval, at the Company's 2017 AGM in accordance with section 439A of the Companies Act 2006. The Policy has been effective from 27 April 2017 and is available in full at www.synthomer.com.

Policy table

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	Supports the recruitment and retention of executive directors. Reflects the individual's skills, experience, performance and role within the Company.	Salary levels are generally reviewed annually by the Committee. When reviewing salary levels the Committee takes into account: + the individual's skills, experience and performance; + the size and scope of the individual's responsibilities; + pay and conditions elsewhere in the Group; + pay at companies of similar size; and + the complexity and international scope of the Group.	There is no overall maximum for salary opportunity or increases. Salary increases will normally be in-line with the increases awarded to other employees within the Group. Larger increases may be made under certain circumstances, including, but not limited to: + an increase in the scope and/or responsibility of the individual's role; + the development of the individual within the role; + alignment to market levels; and + corporate events such as a significant acquisition or Group restructuring which impacts the scope of the role. For 2019, executive director salaries are as follows: + C G MacLean: £551,565 (increase of 3.0% on 2018 salary of £535,500) + S G Bennett: £350,600 (increase of 4.8% on 2018 salary of £334,560). The executive directors had previously had their salaries frozen at 2016 levels.	None, although individual and Company performance are factors taken into account when considering salary increases.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits	Provided to support the retention and recruitment of executive directors.	Benefits to executive directors may include private health insurance, life insurance and a fully expensed car or car allowance. From time to time the Committee may review the benefits provided. The Committee may remove benefits that executive directors receive or introduce other benefits if it considers it is appropriate to do so. Any other benefits will be proportionate with the current benefits provided. Where executive directors are required to relocate or complete an international assignment, the Committee may offer additional benefits or vary benefits according to local practice. Executive directors may participate in any all-employee share schemes or other benefit arrangements on the same basis as other employees.	There is no overall maximum for benefits, as the cost of insurance benefits may vary from year to year depending on the individual circumstances and the level of any relocation benefits allowances and expenses will depend on the specific circumstances.	None
Pension	Provide a competitive level of retirement benefits to support both retention and recruitment of executive directors.	Executive directors are eligible to participate in the Group personal pension plan. Executive directors may receive payments as a cash allowance which they may use either in conjunction with that plan and/or to enable them to make their own arrangements.	Maximum of 25% of base salary. Allowances for current executive directors are: C G MacLean, 25% of salary S G Bennett, 20% of salary	None

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	Incentivises the delivery of financial, strategic and operational objectives selected to support our business strategy within the year.	Performance targets will be determined by the Committee at the beginning of the annual performance period. The Committee will assess performance against these targets following the end of the performance period. The Committee may adjust awards upward or downward to reflect the overall performance of the Company or the individual. The Committee may reduce or defer the level of payment of an award to take into account exceptional business circumstances. A proportion of any bonus earned is deferred for two years. For current executive directors this is + C G MacLean: 20% of any bonus + S G Bennett: 13% of any bonus The Committee may claw back awards up to three years after payment if the Group's accounts have been materially misstated, there has been an error in the calculation of any performance conditions which results in over payment or if there are circumstances giving rise to material reputational damage to the Group.	The maximum opportunity is up to 125% of salary. Opportunities for current executive directors are: + C G MacLean: 125% of salary + S G Bennett: 115% of salary	At least 70% of awards are subject to Underlying profit before tax (or other relevant financial measure) targets. Up to 30% of awards are subject to strategic and operational measures, including personal objectives. For 2019 awards, performance measures will be 80% Underlying profit before tax, 10% SHE objectives, 10% personal strategic and operational objectives. The award for threshold performance is normally 0% of maximum.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
2011 Performance Share Plan **Approved by shareholders at the 2011 EGM**	Incentivises executive directors to deliver sustained performance and sustainable returns for shareholders over the longer term.	The vesting of awards is conditional on the Group's performance against long-term targets over a performance period of at least three years. The Committee may reduce or defer the level of vesting of an award where an event has occurred, such as a material SHE incident. The Committee may claw back awards up to three years after vesting if the Group's accounts have been materially misstated, there has been an error in the calculation of any performance conditions which results in overpayment or (for awards from 2017 onwards) if there are circumstances giving rise to material reputational damage to the Group. Vested awards relating to grants made from 2017 onwards are subject to a holding period post vesting of an additional two years.	Under the plan rules approved by shareholders, the value of shares awarded to an individual in respect of any one year may not normally exceed 150% of salary. Annual awards to current executive directors are: + C G MacLean: 150% of salary + S G Bennett: 120% of salary Under the plan rules approved by shareholders there is the ability to make additional awards in exceptional circumstances. Additional awards may be made in the case of a transformative Group event. Any such awards would be subject to additional shareholding guidelines or holding periods to be determined by the Committee. Any additional award would be subject to the overall plan limit of 300% of salary.	+ At least 80% based on financial measures. This may include TSR, EPS, Return on Invested Capital (ROIC) or any other measure considered appropriate by the Committee. Any change to the financial measures used would be subject to prior shareholder consultation. + Up to 20% based on performance measures linked to the delivery of the business strategy. + No single measure will constitute more than 50% of an annual award. For 2019 awards, performance measures will be 40% Relative TSR, 40% EPS and 20% strategic measures, including ROIC. A maximum of 25% of each element will vest for threshold performance. The Committee may amend the final vesting level under the TSR element if it does not consider it to be reflective of the underlying performance of the Group. Any additional awards made in exceptional circumstances will be subject to performance conditions and vesting schedules as determined by the Committee at the time of award.
Shareholding guidelines	The Company operates shareholding guidelines for executive directors to strengthen the alignment between the interests of the executive directors and the shareholders. The Chief Executive Officer and the Chief Financial Officer are required to build interests in shares of at least 200% and 150% of salary respectively. All vested awards under the 2011 Performance Share Plan (net of tax if applicable) must be retained by executive directors until this requirement is met. If the requirement is not met within three years of appointment, the executive directors would be required to defer 50% of any bonus to buy shares until the guidelines are met.			

Provisions to withhold or recover sums paid under incentives are as detailed in the table above. No other elements of remuneration are subject to recovery provisions.

Illustrations of application of remuneration policy

The following charts illustrate the different elements of the executive directors' remuneration under three different performance scenarios: 'Minimum, 'Target' and 'Maximum'. The assumptions used are provided below the charts. The illustrations are based on annual bonus awards for 2019 and Performance Share Plan awards to be made in 2019.

C G Maclean

S G Bennett

	Component	Minimum	Target	Maximum
Fixed	Base salary	Base salary for 2019		
	Pension	Value of cash supplement for 2019		
	Benefits	Taxable value of annual benefits provided in 2018		
Variable	Annual bonus	0% of maximum	60% of maximum	C G MacLean 125% of salary S G Bennett 115% of salary
	2011 Performance Share Plan[1]	0% vesting	25% vesting	C G MacLean 150% of salary S G Bennett 120% of salary

Note

1 The value for the Performance Share Plan is based on the face value of annual PSP awards under the Policy and base salaries for 2019. The calculation excludes share price growth or dividends during the performance period.

Annual Report on Remuneration for the year ended 31 December 2018

Operation of the executive director Remuneration Policy for 2019

The current Policy has been in force since 27 April 2017. The specific remuneration arrangements for 2019 are described below.

Base salary

Following two years of no increase being given, and accordingly salaries remaining at 2016 levels through to the end of 2018, increases were awarded with effect from 1 January 2019 of 3.0% for the Chief Executive Officer and 4.8% for the Chief Financial Officer giving 2019 salaries as follows:

+ C G MacLean: £551,565
+ S G Bennett: £350,600

The Chief Executive Officer's salary was increased by 3.0%, in line with the average pay increase for the Group's UK employee population. The Chief Financial Officer's salary was increased by 4.8%, following careful consideration by the Committee. This adjustment has been made to reflect a combination of performance in the role since appointment in May 2015 and the increasing size and complexity of the business.

Pension and benefits

No changes. Executives receive a cash allowance in lieu of pension contributions, a fully expensed car or car allowance and private health insurance.

2019 cash allowances in lieu of pension contributions:

+ C G MacLean: 25% of salary
+ S G Bennett: 20% of salary

Annual bonus

For 2019, performance under the annual bonus will be measured on the following basis:

+ 80% subject to performance against Underlying profit before tax targets.
+ 10% subject to performance measures against key SHE targets.
+ 10% subject to performance against individual strategic and operational goals.
+ Targets and objectives for 2019 are, by their financial and commercial nature, considered by the Board to be unsuitable for disclosure in advance. However, the Committee will provide information on targets and objectives retrospectively.

2019 maximum award opportunity:

+ C G MacLean: 125% of salary
+ S G Bennett: 115% of salary

Performance share plan

For awards to be made in 2019, performance will be measured on the same basis as for awards made in 2018 as follows:

+ 40% based on relative TSR performance versus FTSE 250 (excluding investment trusts and financial services companies):
  - 25% of this element will vest for median performance.
  - 100% vesting for upper quartile performance.
  - Vesting on a straight-line basis between these points.
+ 40% based on Underlying EPS growth:
  - 25% of this element will vest for EPS growth of 4.5% per annum.
  - 100% vesting for EPS growth of 10% per annum.
  - Vesting on a straight line basis between these points.

  This target range was set following consideration of the long term strategy and the outlook for the markets in which we operate.
+ 20% based on performance against three equally weighted measures directly linked to the delivery of the business strategy:
  - Proportion of Group Sales (by volumes) from new products together with products covered by patents and patent applications derived from new products launched in the five years to the end of the performance period – incentivising greater innovation through new product development.
  - Cumulative Underlying profit before tax growth in respect of acquisitions in line with the strategic plan as approved by the Board – incentivising the delivery of profitable growth.
  - ROIC generated from the most significant growth projects being commissioned to be commissioned in 2018/2019 measured in the third year of the performance period – incentivising the delivery of profitable organic growth.

  For each of these measures, 25% will vest for threshold performance.

  The targets for these measures, and the level of performance achieved, will be disclosed following the end of the performance period.

2019 maximum award opportunity:

+ C G MacLean: 150% of salary
+ S G Bennett: 120% of salary

Shareholding guidelines

The Chief Executive Officer and the Chief Financial Officer are required to build interests in shares of at least 200% and 150% of salary respectively. The Committee will keep the level under review.

The following information is audited:

Single figure of remuneration for executive directors

	Year	Base salary £	Benefits[1] £	Annual bonus £	Long-term incentives[2] £	Pension £	Total £
Executive directors							
C G MacLean	2018	535,500	13,200	512,072	728,581	133,875	1,923,228
	2017	535,500	13,200	669,375	1,163,614	133,875	2,515,564
S G Bennett	2018	334,560	22,730	294,329	364,149	66,912	1,082,680
	2017	334,560	22,397	384,744	343,887	66,912	1,152,500

Notes
1 This is the total taxable value of benefits received by each executive director during the year. The table below provides details of the main component of the relevant benefits paid to executive directors.
2 For 2018 the values relate to awards granted under the 2011 PSP and made in 2016 and which vest in April 2019. Further information about the level of vesting is provided in this report.

	Car expenses/benefit £	Others £	Total £
C G MacLean	13,200	–	13,200
S G Bennett	21,549	1,181	22,730

Additional information for single figure remuneration

Base salary

Base salaries for the Chief Executive Officer and the Chief Financial Officer were last reviewed with effect from 1 January 2016 and were frozen at that level for a three year period.

From 1 January 2019 salaries were increased as set out below. The Chief Executive Officer's salary was increased by 3.0% in line with the average pay increase for the Group's UK employee population. The Chief Financial Officer's salary was increased by 4.8%, following careful consideration by the Committee. This adjustment has been made to reflect a combination of performance in the role since appointment in May 2015 and the increasing size and complexity of the business.

Executive directors	*2018 base salary*	*2019 base salary*	*% change*
C G MacLean	£535,500	£551,565	3.0%
S G Bennett	£334,560	£350,600	4.8%

Annual bonus

2018 award

For 2018 the Company operated a cash bonus plan for the executive directors related to the achievement of Underlying profit before tax targets, SHE targets and individual strategic and operational goals.

The achievement of the Underlying profit before tax target represented up to 80% of the maximum bonus opportunity achievable of 125% and 115% of annual basic salary for C G MacLean and S G Bennett, respectively.

The SHE targets were given a 10% weighting of the maximum achievable with the balance of 10% relating to individual strategic and operational goals.

Overall bonuses for the year ended 31 December 2018.

Executive directors	Maximum bonus as a % of salary	Total bonus as a % of maximum	Total bonus £
C G MacLean	125	76.5	512,072
S G Bennett	115	76.5	294,329

Further information of the three elements of the bonus are as follows:

1. Underlying profit before tax (80%)

The Underlying profit before tax targets set and achievement are set out below

	Threshold	Target	Maximum	Achieved[2]
Level of award (% of element)	0%	60%	100%	76.8%
Underlying profit before tax[1]	£123.5m	£130.0m	£143.0m	£135.5m

Notes
1 Targets are set by reference to the Board approved internal budget for the Group and measured on a constant currency basis
2 For the purpose of calculating achieved underlying profit before tax adjustments were made for [illegible] the acquisition of BASF Pischelsdorf (Austria) was removed from 2018 underlying profit before tax.

2. SHE (10%)

Targets with an aggregate weighting of 10% related to improvements in recordable injury and process safety.

	Recordable injury (measured as injury rate)	Process safety (measured as process safety event rate)
Target	0.20 or less	0.20 or less
Level of award	0% for a rate greater than 0.20 5% for a rate less than 0.20	0% for a rate greater than 0.20 5% for a rate less than 0.20
Rate achieved	0.23	0.14
Award outcome	0%	5%

Further details of the definition and measurement of the recordable injury rate and the process safety incident rate are given on page 54.

3. Individual strategic and operational goals (10%)

Individual goals and achievements against them considered by the Remuneration Committee with an aggregate weighting of 10% included:

	Chief Executive Officer	Chief Financial Officer
Target	1. Development and embedding of risk management processes and controls. 2. Identification and where appropriate execution of acquisition opportunities. 3. Strengthening of leadership and organisational capability.	1. Development and embedding of risk management processes and controls. 2. Ensure compliance with Base Erosion and Profit Shifting (BEPS) tax legislation. 3. Management of investor relationships.
Level of award	Up to 10%	Up to 10%
Performance against targets	1. Strengthened risk management processes implemented by CEO and CFO with improved and more frequent reviews of risk topics. 2. Focused and disciplined selection, review and as appropriate, rejection or execution of acquisition opportunities. 3. Implementation of new global structure supported by external appointment to leadership team.	1. Strengthened risk management processes implemented by CEO and CFO with improved and more frequent reviews of risk topics. 2. Sponsor of project to implement transactionally the existing European operational model in line with BEPS. 3. Strengthened investor relationship programme rolled out
Award outcome	10%	10%

The maximum opportunity was awarded.

Directors' Remuneration report continued

2011 Performance Share Plan

The awards made on 8 April 2016 for C G MacLean and for S G Bennett under the 2011 PSP were subject to relative shareholder return performance condition, an absolute earnings per share performance condition and a strategic measures condition as follows:

Relative total shareholder return condition	EPS condition		
Company relative TSR performance against the FTSE 250 Index (excluding investment trusts and financial services companies) over 3 year period ended 31 December 2018	EPS for the 2018 financial year	Percentage of award that vests	Performance achieved
Upper quartile	28.6 pence or more	40%	EPS of 32.8 pence gives full vesting for that condition. TSR performance at the 32nd percentile gives vesting of 32% for that condition.
Between median and upper quartile	Between 24.5 pence and 28.6 pence	On a straight-line basis between 10% and 40%	
Median	24.5 pence	10%	
Below median	Less than 24.5 pence	0%	

A further 20% of the award was subject to two equally weighted strategic measures:

+ Percentage of Group sales (by volume) in the 2018 financial year derived from new products launched in the five years ended 31 December 2018.

New product percentage*	Percentage of award that vests	Percentage achieved
< 15%	0%	21% gives vesting of 10% of award.
15% – 20%	2.5% – 10%	
> 20%	10%	

Note
* Excluding volume attributable to acquisitions made subsequent to the setting of the performance condition where there is no scope for new product development.

+ Cumulative Underlying PBT added through acquisitions for the three years ended 31 December 2018.

Cumulative PBT added through acquisitions	Percentage of award that vests	Percentage achieved
< £31.7m	0%	£39.2 million gives vesting of 4.2% of the award.
£31.7m – £63.4m	2.5% – 10%	
> £63.4m	10%	

In aggregate 86.2% of the 2016 award vested.

The 2016 award will vest for C G MacLean and S G Bennett in April 2019 as follows:

	No. of shares in original award	No. of shares that lapse	No. of shares that vest
C G MacLean	182,416	25,173	157,243
S G Bennett	91,173	12,582	78,591

2018 award

The awards made on 8 March 2018 to C G MacLean and S G Bennett were as follows:

	Scheme	Basis of award	Number of shares	Face value	Percentage vesting at threshold performance	Performance period end date
C G MacLean	2011 PSP – nil cost options	150% of salary	164,479	£803,250	25%	31/12/2020
S G Bennett	2011 PSP – nil cost options	120% of salary	82,208	£401,472	25%	31/12/2020

The face value of the awards was calculated using a share price of 488.36 pence per share, the average share price on the five dealing days prior to the date of grant.

The awards made on 8 March 2018 under the PSP are subject to the following performance conditions:

Relative total shareholder return condition	EPS condition	
Company relative TSR performance against the FTSE 250 Index (excluding investment trusts and financial services companies) over three year period ending 31 December 2020	EPS for the 2020 financial year	Percentage of award that will vest
Upper quartile	40.9 pence or more	40%
Between median and upper quartile	Between 35.0 pence and 40.9 pence	On a straight line basis between 10% and 40%
Median	35.0 pence	10%
Below median	Less than 35.0 pence	0%

A further 20% of the award is subject to strategic measures as referred to on page 79, the targets for which will be disclosed following the end of the performance period.

Pension entitlements

Both executive directors receive a cash allowance in lieu of pension contributions. No additional benefit is receivable in the event of a director retiring early.

	Cash allowance (% salary)
C G MacLean	25
S G Bennett	20

Single figure of remuneration for non-executive directors

Non-executive directors		Base fee	Committee membership fee	Committee chair fee	Total
N A Johnson	**2018**	**170,000**	**–**	**–**	**170,000**
	2017	170,000	–	–	170,000
The Hon. A G Catto	**2018**	**40,000**	**–**	**–**	**40,000**
	2017	40,000	–		40,000
B W D Connolly[1]	**2018**	**45,000**	**10,000**	**5,000**	**60,000**
	2017	45,000	10,000	5,000	60,000
Dr J Jansz	**2018**	**40,000**	**10,000**	**–**	**50,000**
	2017	40,000	10,000	–	50,000
C A Johnstone	**2018**	**40,000**	**10,000**	**5,000**	**55,000**
	2017	40,000	10,000	5,000	55,000
Dato' Lee Hau Hian	**2018**	**40,000**	**–**	**–**	**40,000**
	2017	40,000	–	–	40,000
H A Van Deursen[2]	**2018**	**11,000**	**–**	**–**	**11,000**
	2017	–		–	–

Notes
1 Base fee includes an amount of £5,000 per annum for role as Senior Independent Director
2 Appointed to the Board on 21 September 2018

The fees to be paid in 2019 to the Chairman and the non executive directors were reviewed in November 2018 and January 2019 respectively and as a result:

+ the Chairman's fee was increased from £170,000 p.a to £180,000 p.a with effect from 1 January 2019;
+ the committee membership fee for the independent non-executive directors was increased from £10,000 p.a to £15,000 p.a with effect from 1 January 2019.
+ the base fee for the non-independent non executive directors was increased from £40,000 to £41,200 p.a with effect from 1 January 2019.

Directors' shareholding and share interests (number of shares/options)

Directors	Interests in Company shares 31 December 2018	Vested unexercised performance related options 31 December 2018	Total unfettered interests in shares and vested options 31 December 2018	Unvested performance related options 31 December 2018[1]	Share options exercised during 2018	Share ownership requirements (% of salary)[2]	Interests in shares at 31 December 2018 (% of salary)
C G MacLean	365,356	–	365,356	508,539	223,152	200%	244%
S G Bennett	93,548	–	93,548	254,172	165,949	150%	100%
The Hon. A G Catto	1,492,392						
	6,697,500*						
B W D Connolly	2,200						
Dato' Lee Hau Hian	44,763						
Dr J J C Jansz	10,000						
N A Johnson	100,000						
C A Johnstone	–						
H A Van Deursen							

Notes
* Non-beneficial interest.
1 Unvested performance related options comprise the awards made under the 2011 PSP in 2016, 2017 and 2018. Details of the performance conditions attaching to the 2016 awards are set out on page 84, 2017 awards are set out below, all 2018 awards are set out on page 85.
2 Until this requirement is met no sales of shares that vest under long-term incentive plans are permitted other than to satisfy tax liabilities that arise on the exercise of share awards under such plans. In addition, if the requirement is not met within three years of the date of appointment as a director, 50% of any annual bonus is normally deferred into shares. The Committee considers that unfettered unexercised vested nil cost awards are economically equivalent to shares and as such that they should count (on a net of tax basis) toward compliance with the share ownership guidelines. As a result of the 2018 remuneration outcomes S G Bennett is expected to meet his share ownership requirement during 2019.

The performance conditions attaching to the PSP awards granted in 2017 are as follows:

Relative total shareholder return condition	EPS condition	
Company relative TSR performance against the FTSE 250 Index (excluding investment trusts and financial services companies) over three year period ending 31 December 2019	EPS for the 2019 financial year	Percentage of award that vests
Upper quartile	37.7 pence or more	40%
Between median and upper quartile	Between 32.3 pence and 37.7 pence	On a straight-line basis between 10% and 40%
Median	32.3 pence	10%
Below median	Less than 32.3 pence	0%

A further 20% of the award is subject to strategic measures as referred to on page 79, the targets for which will be disclosed following the end of the performance period.

Payments to past directors
No payments were made to past directors.

Payments for loss of office
No payments for loss of office were made during the year.

The following information is unaudited:

Performance graph and table

The graph and the table below allow comparison of the total shareholder return of the Company and the Chief Executive Officer remuneration outcomes over the last ten years.

The graph above compares the total shareholder return performance of the Company with that of the FTSE 250 (excluding investment and financial services companies) which is considered to be the most appropriate index against which to make a comparison.

	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
CEO total single figure of remuneration (£000)	786	1,484	3,934	1,487	923	967	1,246	1,218	2,516	**1,923**
Bonus (% of maximum awarded)	100	100	100	27	0	57.3	96.7	100	100	**76.5**
LTIP (% of maximum vesting)	0	100	100	100	50	0	n/a	n/a	96.3	**86.2**

The Chief Executive Officer total single figure of remuneration includes salary, benefits and pension contributions paid in the year together with bonuses and long-term incentive awards which vested based on performance in the year.

Percentage change in remuneration of director undertaking the role of chief executive compared with UK Group employees

The table below sets out the increase in total remuneration of the Chief Executive Officer and that of the employees of the Group's main UK trading subsidiary. Total employee pay is based on the total salary, benefits and bonuses for employees of that company comprising some 370 employees. The directors consider that this employee population is the most relevant for comparison purposes taking into account geographical location and remuneration structure.

	Salary % increase	Taxable benefits % increase/(decrease)	Annual bonus % decrease
C G MacLean	0	0	(23.5)
Total employee pay, benefits and bonuses	4.3	(2.3)	(11.0)

Relative importance of spend on pay

The table below shows the relative importance of the Group's all employee remuneration expense compared with returns to shareholders by way of dividends.

	2018 £m	2017 £m	% change
Dividends	**42.5**	39.1	8.7%
Total employee remuneration	**123.1**	116.3	5.8%

Dividends are the dividends paid in the year. Total employment remuneration is the consolidated salary cost for all Group employees.

Emoluments*	**2018 £000**	2017 £000
The total amounts for directors' remuneration and other benefits were:		
Emoluments	**2,138**	2,415

Note:

* Emoluments are recognised on a pro-rata basis for the period they were Directors.

External appointments

Executive directors are permitted to accept external appointments with the prior approval of the Board provided that there is no adverse impact to their role and duties to the Company. Any fees arising from such appointments may be retained by the executive directors where the appointment is unrelated to the Group's business. SG Bennett does not currently hold any external appointments. CG MacLean was appointed as a non executive director of Saudi Basic Industries (SABIC) headquartered in Riyadh in October 2017 and receives a board membership fee of US$157,500 per annum and a committee fee of SAR 259,000 per annum. Mr MacLean was appointed as a non executive director of Clariant Ltd on 16 October 2018 following his nomination by SABIC under the terms of the governance agreement between Clariant and SABIC and receives a fee of CHF 280,000 per annum in aggregate for board and committee roles, in relation to Clariant Limited.

Remuneration Committee

Remuneration Committee membership since 1 January 2018:

Brendan Connolly	Chair
Just Jansz	
Caroline Johnstone	
Holly A. Van Deursen	*Appointed 1 March 2019*

Attendance at Committee meetings is set out on page 64.

Key duties of the Committee

During 2018 the Committee was responsible for determining, in agreement with the Board, the Company's policy on executive remuneration and the specific remuneration for the Chairman and each of the executive directors, including pension rights, within the terms of the agreed policy. The Committee was also responsible for reviewing the remuneration of senior executives throughout the Group. Following the coming into force of the 2018 Governance Code with effect from 1 January 2019 the Committee has agreed the expansion of its remit with the Board to include:

+ Formal responsibility for all senior management remuneration; and
+ The review of remuneration elsewhere in the Group.

Advisers

The Chief Executive Officer, Company Secretary, President - Global HR and Group HR Director are invited to attend Committee meetings to contribute to the Committee in its deliberations. However, no individual is involved in discussions, or is part of any decisions, relating to their own remuneration

The Committee received independent advice from Deloitte LLP (Deloitte) who were appointed as the Committee's independent remuneration advisers in April 2013.

During the year, Deloitte provided advice on governance and market trends and other remuneration matters that materially assisted the Committee. The fees paid to Deloitte in respect of this work were charged on a time and expenses basis and totalled £8,900 for advice in 2018. Deloitte also provided tax services to part of the Group in the year. The Committee was satisfied that this did not compromise the independence of the advice received.

Deloitte is a founding member of the Remuneration Consultants Group, and adheres to its code of conduct. Deloitte was appointed directly by the Committee, and the Committee is satisfied that the advice received was objective and independent.

Statement of voting at general meeting

The table below sets out the results of the votes on the Directors' remuneration at the 2018 AGM.

	Votes for		*Votes against*		*Votes withheld*
Member	Number	% of vote	Number	% of vote	Number
2017 Annual Report on Remuneration	*258,404,499*	*97*	*8,304,976*	*3*	*109,980*

By order of the Board

R Atkinson
Company Secretary
4 March 2019

Report of the Directors

The Directors submit their Annual Report and the audited consolidated financial statements for the year ended 31 December 2018. The Report of the Directors comprises pages 89 to 91 and the following sections of the Annual Report which are incorporated by reference:

Item	Location in Annual Report
Statement of Directors' responsibilities	Page 92
Financial instruments and financial risk management	Financial Statements – note 23
Present membership of the Board	Pages 60 to 61
Corporate Governance Report	Pages 62 to 66
Strategic Report (including principal activities and principal risks and uncertainties and Viability Statement)	Pages 2 to 57
Directors' Remuneration Report	Pages 73 to 88
Share capital	Financial Statements – note 28
Sustainability Report	Pages 44 to 57

Results and dividends

The profit attributable to shareholders for the year was £99.8m. The interim dividend of 4.0 pence per share was paid on 6 November 2018. The Directors recommend a final ordinary dividend of 9.1 pence per share payable on 5 July 2019 to those shareholders registered at the close of business on 7 June 2019. A dividend reinvestment plan is available to shareholders and this alternative will continue to be offered until further notice.

Acquisitions and Disposals

On 1 January 2018, the Group sold Synthomer Leuna GmbH, and on 28 June 2018 the Group disposed of 51% of its sales entities in Dubai. On 31 January 2018 the Group completed the purchase of the BASF Pischelsdorf SBR business and assets. Further details of these transactions are contained in notes 32 and 31 respectively to the consolidated financial statements.

Directors

All the Directors will retire and will be seeking election or re-election at the forthcoming Annual General Meeting.

None of the Directors seeking re-election has a service contract other than C G MacLean and S G Bennett who each have a service contract which contains a twelve month notice period.

Director indemnity provisions

Under the Company's Articles of Association, the Directors of the Company have the benefit of a qualifying third-party indemnity provision which provides that they shall be indemnified by the Company against certain liabilities as permitted by Sections 232 and 234 of the Companies Act 2006 and against costs incurred by them in relation to any liability for which they are indemnified. The Company has purchased and maintains insurance against directors' and officers' liabilities in relation to the Company.

Share capital and control

During 2018 no shares were issued or repurchased. A total of 160,756 shares were purchased on the open market on behalf of the shareholders who elected to participate in the dividend reinvestment plan.

The rights and obligations attaching to the Company's ordinary shares, being the only class of issued share capital, as well as the powers of the Company's directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House or can be downloaded from the Company's website. There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to the control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by special resolution of the Company's shareholders.

Other than in relation to its borrowings which, unless certain conditions are satisfied, become repayable on a takeover, the Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid. The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time

Major shareholdings

Other than the shareholdings disclosed as Directors' interests in the Directors' remuneration report as at 15 February 2019, the Company had been notified under Section 5 of the Disclosure and Transparency Rules of the UK Listing Authority of the following significant holdings of voting rights in its ordinary shares:

	Ordinary shares (number)	Percentage of ordinary shares in issue	Nature of holding
Kuala Lumpur Kepong Berhad Group	66,879,401	19.68	Direct interest
Merian Global Investors (UK) Limited	25,096,134	7.38	Indirect interest
Standard Life Aberdeen plc	19,659,714	5.78	Indirect interest
Kames Capital Plc	13,403,772	3.94	Direct and indirect interest

Employment policies and employee involvement

The Group gives every consideration to applications for employment from disabled persons. Employees who become disabled are given every opportunity to continue employment under normal terms and conditions with appropriate training, career development and promotion wherever possible. The Group seeks to achieve equal opportunities in employment through recruitment and training policies.

The Group encourages employee involvement in its affairs and makes use of an intranet system to promote such involvement and to aid communication with employees. Regional management conferences are held annually to bring senior management together to share ideas and develop policy, values and behaviours. Dialogue takes place regularly with employees to make them aware of the financial and economic factors affecting the performance of the Group. Performance related bonus schemes are in operation throughout the Group.

Authority to purchase own shares

The Company has a general authority, which expires at the conclusion of the 2019 Annual General Meeting, to make market purchases of not more than 33,988,076 of the Company's ordinary shares in accordance with the terms of the special resolution passed at the 2018 Annual General Meeting. A resolution will be tabled at the 2019 Annual General Meeting to renew this authority.

Political donations

No political donations were made in the year.

UK pension funds

The Trustees have reviewed the independent investment management of the assets of the Company pension schemes in the UK and assured themselves of the security and controls in place. In particular, it is the Trustees' policy not to invest in Synthomer plc shares nor lend money to the Company.

Subsidiaries

All the Group's subsidiaries, joint ventures and related undertakings are listed on page 154 to 156.

Statement as to disclosure of information to auditor

Each Director of the Company confirms that, so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware and that he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. For these purposes, relevant audit information means information needed by the Company's auditor in connection with preparing their report on pages 93 to 99.

This confirmation is given and should be interpreted in accordance with Section 418 of the Companies Act 2006.

Going concern

The directors have acknowledged the latest guidance on going concern and in reaching their conclusions have taken into account factors which include the refinancing in July 2016 of the Group's main borrowing facilities comprising a committed unsecured four-year revolving credit facility of €440 million. After making enquiries and taking account of reasonably possible changes in trading performance, the directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of both the Group and the Company.

Cautionary statement

The purpose of this report is to provide information to the members of the Company. It contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this report and the Company undertakes no obligation to update these forward-looking statements. Nothing in this report should be construed as a profit forecast.

Independent auditors

A resolution to appoint PricewaterhouseCoopers LLP as the Company's auditor will be proposed at the Annual General Meeting.

Annual General Meeting

The Annual General Meeting will be held at the offices of Canaccord Genuity Limited, 88 Wood Street, London EC2V 7QR on 25 April 2019 at 10.00am.

By order of the Board

R Atkinson
Company Secretary
4 March 2019

Statement of directors' responsibilities

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law). 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

+ select suitable accounting policies and then apply them consistently;
+ state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
+ make judgements and accounting estimates that are reasonable and prudent; and
+ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Report of the Directors confirm that, to the best of their knowledge

+ the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework, and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
+ the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
+ the Report of the Directors includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

C G MacLean
Chief Executive Officer

S G Bennett
Chief Financial Officer

Independent auditors' report
to the members of Synthomer plc

Report on the audit of the financial statements

Opinion

In our opinion:

+ Synthomer plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's profit and cash flows for the year then ended;
+ the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
+ the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
+ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheet as at 31 December 2018; the consolidated income statement and consolidated statement of comprehensive income, the consolidated cash flow statement, and the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2018 to 31 December 2018.

Independent auditors' report continued
to the members of Synthomer plc

Our audit approach
Overview

+ Overall group materiality £6.75 million (2017 £6.5 million), based on 5% of underlying profit before taxation.
+ Overall company materiality: £5.5 million (2017: £5.0 million), based on 2% of total assets.

+ Audit procedures provide coverage of 86% of revenue, 87% of operating profit and 90% of underlying operating profit.
+ Audit scope covers nine countries, performing procedures over 14 entities
+ Financially significant components in the UK, Germany and Malaysia

+ Valuation of Defined Benefit Pension Schemes.
+ Accounting for the acquisition of Pischelsdorf.
+ Provisions for Uncertain Tax Positions.

The scope of our audit
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain

Capability of the audit in detecting irregularities, including fraud
Based on our understanding of the group/industry, we identified that the principal risks of non compliance with laws and regulations related to breaches of environmental, health and safety and compliance regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the *Companies Act 2006, the Listing Rules, Pensions legislation, UK tax legislation, UK environmental regulations and* the EU registration, evaluation, authorisation and restriction of chemicals regulations and equivalent local laws and regulations applicable to significant component teams. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors referred to in the scoping section of our report below, so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

+ Discussions with management and internal audit, including consideration of known or suspected instances of non compliance with laws and regulation and fraud;
+ Evaluation of management's controls designed to prevent and detect irregularities;
+ Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to uncertain tax provisions and accounting for the acquisition of Pischelsdorf (see related key audit matters below);
+ Identifying and testing journal entries, *in particular any journal entries posted with unusual account combinations or posted by* senior management

There are inherent limitations in the audit procedures described above and the further removed non compliance with laws and regulations *is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.* Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of Defined Benefit Pension Schemes As set out in Note 26 on page 133 the Group has significant defined benefit pension schemes. These primarily represent the Yule Catto Group retirement benefits scheme in the UK and an unfunded scheme in Germany, which account for £53.2 million and £69.1 million, respectively, of the net pension deficit of £132.5 million recorded on the Group balance sheet at the year end. We focused on the pension liabilities in particular, as the amounts reflected in the financial statements for defined benefits schemes are sensitive to relatively small changes in a few key assumptions such as the inflation rate, mortality tables and most notably, the discount rate applied. The Group uses third party actuaries to calculate the amounts to reflect in the financial statements in respect of these schemes and it is accordingly important for us to assess the work they perform and their competency to undertake the work in order to conclude on the results of their work.	We obtained external actuarial reports of the UK and German schemes which set out the calculations and assumptions underpinning the year end pension scheme valuation. We read these reports and were satisfied that the scope of their work was such that we could use this work to provide evidence for the purpose of our audit. We assessed the competency and objectivity of the external actuaries commissioned by the Group to perform the year end calculations by considering their technical expertise and independence from the Group. We identified no concerns over their competency or objectivity. We used our own specialist actuarial knowledge to evaluate all the key assumptions used in each of the two schemes by comparing these assumptions to our expectations for similar schemes as at the year end. We found management's assumptions to be within an acceptable range.
Accounting for the acquisition of Pischelsdorf On 31 January 2018 the Group completed the acquisition of the BASF Pischelsdorf Styrene Butadiene Rubber business (Pischelsdorf) for consideration of £25.8 million, as described in note 31. IFRS 3 "Business Combinations" ("IFRS 3") requires that all assets and liabilities acquired in the business combination are recorded at fair values on acquisition. Judgement is required in identifying and valuing all the assets and liabilities acquired, in particular intangible assets which are recognised on acquisition. Intangible assets totalling £17.6 million were identified relating to customer relationships, a licensing agreement and a beneficial lease. The key judgements were in determining an appropriate methodology to value these assets and appropriate assumptions, including forecast revenue and profit, discount rate and rates of obsolescence to determine their fair values.	We evaluated the process used by management to identify and value the assets and liabilities acquired. We assessed the assets and liabilities acquired and the fair value adjustments applied. The fair value adjustments were considered appropriate. We considered the Directors' process for identifying the intangible assets acquired, considering the rationale for the acquisition and the nature of the Pischelsdorf business. Using our valuation specialists, we assessed the valuation methodology used by the Directors in valuing the identified assets. We evaluated the forecasts and data used and the key assumptions made. We were satisfied that the fair values of the intangible assets were supportable, and that the assumptions used in valuing the assets were within an acceptable range.
Provisions for Uncertain Tax Positions The Group has a wide geographic footprint and is subject to a range of tax laws in a number of different tax jurisdictions. In determining the amount to record at the year end for tax liabilities there is an element of judgement as to what amounts will ultimately be payable for assessed tax exposures. As set out in Note 10 at 31 December 2018, the Group has recorded current tax liabilities totalling £38.3 million. A significant element of this tax liability relates to uncertain tax positions. We focused on this area due to the size of the amounts involved and level of judgement needed to determine the estimated provisions.	We used our tax specialists to assess the level of provisions held against various tax exposures and to consider the appropriateness of any provisions. In our assessment we had regard to the nature of the individual exposures, including their origin, and any developments in the year to assess the rationale for their continued validity at the current year end. As part of this work we inspected correspondence with tax authorities and the Group's tax advisors. We challenged the judgements made by assessing individual provisions against our expectations of potential exposures, having regard to the facts of each case. No significant issues arose from this work to suggest that the judgements made and amounts recorded were inappropriate.

We determined that there were no key audit matters applicable to the company to communicate in our report.

Independent auditors' report continued to the members of Synthomer plc

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

As set out on the inside front cover the Group reports its results as two segments: 'Europe and North America' and 'Asia and the Rest of the World'. The Group financial statements are a consolidation of reporting units, being holding companies, intermediate holding companies and operating companies, across 21 countries. Three countries, being the UK, Germany and Malaysia, account for the majority for the Group's results. We accordingly focused our work on three of the reporting units in these countries, which were subject to audits of their complete financial information. In addition, to increase our coverage of the Group's revenues and underlying profit before tax we performed audit procedures at an additional 11 reporting units located in the UK, Italy, Belgium, Germany, Malaysia, America, Finland, Austria and the Czech Republic. These components accounted for 86% of the Group's revenue, 87% of the Group's operating profit and 90% of the Group's underlying operating profit.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. The key reporting units in the UK, Germany and Malaysia were visited by senior members of the Group team during the audit.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£6.75 million (2017: £6.5 million).	£5.5 million (2017: £5.0 million).
How we determined it	5% of underlying profit before taxation.	2% of total assets.
Rationale for benchmark applied	We believe that underlying profit before tax, being profit before tax adjusted for special items, is the principal metric against which the Group's financial performance is measured in the Chairman's and CEO's statements within the Annual Report.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the company, and is a generally accepted benchmark. This has been capped at a level below that of the group materiality.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £450,000 and £5.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £337,000 (Group audit) (2017: £325,000) and £337,000 (Company audit) (2017: £325,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. As not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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Independent auditors' report continued
to the members of Synthomer plc

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

+ The directors' confirmation on page 70 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
+ The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
+ The directors' explanation on page 37 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the group and statement in relation to the longer-term viability of the group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the group and company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

+ The statement given by the directors, on page 92, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
+ The section of the Annual Report on page 69 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
+ The directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. *(CA06)*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 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 company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
+ certain disclosures of directors' remuneration specified by law are not made; or
+ the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 12 July 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2012 to 31 December 2018.

Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2019

Group financial statements

Consolidated income statement
for the year ended 31 December 2018

		2018			2017		
	Note	**Underlying performance £m**	**Special Items £m**	**IFRS £m**	Underlying performance £m	Special Items £m	IFRS £m
Continuing operations							
Revenue		**1,618.9**	**–**	**1,618.9**	1,480.2		1,480.2
Company and subsidiaries before Special Items		**141.7**	**–**	**141.7**	138.0	–	138.0
Restructuring and site closure	3	**–**	**(12.2)**	**(12.2)**	–	(11.6)	(11.6)
Sale of business	3	**–**	**3.8**	**3.8**			–
Sale of land	3	**–**	**16.4**	**16.4**	–	1.3	1.3
Acquisition costs	3	**–**	**(0.5)**	**(0.5)**		(2.3)	(2.3)
Amortisation of acquired intangibles	3	**–**	**(16.4)**	**(16.4)**	–	(31.0)	(31.0)
Aborted bond costs	3	**–**	**(1.7)**	**(1.7)**	–		–
UK Guaranteed Minimum Pension equalisation	3	**–**	**(2.8)**	**(2.8)**		–	
Company and subsidiaries		**141.7**	**(13.4)**	**128.3**	138.0	(43.6)	94.4
Share of joint ventures	19	**0.4**	**–**	**0.4**	1.0		1.0
Operating profit/(loss)	7	**142.1**	**(13.4)**	**128.7**	139.0	(43.6)	95.4
Interest payable	9	**(4.9)**	**–**	**(4.9)**	(5.7)	–	(5.7)
Interest receivable	9	**1.1**	**–**	**1.1**	1.0		1.0
Fair value of unhedged interest derivatives	3	**–**	**(1.4)**	**(1.4)**		–	–
		(3.8)	**(1.4)**	**(5.2)**	(4.7)	–	(4.7)
IAS 19 interest charge	9	**(3.2)**	**–**	**(3.2)**	(4.3)		(4.3)
Finance costs		**(7.0)**	**(1.4)**	**(8.4)**	(9.0)	–	(9.0)
Profit/(loss) before taxation		**135.1**	**(14.8)**	**120.3**	130.0	(43.6)	86.4
Taxation	10	**(23.0)**	**6.0**	**(17.0)**	(24.7)	13.1	(11.6)
Profit/(loss) for the year		**112.1**	**(8.8)**	**103.3**	105.3	(30.5)	74.8
Profit attributable to non-controlling interests		**0.5**	**3.0**	**3.5**	0.8		0.8
Profit/(loss) attributable to equity holders of the parent		**111.6**	**(11.8)**	**99.8**	104.5	(30.5)	74.0
		112.1	**(8.8)**	**103.3**	105.3	(30.5)	74.8
Earnings/(loss) per share							
– Basic	13	**32.8p**	**(3.4)p**	**29.4p**	30.7p	(8.9)p	21.8p
– Diluted	13	**32.7p**	**(3.5)p**	**29.2p**	30.5p	(8.9)p	21.6p

Consolidated statement of comprehensive income
for the year ended 31 December 2018

		2018			2017		
	Note	**Equity holders of the parent £m**	**Non-controlling interests £m**	**Total £m**	Equity holders of the parent £m	Non-controlling interests £m	Total £m
Profit for the year		**99.8**	**3.5**	**103.3**	74.0	0.8	74.8
Actuarial gains	26	**15.5**	**–**	**15.5**	23.6		23.6
Tax relating to components of other comprehensive income	10	**(2.3)**	**–**	**(2.3)**	2.3	–	2.3
Total items that will not be reclassified to profit or loss		**13.2**	**–**	**13.2**	25.9	–	25.9
Exchange differences on translation of foreign operations		**16.9**	**0.8**	**17.7**	9.2		9.2
Exchange differences recycled on sale of business		**(0.4)**	**–**	**(0.4)**		–	
Fair value of hedged interest derivatives		**(3.9)**	**–**	**(3.9)**			
Losses on a hedge of a net investment taken to equity		**(3.2)**	**–**	**(3.2)**	(7.8)		(7.8)
Total items that may be reclassified subsequently to profit or loss		**9.4**	**0.8**	**10.2**	1.4		1.4
Other comprehensive income for the year		**22.6**	**0.8**	**23.4**	27.3		27.3
Total comprehensive income for the year		**122.4**	**4.3**	**126.7**	101.3	0.8	102.1

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedging and translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2018		**34.0**	**230.5**	**0.9**	**(3.0)**	**125.5**	**387.9**	**18.3**	**406.2**
Profit for the year		–	–	–	–	**99.8**	**99.8**	**3.5**	**103.3**
Actuarial gains	26	–	–	–	–	**15.5**	**15.5**	–	**15.5**
Exchange differences on translation of foreign operations		–	–	–	**16.9**	–	**16.9**	**0.8**	**17.7**
Exchange differences recycled on sale of business		–	–	–	**(0.4)**	–	**(0.4)**	–	**(0.4)**
Fair value of hedged interest derivatives		–	–	–	**(3.9)**	–	**(3.9)**	–	**(3.9)**
Loss on a hedge of a net investment taken to equity		–	–	–	**(3.2)**	–	**(3.2)**	–	**(3.2)**
Tax relating to components of other comprehensive income	10	–	–	–	–	**(2.3)**	**(2.3)**	–	**(2.3)**
Total comprehensive income for the year		–	–	–	**9.4**	**113.0**	**122.4**	**4.3**	**126.7**
Dividends paid to shareholders	12	–	–	–	–	**(42.5)**	**(42.5)**	–	**(42.5)**
Dividends paid to non controlling interests		–	–	–	–	–	–	**(1.5)**	**(1.5)**
Share-based payments		–	–	–	–	**(3.9)**	**(3.9)**	–	**(3.9)**
At 31 December 2018		**34.0**	**230.5**	**0.9**	**6.4**	**192.1**	**463.9**	**21.1**	**485.0**

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedging and translation reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2017		34.0	230.5	0.9	(4.4)	65.2	326.2	18.0	344.2
Profit for the year			–	–		74.0	74.0	0.8	74.8
Actuarial gains	26	–		–		23.6	23.6		23.6
Exchange differences on translation of foreign operations		–		–	9.2	–	9.2		9.2
Loss on a hedge of a net investment taken to equity			–		(7.8)	–	(7.8)	–	(7.8)
Tax relating to components of other comprehensive income	10		–		–	2.3	2.3	–	2.3
Total comprehensive income for the year			–		1.4	99.9	101.3	0.8	102.1
Dividends paid to shareholders	12		–			(39.1)	(39.1)	–	(39.1)
Dividends paid to non controlling interests			–		–			(0.5)	(0.5)
Share-based payments		–	–	–	–	(0.5)	(0.5)	–	(0.5)
At 31 December 2017		34.0	230.5	0.9	(3.0)	125.5	387.9	18.3	406.2

Group financial statements

Consolidated balance sheet
as at 31 December 2018

	Note	2018 £m	2017 £m
Non-current assets			
Goodwill	15	**336.5**	329.1
Acquired intangible assets	16	**69.1**	66.2
Other intangible assets	17	**5.1**	1.9
Property, plant and equipment	18	**370.0**	322.1
Deferred tax assets	11	**23.4**	23.3
Investment in joint ventures	19	**8.6**	7.5
Total non-current assets		**812.7**	750.1
Current assets			
Inventories	20	**141.9**	125.1
Trade and other receivables	21	**232.9**	229.1
Cash and cash equivalents	22	**96.9**	89.6
Total current assets		**471.7**	443.8
Assets classified as held for sale	24	**-**	6.8
Total assets		**1,284.4**	1,200.7
Current liabilities			
Borrowings	22	**(70.1)**	(73.1)
Trade and other payables	25	**(263.2)**	(279.3)
Current tax liability	10	**(38.3)**	(40.2)
Provisions for other liabilities and charges	27	**(9.4)**	(2.4)
Derivatives at fair value	23	**(5.3)**	-
Total current liabilities		**(386.3)**	(395.0)
Non-current liabilities			
Borrowings	22	**(240.8)**	(197.0)
Trade and other payables	25	**(0.7)**	(2.3)
Deferred tax liability	11	**(34.3)**	(35.4)
Post retirement benefit obligations	26	**(132.5)**	(157.2)
Provisions for other liabilities and charges	27	**(4.8)**	(7.6)
Total non-current liabilities		**(413.1)**	(399.5)
Net assets		**485.0**	406.2
Equity			
Called up share capital	28	**34.0**	34.0
Share premium		**230.5**	230.5
Capital redemption reserve		**0.9**	0.9
Hedging and translation reserve		**6.4**	(3.0)
Retained earnings		**192.1**	125.5
Equity attributable to equity holders of the parent		**463.9**	387.9
Non-controlling interests		**21.1**	18.3
Total equity		**485.0**	406.2

The financial statements on pages 100 to 144 were approved by the Board of Directors and authorised for issue on 4 March 2019. They are signed on its behalf by:

C G MacLean
Director

S G Bennett
Director

Consolidated cash flow statement
for the year ended 31 December 2018

	Note	2018 £m	2018 £m	2017 £m	2017 £m
Operating					
Cash generated from operations	29		**124.9**		162.6
Interest received		**1.1**		1.0	
Interest paid		**(5.6)**		(5.8)	
Net interest paid			**(4.5)**		(4.8)
UK corporation tax paid		**–**		-	
Overseas corporate tax paid		**(23.0)**		(26.1)	
Total tax paid			**(23.0)**		(26.1)
Net cash inflow from operating activities			**97.4**		131.7
Investing					
Dividends received from joint ventures	19		**1.1**		2.0
Purchase of property, plant and equipment		**(75.7)**		(60.3)	
Sale of property, plant and equipment		**17.5**		2.2	
Net capital expenditure			**(58.2)**		(58.1)
Purchase of business	31		**(25.8)**		(64.1)
Proceeds from sale of business	32		**3.7**		7.6
Net cash outflow from investing activities			**(79.2)**		(112.6)
Financing					
Ordinary dividends paid	12		**(42.5)**		(39.1)
Dividends paid to non controlling interests			**(1.5)**		(0.5)
Settlement of equity settled share-based payments			**(5.4)**		(3.1)
Repayment of borrowings	30		**(63.5)**		(102.0)
Proceeds of borrowings	30		**103.9**		136.3
Net cash outflow from financing activities			**(9.0)**		(8.4)
Increase in cash, cash equivalents and bank overdrafts during the year			**9.2**		10.7
Cash, cash equivalents and bank overdrafts at 1 January	30		**65.4**		52.0
Cash (outflows)/inflows					
Cash and cash equivalents	30	**5.6**		(28.5)	
Bank overdrafts	30	**3.6**		39.2	
			9.2		10.7
Foreign exchange and other movements	30		**1.6**		2.7
Cash, cash equivalents and bank overdrafts at 31 December	30		**76.2**		65.4

Reconciliation of net cash flow from operating activities to movement in net borrowings

	Note	2018 £m	2017 £m
Net cash inflow from operating activities		**97.4**	131.7
Add back: dividends received from joint ventures	19	**1.1**	2.0
Less: net capital expenditure		**(58.2)**	(58.1)
Less: net purchase of business		**(22.1)**	(56.5)
		18.2	19.1
Ordinary dividends paid	12	**(42.5)**	(39.1)
Dividends paid to non controlling interests		**(1.5)**	(0.5)
Settlement of equity-settled share based payments		**(5.4)**	(3.1)
Foreign exchange and other movements	30	**(2.3)**	(6.6)
Increase in net borrowings	30	**(33.5)**	(30.2)

Notes to the consolidated financial statements
31 December 2018

1 General information
Synthomer plc is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act. The address of the registered office is given on page 160. The Company is listed on the London Stock Exchange

The consolidated financial statements are prepared in pounds sterling (functional currency of the parent company). Foreign operations are included in accordance with the policies set out in note 2.

New and amended standards adopted by the Group
The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2018.

IFRS 9 Financial Instruments
IFRS 9 replaced IAS 39 Financial Instruments: Recognition and Measurement. It addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. This standard is mandatory for financial years commencing on or after 1 January 2018.

The adoption of IFRS 9 did not have a material impact on the amounts recognised in the current period or the prior period and it is not expected to significantly impact future periods. The Group has chosen to continue to apply the hedge accounting requirements of IAS 39 as permitted by the standard.

IFRS 15 Revenue from Contracts with Customers
The IASB issued a new standard for the recognition of revenue which is mandatory for financial years commencing on or after 1 January 2018. This replaced IAS 18 which covered contracts for goods and services and IAS 11 which covered construction contracts. The new standard is based on the principle that revenue is recognised when performance obligations are met and control of goods or services transfers to a customer. The standard applies a five step approach to the timing of revenue recognition.

The adoption of IFRS 15 did not have a material impact on the amounts recognised in the current period or the prior period and it is not expected to significantly impact future periods.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2018 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

IFRS 16 Leases
IFRS 16 was issued in January 2016. For lessees, it will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short term and low value leases. This standard is mandatory for financial years commencing on or after 1 January 2019.

The standard will primarily affect the accounting for the Group's operating leases, and the Group has undertaken a review to identify all leases in each entity. As at the reporting date, the Group has non-cancellable operating lease commitments of £30.4m (see note 34). Work has now been carried out to determine the financial impact on adoption of this accounting standard as at 1 January 2019. Using the modified retrospective method of adoption the Group expects to recognise right-of-use assets and corresponding lease liabilities of approximately £43m. The approximate impact will be an increase to EBITDA of £7m, an increase to depreciation of £6m and an increase to interest payable to give a nil impact on profit before taxation in the year ending 31 December 2019.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions

2 Significant accounting policies
Basis of accounting
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments at fair value through the Income Statement. As discussed in the Report of the Directors on page 91, the financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below and have been consistently applied to all the years presented, unless otherwise stated

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

The results of joint ventures are accounted for using equity accounting.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non controlling interest's share of changes in equity since the date of combination.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed.

Should the fair value of the identifiable assets exceed the cost of acquisition, a "Bargain purchase", the excess is credited to the income statement immediately on acquisition.

For the purpose of impairment testing goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

Should the fair value of the identifiable assets exceed the cost of acquisition, the excess is credited to the income statement immediately on acquisition.

On disposal of a subsidiary, associate or joint venture, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Business combinations
Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of completion) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired entity. Acquisition-related costs are recognised in the profit or loss as incurred

The identifiable assets, liabilities and contingent liabilities of the acquired entity that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

+ deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes;
+ liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 19 Employee Benefits, and
+ assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held investment is re-measured to fair value at the acquisition date; any gains or losses from such re-measurement are recognised in the income statement.

Notes to the consolidated financial statements continued
31 December 2018

2 Significant accounting policies continued

Acquired intangible assets
Intangible assets acquired through acquisition are measured at their fair value and are amortised on a straight line basis over their estimated useful lives, on the following bases:

Customer relationships	between 5 and 15 years
Other intangibles	- up to 10 years

Assets with an indefinite life are not subject to amortisation.

Where necessary the fair value at acquisition and estimated useful lives for these intangible assets are based on independent valuation reports.

Other intangible assets
Other intangible assets that are not acquired through a business combination are initially measured at cost and amortised on a straight-line basis over their estimated useful lives of between 3 and 5 years.

An internally generated intangible asset arising from the Group's product development is recognised only if all of the following conditions in IAS 38 are met:

+ an asset is created that can be separately identified (such as software and new processes)
+ it is technically feasible to complete the asset;
+ management intends to complete the development;
+ there is an ability to use or sell the asset once development has been completed:
+ it is probable that the asset created will generate future economic benefits;
+ adequate technical, financial and other resources to complete the development are available; and
+ the development cost of the asset can be measured reliably.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Property, plant and equipment
Property, plant and equipment is stated at cost, net of accumulated depreciation and any provision for impairment. Cost comprises original purchase price and the costs attributable to bringing the asset to its working condition for its intended use, including, where appropriate, capitalised finance costs. Except for freehold land, which is not depreciated, the cost of property, plant and equipment is depreciated on a straight line basis over its expected useful life as follows.

Freehold buildings	- 50 years
Leasehold land and buildings	the lesser of 50 years and the period of the lease
Plant and equipment	- between 3 and 10 years

Assets in the course of construction are not depreciated until the assets are ready for their intended use.

Impairment of property, plant and equipment and intangible assets excluding goodwill
At each balance sheet date, the Group reviews the carrying amounts of its plant, property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

The recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the income statement.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

Joint ventures
Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income.

Leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as the lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables
Trade receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. They are generally short term in nature and are therefore classified as current assets and their fair value recognised at the consideration due. The carrying value of trade receivables are considered to be the same as their fair values, due to their short-term nature. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement based on expected losses

All trade receivables that are factored by third parties are done so on a non recourse basis. At the point of factoring, the Group forfeits the right to future cash flows from these receivables and those amounts are derecognised. The cost of factoring receivables is recognised as a finance cost in the period in which the receivable is factored.

Amortised bank borrowings
Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables
Trade payables are generally short-term in nature and are therefore classified as current liabilities. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method. The carrying value of trade payables are considered to be the same as their fair values, due to their short-term nature.

Impairment of financial assets
At each balance sheet date, the Group reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any)

Finance costs
Finance costs of debt are recognised in the income statement over the term of such instruments at an effective interest rate on the carrying amount. Finance costs that are directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets in accordance with IAS 23.

Notes to the consolidated financial statements continued
31 December 2018

2 Significant accounting policies continued

Foreign currencies
In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the relevant average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as sterling-denominated assets and liabilities.

Derivative financial instruments
The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives, as set out in note 23.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and foreign currency options.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

Hedge accounting
The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non derivatives in respect of *foreign currency risk as fair value hedges, cash flow hedges or hedges of net investments in foreign operations*

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. The Group only applies fair value hedge accounting for foreign currency exposure associated with the underlying hedged item. The gain or loss relating to the ineffective portion is also recognised in the income statement.

Cash flow hedges
At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled in the income statement 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 or a non financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non financial asset or non financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks which become fully liquid within three months or less and other short-term highly liquid investments with original maturities of three months or less.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Retirement benefit costs

Current and past service costs in respect of the Group's defined benefit pension schemes are charged to the consolidated income statement. Payments to defined contribution retirement benefit schemes are charged to the income statement as they fall due. Actuarial gains on the defined benefit schemes are recognised in full in each period in which they occur. They are recognised outside of the consolidated income statement and are presented in the consolidated statement of comprehensive income

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The UK defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds. For the German schemes, the assets are included within the assets of the respective companies, as permitted under local laws. The assets of the other overseas schemes are held separately from those of the Group.

Notes to the consolidated financial statements continued
31 December 2018

2 Significant accounting policies continued

Provisions

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business net of discounts, VAT and other sales related taxes.

Revenue is recognised under the provisions of IFRS 15 when performance obligations are met and control of the goods passes to the customer.

Share-based payments

The Group has applied the requirements of IFRS 2 Share based Payments.

The Group issues equity settled share based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity settled share based payments is expensed on a straight line basis over the vesting period. The Group will on occasion, at its own discretion, settle the share based payments in cash rather than equity

Definitions

Operating profit

Operating profit represents profit from continuing activities before financing costs and taxation.

EBITDA

EBITDA is calculated as operating profit before depreciation, amortisation and Special Items (as defined below).

Special Items

The following are disclosed separately as Special Items in order to provide a clearer indication of the Group's underlying performance:

+ Re structuring and site closure costs;
+ Sale of a business or significant asset;
+ Acquisition costs;
+ Amortisation of acquired intangible assets;
+ Impairment of non current assets;
+ Fair value adjustment mark to market adjustments in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied;
+ Items of income and expense that are considered material, either by their size and/or nature;
+ Tax impact of above items; and
+ Settlement of prior period tax issues.

These Special Items are either irregular and therefore including them in the assessment of a segment's performance would lead to a distortion of trends or are technical adjustments which ensure the Group's financial statements are in compliance with IFRS but do not reflect the operating performance of the segment in the year.

Underlying performance

Underlying performance represents the statutory performance of the Group under IFRS, excluding Special Items.

Net cash/(borrowings)

Net cash/(borrowings) represents cash and cash equivalents less short and long term borrowings, as adjusted for the effect of related derivative instruments, irrespective of whether they qualify for hedge accounting, non recourse factoring arrangements and the inclusion of financial assets.

Critical accounting judgements and estimates

The following provides information on those policies that management considers critical because of the level of judgement and estimation required which often involves assumptions regarding future events which can vary from what is anticipated. The directors believe that the financial statements reflect appropriate judgements and estimates and provide a true and fair view of Synthomer's performance and financial position

Valuation of goodwill and intangibles on acquisition

Acquired intangibles IFRS 3 (revised) "Business Combinations" requires that goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 (revised) also requires the identification of other intangible assets at acquisition. The assumptions involved in valuing these intangible assets require the use of estimates and judgements, that may differ from the actual outcome. These estimates and judgements cover future growth rates, expected inflation rates and the discount rate used. Changing the assumptions selected by management could significantly affect the allocation of the purchase price paid between goodwill and other acquired intangibles)

Post retirement benefit obligations

Included in the actuaries' calculation of the post retirement benefit obligations are a number of assumptions. Any changes in these assumptions will impact the carrying value of the obligations. These are shown in detail in note 26.

Current tax liability and deferred tax

The Group annually incurs significant amounts of income taxes payable to various jurisdictions around the world and it also recognises significant changes in deferred tax assets and deferred tax liabilities, all of which are based on management's interpretations of applicable laws, regulations and relevant court decisions. The quality of these estimates is highly dependent upon management's ability to properly apply what can be very complex sets of rules and to recognise changes in applicable rules.

3 Special Items

The Special Items are made up as follows:

	Note	2018 £m	2017 £m
Continuing operations			
Restructuring and site closure		**(12.2)**	(11.6)
Sale of business		**3.8**	-
Sale of land	24	**16.4**	1.3
Acquisition costs	31	**(0.5)**	(2.3)
Amortisation of acquired intangibles	16	**(16.4)**	(31.0)
Aborted bond costs		**(1.7)**	-
UK Guaranteed Minimum Pension equalisation		**(2.8)**	
Operating loss		**(13.4)**	(43.6)
Finance costs			
Fair value of unhedged interest derivatives	9	**(1.4)**	-
Loss before taxation from continuing operations		**(14.8)**	(43.6)
Taxation	10	**6.0**	13.1
Loss for the year from continuing operations		**(8.8)**	(30.5)

Restructuring and site closure relates to the natural rubber and polyester resins production lines, in Kluang (Malaysia), which closed in Q4 2018, and an increase in the onerous lease and related provisions for the Ossett site due to a change in circumstance relating to the subletting of the site. In 2017, it primarily related to the rationalisation of the Ribécourt (France) site and the initial onerous lease provision for the Ossett site.

Sale of business relates to the disposal of the Leuna (Germany) site and the disposal of 51% of our sales entities in Dubai

Sale of land in 2018 relates to the disposal of the final tranche of Malaysian land at Kluang. The profit on sale of land in 2017 related to a disposal of land in Hapton (UK).

Acquisition costs were incurred in relation to BASF Pischelsdorf (2017: BASF Pischelsdorf and Speciality Additives) and for other potential acquisitions which will not occur or had not occurred before the balance sheet date.

Amortisation of acquired intangibles decreased significantly during 2018 due to the full amortisation during the year of the PolymerLatex customer relationships acquired during 2011. The amortisation includes £1.4m in respect of intangibles relating to the acquisition of BASF Pischelsdorf in 2018.

Ahead of the Group refinancing during the year, a process was undertaken to issue fixed rate unsecured senior notes. Despite a strong response from investors, the Group decided not to complete the transaction due to unfavourable market conditions. The costs of this process are not reflective of Underlying performance.

Following a UK High Court ruling during the year in relation to the equalisation of male and female Guaranteed Minimum Pensions (GMP) a pension plan amendment is deemed to have occurred. The actuarial estimate of this irregular cost was £2.8m.

As part of the Group refinancing in July 2018 we entered into swap arrangements to fix interest rates on the full value of the €440m committed, unsecured revolving credit facility. The fair value of the unhedged derivatives relates to the mark to market of the swap at 31 December 2018 in excess of the current borrowings of the Group and has been taken through Special Items as it is not reflective of the Underlying performance.

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4 Segmental analysis
The Group's Executive Committee, chaired by the Chief Executive Officer, examines the Group's performance and has identified two reportable segments of its business:

Europe and North America (ENA)
These markets are well developed and are typically growing in line with GDP.

Asia and Rest of the World (ARW)
These markets are characterised by growing at rates generally above GDP coupled with an increased penetration of more sophisticated products into wider uses.

The Executive Committee primarily uses a measure of earnings before interest, tax, depreciation and amortisation (EBITDA) to assess the performance of the operating segments. No information is provided to the Committee at the segment level concerning interest income, interest expenses, income taxes or other material non-cash items.

No single customer accounts for more than 10% of the Group's revenues.

Analysis by activity – Revenue

	2018 £m	2017 £m
Europe & North America	**1,228.4**	1,134.9
Asia & Rest of the World	**390.5**	345.3
	1,618.9	1,480.2

Analysis by activity – Operating Profit

	2018			2017		
	Subsidiaries £m	**Share of joint ventures £m**	**Total £m**	Subsidiaries £m	Share of joint ventures £m	Total £m
Europe & North America	**91.8**	**–**	**91.8**	77.5	–	77.5
Asia & Rest of the World	**54.5**	**0.4**	**54.9**	30.2	1.0	31.2
Reported segment operating profit	**146.3**	**0.4**	**146.7**	107.7	1.0	108.7
Unallocated corporate expenses	**(18.0)**	**–**	**(18.0)**	(13.3)	–	(13.3)
Operating profit	**128.3**	**0.4**	**128.7**	94.4	1.0	95.4

Analysis by activity

	Note	2018 Total assets £m	Total liabilities £m	Capital expenditure £m	Depreciation and amortisation £m	Amortisation acquired intangibles £m
Subsidiaries						
Europe & North America		**516.6**	**(189.6)**	**61.0**	**24.6**	**12.6**
Asia & Rest of the World		**226.2**	**(78.4)**	**16.3**	**14.0**	**3.8**
		742.8	**(268.0)**	**77.3**	**38.6**	**16.4**
Unallocated assets and liabilities		**7.1**	**(15.4)**	**–**	**0.3**	**–**
		749.9	**(283.4)**	**77.3**	**38.9**	**16.4**
Share of joint ventures	19	**14.0**	**(5.4)**			
Goodwill	15	**336.5**	**–**			
Acquired intangibles and related deferred tax	16	**69.1**	**(13.4)**			
Current and deferred taxation		**23.4**	**(59.2)**			
Post retirement benefit obligations	26	**–**	**(132.5)**			
Net borrowings	22	**–**	**(214.0)**			
		1,192.9	**(707.9)**			
Net assets			**485.0**			

	Note	2017 Total assets £m	Total liabilities £m	Capital expenditure £m	Depreciation and amortisation £m	Amortisation acquired intangibles £m
Subsidiaries						
Europe & North America		453.9	(205.2)	36.3	23.8	27.3
Asia & Rest of the World		224.6	(71.8)	24.3	13.1	3.7
		678.5	(277.0)	60.6	36.9	31.0
Unallocated assets and liabilities		6.5	(14.6)	–	0.3	–
		685.0	(291.6)	60.6	37.2	31.0
Share of joint ventures	19	10.9	(3.4)			
Goodwill	15	329.1				
Acquired intangibles and related deferred tax	16	66.2	(16.3)			
Current and deferred taxation		23.3	(59.3)			
Post retirement benefit obligations	26		(157.2)			
Net borrowings	22	·	(180.5)			
		1,114.5	(708.3)			
Net assets			406.2			

Analysis of total revenue by destination

	2018 £m	2017 £m
UK	**87.0**	69.4
Germany	**234.5**	225.1
Other Western Europe	**556.3**	483.8
Western Europe	**877.8**	778.3
Eastern Europe	**118.0**	102.8
North America	**92.4**	94.9
Malaysia	**260.1**	195.3
Other Asia	**195.2**	228.8
Africa and Middle East	**45.7**	58.2
Rest of the World	**29.7**	21.9
	1,618.9	1,480.2

Inter-segmental revenue

In addition to the amounts included above inter-segmental revenue was earned as set out below. This revenue was eliminated on consolidation.

	2018 Europe & North America £m	Asia & Rest of World £m	Total £m	2017 Europe & North America £m	Asia & Rest of World £m	Total £m
Europe & North America	**–**	**18.7**	**18.7**		16.2	16.2
Asia & Rest of the World	**1.1**	**–**	**1.1**	0.8		0.8
Total	**1.1**	**18.7**	**19.8**	0.8	16.2	17.0

Notes to the consolidated financial statements continued
31 December 2018

5 Underlying segmental performance

The IFRS profit measures show the performance of the Group as a whole and as such includes all sources of income and expenses, including both one off items and those that do not relate to the Group's ongoing businesses. To provide increased clarity on the ongoing trading performance of the Group's businesses, management uses "underlying performance" as an alternative performance measure to plan for, control and assess the performance of the segments. Underlying performance differs from the IFRS measures as it excludes Special Items.

The definition of Special Items is shown in note 2 and has been consistently applied. Special Items are either irregular, and therefore including them in the assessment of a segment's performance would lead to a distortion of trends, or are technical adjustments which ensure the Group's financial statements are in compliance with IFRS but do not reflect the operating performance of the segment in the year, or both. An example of the latter is the amortisation of acquired intangibles, which principally relates to acquired customer relationships. The Group incurs costs, which are recognised as an expense in the income statement, in maintaining these customer relationships. The Group considers that the exclusion of the amortisation charge on acquired intangibles from Underlying performance avoids the potential double counting of such costs and therefore excludes it as a Special Item from Underlying performance.

Reconciliation of Underlying performance to IFRS

		2018				2017			
	Note	**Europe & North America £m**	**Asia & Rest of World £m**	**Unallocated corporate expenses £m**	**Total £m**	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m
Revenue									
Underlying performance and IFRS		1,228.4	390.5		1,618.9	1,134.9	345.3		1,480.2
Operating profit/(loss) – including share of joint ventures									
Underlying performance		111.2	45.7	(14.8)	142.1	117.1	35.1	(13.2)	139.0
Special Items									
Restructuring & site closure costs		(6.0)	(6.2)	–	(12.2)	(11.3)	(0.2)	(0.1)	(11.6)
Sale of business		1.0	2.8	–	3.8	-	-	-	
Sale of land		–	16.4	–	16.4	1.3		–	1.3
Acquisition costs		(0.5)	–	–	(0.5)	(2.3)			(2.3)
Amortisation of acquired intangibles		(12.6)	(3.8)	–	(16.4)	(27.3)	(3.7)		(31.0)
Aborted bond costs		–	–	(1.7)	(1.7)				
UK Guaranteed Minimum Pension equalisation		(1.3)	–	(1.5)	(2.8)		–	–	–
		(19.4)	9.2	(3.2)	(13.4)	(39.6)	(3.9)	(0.1)	(43.6)
IFRS		91.8	54.9	(18.0)	128.7	77.5	31.2	(13.3)	95.4
Finance costs									
Underlying performance	9				(7.0)				(9.0)
Fair value of unhedged interest derivatives	9				(1.4)				-
IFRS	9				(8.4)				(9.0)
Profit before taxation									
Underlying performance					135.1				130.0
IFRS					120.3				86.4

	Note	2018 Europe & North America £m	2018 Asia & Rest of World £m	2018 Unallocated corporate expenses £m	2018 Total £m	2017 Europe & North America £m	2017 Asia & Rest of World £m	2017 Unallocated corporate expenses £m	2017 Total £m
Taxation									
Underlying performance					**(23.0)**				(24.7)
Special Items									
Historical issues	10				**2.5**				–
Purchase and sale of business	10				**0.1**				0.4
Restructuring and site closure costs	10				**0.2**				1.3
Amortisation of acquired intangibles	10				**3.2**				11.4
IFRS	10				**(17.0)**				(11.6)
Profit for the year									
Underlying performance					**112.1**				105.3
IFRS					**103.3**				74.8
Profit attributable to non-controlling interests					**0.5**				0.8
Underlying performance									
Special Items									
Sale of land					**4.8**				–
Restructuring and site closure costs					**(1.8)**				–
IFRS					**3.5**				0.8
Profit attributable to equity holders of the parent									
Underlying performance					**111.6**				104.5
IFRS					**99.8**				74.0
Earnings per share (pence)									
Underlying performance					**32.8p**				30.7p
Special Items					**(3.4p)**				(8.9p)
IFRS	13				**29.4p**				21.8p

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6 EBITDA
The Group uses EBITDA as an alternative performance measure as it provides an indication of the level of cash being generated by the business from its trading activities in the period by excluding the depreciation and amortisation charges and Special Items. This is also the principal profit measure used for the financial covenants in the Group's debt facilities.

The definition of EBITDA is shown in note 2

Reconciliation of EBITDA to IFRS

		2018				2017			
	Note	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m
EBITDA		**135.8**	**59.7**	**(14.5)**	**181.0**	140.9	48.2	(12.9)	176.2
Depreciation and amortisation	4	**(24.6)**	**(14.0)**	**(0.3)**	**(38.9)**	(23.8)	(13.1)	(0.3)	(37.2)
Operating profit/(loss) – Underlying performance	5	**111.2**	**45.7**	**(14.8)**	**142.1**	117.1	35.1	(13.2)	139.0
Special Items	5	**(19.4)**	**9.2**	**(3.2)**	**(13.4)**	(39.6)	(3.9)	(0.1)	(43.6)
Operating profit/(loss) – IFRS	5	**91.8**	**54.9**	**(18.0)**	**128.7**	77.5	31.2	(13.3)	95.4

7 Operating profit

	Note	2018 £m	2017 £m
Revenue		**1,618.9**	1,480.2
Cost of sales		**(1,325.1)**	(1,195.4)
Gross profit		**293.8**	284.8
Sales and marketing costs		**(42.9)**	(39.1)
Administrative expenses		**(70.3)**	(70.5)
Share of joint ventures	19	**0.4**	1.0
EBITDA		**181.0**	176.2
Depreciation and amortisation – Underlying performance		**(38.9)**	(37.2)
Operating profit – Underlying performance		**142.1**	139.0
Special Items		**(13.4)**	(43.6)
Operating profit IFRS		**128.7**	95.4

	Note	2018 £m	2017 £m
Operating profit is stated after charging the following:			
Amortisation: acquired intangibles	16	**16.4**	31.0
Amortisation: other intangibles	17	**1.1**	0.8
Depreciation	18	**37.8**	36.4
Hire of plant and equipment		**6.8**	4.2
Other lease rentals		**3.6**	3.1
Research and development expenditure		**17.1**	18.3

8 Auditors' remuneration

	2018 £'000	2017 £'000
Fees payable to the Company's auditor for:		
audit of the Company's annual financial statements and the consolidated annual financial statements	**142**	139
Fees payable to the Company's auditor and their associates for other services to the Group:		
audit of the Company's subsidiaries' annual financial statements	**750**	661
Total audit fees	**892**	800
Audit related assurance services	**22**	33
Other assurance services	**95**	
Other taxation advisory services	**3**	24
Total non-audit fees	**120**	57

Details of the Company's policy on the use of auditor for non-audit services, the reasons why the auditors were used rather than another supplier and how the auditors' independence and objectivity was safeguarded are set out in the Audit Committee section of the Corporate Governance Report on page 71. No services were provided pursuant to contingent fee arrangements.

9 Finance costs

	2018 £m	2017 £m
Interest payable on bank loans and overdrafts	**4.9**	5.7
Less: interest receivable	**(1.1)**	(1.0)
	3.8	4.7
Pensions – IAS 19 interest charge	**3.2**	4.3
Net interest payable	**7.0**	9.0
Fair value of unhedged interest derivatives	**1.4**	–
Total finance costs	**8.4**	9.0

The fair value of the unhedged derivatives relates to the mark to market of the swap arrangements at 31 December 2018 in excess of the current borrowings of the Group. This has been taken through Special Items as it is not reflective of the Underlying performance.

10 Taxation

	2018 £m	2017 £m
Current tax		
UK corporation tax	**0.1**	
Overseas tax	**23.8**	27.1
	23.9	27.1
Deferred tax		
Origination and reversal of temporary differences	**(0.9)**	(2.4)
	23.0	24.7
Special Items		
Current tax:		
Historical issues	**(2.5)**	–
Purchase and sale of business	**(0.1)**	(0.4)
Restructuring and site closure costs	**–**	(0.3)
Deferred tax:		
Restructuring and site closure costs	**(0.2)**	(1.0)
Amortisation of acquired intangibles	**(3.2)**	(11.4)
	(6.0)	(13.1)
Total tax on profit before taxation	**17.0**	11.6

UK corporation tax is calculated at 19.0% (2017: 19.25%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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10 Taxation continued
Reconciliation of tax expense to profit before taxation
The differences between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2018 £m	2017 £m
Profit before taxation	**120.3**	86.4
Tax on profit before taxation at standard UK corporation tax rate of 19.0% (2017: 19.25%)	**22.9**	16.6
Effects of:		
Expenses not deductible for tax purposes	**4.8**	4.3
Tax incentives and items not subject to tax	**(11.8)**	(8.7)
Higher tax rates on overseas earnings	**6.8**	5.3
Other deferred tax asset not recognised less amounts now recognised	**(3.2)**	(1.5)
Adjustments to tax charge in respect of prior periods	**(2.4)**	(0.1)
Effect of change of rate on deferred tax	**(0.1)**	(4.3)
Tax charge for year	**17.0**	11.6

Tax relating to components of other comprehensive income

	2018 £m	2017 £m
Deferred tax (charge)/credit in respect of actuarial gains	**(2.3)**	2.3

Current tax liabilities

	2018 £m	2017 £m
Current tax liabilities	**(38.3)**	(40.2)

Tax incentives and items not subject to tax mainly comprise profits from the Nitrile Latex business in Malaysia, which benefits from pioneer status until 28 February 2020, income in relation to the sale of land which is not subject to corporate tax in Malaysia and exemptions from capital gains tax available on profits on sale of businesses in Dubai and Germany.

In October 2017 the European Commission opened a state aid investigation into the Group Financing Exemption in the UK controlled foreign company legislation. In common with other UK based international companies, the Group may be affected by the outcome of this investigation and is therefore monitoring developments. If the preliminary findings of the European Commission's investigations into the UK legislation are upheld, we have estimated the Group's potential liability to be £5.8m. Based on the current status of the investigation, we have concluded that no provision is required in relation to this amount.

11 Deferred taxation
Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets to the extent that it is probable that these assets will be recovered.

The movements in deferred tax assets and liabilities are shown below.

Deferred tax liabilities
2018

	Accelerated tax depreciation £m	Acquired intangibles £m	Other £m	Total £m
At 1 January	**(17.7)**	**(16.3)**	**(1.4)**	**(35.4)**
(Charged)/credited to income statement	**(0.4)**	**3.2**	**(0.7)**	**2.1**
Exchange adjustment	**(0.6)**	**(0.3)**	**(0.1)**	**(1.0)**
At 31 December	**(18.7)**	**(13.4)**	**(2.2)**	**(34.3)**

Deferred tax assets

2018

	Pension £m	Other £m	Total £m
At 1 January	18.9	4.4	23.3
Credited to income statement	1.0	1.2	2.2
Charged to statement of other comprehensive income	(2.3)	–	(2.3)
Exchange adjustment	0.1	0.1	0.2
At 31 December	**17.7**	**5.7**	**23.4**

Deferred tax assets not recognised

The amounts of deferred tax not recognised at the balance sheet dates are as follows:

	2018 £m	2017 £m
UK pension liability	5.2	7.0
Tax losses	13.9	14.6
Accelerated capital allowances	1.8	2.9
Other timing differences	0.2	
	21.1	24.5

Of the unrecognised tax losses set out above, £0.6m expire at the end of 2019, £0.6m expire at the end of 2020, £0.5m expire at the end of 2022 and £0.4m expire at the end of 2023.

12 Ordinary dividends

	2018 Pence per share	2018 £m	2017 Pence per share	2017 £m
Interim dividend	4.0	13.6	3.7	12.6
Proposed final dividend	9.1	30.9	8.5	28.9
	13.1	44.5	12.2	41.5

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Dividends paid

	2018 £m	2017 £m
Interim dividend	13.6	12.6
Prior year final dividend	28.9	26.5
	42.5	39.1

13 Earnings per share

Number of shares

	2018 Number 000s	2017 Number 000s
Weighted average number of ordinary shares for the purposes of basic earnings per share	339,766	339,881
Effect of dilutive potential ordinary shares:		
Share options	1,808	2,258
Weighted average number of ordinary shares for the purposes of diluted earnings per share	341,574	342,139

Earnings per share

		2018	2017
From Continuing operations			
Earnings (Profit attributable to equity holders of the parent)	£m	99.8	74.0
Basic earnings per share	p	29.4	21.8
Diluted earnings per share	p	29.2	21.6

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14 Employees

	2018 Number	2017 Number
The average monthly number of employees during the year by segment was:		
Europe & North America	**2,089**	1,985
Asia & Rest of the World	**799**	776
Corporate	**30**	28
	2,918	2,789

	2018 £m	2017 £m
The aggregate remuneration of all Group employees comprised:		
Wages and salaries	**123.1**	116.3
Social security costs	**21.5**	18.0
Pension costs (including £2.8m GMP equalisation)	**11.3**	8.0
Share-based payments	**1.5**	2.8
	157.4	145.1

Directors' emoluments are disclosed in the Remuneration Report on pages 73 to 88

15 Goodwill

	Note	2018 £m	2017 £m
Cost			
At 1 January		**439.0**	411.3
Exchange adjustments		**6.2**	2.8
Purchase of business	31	**1.2**	24.9
At 31 December		**446.4**	439.0
Accumulated impairment losses			
At 1 January and at 31 December		**109.9**	109.9
Net book value			
At 31 December		**336.5**	329.1

The Group tests goodwill annually for impairment at the balance sheet date, or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination.

The allocation of the carrying value of goodwill is represented below.

	Net book value at 1 January 2017 £m	Exchange adjustments £m	Purchase of business £m	Net book value at 31 December 2017 £m	**Exchange adjustments £m**	**Purchase of business £m**	**Net book value at 31 December 2018 £m**
Europe & North America	268.3	2.5	24.9	295.7	**4.6**	**1.2**	**301.5**
Asia & Rest of the World	33.1	0.3		33.4	**1.6**		**35.0**
Total	301.4	2.8	24.9	329.1	**6.2**	**1.2**	**336.5**

The recoverable amounts for CGUs are determined from value in use calculations, based upon discounted cash flows. The key assumptions for those discounted cash flow calculations are the discount rate, profitability and growth rate. The discount rate is based on the Group's weighted average cost of capital adjusted, where appropriate, for the risk premium attributable to the particular CGU's activities and geography of operation. Profitability and growth rates are based on past experience combined with management's expectations for future business performance, which is informed by a number of factors including economic growth, internal plans and competitor and customer activity.

Pretax discount rates of 11% (2017: 11%) and 12% (2017: 12%) have been used in the above calculations for Europe & North America and Asia & Rest of World respectively.

The profit used in the cash flows for the first five years is derived from management forecasts; for years six to ten a growth rate is applied. Growth rates of 2% (2017: 2%) and 5% (2017: 5%) have been used for Europe & North America and Asia & Rest of World respectively, representing management's best estimate of each CGU's circumstances, and these do not exceed the long term growth rates for the markets concerned. The profit for year ten is then assumed to apply without further growth into perpetuity.

The directors consider that there is no reasonably possible change in key assumptions that would lead to an impairment.

Of the net book value of goodwill at 31 December 2018, £70.5 million (2017: £70.5 million) is located in the UK.

16 Acquired intangible assets

	Note	Customer relationships £m	Other acquired intangibles £m	Total £m
Cost				
At 1 January 2018		**250.2**	**5.7**	**255.9**
Exchange adjustments		**5.0**	**0.2**	**5.2**
Purchase of business	31	**10.7**	**6.9**	**17.6**
At 31 December 2018		**265.9**	**12.8**	**278.7**
Accumulated amortisation and impairment				
At 1 January 2018		**187.2**	**2.5**	**189.7**
Exchange adjustments		**3.5**	**–**	**3.5**
Amortisation charge for the year		**14.2**	**2.2**	**16.4**
At 31 December 2018		**204.9**	**4.7**	**209.6**
Net book value				
At 31 December 2018		**61.0**	**8.1**	**69.1**

	Note	Customer relationships £m	Other acquired intangibles £m	Total £m
Cost				
At 1 January 2017		204.1	3.0	207.1
Exchange adjustments		7.2	0.2	7.4
Purchase of business		38.9	2.5	41.4
At 31 December 2017		250.2	5.7	255.9
Accumulated amortisation and impairment				
At 1 January 2017		151.2	1.7	152.9
Exchange adjustments		5.7	0.1	5.8
Amortisation charge for the year		30.3	0.7	31.0
At 31 December 2017		187.2	2.5	189.7
Net book value				
At 31 December 2017		63.0	3.2	66.2

Analysis of net book value by segment:

	2018 £m	2017 £m
Europe & North America	**68.7**	62.2
Asia & Rest of the World	**0.4**	4.0
	69.1	66.2

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17 Other intangible assets

	£m
Cost	
At 1 January 2018	**3.6**
Exchange adjustments	**–**
Additions	**4.3**
Disposals	**(0.1)**
At 31 December 2018	**7.8**
Accumulated amortisation and impairment	
At 1 January 2018	**1.7**
Exchange adjustments	**–**
Amortisation charge for the year	**1.1**
Disposals	***(0.1)***
At 31 December 2018	**2.7**
Net book value	
At 31 December 2018	**5.1**

	£m
Cost	
At 1 January 2017	1.5
Exchange adjustments	(0.2)
Additions	2.5
Transfer to assets held for sale	(0.1)
Disposals	(0.1)
At 31 December 2017	3.6
Accumulated amortisation and impairment	
At 1 January 2017	1.3
Exchange adjustments	(0.2)
Amortisation charge for the year	0.8
Transfer to assets held for sale	(0.1)
Disposals	(0.1)
At 31 December 2017	1.7
Net book value	
At 31 December 2017	1.9

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

As disclosed in note 2, there are various conditions required by IAS 38 for an internally generated intangible asset to be recognised.

18 Property, plant and equipment

	Land and buildings					
		Leaseholds				
	Freeholds £m	Long £m	Short £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 January 2018	**104.9**	**6.9**	**1.2**	**499.3**	**33.8**	**646.1**
Exchange adjustments	**2.8**	–	–	**11.3**	**0.9**	**15.0**
Additions	**1.0**	–	–	**34.8**	**37.2**	**73.0**
Purchase of business	**1.2**	–	–	**4.2**	–	**5.4**
Sale of business	–	–	–	**(0.1)**	–	**(0.1)**
Disposals	**(0.9)**	–	–	**(1.5)**	–	**(2.4)**
Transfer from assets under construction	–	–	–	**42.6**	**(42.6)**	–
Reclassification	**(0.1)**	–	**0.5**	**(0.4)**	–	–
At 31 December 2018	**108.9**	**6.9**	**1.7**	**590.2**	**29.3**	**737.0**
Accumulated depreciation and impairment						
At 1 January 2018	**31.3**	**3.4**	**0.3**	**289.0**	–	**324.0**
Exchange adjustments	**0.6**	–	–	**5.7**	–	**6.3**
Depreciation charge for the year	**5.3**	**0.2**	**0.3**	**32.0**	–	**37.8**
Sale of business	–	–	–	**(0.1)**	–	**(0.1)**
Assets written down	–	–	–	**(0.2)**	–	**(0.2)**
Disposals	**(0.2)**	–	–	**(0.6)**	–	**(0.8)**
Reclassification	–	–	**0.4**	**(0.4)**	–	–
At 31 December 2018	**37.0**	**3.6**	**1.0**	**325.4**	–	**367.0**
Net book value						
At 31 December 2018	**71.9**	**3.3**	**0.7**	**264.8**	**29.3**	**370.0**

	Land and buildings					
		Leaseholds				
	Freeholds £m	Long £m	Short £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost						
At 1 January 2017	80.2	6.9	20.4	459.7	15.2	582.4
Exchange adjustments	2.2		(0.1)	9.5	0.4	12.0
Additions	2.2	0.2	–	37.5	18.2	58.1
Purchase of business	5.1			3.8		8.9
Transfer to assets held for sale	(4.3)	–	–	(5.4)	–	(9.7)
Disposals	(0.7)	(0.2)	-	(4.7)		(5.6)
Reclassification	20.2		(19.1)	(1.1)	–	
At 31 December 2017	104.9	6.9	1.2	499.3	33.8	646.1
Accumulated depreciation and impairment						
At 1 January 2017	24.3	3.3	2.6	258.9	–	289.1
Exchange adjustments		–	-	4.7		4.7
Depreciation charge for the year	5.3	0.2	0.3	30.6		36.4
Transfer to assets held for sale	(1.0)			(2.0)	–	(3.0)
Assets written down	(0.4)	–		(1.0)		(1.4)
Disposals	(0.7)	(0.1)		(1.0)		(1.8)
Reclassification	3.8	-	(2.6)	(1.2)		
At 31 December 2017	31.3	3.4	0.3	289.0	–	324.0
Net book value						
At 31 December 2017	73.6	3.5	0.9	210.3	33.8	322.1

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18 Property, plant and equipment continued

	2018 £m	2017 £m
Freehold land which has not been depreciated	**17.6**	17.4

Analysis of net book value by location:

	2018 £m	2017 £m
UK	**43.7**	39.3
Germany	**83.0**	67.5
Malaysia	**130.6**	123.5
Other	**112.7**	91.8
	370.0	322.1

Analysis of net book value by segment:

	2018 £m	2017 £m
Europe & North America	**233.3**	192.3
Asia & Rest of the World	**136.7**	129.8
	370.0	322.1

19 Investment in joint ventures

Details of the Group's joint ventures are as follows:

Name of entity	Place of incorporation	% of ownership 2018	% of ownership 2017	Principal Activity	Segment
Synthomer Middle East	Saudi Arabia	49%	49%	Manufacturer and sale of acrylic and vinyl resin emulsions	Asia & Rest of the World
Synthomer Functional Solutions FZCO	*UAE*	*49%*	*–*	*Trading in adhesives and oilfield chemicals*	*Asia & Rest of the World*
Synthomer FZE Limited	UAE	49%	100%	Sales and marketing support for Synthomer Group companies	Asia & Rest of the World
Super Sky Ltd	United Kingdom	50%	50%	Non trading	Unallocated corporate expense

The Group reduced its holding in its UAE assets to 49% to align with other arrangements with joint venture partners in the region.

During the year, the Group transferred certain assets and liabilities to Synthomer Functional Solutions FZCO Limited. On 28 June 2018, Group disposed of 51% of its shareholding in Synthomer Functional Solutions FZCO Limited for £1.4m, generating a profit on disposal of £0.5m and the Group disposed of 51% of its shareholding in Synthomer FZE Limited for £2.9m, generating a profit on disposal of £2.4m. See Sale of business note 32.

These joint ventures are accounted for using the equity method in these financial statements.

Summarised financial information in respect of the joint ventures is set out below. This information represents amounts in the joint ventures' financial statements adjusted for differences in accounting policies between the Group and the joint venture (and not the Group's share of those amounts).

Summarised balance sheet (100%)

	2018 £m	2017 £m
Non current assets	**5.2**	4.6
Cash and cash equivalents	**4.7**	2.3
Other current assets	**18.6**	15.3
Total current assets	**23.3**	17.6
Other current liabilities	**(10.9)**	(7.0)
Total current liabilities	**(10.9)**	(7.0)
Net assets	**17.6**	15.2

Group share:	**2018 £m**	2017 £m
Total assets	**14.0**	10.9
Total liabilities	**(5.4)**	(3.4)
Net assets (Group share)	**8.6**	7.5

Summarised statement of comprehensive income (100%)

	2018 £m	2017 £m
Revenue	**42.3**	39.6
Operating profit from continuing operations	**0.9**	2.1
Interest	**–**	
Taxation	**–**	
Amortisation of intangibles	**–**	–
Profit from continuing operations	**0.9**	2.1
Exchange differences on translation	**1.1**	(1.1)
Total comprehensive income	**2.0**	1.0
Dividends paid	**(2.3)**	(4.1)
Movement in retained earnings	**(0.3)**	(3.1)
Profit for the year (Group share)	**0.4**	1.0
Exchange differences on translation (Group share)	**0.5**	(0.5)
Dividends paid (Group share)	**(1.1)**	(2.0)

The following table reconciles the summary information above to the carrying amount of the Group's interest in the joint ventures:

Investment in joint venture

	2018 £m	2017 £m
At 1 January	**7.5**	9.0
Profit from continuing operations	**0.4**	1.0
Exchange differences on translation	**0.4**	(0.5)
Partial disposal UAE business	**1.4**	
Dividend paid	**(1.1)**	(2.0)
At 31 December	**8.6**	7.5

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20 Inventories

	2018 £m	2017 £m
Raw materials and consumables	**68.1**	54.6
Finished goods	**73.8**	70.5
	141.9	125.1
Stock written off during the year	**0.7**	0.9
Cost of inventory recognised as an expense and included in cost of sales	**1,126.6**	1,031.9

There is no material difference between the consolidated balance sheet value of inventories and their net realisable value.

The nature of the chemical reaction necessary to produce finished goods from raw materials is such that 'work in progress' is not a material part of the Group's inventory at any given point of time.

21 Trade and other receivables

	2018 £m	2017 £m
Trade receivables	**196.2**	196.8
Other receivables	**30.6**	28.8
Receivables excluding prepayments	**226.8**	225.6
Prepayments	**6.1**	3.5
	232.9	229.1

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Credit risk
Amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on expected losses. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Before accepting a new customer, the Group uses appropriate procedures to assess the potential customer's credit quality in order to set a credit limit.

Ageing of trade receivables	2018 £m	2017 £m
Not yet due	**171.8**	167.2
0 – 60 days overdue	**23.8**	28.6
61 – 120 days overdue	**0.3**	0.4
Over 120 days overdue	**1.1**	2.2
	197.0	198.4
Less: loss allowance	**(0.8)**	(1.6)
	196.2	196.8

Provision for impairment of receivables	2018 £m	2017 £m
At 1 January	**1.6**	4.1
Exchange adjustments	**-**	0.1
Sale of business	**(0.1)**	
(Credit)/charge for the year	**(0.1)**	0.1
Amounts written back/off as uncollectable	**(0.6)**	(2.7)
At 31 December	**0.8**	1.6

22 Cash and borrowings

	2018 £m	2017 £m
Current borrowings		
Bank overdrafts	**20.7**	24.2
Bank loans		
Unsecured €55m loan expiring 21 November 2018	**–**	48.9
Unsecured €55m loan expiring 26 July 2019	**49.4**	
	70.1	73.1
Non-current borrowings		
Bank loans		
Unsecured £370m multi currency Revolving Credit Facility expiring 30 July 2019	**–**	197.8
Unsecured €440m multi currency Revolving Credit Facility expiring 23 July 2022	**242.6**	-
	242.6	197.8
Less: capitalised costs	**(1.8)**	(0.8)
	240.8	197.0

Bank loans and overdrafts are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents or government bond rates appropriate to the country in which the borrowing is incurred.

The directors calculate the carrying value of the Group's borrowings as follows:

Analysis of borrowings at carrying value by currency	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
31 December 2018					
Bank overdrafts	**2.1**	**1.2**	**17.4**	**–**	**20.7**
Bank loans	**–**	**–**	**292.0**	**–**	**292.0**
Capitalised costs	**(1.8)**	**–**	**–**	**–**	**(1.8)**
	0.3	**1.2**	**309.4**	**–**	**310.9**
Cash and cash equivalents					**(96.9)**
Net borrowings					**214.0**
31 December 2017					
Bank overdrafts	13.2	5.7	4.3	1.0	24.2
Bank loans		–	215.3	31.4	246.7
Capitalised costs	(0.8)		–	–	(0.8)
	12.4	5.7	219.6	32.4	270.1
Cash and cash equivalents					(89.6)
Net borrowings					180.5

Cash and cash equivalents are deposited with financial institutions rated as investment grade.

Capital structure

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the cash and borrowings, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Notes to the consolidated financial statements *continued*
31 December 2018

23 Financial instruments

The Group operates procedures designed to reduce or eliminate financial risk and ensure that funds are available for current and future needs. The policies are approved by the Board and the use of financial instruments is strictly controlled.

Financial assets	Note	2018 Loans and receivables £m	2018 Fair value through profit or loss £m	2017 Loans and receivables £m	2017 Fair value through profit or loss £m
Trade and other receivables excluding prepayments	21	**226.8**	**–**	225.6	-
Cash and cash equivalents	22	**96.9**	**–**	89.6	
		323.7	**–**	315.2	–

Financial liabilities	Note	2018 Amortised cost £m	2018 Derivative instruments in designated hedge accounting £m	2017 Amortised cost £m	2017 Derivative instruments in designated hedge accounting £m
Bank overdrafts	22	**20.7**	**–**	24.2	-
Bank loans (less capitalised costs)	22	**290.2**	**–**	245.9	
Trade and other payables	25	**263.9**	**–**	281.6	-
Derivatives at fair value		**–**	**5.3**		-
		574.8	**5.3**	551.7	

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities.

	Note	Carrying values at 31 December 2018 £m	Carrying values at 31 December 2017 £m	Fair values at 31 December 2018 £m	Fair values at 31 December 2017 £m
Fair value of financial assets					
Trade and other receivables excluding prepayments	21	**226.8**	225.6	**226.8**	225.6
Cash and cash equivalents	22	**96.9**	89.6	**96.9**	89.6
		323.7	315.2	**323.7**	315.2
Fair value of financial liabilities					
Bank overdrafts	22	**20.7**	24.2	**20.7**	24.2
Bank loans	22	**290.2**	245.9	**290.2**	245.9
Trade and other payables	25	**263.9**	281.6	**263.9**	281.6
Derivatives at fair value		**5.3**		**5.3**	
		580.1	551.7	**580.1**	551.7

Fair values have been obtained from the relevant institutions where appropriate. Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flow at prevailing interest rates and by applying year end exchange rates. The carrying amount of short term borrowings approximates to book value.

The fair values of the Group's financial instruments are measured using inputs other than quoted prices that are directly or indirectly observable (Level 2 as defined by IFRS 13).

The main risks arising from the Group's financial instruments are market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below, together with the related disclosure required by IFRS.

Market risk

The Group's main exposure to market risk is in the form of interest rate risk and foreign currency risk. The policies adopted to address these risks are as follows:

Interest rate risk

The Group finances its operations through a mixture of retained profits, loan notes and bank borrowings. The Group monitors interest rate trends regularly, through discussion with its banks, and fixes interest rates when it is prudent to do so.

Foreign currency risk

When it is effective to do so the Group uses currency borrowings, forward contracts and currency swaps to hedge overseas net assets, which are predominantly denominated in Euro, US dollar and Malaysian Ringgit. Profit translation exposures are not hedged.

The Group hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The Group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2017: none).

Hedge accounting

The Group has interest rate swaps that are used to reduce the exposure to interest rate risk in relation to the ineffective portion of interest rate hedges.

These swaps are fully effective at eliminating the risks they address. The Group has reviewed the requirements necessary to permit the application of hedge accounting under IAS 39.

Changes in the fair value of derivative financial instruments to which hedge accounting is not applied or is not effective are recognised in the income statement as they arise. £1.4 million has been debited to the income statement in the year (2017: £nil). These changes are shown separately as a Special Item in the consolidated income statement.

Interest rate risk profile

Financial liabilities

After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the Group as at 31 December 2018 was:

	2018			2017		
	Floating rate borrowings £m	**Fixed rate borrowings £m**	**Total borrowings £m**	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m
Sterling	**0.3**	**–**	**0.3**	12.4		12.4
Euro	**17.4**	**292.0**	**309.4**	219.6		219.6
US dollar	**1.2**	**–**	**1.2**	5.7	-	5.7
Other	**–**	**–**	**–**	32.4	·	32.4
	18.9	**292.0**	**310.9**	270.1		270.1
Cash and cash equivalents			**(96.9)**			(89.6)
Net borrowings			**214.0**			180.5

At 31 December 2018 the Group had in place swap arrangements to fix interest rates on the full value of the €440m committed, unsecured revolving credit facility.

The effective interest rate for the year was 1.5% (2017: 1.7%)

Notes to the consolidated financial statements continued
31 December 2018

23 Financial instruments continued

Sensitivity analysis

The following table illustrates the effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in UK and US interest rates and in Euro, US dollar and Malaysian Ringgit to sterling exchange rates, before the effect of tax.

	2018			2017		
	Income statement		Equity	Income statement		Equity
	Underlying -/+ £m	IFRS -/+ £m	IFRS -/+ £m	Underlying -/+ £m	IFRS -/+ £m	IFRS -/+ £m
Interest rate sensitivity analysis						
UK interest rate +/- 1.0%	–	–	–	-		-
Euro interest rate +/- 1.0%	–	1.0	2.9	1.9	1.9	
US interest rate +/- 1.0%	0.1	0.1	–	0.1	0.1	
Foreign currency sensitivity analysis						
Malaysian Ringgit exchange rate -/+ 10%	–	–	–	-	–	
Euro exchange rate -/+ 10%	0.6	0.6	1.5	0.3	0.3	15.7
US dollar exchange rate -/+ 10%	0.2	0.2	–	0.2	0.2	4.0

The interest rate sensitivity analysis has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

For interest rate derivatives the mark to market adjustment, and amount recognised in equity as part of a hedging arrangement is estimated using the interest rate sensitivity against the nominal amount.

The foreign currency sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or borrower.

Liquidity risk

The objective of the Group is to meet financial commitments as and when they fall due. The Board closely monitors liquidity through monthly management accounts.

At the year end, Synthomer plc had the following principal committed facilities:

	2018			2017		
	Facility £m	Drawn at 31 December £m	Headroom £m	Facility £m	Drawn at 31 December £m	Headroom £m
Unsecured £370m multi currency Revolving Credit Facility expiring 30 July 2019	–	–	–	370.0	197.8	172.2
Unsecured €440m multi currency *Revolving Credit Facility expiring 23 July 2022*	395.4	242.6	152.8	-	-	-
Unsecured €55m loan expiring 21 November 2018	–	–	–	48.9	48.9	–
Unsecured €55m loan expiring 26 July 2019	49.4	49.4	–			
	444.8	292.0	152.8	418.9	246.7	172.2

The following table details the remaining contractual maturity for non derivative financial assets:

	2018 Amount due within one year £m	2018 Amount due between 1 and 2 years £m	2018 Amount due between 2 and 5 years £m	2018 Amount due after 5 years £m	2018 Total £m	2017 Amount due within one year £m	2017 Amount due between 1 and 2 years £m	2017 Amount due between 2 and 5 years £m	2017 Amount due after 5 years £m	2017 Total £m
Non-interest bearing										
Trade and other receivables excluding prepayments	**226.8**	**–**	**–**	**–**	**226.8**	225.6		–	–	225.6
Variable interest rate instruments										
Cash and cash equivalents	**96.9**	**–**	**–**	**–**	**96.9**	89.6	–	–		89.6
	323.7	**–**	**–**	**–**	**323.7**	315.2		–	–	315.2

The following table details the remaining contractual maturity for non-derivative financial liabilities:

	2018 Amount due within one year £m	2018 Amount due between 1 and 2 years £m	2018 Amount due between 2 and 5 years £m	2018 Amount due after 5 years £m	2018 Total £m	2017 Amount due within one year £m	2017 Amount due between 1 and 2 years £m	2017 Amount due between 2 and 5 years £m	2017 Amount due after 5 years £m	2017 Total £m
Non-interest bearing										
Trade and other payables	**263.2**	**0.7**	**–**	**–**	**263.9**	279.3	2.3	-		281.6
Variable interest rate instruments										
Bank loans and overdrafts	**70.1**	**–**	**240.8**	**–**	**310.9**	73.1	197.0	–	–	270.1
	333.3	**0.7**	**240.8**	**–**	**574.8**	352.4	199.3	–	–	551.7

24 Assets classified as held for sale

	2018 £m	2017 £m
Disposal of Synthomer Leuna	**–**	6.5
Freehold land located in Malaysia	**–**	0.3
Assets classified as held for sale	**–**	6.8

The assets held for sale in relation to the disposal of Synthomer Leuna comprise the fixed assets, current assets and current liabilities of Synthomer Leuna as at 31 December 2017. As disclosed in note 32, Synthomer Leuna was disposed on 1 January 2018.

Notes to the consolidated financial statements continued
31 December 2018

24 Assets classified as held for sale continued
Malaysia
The Group owns agricultural land in Malaysia, which is operated as a palm oil and natural rubber plantation. The land was owned by Kind Action Sdn Bhd, which is a wholly owned subsidiary of Revertex Malaysia Sdn Bhd that has a 30% non controlling interest. The directors decided in 2013 to dispose of this land on the open market excluding the 300 acres immediately surrounding the manufacturing facilities.

The status of the disposal programme was as follows:

	2018 Acres	**2018** Consideration £m	2017 Acres	2017 Consideration £m
Sale completed	**400**	**17.1**		
Contracts exchanged	**–**	**–**	400	17.1
To be sold	**–**	**–**		–
	400	**17.1**	400	17.1

The consideration is shown before deduction of disposal costs, taxation and the non-controlling interest share.

For the sales completed in the year the profit on sale was derived as follows:

	2018	2017
Number of acres sold	**400**	
	£m	£m
Gross consideration	**17.1**	
Less disposal costs	**(0.4)**	
	16.7	–
Less cost of land	**(0.3)**	
Profit on disposal	**16.4**	–

As at 31 December 2018 there are no more acres of land to be sold and the value of assets held for sale as at 31 December 2018 is £nil.

25 Trade and other payables

	2018 £m	2017 £m
Amount due within one year		
Trade payables	**204.9**	202.6
Other payables	**27.7**	39.7
Accruals	**30.6**	37.0
	263.2	279.3

Amount due after one year		
Other payables	**0.7**	2.3
	0.7	2.3

Average trade payable days in 2018 was 61 (2017: 60). This figure represents trade payable days for all trading operations within the Group, calculated as a weighted average based on cost of sales.

The directors consider that the carrying amount of trade payables, other payables and accruals approximates to their fair value.

26 Post retirement benefit obligations

Charge/(credit) to income statement in respect of the Group's pension schemes:

	2018 UK £m	2018 Overseas £m	2018 Total £m	2017 UK £m	2017 Overseas £m	2017 Total £m
Defined benefit	**5.4**	**2.3**	**7.7**	3.4	2.5	5.9
Defined contribution	**2.0**	**4.8**	**6.8**	1.7	4.7	6.4
	7.4	**7.1**	**14.5**	5.1	7.2	12.3

Amounts recognised in the statement of comprehensive income

	2018 UK £m	2018 Overseas £m	2018 Total £m	2017 UK £m	2017 Overseas £m	2017 Total £m
Actuarial gains	**14.2**	**1.3**	**15.5**	22.4	1.2	23.6

Amount included in the balance sheet arising from the Group's defined benefit scheme obligations

	2018 UK £m	2018 Overseas £m	2018 Total £m	2017 UK £m	2017 Overseas £m	2017 Total £m
Present value of defined benefit obligations	**(372.3)**	**(90.8)**	**(463.1)**	(410.8)	(89.7)	(500.5)
Fair value of scheme assets	**319.1**	**11.5**	**330.6**	332.5	10.8	343.3
Net liability arising from defined benefit obligations	**(53.2)**	**(79.3)**	**(132.5)**	(78.3)	(78.9)	(157.2)

UK pension schemes

The Group's UK defined benefit scheme was closed to future accrual in 2009. All pension benefits since that time are provided by way of a defined contribution scheme. The assets of the schemes are held separately from those of the companies concerned.

The triennial valuation of the scheme was performed during 2018 and is in the process of being finalised with the trustees of the scheme.

Defined benefit scheme

The defined benefit scheme is administered by a separate fund that is legally separated from the Company.

The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension are responsible for the investment policy with regard to the assets of the fund.

A full actuarial valuation was carried out as at 6 April 2015 and updated to 31 December 2018 by a qualified actuary.

The Group is committed to a funding deficit recovery plan entered into following the 2015 valuation. This valuation indicated a shortfall, when measured against the Scheme's technical provisions of £118.7m. This shortfall is expected to be eliminated in eight years following the valuation date. As a result the Group is committed to paying contributions for the period 6 April 2015 to 5 April 2023, increasing from £14.0m for the year commencing 6 April 2015 to £18.2m for the year commencing 6 April 2022.

Notes to the consolidated financial statements continued
31 December 2018

26 Post retirement benefit obligations continued
The scheme is exposed to a number of risks, the most significant of which are detailed below:

Asset return risk	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will increase the deficit. The scheme holds a significant proportion of equities which are expected to outperform corporate bonds in the long term while providing volatility and risk in the short term.
Interest rate risk	A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.
Longevity risk	The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The risk relating to benefits to be paid to the dependants of scheme members (widow and orphan benefits) is re-insured by an external insurance company.

The major assumptions used for the purposes of the actuarial valuations were as follows:

	2018	2017
Rate of increase in pensions in payment	**2.00%**	2.00%
Rate of increase in pensions in deferment	**2.20%**	2.00%
Discount rate	**2.80%**	2.50%
Inflation assumption	**3.20%**	3.10%

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics. These assumptions translate into an average life expectancy in years for a pensioner retiring at 65 as follows:

	2018 years	2017 years
Retiring today:		
Males	**87.1**	87.2
Females	**89.4**	89.1
Retiring in 20 years:		
Males	**88.7**	88.7
Females	**91.2**	90.6

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant.

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 1%	Decrease/increase by £48m
Rate of mortality	Increase by 1 year	Increase by £14m

The above sensitivities are based on a change of assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may have some correlation. When calculating the sensitivity of the defined benefit obligation to *significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit* method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet

The movements in the net liability arising from defined benefit obligation over the year is as follows:

	2018			2017		
	Present value of funded defined benefit obligation £m	**Fair value of scheme assets £m**	**Net liability arising from defined benefit obligation £m**	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m
At 1 January	**(410.8)**	**332.5**	**(78.3)**	(428.4)	315.9	(112.5)
Current service cost	**(0.8)**	**–**	**(0.8)**	(0.5)		(0.5)
Past service cost	**(2.8)**	**–**	**(2.8)**	-	-	
Interest (expense)/income	**(10.0)**	**8.2**	**(1.8)**	(11.3)	8.4	(2.9)
Amounts recognised in income in respect of defined benefit schemes	**(13.6)**	**8.2**	**(5.4)**	(11.8)	8.4	(3.4)
Remeasurement:						
Return on plan assets excluding amounts included in interest income	**–**	**(13.5)**	**(13.5)**	–	15.3	15.3
Gains from changes in financial assumptions	**27.7**	**–**	**27.7**	7.1	-	7.1
Amounts recognised in the statement of comprehensive income	**27.7**	**(13.5)**	**14.2**	7.1	15.3	22.4
Contributions:						
Employers	**0.8**	**15.5**	**16.3**	0.5	14.7	15.2
Payments from plans						
Benefit payments	**23.6**	**(23.6)**	**–**	21.8	(21.8)	
At 31 December	**(372.3)**	**319.1**	**(53.2)**	(410.8)	332.5	(78.3)

Plan assets are comprised as follows:

	2018 £m	2017 £m
Hedge funds	**36.2**	39.6
Equity instruments	**64.9**	69.6
Debt instruments	**192.2**	208.8
Property	**8.2**	10.0
Cash	**17.6**	4.5
Total fair value of assets	**319.1**	332.5

All investments in Equities, Bonds and Property are quoted.

The weighted average duration of the benefit obligation at the end of the reporting period is 14 years (2017: 16 years).

Contributions from the sponsoring companies are expected to be £16.2 million in 2019.

Overseas pension schemes

The Group operates a number of smaller overseas pension and post retirement schemes. The assets of these schemes are held separately from those of the Group, with the exception of the unfunded German schemes (net liability £71.8 million, 2017: £72.1 million) where in line with common practice, the assets are held within the respective companies.

Notes to the consolidated financial statements continued
31 December 2018

26 Post retirement benefit obligations continued

Defined benefit schemes

The aggregated pension disclosure below for the overseas defined benefit schemes has been compiled from a number of actuarial valuations at 31 December 2018.

The largest of these schemes accounts for £69.1 million (2017: £68.5 million) of the deficit at 31 December 2018. The major assumption used in the actuarial valuation of this scheme are:

	2018	2017
Rate of increase in salaries	3.00%	3.00%
Rate of increase in pensions	1.75%	1.75%
Discount rate	2.00%	1.90%

Mortality assumptions

The assumed life expectations on retirement at age 65 are:

	2018 years	2017 years
Retiring today:		
Males	85.0	84.3
Females	88.6	88.3
Retiring in 20 years:		
Males	87.8	86.9
Females	90.8	90.8

The major assumptions used in the valuation of the other overseas schemes do not differ significantly from the above.

The movement in the net liability arising from defined benefit obligation over the year is as follows:

	2018			2017		
	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m
At 1 January	(89.7)	10.8	(78.9)	(83.2)	9.0	(74.2)
Current service cost	(1.0)	–	(1.0)	(1.1)	-	(1.1)
Past service credit	0.1	–	0.1			
Interest (expense)/income	(1.6)	0.2	(1.4)	(1.6)	0.2	(1.4)
Amounts recognised in the income statement in respect of defined benefit schemes	(2.5)	0.2	(2.3)	(2.7)	0.2	(2.5)
Remeasurement:						
Gains/(losses) from changes in financial assumptions	1.4	(0.1)	1.3	1.3	(0.1)	1.2
Amounts recognised in the statement of comprehensive income	1.4	(0.1)	1.3	1.3	(0.1)	1.2
Contributions less payments from plans	2.4	(0.1)	2.3	2.3	(0.2)	2.1
Obligations of acquired entities	(1.2)	0.6	(0.6)	(4.2)	1.5	(2.7)
Exchange adjustments	(1.2)	0.1	(1.1)	(3.2)	0.4	(2.8)
At 31 December	(90.8)	11.5	(79.3)	(89.7)	10.8	(78.9)

Multi-employer schemes

In addition to the overseas defined benefit schemes included in the above, the Group participates in the Degussa Pensionskasse in Germany, which is a multi-employer defined benefit pension scheme. Regular contributions are payable to the scheme by each participating employer for new benefits accruing. The assets of all participating employers are pooled, and contributions are calculated based on aggregated demographic experience. Therefore sufficient information is not available to identify the Group's share of the assets on a consistent and reliable basis and the Group accounts for the scheme on a defined contribution basis. The Group expects to make regular contributions of £2.3m to the scheme in 2019.

To the extent that there is underfunding in the scheme deficit contributions are payable. Based on the latest actuarial assessment each participating employer's share has been determined according to the value of its future benefit accrual and it has been determined that the Group is liable for total deficit contributions of €4.6m in three instalments payable in January 2017, 2018 and 2019. As a result an accrual of £1.3m (2017: £2.7m) has been included at 31 December 2018.

27 Provisions for other liabilities and charges

	Environmental restoration £m	Legal and customer claims £m	Restructuring £m	Liability arising on a business combination £m	Total £m
At 1 January 2018	0.6	2.5	6.7	0.2	10.0
(Credited)/charged to the income statement	–	(2.5)	9.3	–	6.8
Utilised during the year	(0.6)	–	(2.0)	–	(2.6)
At 31 December 2018	–	–	14.0	0.2	14.2

Analysis of provisions

	31 December 2018 £m	31 December 2017 £m
Non-current	4.8	7.6
Current	9.4	2.4
	14.2	10.0

Analysis of (credit)/charge to the income statement

	2018 £m	2017 £m
Underlying performance	(2.5)	
Special Items	9.3	4.0
	6.8	4.0

Environmental restoration

The provision for the restoration of land which is no longer being used as a manufacturing site was fully utilised in the year and no further obligation remains.

Legal and customer claims

This amount represented a provision for certain legal and customer claims brought against the Group. During the year the time passed for which these claims could be settled and the amounts were credited to the income statement.

Restructuring

The Group has additionally provided for an onerous lease and related costs on the closed site in Ossett, and as part of the post PAC acquisition restructuring programme, the Group has planned the demolition of buildings at the site in Ribécourt, France. The Group also closed its natural rubber and polyester resins production lines in Kluang in 2018. The cost of all these restructuring programmes is charged to the income statement when permitted by the Group's accounting policy within Special Items. The provision reflects the amount that has been charged but not yet spent.

Liability arising on a business combination

As part of the acquisition of PolymerLatex in 2011, the Group acquired a leasehold interest in an empty property. The provision reflects this onerous contract.

The provisions are expected to be fully utilised over the next five years with the exception of the Ossett overseas lease provision which is expected to be utilised over 50 years.

Notes to the consolidated financial statements continued
31 December 2018

28 Called up share capital

	2018 £m	2017 £m
Issued and fully paid		
339,880,769 (2017: 339,880,769) ordinary shares of 10 pence each	**34.0**	34.0

Ordinary shares carry no right to fixed income.

Share options (see note 36)
The outstanding share options were all issued under the Executive share option scheme. These are discussed further in note 36 Share based payments.

As at 31 December 2018 the following options were outstanding:

	Number
Executive share options	
Exercisable between 2016 2023	**11,879**
Exercisable between 2017-2024	**20,009**
Exercisable between 2018 2025	**138,734**
Exercisable between 2019 2026	**634,219**
Exercisable between 2020-2027	**497,405**
Exercisable between 2021-2028	**505,717**
	1,807,963

The total exercise price for all the above grants is £nil.

29 Reconciliation of operating profit to cash generated from operations

	2018 £m	2017 £m
Operating profit – continuing operations	**128.7**	95.4
Less: share of profits of joint ventures	**(0.4)**	(1.0)
	128.3	94.4
Adjustments for:		
Depreciation	**37.8**	36.4
Amortisation	**1.1**	0.8
Share based payments	**1.5**	2.8
Restructuring and site closure – Special Items	**12.2**	11.6
Sale of business – Special Items	**(3.8)**	–
Sale of land – Special Items	**(16.4)**	(1.3)
Acquisition costs Special Items	**0.5**	2.3
Amortisation of acquired intangibles Special Items	**16.4**	31.0
Aborted bond costs – Special Items	**1.7**	–
GMP equalisation – Special Items	**2.8**	–
Cash impact of restructuring and site closure	**(3.3)**	(6.0)
Cash impact of acquisition costs	**(0.5)**	(2.1)
Cash impact of aborted bond costs	**(1.2)**	
IAS 19 interest charge	**(3.2)**	(4.3)
Pension funding in excess of IAS 19 interest charge	**(13.8)**	(12.5)
Movement in working capital	**(35.2)**	9.5
Cash generated from operations	**124.9**	162.6

Reconciliation of movement in working capital		
Increase in inventories	**(13.5)**	(13.3)
Increase in trade and other receivables	**(5.6)**	(24.0)
(Decrease)/increase in trade and other payables	**(16.1)**	46.8
Movement in working capital	**(35.2)**	9.5

30 Analysis of changes in net borrowings

	1 January 2018 £m	Cash inflows/ (outflows) £m	Exchange and other movements £m	31 December 2018 £m
Current borrowing - Bank overdrafts	**(24.2)**	**3.6**	**(0.1)**	**(20.7)**
Current bank borrowings - Other	**(48.9)**	**-**	**(0.5)**	**(49.4)**
Non current borrowings	**(197.0)**	**(40.4)**	**(3.4)**	**(240.8)**
Total borrowings	**(270.1)**	**(36.8)**	**(4.0)**	**(310.9)**
Cash and cash equivalents	***89.6***	***5.6***	**1.7**	***96.9***
Net borrowings	**(180.5)**	**(31.2)**	**(2.3)**	**(214.0)**

	2018 £m	2017 £m
Repayment of borrowings	**(63.5)**	(102.0)
Proceeds of borrowings	**103.9**	136.3
	40.4	34.3

31 Purchase of business

On 31 January 2018 the Group acquired the BASF Pischelsdorf Styrene Butadiene Rubber (SBR) business for a total consideration of £25.8m. to complement the Group's existing SBR markets and customers

The consideration paid in respect of this acquisition and the fair value of net assets acquired is summarised as follows:

	Fair value £m
Net assets acquired	
Intangible assets	**17.6**
Property, plant and equipment	**5.4**
Inventories	**2.2**
Post retirement benefit obligations	**(0.6)**
Fair value of net assets acquired	**24.6**
Goodwill arising on acquisition	**1.2**
Total consideration	**25.8**
Satisfied by	
Cash consideration	**25.8**

The goodwill arising on the acquisition of the business represents the premium the Group paid to acquire companies which complement the existing business and create significant opportunities for cross selling and other synergies.

Acquisition costs expensed:

	£m
In 12 months to 31 December 2017	**0.9**
In 12 months to 31 December 2018	**0.1**
	1.0

In the period from acquisition to 31 December 2018 the business contributed the following to the Group's results:

	£m
Revenue of:	**42.7**
Operating profit of:	**2.6**

If the acquisition had been completed on the first day of the financial year, the following would have been included in the Group's result:

	£m
Revenue of:	**46.3**
Operating profit of:	**2.8**

Notes to the consolidated financial statements continued
31 December 2018

32 Sale of business

Sale of Synthomer Leuna

On 1 January 2018, the Group disposed of 100% of the share capital of Synthomer Leuna GmbH for £7.1m.

The consolidated net assets of the companies at the date of disposal were as follows:

	£m
Property, plant and equipment	6.4
Inventories	0.3
Trade receivables	0.1
Post retirement benefit obligations	(0.3)
Net assets disposed of	6.5
Total consideration (net of disposal costs)	7.1
Less net assets disposed off	(6.5)
Profit on sale of business before recycling of foreign exchange	0.6
Recycling of foreign exchange	0.4
Profit on disposal	1.0
Total consideration satisfied by:	
Cash (net of disposal costs)	7.1
Cash flow:	
Cash (net of disposal costs)	7.1
Cash consideration received in 2017	(7.6)
2018 net cash inflow arising on disposal	(0.5)

In the period from 1 January 2018 to the date of disposal, Synthomer Leuna contributed the following to the Group's results:

	£m
Revenues of:	–
Operating profit of:	–

Partial sale of UAE business

The Group reduced its holding in its U.A.E assets to 49% to align with other arrangements with joint venture partners in the region. During the year, the Group transferred certain assets and liabilities to Synthomer Functional Solutions FZCO Limited. On 28 June 2018, the Group disposed of 51% of its shareholding in Synthomer Functional Solutions FZCO Limited for £1.4m, generating a profit on disposal of £0.5m and the Group disposed of 51% of its shareholding in Synthomer FZE Limited for £2.9m, generating a profit on disposal of £2.4m.

The subsequently created joint ventures are accounted for under the equity method of consolidation.

Company name	Date of sale	Purchaser	Division	Sale type
Synthomer FZE Limited	28 June 2018	Third party trade	Asia and Rest of the World	Share
Synthomer Functional Solutions FZCO Limited	28 June 2018	Third party trade	Asia and Rest of the World	Share

The share of net assets of the companies at the date of disposal were as follows:

	£m
Inventories	**0.5**
Trade receivables	**2.4**
Trade payables	**(1.5)**
Net assets disposed of	**1.4**
Total consideration (net of disposal costs)	**4.2**
Less net assets disposed of	**(1.4)**
Profit on disposal	**2.8**
Total consideration satisfied by:	
Cash (net of disposal costs)	**4.2**
Cash flow:	
Cash consideration	**4.2**
2018 net cash inflow arising on disposal	**4.2**

In the period from 1 January 2018 to the date of disposal, the disposed businesses (100%) contributed the following to the Group's results:

	£m
Revenues of:	**8.2**
Operating profit of:	**0.5**

33 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's financial statements where appropriate.

The UK defined benefit scheme is a related party, see note 26.

Key management compensation	**2018 £m**	2017 £m
Short term employee benefits	**5.2**	5.3
Post retirement benefit obligations	**0.4**	0.4
Share-based payments	**1.5**	2.0
	7.1	7.7

The key management figures given above include the directors and members of the Executive Committee.

34 Commitments

	2018 £m	2017 £m
Capital expenditure authorised but not provided for in the financial statements		
PPE Contracted	**21.2**	23.7

	2018 £m	2017 £m
Commitments under operating leases are as follows		
Payments under operating leases which fall due:		
Within 1 year	**3.3**	5.1
Between 2 and 5 years	**12.0**	10.7
After 5 years	**15.1**	18.9
	30.4	34.7

Operating leases relate largely to property leases.

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31 December 2018

35 Contingent assets, contingent liabilities and guarantees

Other guarantees and contingent liabilities of the Group amount to £8.4 million (2017: £nil) and relates to an European Commission state aid case in relation to the Group Financing Exemptions in the UK controlled foreign company legislation (see Note 10) and environmental liability in France.

The Company and its subsidiaries have, in the normal course of business, entered into guarantees and counter-indemnities in respect of performance bonds, relating to the Group's own contracts.

During the year, the European Commission (the Commission) initiated an investigation into practices relating to the purchase of Styrene monomer by companies, including Synthomer, operating in the European Economic Area. The Company has and will continue to fully cooperate with the Commission during its investigation. As the investigation is ongoing and the Commission does not provide feedback on its work until the investigation is complete, it is not possible to determine whether or not a liability exists in relation to this matter.

36 Share-based payments

Executive share option schemes

The Group's share option scheme is described in the Directors' Remuneration Report on pages 73 to 88. In addition to the two executive directors it is available to other senior management. The movement in the options held under the scheme are defined as follows:

	Options 2018 number	**Weighted av. exercise price (£) 2018 number**	Options 2017 number	Weighted av. exercise price (£) 2017 number
Outstanding at 1 January	**2,257,771**	–	2,334,899	
Granted during the year	**547,752**	–	520,958	-
Exercised during the year	**(883,923)**	–	(568,032)	
Lapsed during the year	**(113,637)**	–	(30,054)	
Outstanding at 31 December	**1,807,963**	–	2,257,771	–
Exercisable at 31 December	**170,622**	–	50,166	–

For options outstanding as at 31 December 2018, the exercise price was £nil and the weighted average remaining contractual life was 4.75 years (2017: 4.73 years).

The Group also operates a cash settled share based payment scheme for which there was an expense in the year of £0.5m (2017: £0.8m) and for which there was a liability at the year end of £1.5m (2017: £1.0m).

The Synthomer Employee Benefit Trust

The Company established a trust, formerly the Yule Catto Employee Benefit Trust, on 17 July 1996 to distribute shares to employees enabling the obligations under the Yule Catto Longer-Term Performance Share Plan and the Yule Catto Longer-Term Deferred Bonus Plan to be met. The Trust is managed by the RBC Trustees (Guernsey) Limited, an independent company located in Guernsey.

At 31 December 2018, the Trust held 110,969 (2017: 249) ordinary shares in the Company with a market value of £0.4m (2017: £nil)

The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans

The weighted average share price at the date of exercise was £4.91 (2017: £4.70).

The weighted average fair value of the options at the measurement date granted during the year was £2.68 (2017: £2.97). The valuation was based on the following inputs and assumptions, using a Monte Carlo simulation model:

	2018	2017
Weighted average share price (£)	**4.88**	5.03
Option price (£)	**–**	
Value of optionality	**nil**	nil
Vesting assumption	**55%**	59%

Given the option price is £nil, the only circumstance in which a vested option will not be exercised is if the current share price is £nil. There is some value associated with the timing of when the exercise would be made but this is considered to be minimal and therefore this has not been modelled.

The vesting assumption is the estimate at the measurement date of the percentage of the options that will ultimately vest and is based on market conditions and management's assessment of the likelihood of achievement of the performance criteria.

37 Share price information

The middle market value of the listed ordinary shares at 31 December 2018 was 357.4 pence. (31 December 2017: 491.4 pence). During the year, the market price ranged between 347.4 pence and 575.5 pence. The latest ordinary share price is available on the Group's website, www.synthomer.com.

38 Additional segmental analysis

With effect from 1 January 2019, the Group has implemented a new organisation structure, comprising three operating segments.

Going forward, the following global operating segments will replace the previous regional operating segments.

+ Performance Elastomers
+ Functional Solutions
+ Industrial Specialities

2018 results under the new divisional structure are shown below:

Analysis by activity – Revenue	2018 £m
Performance Elastomers	**704.5**
Functional Solutions	**680.1**
Industrial Specialities	**234.3**
	1,618.9

Analysis by activity – Underlying operating profit	Subsidiaries £m	Share of joint ventures £m	Total £m
Performance Elastomers	87.2	–	87.2
Functional Solutions	52.6	0.4	53.0
Industrial Specialities	16.7	-	16.7
Reported segment operating profit	156.5	0.4	156.9
Unallocated corporate expenses	(14.8)	–	(14.8)
Operating profit	141.7	0.4	142.1

Notes to the consolidated financial statements continued
31 December 2018

39 Audit exemptions
The following subsidiaries have taken advantage of the exemption from an audit for the year ended 31 December 2018 available under s479a of the Companies Act 2006 as the Company has given a statutory guarantee of all of the outstanding liabilities of these subsidiaries as at 31 December 2018.

Company	Company Registration
Dimex Limited	01763129
Ecatto Limited	00978441
Harlow Chemical Company Limited	00778831
PolymerLatex Limited	03439041
S.A.(300) Limited	00236227
Super Sky Limited	02021871
Synthomer Overseas Limited	06349474
Temple Fields 514 Limited	04541637
Temple Fields 515 Limited	00692510
Temple Fields 522 Limited	05516912
Temple Fields 523 Limited	05516913
Temple Fields 530 Limited	00831113

Company balance sheet
31 December 2018

	Note	2018 £m	2017 £m
Fixed assets			
Property, plant and equipment	5	**2.3**	2.1
Investments in subsidiaries and joint ventures	6	**208.1**	337.5
		210.4	339.6
Current assets			
Trade and other receivables	7	**963.6**	709.2
Cash and cash equivalents		**53.3**	35.3
		1,016.9	744.5
Creditors – amounts falling due within one year			
Borrowings	8	**(74.3)**	(63.7)
Other creditors	10	**(262.9)**	(215.2)
Derivatives at fair value	9	**(5.3)**	-
		(342.5)	(278.9)
Net current assets		**674.4**	465.6
Total assets less current liabilities		**884.8**	805.2
Creditors – amounts falling due after more than one year			
Borrowings	8	**(240.8)**	(157.8)
Net assets		**644.0**	647.4
Equity			
Ordinary shares		**34.0**	34.0
Share premium		**230.5**	230.5
Revaluation reserve		**0.8**	0.8
Capital redemption reserve		**0.9**	0.9
Retained earnings		**377.8**	381.2
Total shareholders' funds		**644.0**	647.4

	Note	2018 £m	2017 £m
Analysis of net borrowings			
Cash and cash equivalents		**53.3**	35.3
Borrowings due in less than one year		**(74.3)**	(63.7)
Borrowings due after more than one year		**(240.8)**	(157.8)
Net borrowings	8	**(261.8)**	(186.2)

As disclosed in note 3, the Company's profit for the year was £46.9m (2017: £22.7m)

The notes on pages 147 to 156 are an integral part of these financial statements.

The financial statements of Synthomer plc (registered number 98381) on pages 145 to 156 were authorised for issue by the Board of Directors on 4 March 2019.

C G MacLean
Director

S G Bennett
Director

Company financial statements

Company statement of changes in equity
for the year ended 31December 2018

	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total equity £m
At 1 January 2018	**34.0**	**230.5**	**0.8**	**0.9**	**381.2**	**647.4**
Profit for the year	–	–	–	–	**46.9**	**46.9**
Total comprehensive income for the year	–	–	–	–	**46.9**	**46.9**
Dividends	–	–	–	–	**(42.5)**	**(42.5)**
Share based payments	–	–	–	–	**(3.9)**	**(3.9)**
Fair value of hedged interest derivatives	–	–	–	–	**(3.9)**	**(3.9)**
Total transactions with owners, recognised directly in equity	–	–	–	–	**(50.3)**	**(50.3)**
Balance as at 31 December 2018	**34.0**	**230.5**	**0.8**	**0.9**	**377.8**	**644.0**
Balance as at 1 January 2017	34.0	230.5	0.8	0.9	398.1	664.3
Profit for the year	–	–	–	–	22.7	22.7
Total comprehensive income for the year	–	–	–	–	22.7	22.7
Dividends	–	–	–	–	(39.1)	(39.1)
Share based payments	–	–	–	–	(0.5)	(0.5)
Total transactions with owners, recognised directly in equity	–	–	–	–	(39.6)	(39.6)
Balance as at 31 December 2017	34.0	230.5	0.8	0.9	381.2	647.4

Notes to the Company financial statements
31 December 2018

1 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.

Basis of accounting
The financial statements of Synthomer plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through the income statement, and in accordance with the Companies Act 2006

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The estimates and associated assumptions are based on industry experience and various other factors that are believed to be reasonable under the circumstances.

The directors have reviewed the estimates and assumptions used in the preparation of the financial statements. The directors do not believe that there is a significant risk which would lead to material adjustments to the carrying value of any assets and liabilities in the next financial year due to changes of estimates or assumptions.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

+ IAS 7, 'Statement of cashflows'
+ The requirements in IAS24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group;
+ IFRS 7, 'Financial instruments: Disclosures';
+ Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities; and
+ Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined).

Going concern
The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. After making enquiries and taking account of reasonably possible changes in trading performance the Directors have concluded that the Company should be able to operate within the level of its current cash reserves and borrowings and continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

Foreign currencies
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within other operating income.

Property, plant and equipment
Properties are shown at professional valuation from 1985. All other plant and equipment are stated at cost. Cost includes the original purchase price of the asset plus the costs attributable to bringing the asset to its working condition for its intended use. Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as Revaluation reserve in shareholders' funds. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against Revaluation reserve; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from 'Revaluation reserve' to 'Retained earnings'.

Except for freehold land, which is not depreciated, the cost or valuation of property, plant and equipment is depreciated on a straight line basis over their expected useful lives as follows:

Freehold buildings - 50 years
Plant and Equipment - 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Notes to the Company financial statements continued
31 December 2018

1 Accounting policies continued

Investments
Investments in subsidiaries and joint ventures are shown at cost less provision for impairment.

Intercompany
Intercompany balances are shown gross unless a right of set off exists. Balances are valued at fair value at inception and are repayable on demand

Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Financial instruments
All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through the income statement, which are initially measured at fair value. Financial assets and financial liabilities (including derivative instruments) are recognised on the Company statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously

Financial assets are derecognised, when and only when, a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Trade and other receivables
Trade receivables are generally short term in nature and are therefore are all classified as current assets and their fair value recognised at consideration due. The carrying value of trade receivables are considered to be the same as their fair values, due to their short term nature. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement based on expected losses.

Bank borrowings
Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade and other payables
Trade payables are generally short term in nature and are therefore are all classified as current assets and their fair value recognised at amounts payable The carrying value of trade payables are considered to be the same as their fair values, due to their short term nature.

Derivative financial instruments
The use of financial derivatives is governed by the company's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives.

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including cross currency interest rate swaps and forward foreign exchange contracts. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Fair value hedge accounting
The Company designates certain derivatives as fair value hedges. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. The Company only applies fair value hedge accounting for foreign currency exposure associated with the underlying hedged item. The gain or loss relating to the ineffective portion is also recognised in the income statement.

Cash flow hedges
At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts deferred in equity are recycled in the income statement 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 or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non financial asset or non financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and other short term highly liquid investments with a maturity of three months or less.

Borrowings
Borrowings represent short-and long term borrowings as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting.

Fees paid on the establishment of loan facilities are capitalised as prepayment for liquidity service and amortised over the term of the facility.

Share capital
Ordinary shares are classified as equity.

Dividend distribution
Dividend distributions to the Company's shareholders are recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

Financial guarantees
The Company issues guarantees in respect of bank and other facilities of subsidiaries and joint ventures.

2 Auditors' remuneration
The audit fee of Synthomer plc amounted to £11,000 (2017: £10,000).

Notes to the Company financial statements continued
31 December 2018

3 Profit attributable to equity shareholders

	2018 £m	2017 £m
Attributable to Synthomer plc	**46.9**	22.7

As permitted by Section 408 of the Companies Act 2006 no profit and loss account is presented for Synthomer plc.

4 Ordinary dividends

	2018 Pence per share	2017 Pence per share	2018 £m	2017 £m
Interim dividend	**4.0**	3.7	**13.6**	12.6
Proposed final dividend	**9.1**	8.5	**30.9**	28.9

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

5 Property, plant and equipment

	Land and buildings Freeholds £m
Cost or valuation	
At 1 January 2018	**2.8**
Additions	**0.2**
At 31 December 2018	**3.0**
At cost	**–**
At professional valuation in 1985	**2.8**
	3.0
Accumulated depreciation	
At 1 January 2018	**0.7**
Charge for the year	
At 31 December 2018	**0.7**
Net book value	
At 31 December 2018	**2.3**
Cost or valuation	
At 1 January 2017	2.8
Disposals	-
At 31 December 2017	2.8
At cost	
At professional valuation in 1985	2.8
	2.8
Accumulated depreciation	
At 1 January 2017	0.6
Charge for the year	0.1
At 31 December 2017	0.7
Net book value	
At 31 December 2017	2.1

Properties included at valuation would have been stated on a historical cost basis at cost of £1.9m (2017: £1.9m) and depreciation of £0.6m (2017: £0.6m).

Freehold land amounting to £1.8m (2017: £1.8m) has not been depreciated.

6 Investments

	Subsidiaries £m	Joint ventures £m	Total £m
Cost			
At 1 January 2018	**337.2**	**0.5**	**337.7**
Additions	**160.0**	**–**	**160.0**
Return of capital	**(292.6)**	**–**	**(292.6)**
Hedge adjustment (see below)	**3.2**	**–**	**3.2**
At 31 December 2018	**207.8**	**0.5**	**208.3**
Provisions			
At 1 January 2018	**–**	**0.2**	**0.2**
At 31 December 2018	**–**	**0.2**	**0.2**
Net book value			
At 31 December 2018	**207.8**	**0.3**	**208.1**
Net book value			
At 31 December 2017	337.2	0.3	337.5

Details of the Group's subsidiaries and joint ventures are given on pages 154 to 156.

During the year the Company designated up to €264.1m (2017: €232.5) of its borrowings as a FRS 101 fair value hedge against the designated Euro portion of its investment in Synthomer Jersey Limited of up to €264.1m (2017: €232.5m). The movement in the Euro borrowings is recorded in the profit and loss account along with the movement of the hedged investment.

Directors consider the value of investments to be supported by underlying assets.

7 Trade and other receivables

	2018 £m	2017 £m
Amounts owed by Group undertakings	**962.9**	708.6
Other receivables	**0.7**	0.6
	963.6	709.2

Amounts owed by Group undertakings are valued at fair value at inception and are repayable on demand.

Notes to the Company financial statements continued
31 December 2018

8 Borrowings

	2018 £m	2017 £m
Current borrowings		
Bank loans		
Overdrafts	**24.9**	14.8
Committed unsecured €55m loan expiring 21 November 2018	**–**	48.9
Committed unsecured €55m loan expiring 26 July 2019	**49.4**	
	74.3	63.7

	2018 £m	2017 £m
Non-current borrowings		
Bank loans		
Committed unsecured £370.0m multi currency Revolving Credit Facility expiring 30 July 2019	**–**	158.6
Committed unsecured €440m multi currency Revolving Credit Facility expiring 23 July 2022	**242.6**	
	242.6	158.6
Less: capitalised costs	**(1.8)**	(0.8)
	240.8	157.8

Bank loans are denominated in Euro (2017: Euro and Czech Koruna) and bear interest based on EURIBOR (2017: LIBOR and EURIBOR).

At 31 December 2018, the Company had available £152.4m (2017: £172.2m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Analysis of borrowings at carrying value by currency
The directors calculate the carrying value of the Company's borrowings as follows:

	Sterling £m	US dollar £m	Euro £m	Total £m
31 December 2018				
Bank loans and overdrafts	**5.2**	**3.2**	**308.5**	**316.9**
Capitalised costs	**(1.8)**	**–**	**–**	**(1.8)**
	3.4	**3.2**	**308.5**	**315.1**
Cash and cash equivalents				**(53.3)**
Net borrowings				**261.8**
31 December 2017				
Bank loans and overdrafts	9.5	5.3	207.5	222.3
Capitalised costs	(0.8)		-	(0.8)
	8.7	5.3	207.5	221.5
Cash and cash equivalents				(35.3)
Net borrowings				186.2

Cash and cash equivalents comprise cash at bank and other short term highly liquid investments with a maturity of three months or less.

9 Financial instruments

The fair value of financial instruments has been disclosed in the Company's statement of financial position as:

Fair value of financial assets	**2018** Loans and receivables £m	**2018** Fair value through Income statement £m	**2018** Total carrying value £m	2017 Loans and receivables £m	2017 Fair value through Income statement £m	2017 Total carrying value £m
Trade and other receivables excluding prepayments	**963.2**	**–**	**963.2**	708.6	–	708.6
Cash and cash equivalents	**53.3**	**–**	**53.3**	35.3	–	35.3
	1,016.5	**–**	**1,016.5**	743.9	–	743.9

Fair value of financial liabilities	**2018** Loans and payables at amortised cost £m	**2018** Fair value through Income statement £m	**2018** Total carrying value £m	2017 Loans and payables at amortised cost £m	2017 Fair value through Income statement £m	2017 Total carrying value £m
Bank loans and overdrafts	**315.1**	**–**	**315.1**	221.5	–	221.5
Trade and other payables	**262.9**	**–**	**262.9**	215.2	–	215.2
Derivatives at fair value	**–**	**5.3**	**5.3**		–	–
	578.0	**5.3**	**583.3**	436.7	–	436.7

A fuller description of financial instruments is included in note 23 of the consolidated financial statements on page 128.

10 Other creditors

	2018 £m	2017 £m
Amount due within one year		
Amounts owed to Group undertakings	**254.1**	213.0
Other creditors	**2.3**	0.8
Accruals and deferred income	**6.5**	1.4
	262.9	215.2

Amounts owed to Group undertakings are valued at fair value at inception and are repayable on demand.

11 Called up share capital

Details of the Company's share capital and outstanding share options are shown in note 28 of the consolidated financial statements on page 138.

12 Related party transactions

The Company has elected to take the allowable exemption in terms of FRS 101 to not disclose transactions with wholly owned subsidiaries.

13 Guarantees and other financial commitments

The Company has given guarantees amounting to £37.2m (2017: £55.7m) in respect of bank and other facilities of subsidiaries and joint ventures.

14 Share-based payments

For details of share based payments please refer to note 36 to the consolidated financial statements on page 142.

15 Employees

The Company had no employees during the year (2017: nil).

Notes to the Company financial statements continued
31 December 2018

16 Subsidiaries and joint ventures

Company	Trading/ Non-Trading	Registered address	Place of incorporation	Effective Group interest in equity %
Desa Baiduri Sdn Bhd	Non Trading (Letting of Properties)	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	70
Dimex Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Ecatto Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100*
Fine Chemicals Sdn Bhd	Non-Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	70
Harlow Chemical Company Limited	Non Trading	Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Holliday Pigments Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100*
Kind Action (M) Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	70
PAC Chemical (Shanghai) Co Limited (in the process of de registration)	Trading	Room 326, 3rd Floor, Building No.3, No.500 Bingke Road, Shanghai Free Trade Zone	China	100
PolymerLatex Ltd	Non Trading	Central Road, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Polymerlatex Sdn Bhd	Trading	1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	100
Quality Polymer Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	70
Revertex (Malaysia) Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	70
Revertex Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Rexplas Sdn Bhd	Non Trading (Dormant)	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	70
S.A. (300) Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100*
Shanghai Synthomer Chemicals Co Limited (HCE)	Trading	China Technical Centre, Building 53 55, Lane 1000 Zhangheng Road, Zhangjiang High tech Park, Pudong, Shanghai 201203	China	100
Star Pharma Limited	Non Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Super Sky Limited	Non Trading	Synthomer Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	50*
Synthomer (Thailand) Limited	Trading	3195/6 Vibulthani Tower 1 1st Floor, Rama IV Road, Klongton Sub-District, Klongtoey District Bangkok 10110	Thailand	100
Synthomer (UK) Limited	Trading	Temple Fields, Central Road, Harlow, Essex, CM20 2BH	United Kingdom	100
Synthomer 2016 Limited	Non Trading	Synthomer Building, Temple Fields, Central Road, Harlow, Essex, CM20 2BH	United Kingdom	100
Synthomer AS	Trading	Sokolov, Tovární 2093, Postal Code 356 01	Czech Republic	100
Synthomer Asua SL	Trading	Camino Sangroniz, No 8 Sondika 48150 Vizcaya	Spain	100

Company	Trading/ Non-Trading	Registered address	Place of incorporation	Effective Group interest in equity %
Synthomer Australia Pty Limited	Trading	C/o : Cosec Consulting Pty Ltd 58 Gipps Street, Collingwood, VIC 3066	Australia	100
Synthomer Austria GmbH	Trading	Industriepark Pischelsdorf 3435 Zwentendorf an der Donau	Austria	100
Synthomer Bangkok Limited	Trading	3195/6 Vibulthani Tower 1 1st Floor, Rama IV Road, Klongton Sub-District, Klongtoey District, Bangkok 10110	Thailand	100
Synthomer BV	Trading	Ijsselstraat 41, 5347 KG Oss	The Netherlands	100
Synthomer Deutschland GmbH	Trading	Werrastrasse 10, D 45768 Marl	Germany	100
Synthomer Finland Oy	Trading	P.O.B 175 FI-90101 Oulu	Finland	100
Synthomer France SAS	Trading	704 rue Pierre et Marie Curie 60170 Ribécourt-Dreslincourt	France	100
Synthomer Functional Solutions FZCO	Trading	Building East, Wing 2-office, No.201, Dubai	U.A.E	49[1]
Synthomer FZE	Trading	Dubai Airport Free Zone Authority, Dubai	U.A.E	49[1]
Synthomer Holdings (CZE) s.r.o	Non-Trading	V Celnici 1031/4, Nové Město, 11000, Prague 1	Czech Republic	100
Synthomer Holdings (Thailand) Limited	Non-Trading	No. 99/329 Soi Suanluang, Bangkho Sub District, Jomthong District, Bangkok	Thailand	100
Synthomer Holdings Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Synthomer Jersey Ltd	Non-Trading	44 Esplanade, St Helier, JE4 9WG	Jersey	100[3]
Synthomer LLC	Trading	1201 Peachtree Street NE, Atlanta, Fulton, GA 30361 (CT Corporation)	USA	100
Synthomer Middle East Company Limited	Trading	PO Box 7544, Dammam 31472	Saudi Arabia	49[1]
Synthomer Overseas Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Synthomer Participacoes Ltda	Trading	Av. Casa Verde, 3100, sala 01, bairro Casa Verde, CEP 02520 300, São Paulo-SP	Brazil	100
Synthomer S.r.l	Trading	Via delle Industrie 9, – 24040 Filago (BG)	Italy	100
Synthomer SAE	Trading	Industriel Zone 1 B, 10th of Ramadam City, Sharkiya	Egypt	88
Synthomer Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	100
Synthomer Speciality Additives AB	Trading	Durmakker 33, 9940 Evergem	Sweden	100
Synthomer Specialty Resins S.r.l	Trading	Via Morozzo 27, 12040 Sant'Albano Stura, CN	Italy	100
Synthomer Trading Limited	Trading	45 Pall Mall, London, SW1Y 5JG	United Kingdom	100
Synthomer USA LLC	Trading	160 Greentree Dr. Suite 101 Dover, Delaware, 19904 (Registered agent address)	USA	100
Synthomer Vietnam Co Ltd	Trading	No. 8 Road 6 (Lots No 101, 109) Sang Than I Industrial Park, Di An District, Binh Duong Province	Vietnam	60
Temple Fields 510	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields 512 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields 514 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100[1]
Temple Fields 515 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100

Company financial statements

Notes to the Company financial statements *continued*
31 December 2018

Company	Trading/ Non-Trading	Registered address	Place of incorporation	Effective Group interest in equity %
Temple Fields 522 Limited	Non Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100[illegible]
Temple Fields 523 Limited	Non Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields 530 Limited	Non Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields 534 Limited	Non Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields GmbH	Non Trading	Innerstetal 2, 38685 Langelsheim	Germany	100
Temple Fields GmbH & Co Chemie oHG (formerly James Robinson GmbH & Co Chemie oHG)	Non-Trading	Innerstetal 2, 38685 Langelsheim	Germany	100
Temple Fields Verwaltungs GmbH (formerly James Robinson Verwaltungs GmbH)	Non-Trading	Innerstetal 2, 38685 Langelsheim	Germany	100
Terra Simfoni Sdn Bhd	Non-Trading (Investment Holding)	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim	Malaysia	100
UQUIFA Italia S.r.l	Non Trading	Piazza Cavour 3, Milano	Italy	100
William Blythe Limited	Trading	Synthomer Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Yule Catto BV	Non Trading	Ijsselstraat 41, 5347 KG Oss	The Netherlands	100
Yule Catto France SA	Non-Trading	6 Place de la Madeline, 75008 Paris	France	100
Yule Catto Holdings GmbH	Non-Trading	Werrastrasse 10, 45768 Marl	Germany	100
Yule Catto Inc	Non Trading	1201 Peachtree Street NE, Atlanta, Fulton, GA 30361	USA	100
Yule Catto International SA	Non-Trading	6 Place de la Madeline, 75008 Paris	France	100
Yule Catto Nederland BV	Non-Trading	Ijsselstraat 41, 5347 KG Oss	The Netherlands	100
Yule Catto Overseas	Non Trading	Temple Fields, Central Road, Harlow, Essex, CM2O 2BH	United Kingdom	100
Yule Catto Spain SL	Non Trading	C/O Rambla de Catalunya no. 53, Atico, 08007 Barcelona	Spain	100
Yule Catto Western Europe Limited	Non-Trading	Yule Catto Building, Temple Fields, Central Road,Harlow, Essex, CM2O 2BH	United Kingdom	100[illegible]

Notes
1 *Joint ventures*
2 Harlow Chemical Company Limited was incorporated in UK but is resident in the Netherlands
3 Shares directly held by Synthomer plc
4 Dissolved January 2019

Five year financial summary

Underlying performance[a]	2018 £m	2017 £m	2016 £m	2015 £m	2014 (restated)[f] £m
Revenue	**1,618.9**	1,480.2	1,045.7	870.1	936.4
EBITDA[b]	**181.0**	176.2	160.1	125.0	118.0
Operating profit[c]	**142.1**	139.0	130.2	102.9	96.5
Finance costs	**(7.0)**	(9.0)	(8.0)	(7.6)	(10.5)
Profit before taxation	**135.1**	130.0	122.2	95.3	86.0
Basic earnings per share	**32.8p**	30.7p	28.3p	21.5p	19.5p
Dividends per share	**13.1p**	12.2p	11.3p	8.6p	7.8p
Dividend cover	**2.5**	2.5	2.5	2.5	2.5
Net borrowings[d]	**(214.0)**	(180.5)	(150.3)	(77.4)	(112.1)
Capital expenditure[e]	**75.7**	60.3	45.6	22.8	22.0

IFRS – continuing operations	2018 £m	2017 £m	2016 £m	2015 £m	2014 (restated)[f] £m
Revenue	**1,618.9**	1,480.2	1,045.7	870.1	936.4
EBITDA[b]	**181.0**	176.2	160.1	125.0	118.0
Operating profit[c]	**128.7**	95.4	144.7	80.3	65.1
Finance costs	**(8.4)**	(9.0)	(8.0)	(7.8)	(11.3)
Profit before taxation	**120.3**	86.4	136.7	72.5	53.8
Basic earnings per share	**29.4p**	21.8p	32.5p	17.8p	13.3p
Dividends per share	**13.1p**	12.2p	11.3p	8.6p	7.8p
Dividend cover	**2.2**	1.8	2.9	2.1	1.7
Net borrowings	**(214.0)**	(180.5)	(150.3)	(80.1)	(114.1)
Capital expenditure[e]	**75.7**	60.3	45.6	22.8	22.0

Notes
- a As presented in the consolidated income statement on page 100
- b As defined in the accounting policies at note 2 and reconciled in note 6
- c As defined in the accounting policies at note 2
- d As defined in note 2 to the consolidated financial statements and reconciled in note 22
- e As shown with the consolidated cash flow statement
- f Restated for impact of IAS19 revised

Other information

Glossary of terms

AGM	Annual General Meeting
AIMS	Accident and Incident Management System
APMs	Alternative Performance Measures
ARW	Asia and Rest of the World
C&C	Construction and Coatings
C&F	Carpet and Foam
CGU	Cash Generating Units
CH_4	Methane
CIA	Chemical Industries Association
CO_2	Carbon Dioxide
CO_2e	Carbon Dioxide equivalent
Capital employed	Net assets excluding third party net debt
Constant currency	Reflects current year results for existing business translated at the prior year's average exchange rates, and includes the impact of acquisitions.
CRM	Customer Relationship Management system
CSR	Corporate Social Responsibility
DEFRA	Department of Environment, Food and Rural Affairs
EBITDA	EBITDA is calculated as operating profit before depreciation, amortisation and Special Items
EGM	Extraordinary General Meeting
ENA	Europe and North America
EPS	Earnings Per Share
ERP	Enterprise Resource Planning
ESG	Environmental, Social and Governance
FP	Functional Polymers
FRC	Financial Reporting Council
Free cash flow	Net cash flow from operating activities, after net interest paid and purchases and proceeds from sale of non-current assets and investments
FRS	Financial Reporting Standard
FS	Functional Solutions
GHGs	Greenhouse Gases
GJ	Gigajoule
GWP	Global Warming Potential
H&P	Health and Protection
HR	Human Resources
HSSBR	High Solids Styrene Butadiene Rubber
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
IS	Industrial Specialities
ISA	International Standards of Auditing
KPIs	Key Performance Indicators
ktes	Kilotonne or 1,000 tonnes (metric)
LTA	Lost Time Accident
LTIP	Long Term Incentive Plan
M&A	Mergers and Acquisitions
MOC	Management of Change
MYR	Malaysian Ringgits
N_2O	Nitrous Oxide
NBR	Nitrile Butadiene Rubber

Net borrowings	Net borrowings represent cash and cash equivalents together with short and long-term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting, non-recourse factoring arrangements, and the inclusion of financial assets
Net debt	Borrowings and other financial liabilities less cash and cash equivalents
NOx	Nitrogen Oxide
Operating profit	Operating profit represents profit from continuing activities before finance costs and taxation
PBT	Profit Before Tax
PE	Performance Elastomers
PPE	Property, Plant and Equipment
PSP	Performance Share Plan
PTW	Permit to Work
PVC	Polyvinyl Chloride
R&D	Research and Development
ROIC	Return on Invested Capital is calculated as Group Underlying operating profit as a percentage of Group capital employed
SBR	Styrene Butadiene Rubber
SEC	Specific Energy Consumption
SHE	Safety, Health and Environment
SHEMS	Safety, Health and Environment Management System
The Code	The UK Corporate Governance Code
TSR	Total Shareholder Return
UK GAAP	UK Generally Accepted Accounting Practice
Underlying performance	Underlying performance represents the statutory performance of the Group under IFRS, excluding special items
VOCs	Volatile Organic Compounds

Advisers

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Harlow
Essex
CM20 2BH

Registered number 98381

Company Secretary
Richard Atkinson

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Commerzbank AG
HSBC Bank plc
Citibank
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SEB
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