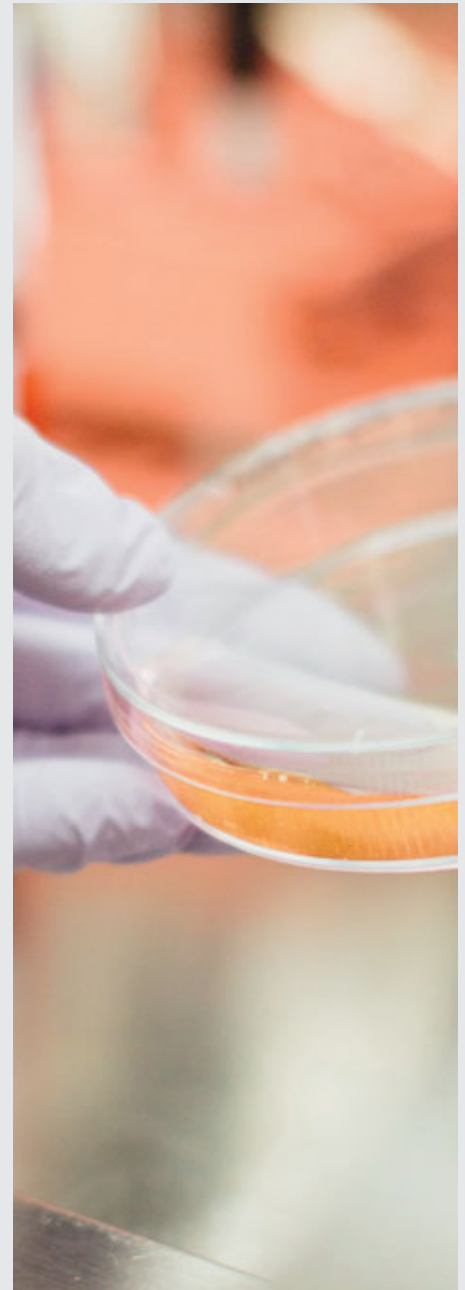


BUILDING GLOBAL DIFFERENTIATION



Synthomer plc

We continue to make good progress towards our strategic objectives despite challenging market conditions in 2019. The acquisition of the highly complementary OMNOVA Solutions Inc will extend our geographic reach, expand our global platform and allow us to further differentiate our business. Our successful capital investment expansion programme in 2018/2019 positions us well to capture higher-than-market growth and extend our leadership positions in our core markets.

Who we are

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

Our purpose

As a global leader in water-based polymer chemistry, our purpose is to continually innovate to meet the needs of our customers and society in a sustainable way.

What we do

We operate through three global businesses – **Performance Elastomers (PE)**; **Functional Solutions (FS)**; and **Industrial Specialities (IS)**.

Performance Elastomers is focused on healthcare, carpet and paper markets through our Nitrile Butadiene Rubber latex (NBR) and Styrene Butadiene Rubber latex (SBR) water-based products. Functional Solutions is focused on coatings, construction, adhesives and technical textiles markets through our acrylic and vinylic water-based dispersions.

Industrial Specialities is focused on our speciality chemical additives and non-water-based chemistry for a broad range of applications from polymer additives and monomers to emerging materials and technologies.

Our culture

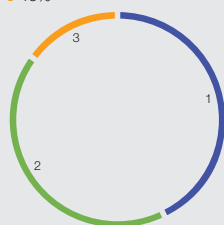
Synthomer is fully committed to building a business where the people, purpose, culture and values of the Group are fully aligned. Synthomer is a diverse global company with an inclusive culture which embodies meritocracy, openness, fairness and transparency.

Our values

Synthomer has five core values. At the heart of our business is SHE (Safety, Health and Environmental) – we always have time to work safely. We are accountable – we deliver our promises. On innovation – we welcome change and new ideas. For teamwork – we recognise that we are stronger as one team. For integrity – we act with integrity and show respect.

Revenue

- 43%
- 42%
- 15%



BUILDING GLOBAL DIFFERENTIATION

Financial highlights (see page 154 for definitions)

EBITDA	Underlying PBT	Underlying EPS	Free Cash Flow	Profit before tax	IFRS basic earnings per share
<u>£177.9m</u>	<u>£116.2m</u>	<u>25.3p</u>	<u>£92.8m</u>	<u>£100.5m</u>	<u>21.5p</u>
2018: £181.0m	2018: £135.1m	2018: 30.7p	2018: £27.8m	2018: £120.3m	2018: 27.4p

Non-Financial Highlights

Volume	Sales volume from new products	Recordable accident frequency rate	Energy consumption per tonne
<u>1,465.7ktes</u>	<u>22%</u>	<u>0.20</u>	<u>3.63GJ/t</u>
2018: 1,517.6ktes	2018: 21%	2018: 0.23	2018: 3.50GJ/t

Underlying statement

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 4. 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.

Key stories from this year

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Innovative solutions that create and sustain value

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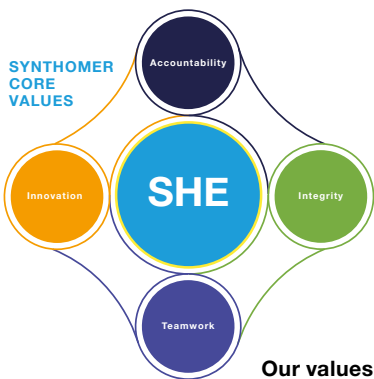
Positioned well for future growth

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Business growth through acquisitions

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Building sustainably

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Continually improving our business

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Our investment case

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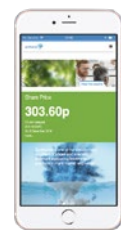
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www.synthomer.com

Further information on the Group is available through our website at www.synthomer.com

Synthomer at a glance

Innovative solutions that create and sustain value

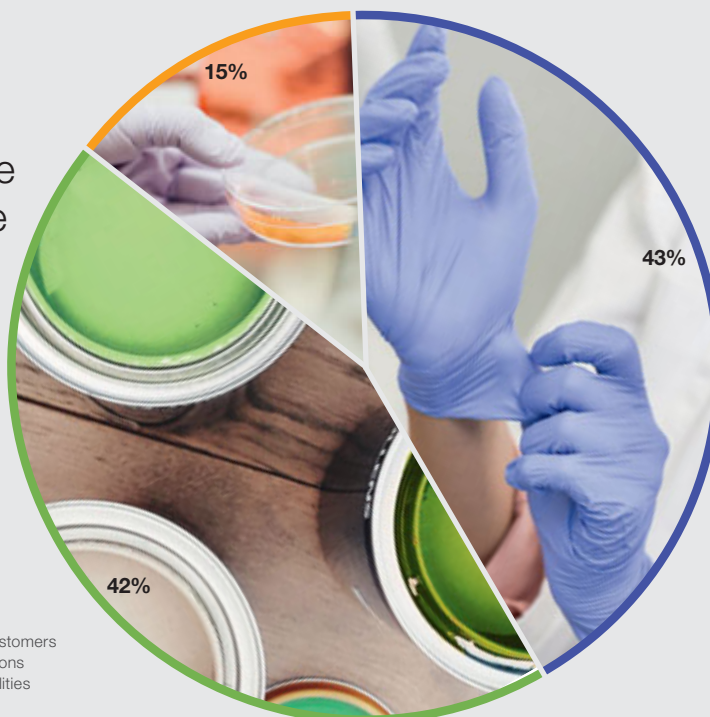
c2,900
employees

Over
4,000
customers

25
production sites

22%
of sales volume
from products
less than five years old

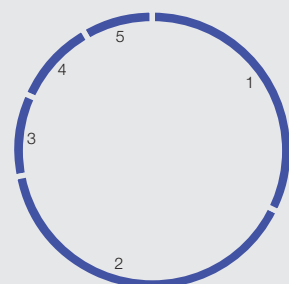
What we
produce
(Revenue)



- Performance Elastomers
- Functional Solutions
- Industrial Specialities

Performance Elastomers

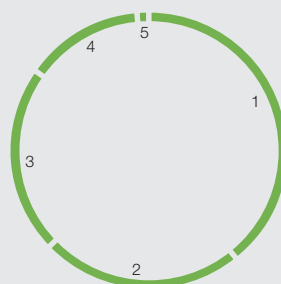
Volume



1. Paper	32.4%
2. Health & Protection	39.6%
3. Carpet	9.9%
4. Compounds	9.8%
5. Foam	8.3%

Functional Solutions

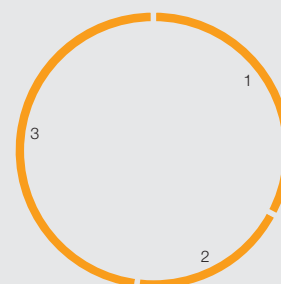
Volume



1. Coatings	39.4%
2. Textiles	23.4%
3. Construction	22.1%
4. Adhesives	13.8%
5. Other	1.2%

Industrial Specialities

Volume



1. Coatings	32.9%
2. Polymer Additives	19.1%
3. Monomers	48.0%

Volumes

849.1ktes
2018: 859.5ktes

Revenue	Underlying operating profit
£623.7m	£71.5m
2018: £704.5m	2018: £87.2m

EBITDA	IFRS operating profit
£96.3m	£71.2m
2018: £107.9m	2018: £84.7m

Market position

No 2 producer globally in NBR latex.
No 1 producer in European SBR latex.
No 1 producer globally of High Solids SBR.

Volumes

487.4ktes
2018: 526.0ktes

Revenue	Underlying operating profit
£612.8m	£52.3m
2018: £680.1m	2018: £53.0m

EBITDA	IFRS operating profit
£69.9m	£48.0m
2018: £64.1m	2018: £50.4m

Market position

Top five global water-based polymer producer, with leadership positions in dispersions in Europe, Middle East and Asia.

Volumes

129.2ktes
2018: 132.1ktes

Revenue	Underlying operating profit
£222.6m	£16.0m
2018: £234.3m	2018: £16.7m

EBITDA	IFRS operating profit
£24.8m	£11.3m
2018: £23.5m	2018: £12.1m

Market position

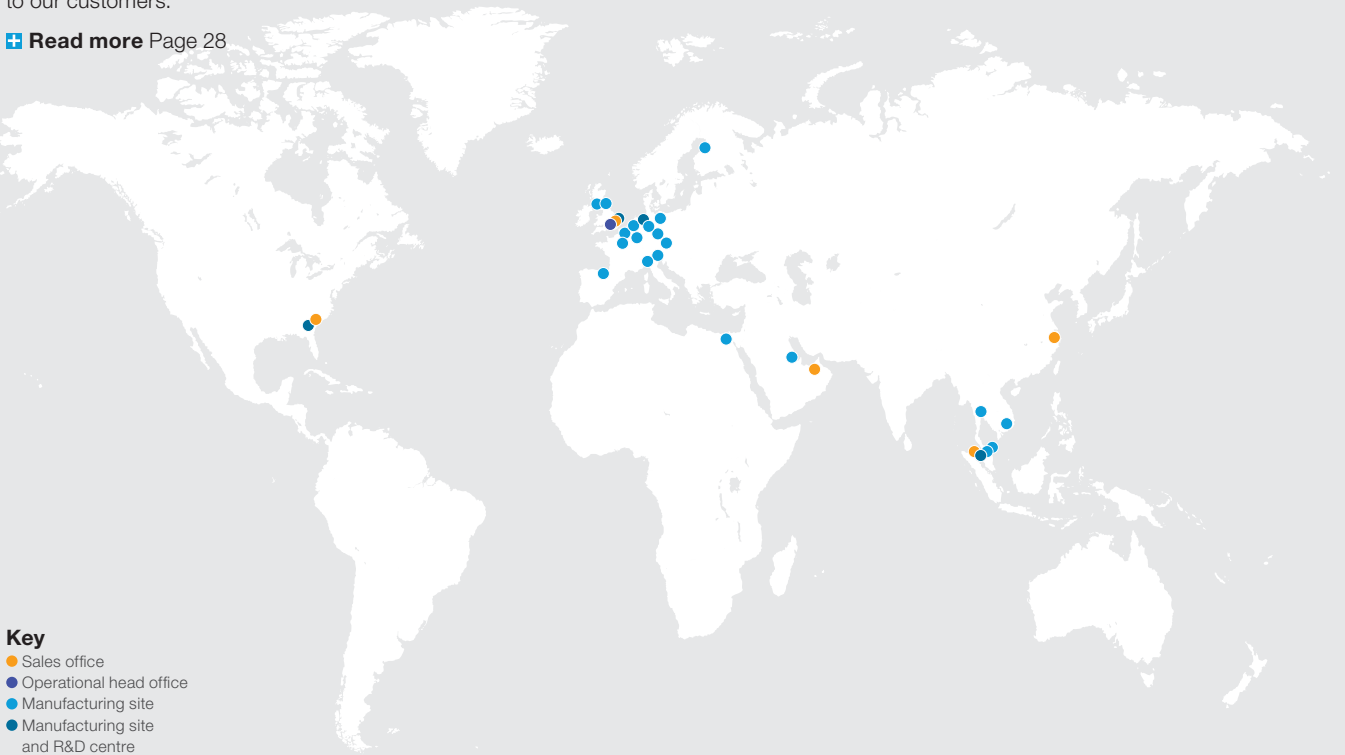
Leading positions in selected niche speciality chemical markets globally.



How we do business

The way we do business has become increasingly global as we follow our customer requirements, extend our global operating network and leverage our focus on research, development and innovation. Our acquisition of OMNOVA Solutions Inc will extend our geographic reach, expand our global platform and allow us to further differentiate our business. Our global divisional structure allows the simple integration of OMNOVA into our structure whilst ensuring our market alignment and proximity to our customers.

[+ Read more](#) Page 28



Key

- Sales office
- Operational head office
- Manufacturing site
- Manufacturing site and R&D centre



Our Environmental, Social and Governance approach

As a global leader in water-based polymer chemistry, our purpose is to continually innovate to meet the needs of our customers and society in a sustainable way. Today, our water-based products eliminate the use of over 500ktes of volatile organic compounds containing solvents, with our innovation KPI rapidly introducing state-of-the-art products with regulatory and environmental compliance. Increasingly we focus on projects around alternative raw materials and lower energy intensive products and technologies. Our continuous improvement programmes in all our operations focus on driving efficiency and excellence to minimise the use of resources. We are resolutely focused on sustainability and environmental, social and governance (ESG) improvements, and we are committed to reporting under the Global Reporting Initiative (GRI) framework and measuring our progress against internationally recognised standards. We pride ourselves on the progress that has been made and are determined to deliver on our targets and objectives, recognising that there is more to be done in this important area.

[+ Read more](#) in our Sustainability section on page 46.

Our ESG pillars

-  Strategy
-  Governance and compliance
-  People
-  Sustainable value chain
-  Health and safety
-  Environment

Our investment case

Our strong geographic and end market diversity combined with increasing product differentiation and a clear strategy for growth offers a compelling investment case.



OUR INVESTMENT CASE





Six compelling reasons to invest in Synthomer:

1 We are a differentiated global chemical company with leadership positions in attractive GDP-plus end markets

2 We are continuing to grow the proportion of speciality chemicals in our portfolio

3 Increasing demand for our products is underpinned by global mega trends and our blue-chip customer base

4 Strong organic and inorganic growth drivers are at the core of our strategy – with our growth capex programme and highly synergistic OMNOVA acquisition driving further progress

5 We are a sustainable and responsible operator – a global leader in water-based polymers, eliminating the need for volatile organic compound containing solvent-based products in diverse end markets

6 We have attractive financial metrics with resilient Group unit margins and strong free cash flow



For more information on our investment case see www.synthomer.com

Chairman's statement



Neil Johnson
Chairman

STRENGTHENING GOVERNANCE AND WELL POSITIONED FOR GROWTH

Governance highlights

- Commitment to achieve one third female Board membership
- Active 'employee voice' programme
- Policies and practices implemented to comply in full with the 2018 Governance Code

Overview

2019 has been a challenging year for the global chemical industry. Despite the underlying market conditions Synthomer has made considerable progress to underpin and deliver long-term growth. In July 2019 we announced the acquisition of OMNOVA Solution Inc, a highly synergistic US speciality chemical business and long-term target for Synthomer. The acquisition, which is expected to complete in March 2020, will ensure continued growth for the coming years. We also largely completed a major investment programme bringing on-line additional low-cost capacity to growth markets and delivered record levels of innovation through customer focused new product development.

Our EBITDA was broadly stable at £177.9m, down 1.7% on the record EBITDA delivered of £181.0m in 2018. This resilient performance reflects growth in Functional Solutions, Industrial Specialities and the Performance Elastomers NBR markets, which helped to offset a shortfall in the Performance Elastomers SBR markets, where European paper has been particularly weak. Underlying profit before tax decreased by 14.0% from £135.1m to £116.2m with depreciation and interest costs up £13.2m (34%) and £2.6m (37%) respectively, as a result of our recent investment in growth capacity and IFRS 16 Leases accounting. IFRS profit before tax decreased by 16.5% from £120.3m in 2018 to £100.5m.

Building a platform for future growth

Our acquisition of OMNOVA Solutions Inc announced in July will be the largest acquisition in the Group's history. OMNOVA brings greater geographical diversity and product differentiation in our core chemistries and markets. It follows the successful completion of three bolt-on transactions since 2016 which have seen Synthomer strengthen



Acquisition of OMNOVA
Read more on [page 18](#)

“Despite 2019 being a challenging year for the global chemical industry I am pleased to report that the Group has made considerable progress in positioning the business to deliver long term organic and inorganic growth and is placed well for the future.”

36ktes
at Worms (Germany)

12ktes
at Roebuck (USA)

its market positions, expand its technology and geographic presence and drive significant synergies and profitable growth.

Over the last three years we have made significant investment to organically expand our business, which will position us well as markets recover and provide a platform for future growth. New capacity has been introduced in Performance Elastomers and Functional Solutions. In Functional Solutions, our two major speciality acrylic dispersions plant expansions were commissioned successfully, with 36ktes at Worms (Germany) and 12ktes at Roebuck (USA). 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. Our largest investment, the 90ktes plant expansion at our Pasir Gudang (Malaysia) Nitrile latex plant, was completed successfully in late 2018 and is now producing state-of-the-art products to support this high growth market.

Purpose, culture and values

The Board is committed to building a business where the purpose, culture and values of the Group are fully aligned. As a global chemical company with a leadership position in water-based polymer chemistry, our purpose is to continually innovate to meet the needs of our customers and society in a sustainable way.

We continue to develop an open, diverse and transparent culture. We remain resolute in our commitment to achieving world class performance in Safety, Health and Environmental activities. Our updated Code of Conduct has been successfully implemented to provide clarity in the standards we expect as a Group.

Our people agenda has made good progress in 2019 and there is much to come in 2020 as we welcome new colleagues from OMNOVA. In 2019 we have strengthened our international graduate recruitment, leadership and learning development programmes, and further strengthened our employee brand.

Our core values of SHE, Accountability, Integrity, Teamwork and Innovation continue to unify the way Synthomer does business and, combined with our culture, underpin the success of the Group. Positively, early impressions suggest OMNOVA shares a similar culture to Synthomer which will allow swift progress as the companies come together.

Governance

With new policies and practices in place from the start of 2019 we were in full compliance with the 2018 Corporate Governance Code throughout the year. The Board and its Committees were very active during the year as governance mechanisms were deployed to support our value creation, engage extensively with shareholders and fulfil our leadership and oversight responsibilities.

Our Remuneration Committee Chair led an extensive shareholder consultation exercise which was very helpful in shaping and developing the proposed new Directors' remuneration policy, which will be put forward for approval at the forthcoming AGM.

Following the significant minority vote against my re-election at the 2019 AGM, Brendan Connolly, as Senior Independent Director, led an engagement exercise with a number of our significant shareholders. The results of that engagement and the Board's response were published on 22 October 2019. As part of that response the Nomination Committee has underway a search process for the recruitment of an additional female Non-Executive Director during 2020, which will bring female representation on our Board to 30% in 2020 and to one third in due course. Following careful consideration the Board also concluded that there are no concerns over my availability to devote sufficient time to my role at Synthomer.

The importance of diversity and its key role in effective governance and is fully recognised. Whilst good progress has been made at Board level and amongst the wider workforce, we are conscious that improvement is required in gender diversity amongst our Executive Committee and their direct reports. We continue to develop and implement succession planning strategies to address this and will engage with and update our shareholders as we make progress.

Chairman's statement continued

As the designated lead Non-Executive Director, Alex Catto undertook an extensive workforce engagement programme during the year and provided valuable feedback and insight to the Board on employee sentiment in our main national employment markets. Our wider stakeholder processes including stakeholder identification, engagement mechanisms and the impact of their views on our decision making, is described throughout this report and summarised in the Governance section.

Environmental, Social and Governance (ESG)

As a global leader in water-based polymer chemistry, our products are responsible for avoiding the use of significant amounts of volatile organic compounds and solvents every year. Our product range and strong innovation pipeline deliver materials to meet current and future needs of society and do so in an increasingly sustainable way. Our innovative new products deliver benefits of lower energy intensity, removal of solvents and helping customers to meet more stringent regulatory standards. We recognise that there is much to do to meet the needs of society on carbon emissions and climate change, and through our continuous innovation we are committed to addressing the economic, environmental and social aspects of sustainability.

Synthomer manufactures speciality chemicals using large scale and complex manufacturing processes that consume hazardous raw materials. Our standards relating to SHE are high and maintaining these is fundamental to the way we operate our business.

We have clear policies and procedures that underpin all our processes and we remain resolute in our commitment to learn lessons from our activities, share best practices and continually improve.

Quantifying, improving and communicating the sustainability of all our activities continues to strengthen with the introduction in 2019 of our first ESG report aligned with Global Reporting Initiative (GRI) Standards. With increased focus on ESG, our programme identifies key issues affecting our stakeholders, communicates the activities being undertaken and sets key Group performance targets for the future.



Sustainability and our innovative new products
Read more on page 46

Synthomer recognises the significance and importance of being a responsible company. We take responsibility for the life cycle of our products and the impact that 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 1990s.

We operate in 24 countries around the globe and we always aim to make a positive contribution to the communities we operate in. We recognise that Synthomer is built on reputation and the trust and confidence of our stakeholders – not only our shareholders and employees but also our suppliers, customers and the wider community and environment in which we operate. Through our 'We Care' initiative, we empower and support Synthomer employees who are passionate about making a difference to those around them in their communities as a part of charitable activities or where learning and career development can be promoted in areas such as chemistry and engineering. Our social media presence continues to highlight the excellent contribution made by our employees worldwide.

Dividend

The Board has recommended a final ordinary dividend of 6.9p (2018: 8.5p) per share. Taken with the 2019 interim ordinary dividend of 4.0p (2018: 3.7p) per share, the total ordinary dividend is 10.9p (2018: 12.2p). The total dividend for the year is consistent with the Group's dividend policy. The final dividend per share is subject to shareholder approval at the Annual General Meeting on 29 April 2020 and will be payable on 7 July 2020 to those shareholders registered at the close of business on 5 June 2020.

Neil Johnson

Chairman
5 March 2020



Calum MacLean
Chief Executive Officer

BUILDING GLOBAL DIFFERENTIATION

Strategic highlights

- Resilient performance in all businesses apart from SBR in Europe in the face of difficult market conditions
- Acquisition of OMNOVA Solutions Inc will strengthen platform for future growth
- New low cost capacity introduced to drive organic growth
- Continued transformation and self-help programmes in place to underpin performance
- Record return on R&D investment – 22% of sales volumes from new products launched in the past five years
- Strong Free Cash Flow at £92.8m (2018: £27.8m) remains a key feature of the Group

£177.9m

EBITDA

Performance

2019 has undoubtedly been a challenging year for Synthomer and the broader chemical industry, driven by economic uncertainty and a slowdown in key markets. Despite these difficult market conditions, the Group has shown resilience across our businesses, testament to our differentiated portfolio of products serving diverse end markets across the globe. We have made strong progress in positioning the business to continue to deliver on its strategy of driving long-term growth through proactive organic and inorganic investment decisions.

Our acquisition of OMNOVA Solutions Inc was announced in July and will be the largest acquisition in the history of the Group. OMNOVA is a highly synergistic US based speciality chemicals company which brings greater geographical diversity and product differentiation in our core chemistries and markets.

Synthomer has also made strong operational progress during 2019. New low-cost capacity has been successfully introduced in higher growth markets across our Performance Elastomers and Functional Solutions asset base. This capacity will continue to drive EBITDA growth in the coming years.

In a challenging macroeconomic environment our EBITDA decreased by 1.7% from £181.0m to £177.9m including the benefit of the adoption of IFRS 16 Leases of £7.9m. The resilience of our business is underpinned by our geographic, product and end market diversity. In this context we were pleased with the improvements in our Functional Solutions, Industrial Specialities and Performance Elastomers NBR markets largely offsetting the disappointing performance in Performance Elastomers SBR markets principally attributable to a challenging

European paper business. Functional Solutions saw a 9.0% increase in EBITDA to £69.9m despite a 7.3% reduction in volumes which was impacted by the sale of 51% of the Group's Dubai operations in June 2018. Industrial Specialities saw a 5.5% increase in EBITDA to £24.8m demonstrating the resilience of this business in the face of challenges in the automotive, monomer and coatings markets. EBITDA in Performance Elastomers decreased by 10.8% to £96.3m where the impact of the SBR slowdown in Europe and closure in Q4 2018 of our Malaysian natural rubber production line exceeded growth in the NBR business.

Underlying profit before tax reduced from £135.1m to £116.2m as a result of reduction in EBITDA, the rise in depreciation reflecting our significant growth capex programme over the last three years, and the rise in interest costs relating to our interest rate fix. IFRS profit before tax decreased by 16.5% from £120.3m in 2018 to £100.5m in 2019 with the reduction consistent with the reduction in Underlying profit before tax.

Free Cash Flow of £92.8m (2018: £27.8m) was strong, primarily reflecting tight working capital control in 2019. Capital spend was in line with expectations at £69.1m (2018: £75.7m) and in line with our capital investment capacity expansion programme. As part of our acquisition of OMNOVA, Synthomer issued shares in a rights issue raising £199.1m net of fees. Until the acquisition completes, these proceeds have been used to repay borrowings, leading to a closing net cash position of £20.7m (2018: net debt of £214.0m).

Chief Executive Officer's review continued

25%
Reduction in our
rolling injury rate

Safety, health and environment

Synthomer's success is directly related to the Group conducting its business in a safe and responsible way. Synthomer sets high standards in relation to safety, health and environmental (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 these standards is reported at each Executive Committee and Board meeting.

Good progress has been made in process safety, occupational health and safety, and environmental compliance, with the Group continuing to target consistent world class performance through its strong operating practices. The acquisition of OMNOVA represents the opportunity to deploy our proven techniques across our expanded network.

In 2019 we saw a 25% reduction in our rolling all injury rate and a 21% reduction in our process safety rate, with long-term underlying rates reducing significantly. Our focus on permit to work system improvements was maintained and targets for auditing high hazard and live permits achieved, embedding our required standards and lessons to learn around our global operations network.

Inorganic growth – Acquisition of OMNOVA

The £654m acquisition of OMNOVA will provide an ideal platform for Synthomer to deliver against its exciting sustainable growth strategy. OMNOVA has been a Synthomer target for some years due to its common chemistry, technology and access to attractive markets. The acquisition will extend Synthomer's geographic platform in the core markets of the US and China, making it a truly global leader in water-based solutions with increased specialisation, greater scale for more efficient production and distribution, and an increased innovation pipeline. The combination brings strong synergy potential which in turn will bring growth and additional stakeholder value for the coming years. We expect to deliver \$29.6m of synergies over three years from completion. A dedicated and experienced integration team has been identified to ensure that the integration plan is delivered. Synthomer successfully introduced a new global business structure in 2019 to better serve our customers, drive operational efficiencies and leverage our product portfolio globally. Due to the common chemistry and markets with OMNOVA, this global business structure will operate unchanged with larger, lower cost global businesses providing the most efficient and effective structure to operate the integrated business.

Our integration of OMNOVA will be a key focus for the Group as soon as the transaction completes, which we expect to be in March 2020. The accelerated reduction of debt will also be a

major emphasis in accordance with the business plan for the acquisition of OMNOVA. Once the reduction of leverage has been delivered, the Group will resume its disciplined approach in assessing bolt-on and transformational acquisition opportunities to drive further stakeholder value.

Organic growth

Our strategy of sustainable growth in the chemical sector is built on our expanding broad blue-chip customer base with long-term established relationships, wide global platform and the efficient production of increasingly differentiated chemicals characterised by high barriers to entry. Our market leading positions, focused innovation and global asset network provide the foundations for our organic growth strategy.

In 2019 we saw the results of our investment in the commissioning of new low cost capacity by debottlenecking existing facilities in Performance Elastomers and Functional Solutions. In Q3 2019 our new dispersion assets in Worms (Germany) (36ktes) and Roebuck (USA) (12ktes) came online. These plants produce higher margin, made-to-order acrylic dispersions in locations close to their markets. Accessing GDP plus markets, these plants will provide opportunities in Functional Solutions over the next two to three years. In Performance Elastomers our 90ktes Nitrile latex capacity expansion at Pasir Gudang (Malaysia) came online at the end of 2018, and through 2019 this has delivered improved market share and growth in our attractive health and protection glove market. With a further investment agreed to deliver an additional 60ktes at Pasir Gudang in Q4 2021, Synthomer is committed to supporting long-term growth in the Nitrile market through capacity expansion and innovation of market leading products such as our patented SyNovus® range.

Continued focus on transformation and cost reduction programmes

2019 has been a difficult year for our SBR business, which serves the paper, carpet, compounds and foam markets. A combination of slower economic activity and ongoing reduction in demand for coated paper has substantially depressed demand in the major end use segments during the year. In the absence of growth, our SBR plants ran at lower than anticipated utilisation rates during the year, and significant over capacity now exists in the market. An extensive review of our European SBR network is now largely complete, with the objective of optimising the network to operate in the most efficient and effective way. All of our SBR sites remain profitable and we have a range of value-enhancing options available to us. A further update will be provided once the review is complete and the appropriate course of action has been determined.

“The £654m acquisition of OMNOVA will provide an ideal platform for Synthomer to deliver against its exciting sustainable growth strategy.”

Through our Operational Excellence the Group continues to focus on transformation and cost reduction programmes across our wider network. Against a backdrop of challenging market conditions, these self-help opportunities are key to the delivery of performance and the generation of long-term value. In addition to work across our SBR network, transformation projects to drive improved long-term profitability are underway in Kluang (Malaysia), Sokolov (Czech Republic), Ribécourt (France) and Chonburi (Thailand). On cost reduction, our ‘Mindset’ non-manpower fixed cost reduction programme commenced in 2019 in Europe and will be rolled out further in 2020 with the target to deliver £1.5m of savings during the year.

In order to deliver our long-term inorganic growth agenda and to ensure the efficiency, effectiveness and compliance of our organisation, the Group has commenced a business transformation ‘Pathway’ programme. The programme is designed to deliver a consistent set of global business processes across a unified target operating model, to transform our technology architecture into a single set of proven integrated systems and to build additional efficiency and effectiveness globally. The programme will begin to deliver benefits in early 2021, is expected to be completed for the existing Group in 2022 and meets the capital expenditure hurdle rates for Synthomer, providing an attractive payback for the Group and a sound platform for future growth.

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.

Innovation

Innovation continues to be a core pillar of business growth, allowing Synthomer to secure improved differentiated market positions and provide solutions to generate added value for our customers. In 2019, the Group had 16 new product launches across a broad base of application areas. Our key performance indicator for innovation is the proportion of a year’s sales volumes attributed to new products launched in the past five years, which increased to 22% in 2019, and remains a key differentiator for the Group. We continue to focus on protecting our proprietary intellectual property through patents, with eleven filings in 2019.

The acquisition of OMNOVA presents significant innovation opportunities for the Group. An increased innovation pipeline, a strengthened technology portfolio across wider markets and geographies and further opportunities for synergies as we focus our activities and standards. Our operational excellence teams will be key to the delivery of product and technology transfers as we meet the needs of a wider customer and geographic base to deliver best in class differentiated solutions to accelerate the delivery of our business strategies.

To further enhance our innovation facilities, the Group has invested in a state-of-the-art Innovation Centre in Malaysia which will open in Q3 2020. The new facility will bring additional space and allow us to build upon the accelerated time-to-market for new innovations that we have delivered in recent years.

In 2019 Synthomer increased its collaborative research with supply chain partners and academic institutions. We have supported a large European Union project, involving the Universities of Montpellier and Torino, looking at the use of plant-derived sustainable raw materials as components of Synthomer’s core water-based polymer systems. Broad collaboration allows the Group to address more effectively the new requirements resulting from mega trends which will drive long-term growth, regulations and changes to product and market requirements. Our innovation activities increasingly focus on the sustainability of our methods to develop less energy intensive products, to ensure ease of recyclability for our supply chain, and to allow our customers to meet ever more stringent regulatory requirements.

Outlook

In the year ahead, we are not anticipating any change to the economic environment, with industrial end markets remaining challenging and additional uncertainty relating to the potential impact of Coronavirus. Whilst we expect to see benefits from our recent capital investment in 2020, this will be largely offset by foreign exchange translation assuming rates remain at current levels. Nevertheless, the contribution from the acquisition of OMNOVA, and the synergies this will bring, ensures that Synthomer will take a significant step forward this year.

Calum MacLean

Chief Executive Officer
5 March 2020

Market overview

Synthomer is a speciality chemicals company and one of the world's leading suppliers of water-based 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.

MAXIMISING OPPORTUNITIES FOR GROWTH

In 2019, Synthomer changed its structure to three global businesses – Performance Elastomers, Functional Solutions and Industrial Specialities.

Performance Elastomers is focused on healthcare, paper, carpet, compounds and foam 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 vinyl water-based dispersions. Industrial Specialities is focused on our speciality chemical additives and non water-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 becoming 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. This structure will allow the smooth integration of the OMNOVA business to form three larger global businesses with greater geographic presence.

Sales, marketing, R&D 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.

Our markets



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 circa 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 (2019)	£623.7m
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.
Market and trends	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 2020	<ul style="list-style-type: none"> — Successfully integrate OMNOVA and deliver the 2020 synergy plan. — Progress JOB6 project for the next phase of Nitrile latex expansion (60ktes) at the Pasir Gudang site (Malaysia). — Open the new expanded Asian Innovation Centre in Johor Bahru (Malaysia). — Progress transformation programme at Kluang (Malaysia) and complete the SBR network review. — Drive performance through commercial excellence and manufacturing excellence programmes.

Mega trends



- Population growth
- Urbanisation
- Increasing wealth

Our high performance water-based products provide differentiated, innovative solutions to a wide range of mega trends markets including construction, coatings, carpets and adhesives.



- Environmental factors
- Climate
- Regulation standards

As a global leader in water-based polymers, our products remove the need for volatile organic compounds (VOC) containing solvents and provide lower carbon, higher performing alternatives which meet the regulations demanded by society.



- Ageing population
- Health and wellness

Our Health and Protection products support increasing levels of hygiene in developed and developing markets.



Functional Solutions

Leadership positions in dispersions in Europe, Middle East and Asia.
Top five global water-based polymer producer.

Construction, coatings, adhesives, technical textiles and oilfield.

Fourteen manufacturing plants located in Germany, the UK, Spain, Italy, France, Czech Republic, Saudi Arabia, Malaysia, Vietnam, Thailand and the USA producing circa 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. R&D, technical service and deep application knowledge are key to growth.

£612.8m

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

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

- Successfully integrate OMNOVA and deliver the 2020 synergy plan.
- Optimise the innovation pipeline to support the further specialisation of the product range.
- Use expanded platform and strengthened market position to drive global and regional growth.
- Deliver business plan for major capital investments in Worms (Germany) and Roebuck (USA).
- Drive performance through commercial excellence and manufacturing excellence programmes.



Industrial Specialities

Leading positions in selected niche speciality chemical markets globally.

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

Six manufacturing plants located in the UK, Italy, Czech Republic and Belgium producing circa 130ktes per annum.

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

£222.6m

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

Positive outlook due to broad base of specialist applications and differentiated market positions.

- Successfully integrate OMNOVA and deliver the 2020 synergy plan.
- Drive efficiency and reliability across the operational network to further increase volumes and margin.
- Utilise innovation pipeline to strengthen differentiation of product range.
- Market penetration following capacity expansion of Italian powder coatings and PVOH assets.
- Complete transformation programme at Sokolov (Czech Republic).

Strategy at a glance

Our strategy is focused on driving long-term growth organically and through acquisition. The key elements of our strategy and our plans and performance are explained below.

Strategic priority

2019 achievements

<p>1</p>	 <p>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.</p>	<ul style="list-style-type: none"> — Sales volumes of new products launched in the past five years was at 22% – a record performance for Synthomer. — Introduction of 16 new products across six application areas. — Further commercialisation of patented SyNovus® next-generation Nitrile latex product. — Construction of a new state-of-the-art Asian Innovation Centre commenced in Malaysia.
<p>2</p>	 <p>Driving efficiency and excellence through operations We operate continuous improvement across our operations to optimise 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 Group.</p>	<ul style="list-style-type: none"> — Completed strategic procurement initiatives, securing additional tankage to enhance our supply chain resilience, mitigate risk and further leverage procurement of raw materials. — Introduced non-manpower fixed cost reduction programme to reduce costs and build accountability via improved management information.
<p>3</p>	 <p>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.</p>	<ul style="list-style-type: none"> — Utilised value gap analysis to embed Operational Excellence tools and drive improved performance, asset utilisation and site restructuring opportunities. — Completed debottlenecking of our site in Marl (Germany) to increase production of foam latex. — Operated 90ktes Nitrile latex capacity at Pasir Gudang (Malaysia) to maximum output rate in 2019.
<p>4</p>	 <p>Investment in capacity We seek to add capacity in growth markets where investment opportunities meet our stringent capital management policies.</p>	<ul style="list-style-type: none"> — Delivered capacity expansion of Functional Solutions' 36ktes speciality acrylic dispersions facility in Worms (Germany). — Delivered capacity expansion of Functional Solutions' 12ktes speciality acrylic dispersions facility in Roebuck (USA).
<p>5</p>	 <p>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.</p>	<ul style="list-style-type: none"> — We announced the acquisition of OMNOVA Solutions Inc on 3 July 2019, a highly synergistic complementary speciality chemicals business which will extend the Group's geographic presence in North America and Asia: <ul style="list-style-type: none"> — geography — R&D — new markets — synergies

2020 priorities	Non-financial key performance indicators*	Link to principal risks Read more Pages 32 to 36
<ul style="list-style-type: none"> — Introduce the new Asian Innovation Centre to focus accelerated low-cost product development plan. — OMNOVA integration and optimisation of organisation. — Deliver new product pipeline plan for 2020 across Synthomer and OMNOVA organisation. — Accelerate product transfer activities across wider geographic network to support business growth strategies. 	<p>22% Sales volumes from new products launched in the past five years</p>	<ul style="list-style-type: none"> — People — Protection of intellectual property — Competition and failure to innovate — Volatility in chemicals and polymers market
<ul style="list-style-type: none"> — Continued use of our Manufacturing Excellence process to drive improved performance. — Delivery of network rationalisation and asset utilisation review in SBR. — Progress core system and process standardisation programme. 	<p>3.63 Energy consumption (GJ/tonne)</p> <p>0.20 Recordable accident frequency rate</p>	<ul style="list-style-type: none"> — People — Volatility in chemicals and polymers market — Pathway — SHE — Loss or failure of a Synthomer site — Financial risks — Brexit
<ul style="list-style-type: none"> — Integrate OMNOVA assets and use value gap methodology to identify and unlock 'hidden capacity' in our assets. — Deliver SBR asset utilisation plan to optimise manufacturing network and extract value. 	<p>1,465.7 Volume (wet ktes)</p>	<ul style="list-style-type: none"> — People — Competition and failure to innovate — Volatility in chemicals and polymers market — Pathway — Loss or failure of a Synthomer site — Brexit
<ul style="list-style-type: none"> — Invest in capacity expansion of Performance Elastomers 60ktes Nitrile latex in Pasir Gudang (Malaysia). 	<p>1,465.7 Volume (wet ktes)</p>	<ul style="list-style-type: none"> — People — Manufacturing capacity expansion projects — Volatility in chemicals and polymers market — Brexit
<ul style="list-style-type: none"> — Completion, integration and delivery of acquisition case business plan. — Accelerated deleverage of business towards 1-2x Synthomer leverage target. 		<ul style="list-style-type: none"> — People — Failure of acquisition to deliver benefits — Valuation and financial market volatility — Brexit

* All financial KPIs are relevant for each of the strategic priorities and these are defined and discussed further, along with the non-financial KPIs on pages 16 and 17.

Key performance indicators

We have eight key performance indicators (KPIs) which we use to measure our financial and non-financial performance.

Our KPIs measure progress against our strategy.

Our performance against our KPIs is explained below.

Financial

1 EBITDA (£m)

2019	177.9
2018	181.0
2017	176.2
2016	160.1
2015	125.0

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Definition

Operating profit before depreciation, amortisation and Special Items.

Comment

- EBITDA held firm at £177.9 down 1.7% on the record EBITDA delivered in 2018.
- In a challenging macro-economic environment, improvements in Functional Solutions, Industrial Specialties and Performance Elastomers NBR markets largely offset the disappointing performance in Performance Elastomers SBR markets, principally attributable to a challenging European paper business.
- The benefit of the adoption of IFRS 16 Leases was £7.9m.

3 Underlying earnings per share (pence)

2019	25.3
2018	32.8
2017	30.7
2016	28.3
2015	21.5

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Definition

Basic Underlying earnings per share before Special Items.

Comment

- 17.6% reduction in Underlying EPS in the year reflecting the change in profit after tax and the dilutive effect of the rights issue ahead of the completion of the OMNOVA acquisition.
- EPS figures for the years ended 31 December 2018 and prior have been restated by an adjustment factor of 1.0713 to reflect the bonus element of the rights issue which completed on 29 July 2019.

2 Underlying profit before tax (£m)

2019	116.2
2018	135.1
2017	130.0
2016	122.2
2015	95.3

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Definition

Underlying profit before tax comprising IFRS profit before tax excluding Special Items.

Comment

- Underlying profit before tax decreased by 14% with depreciation up £13.2m (34%) as a result of a recent investment in growth capacity and interest costs up £2.6m as a result of our fixed interest rate swap.
- In a challenging macro-economic environment, improvements in Functional Solutions, Industrial Specialties and Performance Elastomers NBR markets largely offset the disappointing performance in Performance Elastomers SBR markets, principally attributable to a challenging European paper business.
- The impact of the adoption of IFRS 16 Leases was £0.6m.

4 Free Cash Flow (£m)

2019	92.8
2018	27.8
2017	81.5
2016	89.5
2015	83.0

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Definition

Movement in net debt before financing activities, foreign exchange and the cash impact of Special Items, asset disposals and business combinations.

Comment

- Strong Free Cash Flow reflecting tight working capital control and a reduction in tax paid.
- Capital spend in line with expectations.

Non-financial

5 Volume (wet ktes)

2019	1,465.7
2018	1,517.6
2017	1,443.8
2016	1,324.9
2015	1,251.9

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Definition

Volume of our products sold in thousands of tonnes (ktes). The volume is based on wet volumes – i.e. the volumes including water content.

Comment

- Growth in NBR resulting from our new capacity expansion was offset by the impact of lower industrial activity which reduced our European SBR and functional solutions sales volumes. The closure of our polyester resins, natural rubber (Malaysia) businesses at the end of 2018 and the sale of 51% of our joint venture in Dubai in mid-2018 was a contributing factor to our lower 2019 volumes.

7 Recordable accident frequency rate

2019	0.20
2018	0.23
2017	0.13
2016	0.30
2015	0.55

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Definition

Recordable injury rate for accidents involving more than first-aid treatment, expressed as accidents per 100,000 hours worked by employees and all contractors.

Comment

- A further reduction in the recordable accident rate by 15% from 0.23 to 0.20. There were 13 recordable injuries compared with 16 in 2018 and our record year in 2017 of nine.
- 2nd best recordable accident frequency rate in the history of the Group.

6 Sales volume from new products (%)

2019	22
2018	21
2017	20
2016	20
2015	18

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Definition

Percentage of sales volume in the year that can be attributed to new products launched in the past five years.

Comment

- Continued success in our strategy to innovate and create products to meet market and customer needs.

8 Energy consumption per tonne (GJ/tonne)

2019	3.63
2018	3.50
2017	3.54
2016	3.45
2015	2.62

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Definition

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

- Specific energy consumption increased by 3.7% due to the lower utilisation of selected assets and the change in the production mix to higher energy demand products.
- Realisation of high energy site improvement programmes was lower than planned.
- Commitment to 2021 greenhouse gas targets via acceleration of purchase of green electricity.

Link to strategy



Research and development and technical expertise to exploit new markets



Driving efficiency and excellence through operations



Capacity utilisation




Investment in capacity



Business growth through acquisitions

+ Read more Page 14

Strategy in action

 **Business growth through acquisitions**



OMNOVA is a US-based speciality chemical company which develops, manufactures and markets emulsion polymers, speciality chemicals and decorative products, and provides engineered surfaces for various commercial, industrial and residential end uses. OMNOVA had 2019 revenues of \$736.2m with an EBITDA of \$70.0m.

GLOBALISING OUR BUSINESS

Strong strategic fit

On completion of the acquisition of OMNOVA, Synthomer will strengthen further its position as a major global player in water-based polymer solutions with best in class process technology, a stronger innovation platform with enhanced geographic coverage and increased customer proximity.

The enlarged Synthomer Group will be a stronger enterprise with:

- Expanded global platform and portfolio to serve customers
- Strengthened presence in North America, our first manufacturing base in China and expanded footprint in Asia and Europe
- Greater scale for more efficient production and distribution
- Increased innovation pipeline to accelerate future growth
- Greater proportion of speciality chemicals across the Group

Synthomer key activities		OMNOVA key activities
Performance Elastomers – Water-based NBR latex – SBR latex – High Solids SB rubber	→	– Additives for gloves – Coatings for speciality paper and packaging – Compounds and carpet
Functional Solutions – Water-based (acrylic and vinylic based) dispersions	→	– Speciality coatings – Construction – Adhesives & sealants – Textiles – Oilfield – Additives
Industrial Specialities – Speciality chemical additives – Non-water-based chemistry	→	– Attractive position in niche segments of construction, transport and other sectors
		Performance Additives Paper and Carpet
		Coatings, Adhesives and Sealants and Surface Treatment (C.A.S.T) Oil and Gas Elastomers
		Laminates & Films Coated Fabrics



At a glance

The enlarged Synthomer Group

Key

■ Synthomer ■ OMNOVA

Technical centres globally

9



Global plant network centres globally

38



Customers

6,000



Manufacturing countries

24

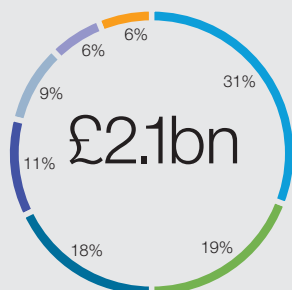


Employees worldwide

4,750

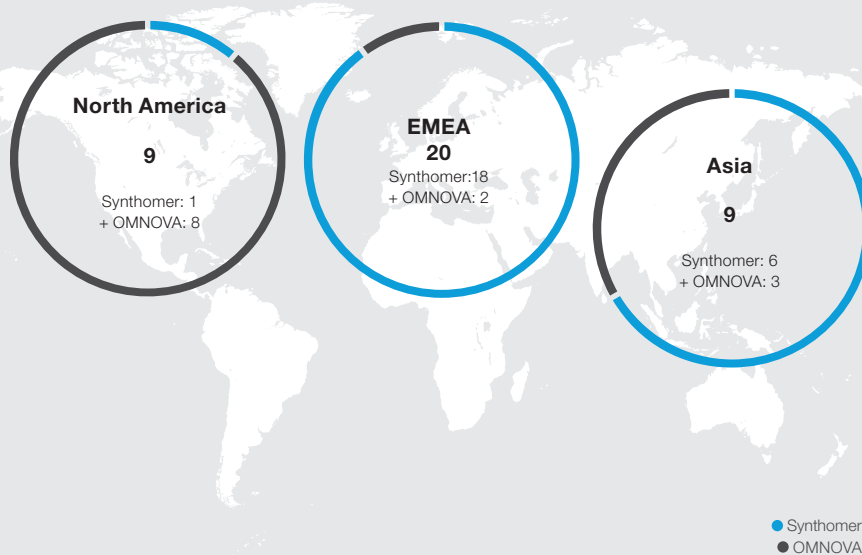


Enlarged Group pro-forma 2019 revenue by end-sector (includes OMNOVA)



- Construction & Coatings 31%
- Specialities 19%
- Health & Protection 18%
- Textiles & Adhesives 11%
- Paper 9%
- Carpet & Foam 6%
- Other 6%

Expanded international presence in North America and Asia



Strategy in action

Driving efficiency and excellence through operations

Synthomer continues to strengthen its global business and manufacturing network via a proven toolkit – ‘The Synthomer Way’. This toolkit has been successfully deployed to drive performance and provides a proven methodology to integrate OMNOVA, the largest acquisition in the history of the Group.



CONTINUALLY
IMPROVING
OUR BUSINESS



“Synthomer has a range of best in class techniques to drive performance across its business. From ‘Project Excellence’ to ‘Hidden Plant’ value extraction, the Group is well-equipped to continually improve and build a foundation for long-term growth.”

John Hamnett
VP Operations, Industrial Specialities

Driving efficiency and excellence across our network

Underpinned through our Project Excellence standards and driven by best in class practices, Synthomer is undertaking projects to drive improvements and provide strong foundations across its global network in the following areas:

- Business and site transformations
- Network rationalisation
- Plant debottlenecking
- Core systems and business process standardisation
- Non-manpower fixed cost reduction programmes
- Integration and synergy delivery

Manufacturing excellence

We focus on maximising the utilisation of our assets, identifying and delivering value enhancing debottlenecks and adding further capacity to improve our economies of scale. This has allowed us to introduce approximately 150ktes of additional low cost capacity into our network in 2018/2019, supporting our long-term business development strategy, addressing our cost base and minimising our environmental intensity.

Core system and process standardisation

In order to provide a standardised global platform for future growth and scalability, and to drive efficiency and effectiveness, Synthomer has embarked on its global ‘Pathway’ programme to introduce consistent core systems and business processes. The programme, which will run through 2020 and 2021, with planning underway to assess the most effective way to integrate OMNOVA, will drive long-term organisation, business process and core system benefits.

Non-manpower fixed cost reductions

In order to offset the impact of inflation in our business, Synthomer has embarked on its non-manpower fixed cost reduction programme.

Network rationalisation

In October 2019 we reported that our SBR asset base had seen a reduction of 10% of its 2018 sales volumes due to challenging conditions in its European SBR markets, most notably in its paper end market. Synthomer has deployed a cross-functional team to address the options to review network utilisation, changes in market demand and supply and demand balance to best serve the future needs of the market.

Divisional review

Performance Elastomers



PERFORMANCE ELASTOMERS

Safety is at the heart of our business and we are pleased to report that the division set a new record in 2019 with zero recordable cases in the year. This is a major achievement for both the division and the Group.



Derick Whyte
President, Performance Elastomers

Highlights

- Record NBR latex volume growth underpinned by 90ktes capacity expansion in Pasir Gudang
- Investment in new 60ktes NBR latex facility approved, with capacity online Q4 2021
- State-of-the-art Asian Innovation Centre investment underway with completion due in Q3 2020
- Challenging year in SBR latex with lower volumes and margins mainly driven by weakness of European paper market
- SBR latex network review largely complete with clear plan to deliver required efficiencies to be communicated in Q2 2020
- Cost reduction programmes implemented

Divisional performance

	2019	2018	%	Constant currency ¹ %
Volumes (ktes)	849.1	859.5	(1.2)	
Revenue (£m)	623.7	704.5	(11.5)	(11.5)
EBITDA²	96.3	107.9	(10.8)	(11.3)
Operating profit – Underlying performance (£m)	71.5	87.2	(18.0)	(18.6)
Operating profit – IFRS (£m)	71.2	84.7	(15.9)	

Notes:

1. Constant currency revenue and profit: these reflect current year results translated at the prior year's average exchange rates.
2. 2019 includes the impact of the adoption of IFRS 16 Leases of £2.0m.

Performance Elastomers' EBITDA² was 10.8% lower in 2019 at £96.3m (2018: £107.9m) with Underlying operating profit 18.0% lower at £71.5m. Our SBR performance was impacted by weaker market conditions mainly in our European paper business, which offset another strong year of growth in our NBR business.

Market performance – NBR

Following the successful commissioning of the JOB5 reactor in late 2018, NBR has delivered another year of profitable growth.

After two very strong years of double-digit demand growth from glove customers, 2019 has shown single-digit growth as the additional glove capacity installed in 2017/18 was consumed in the market. However, the addition of JOB5 capacity in Malaysia in conjunction with increased production of NBR in Italy, was reflected in strong volume growth for Synthomer, up 12% over the prior year. Unit margins were in line with expectations throughout the first half of the year, however, the second half saw a modest impact as competitors' new capacity came into the market. This factor, and the ongoing sluggishness in the global economy, meant the second half of the year was more challenging. Nonetheless, overall margin was ahead of prior year on the higher volumes sold, while average unit margins were a little lower than 2018 as a result of the new competitor capacity.

2019 saw the closure of the natural rubber production line. While it is disappointing to have



to exit any market, the need for change was indisputable and the closure has had little effect on the overall growth experienced in NBR. It has also allowed for a transformation programme to be launched at the Kluang site to address some of the infrastructure costs that remained as a result of the closure. This initiative was launched during the final months of the year to ensure a more streamlined operation in Kluang in 2020 when the initiative is fully delivered.

While 2019 has been a year of consolidation, mainly as a result of the significant increases in glove capacity installed since 2017, it has been another year of progress. Investments in new glove capacity continue to be announced, and given the increasing demand for healthcare provision in the developing world, the market looks set for further growth.

During 2019 we continued to invest capital in NBR sites. With JOB5 complete and running successfully the next phase of investment focused on JOB6 where the Front End Engineering Design (FEED) Study was successfully completed at midyear with the full capital approval by the Board following in August. The long lead-time items were ordered in Q3 and the EPCM contractor appointed in Q4. The project is now formally underway with beneficial production anticipated in Q4 2021.

Innovation has been a key cornerstone of NBR growth and 2019 was another strong year of development. Sales of NBR products launched in the prior five years continue to exceed 20% reflecting positively on the R&D investments made in both human capital and equipment. During the year we continued to strengthen NBR's position, filing four patents, doubling the number from the previous two years.

As part of our commitment to sustainability, Synthomer has conducted the very first full cradle-to-grave life cycle analysis for NBR latex, which was carried out by the independent LCIE Bureau Veritas in France, in accordance with ISO14071. The study showed that Synthomer's latest patented Synovus® technology allows the glove manufacturing industry to create a significantly more sustainable Nitrile medical examination glove. This step-change delivers a lower impact on both users and the environment in comparison to earlier generations of Nitrile latex as well as natural rubber latex and PVC. Our patented Synovus® product continues to be evaluated by a range of customers to verify the in-use benefits of accelerator free technology and lower energy costs in glove production, and we anticipate continued uptake for this product in 2020.



£6.5m

Investment for the creation of the new Asian Innovation Centre (AIC)

As we continue to expand NBR's innovation activity the need for additional space in the laboratories has become a more pressing issue. To support the innovation momentum which has been created, the Board approved an investment of £6.5m to create a new Asian Innovation Centre (AIC) in Malaysia, equidistant from operations in Kluang and Pasir Gudang. The new facility has been built with future expansion in mind and at 6,000 sqm this is over four times larger than the existing R&D Centre in Kluang. Ground was broken in April 2019 and construction is well advanced and on target for the planned opening in Q3 2020.

Market performance – SBR

2019 has been a very challenging year for SBR, which serves the paper, carpet, compounds and foam markets. A combination of slower economic activity in Europe and Asia along with the continuing reduction in demand for coated paper has substantially depressed demand in the major end-user segments during the year, particularly paper.

Volumes declined across SBR driven by weaker performance in paper, carpet, and compounds with a degree of mitigation in foam, where sales of HSSBR increased during the year. Paper suffered throughout the year on the back of falling raw material price and pressure on margins driven by overcapacity in European SBR production resulting in a double-digit decline in both volume and margin. This very disappointing performance, although supported by some good cost management, flowed through with SBR results being substantially below prior year and our expectations.

The very difficult paper market has seen several paper producers cease to trade, and the weaker financial position of the sector has led to credit insurance cover being reduced or removed. With several bad debts incurred during 2018, we have taken a more proactive position on credit risk which has constrained sales in this sector. Mill closure or capacity reductions and conversions have been another recurring feature of the coated paper market in recent years. 2019 saw an announcement from Stora Enso concerning the future of its mill in Oulu which will have a direct impact on the capacity utilisation of Synthomer's Oulu site during the second half of 2020.

The foam market has offered steady growth in recent years and we again experienced volume growth in 2019 with growth in China offsetting weaker demand in Europe. However, lower raw material prices and strong competition in Asia saw margins fail to keep pace with volume growth. We continue to explore new areas for the development of this product range both geographically and in terms of new areas of application to meet the anticipated capacity growth.

In the absence of sales growth, several of the SBR plants ran at lower than anticipated utilisation rates during the year, and in particular those plants with an exposure to the paper market. A review of the supply/demand balance for SBR latex in Europe points to significant over capacity amongst the major producers. An extensive review of our European SBR network is now largely complete with the objective of optimising the network to operate in the most efficient and effective way. All of our SBR sites remain profitable and we have a range of value-enhancing options available to us. A further update will be provided once the review is complete and the appropriate course of action has been determined.

Against a background of a slowdown in the European business, several initiatives were taken during the year to ensure costs were effectively managed. All sites focused on optimising their fixed cost base and made good progress during the year. In the larger sites Project Mindset was launched aimed at delivering a sustained reduction in non-manpower fixed costs which will be reflected in the 2020 performance. Other cost initiatives were deployed across the business to ensure effective cost control in the challenging environment.



FUNCTIONAL SOLUTIONS

Strong safety performance with a recordable case rate of 0.2 per 100,000hrs and lowest ever process safety event rate.



Rob Tupker
President, Functional Solutions

Highlights

- Market-leading position in water-based polymers in Europe
- Resilient performance in challenging market conditions
- Growth in unit margins offsets impact of lower volumes with EBITDA² 9.0% ahead
- Benefits realised from reorganisation into global business seen in product innovation and global collaboration with customers
- Successful commissioning of 36ktes Worms (Germany) and 12ktes Roebuck (USA) differentiated acrylic dispersion investments in Q3 2019 to drive future growth

Divisional performance

	2019	2018	Constant currency ¹	
			%	%
Volumes (ktes)	487.4	526.0	(7.3)	
Revenue (£m)	612.8	680.1	(9.9)	(9.7)
EBITDA²	69.9	64.1	9.0	9.5
Operating profit				
– Underlying performance (£m)	52.3	53.0	(1.3)	(0.8)
Operating profit – IFRS (£m)	48.0	50.4	(4.8)	

Notes:

1. Constant currency revenue and profit: these reflect current year results translated at the prior year's average exchange rates.
2. 2019 includes the impact of the adoption of IFRS 16 Leases of £4.4m.

Business performance was resilient in 2019 despite a challenging macro environment. EBITDA² was 9.0% higher at £69.9m with Underlying operating profit flat as improved margins offset the impact of lower volumes. Volumes were down by 7.3% (5.0% for ongoing businesses) but margins were higher due to good cost management, favourable raw material prices and purchasing initiatives combined with a clear focus on portfolio management, including the introduction of a number of innovative speciality products.

The main macro drivers that impacted volumes were the general economic slowdown in Europe and a broad-based weakness in construction and the automotive markets. Specific initiatives were undertaken to offset the softer market conditions, including in the redispersible powders (RDP) business where volumes recovered from a weak second half of 2018 with share gains in both existing and new geographic markets driven by focused sales efforts based around a streamlined product portfolio.

Global business structure, local delivery

Functional Solutions was reorganised into a global business in January 2019 and in the course of the year has started to see the benefit from a global approach to customers, product portfolio, new product development and plant operations. Collaboration has been intensified with customers who have a global presence and with regional



Entry into adjacent markets: Batteries

In addition to serving existing markets, the business continues to develop new applications for adjacent markets where its technologies and products provide solutions for customers. One such area is the emerging field of batteries for electric vehicles (EVs), where Functional Solutions products function as binders for electrode active materials. The market is largely based in China today, with other markets including Europe becoming established. The focus lies both on supplying the existing generation of Lithium ion batteries as well as on developing solutions for new battery generations.

Our first generation of polymers has been launched and is ramping up, with a second generation of polymers under development. Synthomer is working together with value chain partners under the UK government's Faraday Battery Challenge on projects that focus on developing more extensive know-how for system formulation and the development of binders for the next generation of anode and cathode active materials.

customers who now have access to the full breadth of the global Functional Solutions product portfolio. A platform-based approach for new product development has been introduced, balancing the need for global solutions with the need for regional and local customisation to meet specific market and customer requirements. Global teams have worked successfully on improving product transfer methodology across regions and an initiative was launched to benchmark plant performance and ensure best practice is applied across the all sites producing dispersions.

Capacity and capability expansion

To position the business for future growth, a number of key capital expenditure programmes have been launched during the past years, with some key milestones reached in 2019. In Worms, the most important site for the Functional Solutions business globally, a major expansion programme was completed and new lines commissioned, adding 36ktes per annum of new capacity to support the manufacture of bespoke differentiated products to serve key speciality markets in the DACH (Germany, Austria and Switzerland) and broader Central European regions. Also in Europe, as part of a wider transformation programme, major upgrades were realised at our Ribécourt facility in France, including new product silos and an automated packaging line. In the USA, a 12ktes replacement and expansion project was commissioned at our Roebuck facility, allowing the business to expand its speciality range of products to serve the North American market.

Innovation pipeline and new product introductions

2019 saw the launch of a number of new products including a high performance water-based Pressure Sensitive Adhesive (PSA) product (Plextol Prime™) to replace solvent-based versions for speciality tapes, a PSA for wash-off bottle labels that improves recyclability and contributes to improved sustainability, and a new technical textile product range that allows for improved productivity and higher energy efficiency at the customers' plants (Litex QuickShield™, Revacryl Design™, Litex SkyShield™). The business also launched



Capacity expansion in Worms (Germany)

a low VOC binder for high pH biocide-free premium interior wall paints (Revacryl UltraGreen™), a major driver in the coatings industry due to regulatory changes and end-user expectations. Structurally, the Functional Solutions business has defined a number of strategic product platforms that tie in with medium- and long-term macro trends as well as with core Synthomer competencies. These platforms will bring clear focus and guide future development priorities.

Functional Solutions remains focused on its four strategic pillars: growth, mix, productivity and enablers, with a strong SHE performance as the overriding priority. In terms of growth, maximising the output from the new plant capabilities in Worms (Germany) and Roebuck (USA) is a priority, combined with a clear focus on growing the speciality range of products to drive a favourable mix and associated margins in 2020. Ambitious targets have been set in terms of launching new products based on the global product platforms. Growth momentum in RDP is to be maintained, as is the growth in Oilfield in target regions with new customers, and in binders for batteries. Productivity gains are to come through Operational Excellence initiatives in plants and through Commercial Excellence and cost improvement initiatives. Growth, mix improvement and productivity gains are underpinned by sustained efforts in our enablers to deliver systemic improvements in our people, processes and tools.

In addition to driving organic growth in the business, the OMNOVA acquisition will have a transformative impact on the Functional Solutions business in terms of global reach and breadth of portfolio. A smooth integration and delivery of both commercial and cost synergies will be a key priority for 2020.

Divisional review continued**Industrial Specialities**

INDUSTRIAL SPECIALITIES

Safety continues to be a significant focus area and we are pleased to report that the division recorded its lowest-ever all injury frequency rate in 2019. This is a significant achievement for the division.



Neil Whitley
President, Industrial Specialities

Highlights

- Leading positions in selected niche speciality chemical markets globally
- Growth in unit margin across a number of speciality products offsets the impact of lower volume, with EBITDA² 5.5% stronger
- Benefits starting to be realised from expansion in Sant'Albano (Italy) and reliability investment in Harlow (UK)
- Strong production performance with further operational efficiencies realised
- Successful development and launch of new absorbent product for the gas processing industry
- Cost saving opportunities identified and realised

Divisional performance

	2019	2018	%	Constant currency ¹ %
Volumes (ktes)	129.2	132.1	(2.2)	
Revenue (£m)	222.6	234.3	(5.0)	(4.3)
EBITDA²	24.8	23.5	5.5	5.5
Operating profit				
– Underlying performance (£m)	16.0	16.7	(4.2)	(4.2)
Operating profit – IFRS (£m)	11.3	12.1	(6.6)	

Notes:

1. Constant currency revenue and profit: these reflect current year results translated at the prior year's average exchange rates.
2. 2019 includes the impact of the adoption of IFRS 16 Leases of £0.8m.

The Industrial Specialities division delivered a robust performance in markets generally impacted by difficult economic conditions. EBITDA² in Industrial Specialities at £24.8m was 5.5% higher than 2018. Sales volumes were 2.2% lower compared to 2018, impacted by some of the more challenging end markets of automotive and coatings, and a weaker demand in our monomer business, as well as sales into the China region where the threat of a trade war impacted demand. Most businesses within the division recorded stable or increased unit margins during the year, in part due to the performance properties of the speciality products supplied by the businesses.

Strong year-on-year growth was achieved in the Vinyl Polymers business following targeted investment to enhance plant reliability and thereby deliver additional volumes to meet increasing customer demand, enhanced customer service and driven by the growing PVC market.



“Strong year-on-year growth was achieved in the Vinyl Polymers business following targeted investment to enhance plant reliability and thereby the volumes to deliver the increased customer demand being driven by the growing PVC market.”

David Downie
Business Director, Vinyl Polymers



The work to sustain operational improvements will deliver further growth in 2020.

Despite our polybutadiene Lithene business having some exposure to the automotive market, the business recorded modest growth in volumes and stable unit margins to deliver steady year-on-year growth.

Our Speciality Additives business, which supplies coatings ingredients, had a very challenging year. While unit margins were stable, volumes were impacted by end market demand and increased competition in some of our markets. One of our products, which is used in cold weather applications, was significantly down year-on-year due to the mild European winter at the end of 2019. While markets remain challenging, we have targeted a number of growth opportunities from new applications which are starting to be realised and we anticipate a return to growth in 2020.

The division also benefitted from the Powder Coating business' differentiated specialist polyester expansion at Sant'Albano (Italy) during 2019. This capacity expansion increased total site capacity by 20% and this forms a solid platform for further growth in sales volumes of our differentiated products during 2020.

While William Blythe (UK) delivered a flat performance year-on-year, a major milestone was reached in 2019 with the successful development and launch of a new absorbent product for the gas processing industry which will form a strong growth platform for coming years. William Blythe's excellence in innovation was recognised when they were announced as winners in the Innovation category at the Chemicals Northwest Awards (UK) in March 2019.

20%

Expansion of the Powder Coating differentiated specialist polyester expansion at Sant'Albano (Italy) during 2019.

Our Monomers business in Sokolov (Czech Republic), which supplies our Functional Solutions business and external European markets with acrylate monomers, saw weaker market conditions in H2 2019. Whilst our volumes were maintained, oversupply in Europe and unfavourable feedstock prices led to weaker unit margins during Q4.

Value-gap contribution

Our operations team at all sites across the division continues to focus on process engineering reliability and Manufacturing Excellence to identify opportunities to maximise production volumes. A number of our plants delivered a very strong production performance during 2019 and whilst this was not fully utilised during the year, the business is well-placed to capitalise on the growth capacity and opportunities for further debottlenecking and reliability for the division in future years.

Targeted innovation

Innovation continues to be a key driver of growth across the division. An example is the highly innovative inorganics business, William Blythe. This business continues to develop a number of new products with strong patent and know-how protection, typically sold to bespoke applications in niche markets. Recent successes have included high purity Graphene Oxide and doped Tungsten Oxide products, with other new product families using differentiated inorganic chemistry in the pipeline.

Self-help initiatives

Given the challenging market conditions, there has been a significant focus on costs during the year. 'Project Mindset', our non-manpower fixed cost reduction initiative, was launched across a number of locations with the aim of delivering cost savings, with the full year benefit to be realised in 2020. We have also invested in capital projects to reduce the costs of production at our Lithene plant in Stallingborough (UK) and have further focused value-gap opportunities across most assets.

Whilst there is uncertainty in a number of our end markets and businesses, we remain confident in delivering growth in the future. Spare capacity created across a number of our plants has enabled the opportunity to target a number of initiatives across our end markets. The division continues to invest in R&D with a number of patents and industry-leading properties in chosen applications. In addition, with the full year benefits of Project Mindset and other cost saving projects, further operational efficiency and cost savings should be realised.

Our business model

As a global leader in water-based polymer chemistry our purpose is to continually innovate to meet the needs of our customers and society in a sustainable way.

Our strategy is to create shareholder value by creating a sustainable 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.

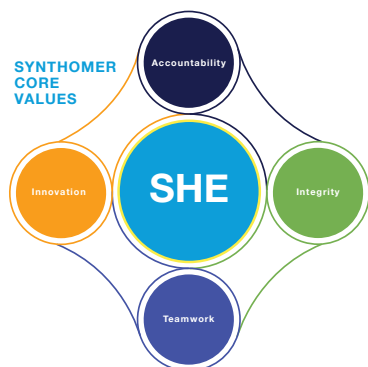
Enabling the delivery of our five strategic objectives

-  Research and development and technical expertise to exploit new markets
-  Driving efficiency and excellence through operations
-  Capacity utilisation
-  Investment in capacity
-  Business growth through acquisitions

Underpinned by our values

Our values have been reviewed and relaunched in 2020 and focus on SHE, accountability, innovation, teamwork and integrity

[+ Read more](#) Page 54



Our key strengths and resources

R&D and technical expertise to exploit new markets

Strong track record of anticipating market trends and customer requirements to deliver improved and increasingly differentiated products.

Innovative products

R&D delivering sustainable growth, new products represent 22% of sales volume in 2019.

Strong customer relationships

Blue chip customer base of over 4,000 customers with long-established relationships and high barriers to entry.

Efficiency 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.

Investment in capacity

We seek to add capacity in growth markets where investment opportunities meet our capital management policies. Our recent growth capex programme provides a catalyst for expansion over the next three years.

Global reach in growth markets

We have leadership positions in attractive GDP plus end markets and will further strengthen our global platform through the acquisition of OMNOVA.

Industry-leading talent

Our strengthened employer brand, coupled with our graduate and leadership programmes, have allowed us to access talent capable of delivering the growth strategy for the Group.

Strong acquisition expertise

Deep experience of the delivery of successful inorganic growth and the extraction of synergy value.

Strong financial position

Resilient EBITDA and gross margin per tonne across the Group, strong cash flow and strong balance sheet.

How we create value

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 Customers

Through intimate relationships with customers, we monitor mega trends and market developments to ensure our formulations meet the requirements not only of our customers but also of the end users of their products.

3 Technical services

Our global technical service teams work closely 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 optimise 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.

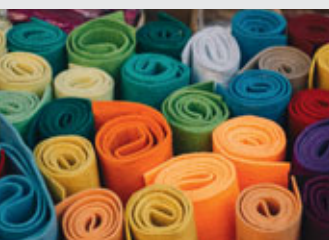
8 Logistics

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

9 Continuous improvement

Our continuous improvement culture allows us to target world class performance standards, learn from others and from our experiences and share efficiently across our organisation.

How we structure our business



Performance Elastomers

Performance Elastomers is focused on healthcare, carpet and paper markets through our water-based Nitrile Butadiene Rubber latex (NBR) and Styrene Butadiene Rubber latex (SBR) products. Twelve manufacturing plants located in Malaysia, Italy, Germany, Finland, Austria, the Netherlands and Egypt produce in excess of 850ktes per annum.

[Read more](#) Page 22



Functional Solutions

Functional Solutions is focused on coatings, construction, adhesives and technical textiles markets through our acrylic and vinyl water-based dispersions. Fourteen manufacturing plants located in Germany, the UK, Spain, Italy, France, Czech Republic, Saudi Arabia, Malaysia, Vietnam, Thailand and the USA produce in excess of 500ktes per annum.

[Read more](#) Page 24



Industrial Specialities

Industrial Specialities is focused on our speciality chemical additives and non-water-based chemistry for a broad range of applications from polymer additives and polymer manufacture to emerging materials. Six manufacturing plants located in the UK, Italy, Czech Republic and Belgium produce in excess of 130ktes per annum.

[Read more](#) Page 26

The value we create

22%
sales volume from new products

£16.6m
spend on R&D

£115.5m
our payroll to employees

£23.6m
cash payments to pension plans

'We Care'
our global employee
community engagement
programme

£1.2bn
spend with suppliers

1,465.7ktes
volumes sold

£47.9m
returned to shareholders in FY19

14%
effective tax rate

£31.6m
corporate tax and social security
cost paid

The value we share

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.

Managing risk

Synthomer’s strategic objectives can only be achieved by taking an appropriate level of risk in accordance with our risk appetite and risk tolerance. We use leading risk management techniques which facilitate good decision making and the pursuit of opportunities whilst protecting our sites, systems, staff and other stakeholders.

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 set the risk appetite it is prepared to accept to achieve the Group’s objectives and the wider risk tolerance within which it empowers the Group Executive to manage the business based on advice from the Executive and external advisers.

Audit Committee

The Audit Committee is responsible for overseeing the management of the principal risks, controls and the assurance processes. In 2019, the Audit Committee continued its established programme of deep dives into our risk management process and reviewed our new Divisional risk registers and certain specialist functional risk registers, including cybersecurity and regulatory affairs, where management has the opportunity to explain directly to the Audit Committee the assessed risks and associated controls 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 appetite rather than to eliminate risk completely, and the Audit Committee and other assurance reviews provide reasonable assurance in line with good practice.

Executive management

Executive management is responsible for the identification and management of our strategic, operational, compliance and financial risks using the Risk Management framework.

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 standard 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. The risk management process includes input from our professional advisers and the World Economic Forum Global Risks report in order to identify emerging risks and good practice in managing our risks.

Our acquisition of OMNOVA will be integrated into Synthomer’s risk management programme in 2020.

Risk output

Divisions and functional departments conduct their own bottom-up assessment of the principal risks and record them in a risk register using the Business Risk Assessment Methodology. Group functions and the Board conduct a top-down review of strategic risks, taking into account the input from the divisions, and prepare a Group risk register using the same methodology.

The Board reviews and approves the Group risk register.

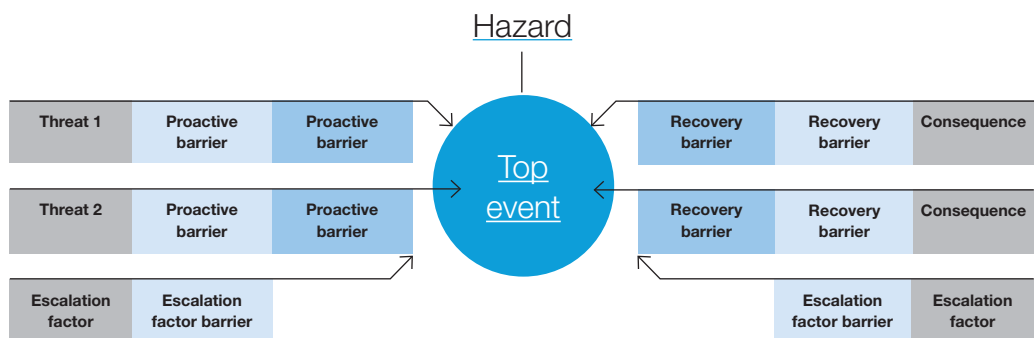
Risk management review and assurance

Group risk function

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

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.



Assessment of principal risks

Assurance providers

Synthomer operates a 'three lines of defence' model. A number of different internal assurance providers (for example Group SHE, Programme Management Office, ISO audits and Internal Audit) review the effectiveness of the mitigating actions and controls. External assurance is provided by our statutory auditors, in respect of the financial statements, 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 divisions and Group functions, and also management is empowered and encouraged to actively manage and react to risks as part of its normal day-to-day decision making process. We are also using the risk methodology to assess the risks in all significant projects, including those associated with our Pathway Programme and the integration of our OMNOVA acquisition. These reviews, together with our three lines of defence model, enable us to establish effective controls to manage these uncertainties.

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

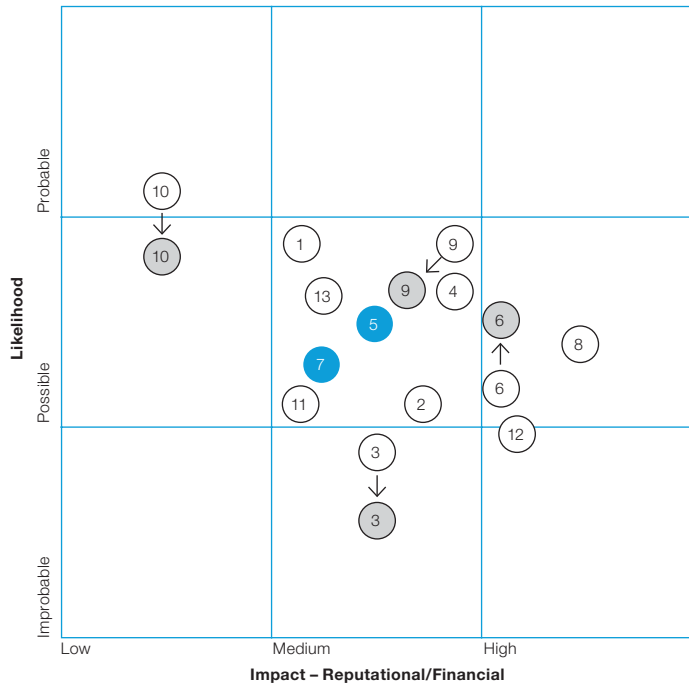
- Strategic risks that could prevent us from achieving our strategic objectives.
- Operational risks which, if not successfully managed, would threaten our viability. These relate to our ability to operate a sustainable and safe business.
- Compliance risks where a breach of regulations or laws could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

The table on pages 32 to 36 shows more detail on the key risks identified at the end of 2019. 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.

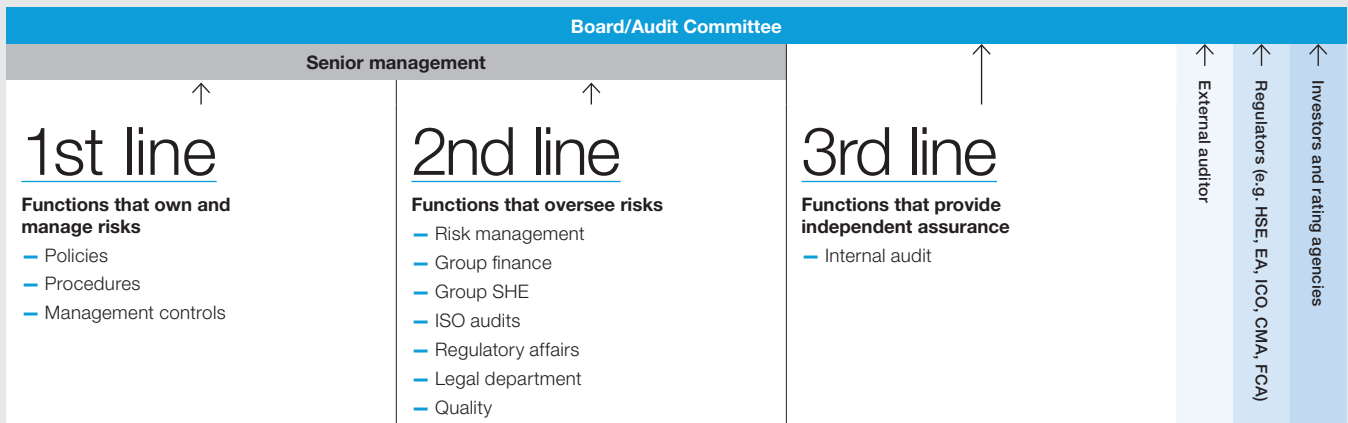
Synthomer Risk Trends

● Emerging risk ○ Risk that has moved from 2018



- | | |
|--|--|
| <p>Strategic</p> <ul style="list-style-type: none"> 1 Volatility in chemicals and polymers market 2 Competition and failure to innovate 3 Intellectual property 4 Manufacturing capacity expansion projects 5 Pathway Programme 6 Mergers and Acquisitions 7 People and Talent retention | <p>Operational</p> <ul style="list-style-type: none"> 8 Loss or failure of a Synthomer site 9 IT Security 10 Safety, Health and Environment 11 Brexit <p>Compliance</p> <ul style="list-style-type: none"> 12 Ethics <p>Financial</p> <ul style="list-style-type: none"> 13 Financial risks |
|--|--|

The three lines of defence









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 most significant 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	2020 plans
Volatility in chemicals and polymers market		
<p>The markets in which we operate are inherently volatile, including in raw material input process, and we expect this volatility to continue in 2020 due to the global macroeconomic and political uncertainty, affecting volumes and margins and potentially adversely affecting the results of the Group.</p>  	<ul style="list-style-type: none"> — The Group continues to maintain a balanced portfolio of products serving a wide range of end markets around the globe. Post year end, we completed the acquisition of OMNOVA, which significantly increased our presence in the key North American markets. Segment performance at business unit level is closely monitored and corrective actions are taken as necessary to mitigate the risk as far as reasonably practicable. 	<ul style="list-style-type: none"> — New product development and our acquisition strategy will continue to further diversify the Group's risk.
Competition and failure to innovate		
<p>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 innovate to produce new products.</p>  	<ul style="list-style-type: none"> — The Group continues to invest in enhancing existing products and developing new products through our R&D programme and also our acquisition strategy includes technologies that are new to the Group. — Our technical services teams work with customers to help them to use our products in the best way for their businesses and also to anticipate their future needs, which we feed back into our R&D programme. — We undertook a significant review of costs in our key sites and improved our sales teams to ensure we can price our products competitively. 	<ul style="list-style-type: none"> — Our integrated business planning process and also our Pathway Programme will allow us to operate more efficiently.
Intellectual property		
<p>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 parties' intellectual property rights, which could lead to reputational damage and additional costs.</p>  	<ul style="list-style-type: none"> — The Group maintained its patent programme and sought to protect other intellectual property rights. 	<ul style="list-style-type: none"> — Where appropriate, and where we are legally able to, we will patent or otherwise protect more intellectual property in products, processes and technologies. — We will continue to improve IT security in our networks, ERPs, recipe change control system and industrial controls systems.

Link to strategy







-  Research and development and technical expertise to exploit new markets
-  Driving efficiency and excellence through operations
-  Capacity utilisation
-  Investment in capacity
-  Business growth through acquisitions

Change in risk

-  No change
-  Increase
-  Decrease
-  Sensitivity for risk made in assessing viability
-  Emerging risk




Read more Page 14

Strategic risks

Risk	Response	2020 plans
Manufacturing capacity expansion projects		
<p>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.</p> <p>  </p>	<ul style="list-style-type: none"> — 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 the Audit Committee and subject to Internal Audit's review. 	<ul style="list-style-type: none"> — We will deliver further significant capacity enhancement 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.
Pathway Programme		
<p>In line with our aspirations to grow through acquisition and organic growth, we obtained Board approval to start a Pathway Programme in 2019 to deliver streamlined and efficient common processes across our production, commercial, procurement and finance functions as well as replacing a number of our key legacy IT systems. These common processes will help to smooth the integration of newly acquired businesses to more easily deliver business benefits. There is a risk that we fail to drive the changes required and deliver the anticipated benefits, or fail to deliver quickly enough and distract the business from its day-to-day operations.</p> <p>  </p>	<ul style="list-style-type: none"> — The Programme is following Synthomer's standard Project Excellence methodology, including engaging external assurance throughout the life cycle. There is a balance of internal business experts and external transformation experts with an appropriate steering committee chaired by a member of Synthomer's Executive team. 	<ul style="list-style-type: none"> — We will step up the assurance activity and any remedial actions required prior to delivering the new process and associated systems to our first wave of Synthomer sites. Change management activities will be stepped up as the deployment phase begins in 2020.

Principal risks and uncertainties continued

Strategic risks

Risk	Response	2020 plans
Mergers and acquisitions (M&A)		
<p>In March 2020 we expect to complete the acquisition of OMNOVA. There is a risk that the integration approach is not successful and that we fail to deliver the business benefits. The Group's strategic plan continues to include significant M&A to further 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, failing to integrate acquired assets and drive planned synergies, or we encounter performance, funding and cashflow issues and potentially unknown liabilities.</p>   	<ul style="list-style-type: none"> Executive management has extensive experience of successful M&A transactions, including integration of the acquired businesses. We are actively planning for a number of our most experienced management to relocate during the integration phase to ensure the acquired business is integrated into 'the Synthomer Way' covering processes and culture. External advice is used to help identify targets, prepare bids and conduct due diligence. 	<ul style="list-style-type: none"> Whilst no significant M&A is anticipated in 2020 pending deleveraging, the Group M&A activity will continue to be closely scrutinised and challenged by the Board. Successful integration of OMNOVA to ensure strong synergy delivery and deleveraging profile.

People and talent retention




People are a key asset for Synthomer in driving our Company strategy to grow and enabling us to operate in our diverse markets whilst complying with regulations and corporate responsibility. We can only build our people resources if we are able to recruit and retain the right people across our business.



E

- Our employees have clear objectives which are aligned to our company strategy, as well as individual personal development to support their progression. We have succession plans in place for key roles and develop our future leaders, including through a graduate programme, enabling us to promote internally as well as bring in new talent. We also ran an employee opinion survey towards the end of 2019 which showed strong employee engagement, and we are analysing the results further.
- As we bring OMNOVA's 1,850 employees onboard, we expect to widen our talent field further and be able to offer employees of the combined Group enhanced development opportunities and increase retention of our best assets.




Operational risks

Risk	Response	2020 plans
Loss or failure of a Synthomer site		
<p>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 (including climate, environmental and health), safety incident, failure of a key supplier or the supply chain, sabotage and cyber-attack, and this would have an adverse impact on operations and business unit profitability. There is a risk that our response does not ensure the site is able to return to its operational capacity in the planned time frame and that we suffer losses and damage to customer reputation.</p>   	<ul style="list-style-type: none"> 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 ensure there are 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. 	<ul style="list-style-type: none"> We will continue to improve existing preventative measures to reduce the risks and will roll out our newly refreshed approach to business continuity, including crisis management response, disaster recovery for key systems and data as well as longer-term recovery of operations.

Link to strategy













-  Research and development and technical expertise to exploit new markets
-  Driving efficiency and excellence through operations
-  Capacity utilisation
-  Investment in capacity
-  Business growth through acquisitions

Change in risk

-  No change
-  Increase
-  Decrease
-  Sensitivity for risk made in assessing viability
-  Emerging risk

[+ Read more](#) Page 14

Operational risks

Risk	Response	2020 plans
<p>IT security</p> <p>The inherent risk from cyber attacks continues to grow, and although mitigated by our sophisticated defences, all of our systems, including our industrial control systems, Enterprise Resource Planning (ERP) and communications, could be compromised. We could lose intellectual property and customer data, which might undermine our competitive position and lead to regulatory fines, or a cyber-attack could leave one of our plants out of action or subject to blackmail.</p> <p>   </p>	<ul style="list-style-type: none"> — Our IT security team received additional resources, and training was given to key employees to enhance their awareness of the risks from phishing and social engineering. We also invested in anti-phishing software defences and worked to improve our backup procedures to ensure consistency with good standards. 	<ul style="list-style-type: none"> — Further improvements are planned, including completing the delivery of next generation firewalls at all our sites. — We will test IT resilience through our programme of disaster recovery testing.
<p>Safety, Health and Environment (SHE)</p> <p>Our industry is inherently dangerous, involving the transport, storage and manufacture of hazardous chemicals. There is a risk that a significant accident or environmental incident leads to injury to staff or local communities, reputational damage, fines and loss of permissions to operate.</p> <p>   </p>	<ul style="list-style-type: none"> — 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. 	<ul style="list-style-type: none"> — 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.
<p>Brexit</p> <p>There is a continuing risk, notwithstanding the UK/EU withdrawal agreement, that the parties fail to reach a continuing trade agreement in 2020, which might impact the ability of UK manufacturing plants to import raw materials and export products on a timely basis and also impact REACH regulation compliance costs.</p> <p>   </p>	<ul style="list-style-type: none"> — As far as is possible, our Brexit task force continued to monitor and mitigate the potential for disorderly Brexit. 	<ul style="list-style-type: none"> — We will continue to monitor the impact of not concluding a future trade deal. We will continue to review our trading arrangements, processes and systems to ensure that we take any mitigating actions necessary.

Principal risks and uncertainties continued

Link to strategy

-  Research and development and technical expertise to exploit new markets
-  Driving efficiency and excellence through operations
-  Capacity utilisation
-  Investment in capacity
-  Business growth through acquisitions

[+ Read more Page 14](#)

Change in risk

-  No change
-  Increase
-  Decrease
-  Sensitivity for risk made in assessing viability
-  Emerging risk

Compliance risks

Risk	Response	2020 plans
Ethics		
<p>A failure to prevent anti-competitive practices, data breaches, bribery or other unethical behaviour could lead to substantial penalties, withdrawal of operating licences and reputational damage that could impact the Group's ability to pursue its strategy.</p>	<ul style="list-style-type: none"> — In 2019 Synthomer delivered face-to-face training to nearly all of our employees worldwide on the refreshed Code of Conduct, which includes key compliance areas and other ethical challenges. The new Code includes real examples and scenarios to aid employee understanding and the training was well-received, with good employee engagement. Malpractice reporting and protection for reporters are similarly covered in the new Code and an external confidential reporting helpline was brought into use. Group Legal and local management provide regular additional training to targeted groups of employees. 	<ul style="list-style-type: none"> — 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.

Financial risks

Risk	Response	2020 plans
Financial risks		
<p>As a UK-registered Group with a diverse presence across the world, we are exposed to foreign currency risks from our transactions and translation of our legal entities, which could significantly impact the results of the Group.</p> <p>The Group continues to have funding risks relating to defined benefit pension scheme obligations, the value of which are highly dependent on volatile financial markets.</p> <p>We continue to plan to finance our acquisition strategy and continuing operations. There is a risk that the financing strategy fails.</p>	<ul style="list-style-type: none"> — The Group has a policy of hedging all significant foreign exchange transactional exposure at operating company level. The Group borrows a proportion of its funding in overseas currencies to hedge the net assets held in those currencies. — The UK scheme was closed to future accrual in 2009 and additional contributions and careful asset management have reduced the deficit over the longer term. Overseas schemes are reviewed annually by actuaries to ensure appropriate contributions are made and liabilities are recognised appropriately. The overall risk from pensions has reduced over time due to active management and the additional contributions that have been made in recent years. 	<ul style="list-style-type: none"> — We will continue to hedge currency risks. — Pension deficits are expected to further reduce as the Group continues the additional contributions agreed with the trustees in 2016. The timescale will be affected by movements in the financial markets and the discount rate.

Viability statement

In accordance with the requirements of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a five-year period to December 2024, 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 profit performance, cash flow, investment programmes and returns to shareholders. The plan is presented to the Board each year as a part of its 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 and future committed bank facilities, which have been assumed to be refinanced at maturity.

Furthermore, a sensitivity analysis has been undertaken, focusing on the impact of the principal risks (detailed above on pages 32 to 36) over the five-year period and the availability and likely effectiveness of mitigating actions. 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 considered to have the most significant financial impact. In all cases, the impact was considered on both liquidity and borrowing covenant.

The scenarios included trading volatility, increased competition, disruption as a result of Brexit, delays in project delivery, failure of new products, the temporary loss of a manufacturing site, a fine by a regulating body and a situation where the OMNOVA acquisition does not complete. They also focused on risks such as significant foreign exchange rate movements, which are deemed to be outside the control of the Group. None of these scenarios individually threaten the Group, and the combined impact of these scenarios has been evaluated as the most severe stress scenario.

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 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 of their assessment.

Chief Financial Officer's review

The proposed acquisition of OMNOVA and resultant conservative capital structure demonstrates our commitment to a disciplined capital allocation policy



Stephen Bennett
Chief Financial Officer

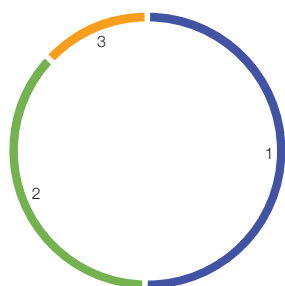
EBITDA (£m)

2019	177.9
2018	181.0
2017	176.2
2016	160.1
2015	125.0

Free Cash Flow (£m)

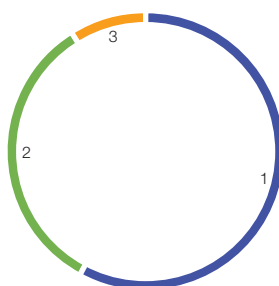
2019	92.8
2018	27.8
2017	81.5
2016	89.5
2015	83.0

EBITDA (£m)



1. Performance Elastomers	£96.3m
2. Functional Solutions	£69.9m
3. Industrial Specialities	£24.8m

Volume (ktes)



1. Performance Elastomers	849.1 ktes
2. Functional Solutions	487.4 ktes
3. Industrial Specialities	129.2 ktes

Highlights

- Resilient EBITDA performance in challenging economic environment
- Strong Free Cash Flow generation in 2019
- Conservative capital structure implemented, including hard underwrite of acquisition rights issue
- Committed unsecured long-term and bridge facilities ahead of OMNOVA acquisition
- Disciplined application of capital allocation policy and dividend policy unchanged

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 note 5.

Coinciding with the first annual reporting of results under the new divisional structure, the Group has placed more emphasis on EBITDA reporting, whilst continuing to provide full disclosure of Underlying and IFRS operating profit and profit before tax. The greater emphasis on divisional EBITDA reporting is consistent with internal reporting metrics, is a commonly used metric by other European chemical businesses, and is a key metric which the market uses to value companies in the chemicals sector.

Overview

	2019 £m	2018 £m	Movement £m	%
Performance Elastomers	96.3	107.9	(11.6)	(10.8%)
Functional Solutions	69.9	64.1	5.8	9.0%
Industrial Specialities	24.8	23.5	1.3	5.5%
Corporate	(13.1)	(14.5)	1.4	(9.7%)
EBITDA¹	177.9	181.0	(3.1)	(1.7%)
Depreciation	(52.1)	(38.9)	(13.2)	33.9%
Underlying operating profit¹	125.8	142.1	(16.3)	(11.5%)

Note:

1. 2019 includes the impact of the adoption of IFRS 16 Leases of £7.9m on EBITDA and £0.6m on Underlying operating profit.

In a challenging environment, the Group has delivered a resilient performance, benefiting from geographic, product and end market diversity, with EBITDA down 1.7% at £177.9m relative to £181.0m in 2018. Whilst overall volumes are a little softer, largely reflecting a difficult SBR market and in particular the paper market, the Group's overall margin per tonne has again remained stable. The reported EBITDA performance of £177.9m has benefitted from the adoption of IFRS 16 Leases, improving EBITDA by £7.9m while increasing depreciation by £7.3m and interest by £1.1m respectively.

Notwithstanding the economic backdrop, Functional Solutions and Industrial Specialities EBITDA performance was ahead of 2018, with Performance Elastomers EBITDA lower. In this context we were pleased with the improvements in our Functional Solutions, Industrial Specialities and Performance Elastomers NBR markets largely offsetting the disappointing performance in Performance Elastomers SBR markets principally attributable to a challenging European paper business.

The Underlying operating profit of the Group was £125.8m, 11.5% lower than 2018 (£142.1m), with the significant rise in depreciation of £13.2m (33.9%) attributable to the significant capacity expansion programme 2017 to 2019 (£5.9m) and the accounting changes relating to the adoption of IFRS 16 Leases (£7.3m). The IFRS operating profit was £110.6m (2018: £128.7m).

The Group continued to generate strong Free Cash Flow in the year at £92.8m, back to similar levels reported in 2016 and 2017 with the marked improvement over the prior year mainly reflecting a working capital outflow in 2018 and an inflow in 2019, largely following the trend in raw material prices, and tight working capital management.

We refinanced the Group in July in anticipation of the OMNOVA acquisition. The post-completion capital structure is consistent with our capital allocation policy, raising equity and targeting a more conservative level of leverage at completion (2.5x) than allowed for in the policy (3.0x), and only this on the basis that we expect leverage to return to less than 2.0x within two years post completion.

Our major capital investment in capacity expansion is largely complete and accordingly our attention will now focus on the integration of OMNOVA, driving synergy benefits and cash flows to ensure the deleveraging profile is delivered in accordance with our capital allocation policy.

Special Items

	2019 £m	2018 £m
Acquisition costs	(9.2)	(0.5)
Restructuring and site closure	(0.8)	(12.2)
Foreign exchange gain on rights issue	3.5	–
Amortisation of acquired intangibles	(8.7)	(16.4)
Sale of business	–	3.8
Sale of land	–	16.4
Aborted bond costs	–	(1.7)
UK Guaranteed Minimum Pension equalisation	–	(2.8)
	(15.2)	(13.4)

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

- Acquisition costs relate to the proposed acquisition of OMNOVA partly offset by a gain of £4.0m on a foreign exchange derivative entered into in July 2019 to hedge the acquisition price. The 2018 costs related to the BASF Pischelsdorf acquisition.
- Restructuring and site closure costs largely comprise a charge of £1.9m in relation to the reorganisation of the Group into global business segments. This is partly offset by a partial reversal of the provision recognised in 2018 for the closure of the natural rubber and polyester resins production lines as certain elements have been less expensive than originally estimated.
- Foreign exchange gain on rights issue represents a gain made on a forward contract which was entered into to swap the proceeds of the Sterling rights issue into Euro in order to pay down part of the Group's Euro borrowings.
- Amortisation of acquired intangibles decreased during the year as the customer-related intangibles relating to the 2011 PolymerLatex acquisition reached the end of their amortisation period in H1 2018.
- Sale of businesses in 2018 related to the disposal of the Leuna (Germany) site and the disposal of 51% of the Group's Dubai operations.
- Sale of land in 2018 related to the disposal of the final tranche of Malaysian land at Kluang.
- Ahead of the Group's 2018 refinancing, a process was undertaken to issue unsecured fixed rate senior notes. Despite a strong response from investors, the Group decided not to complete the transaction due to unfavourable market conditions.
- A £2.8m adjustment to pension liabilities was booked in H2 2018 following the UK High Court's ruling on equalisation of male and female Guaranteed Minimum Pensions. This was treated as a pension plan amendment, unrelated to the Underlying performance of the Group.

Chief Financial Officer's review continued

Finance costs

	2019			2018		
	Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Operating profit (including share of joint ventures)	125.8	(15.2)	110.6	142.1	(13.4)	128.7
Net interest payable	(5.8)	0.0	(5.8)	(3.8)	0.0	(3.8)
Fair value loss on unhedged interest derivatives	0.0	(0.5)	(0.5)	0.0	(1.4)	(1.4)
Net interest expense on defined benefit obligations	(2.7)	0.0	(2.7)	(3.2)	0.0	(3.2)
Interest element of lease payments	(1.1)	0.0	(1.1)	0.0	0.0	0.0
Finance costs	(9.6)	(0.5)	(10.1)	(7.0)	(1.4)	(8.4)
Profit before tax	116.2	(15.7)	100.5	135.1	(14.8)	120.3

Underlying finance costs increased by £2.6m to £9.6m. The drivers were the adoption of IFRS 16 Leases with a charge of £1.1m (2018: £nil) and the full year impact of the Euro interest rate fix transacted in July 2018 of £3.6m (2018: £1.2m). This was partly offset by £0.4m of lower net interest as the RCF amounts drawn have been reduced with the rights issue in July 2019, and a reduction in net interest expense on defined benefit obligations as a result of a higher return on assets in the year.

In July 2018 the Group entered into swap arrangements to fix Euro interest rates on the full value of the €440m committed unsecured revolving credit facility. The fair value loss on unhedged interest rate derivatives relates to the movement in mark-to-market value of the swap in respect of the proportion of the derivatives in excess of the Group's borrowings. The charge has reduced to £0.5m (2018: £1.4m)

as a result of lower drawn amounts under the RCF, and the changes in the fair value between 31 December 2018 and 2019.

Exchange

The impact of movements in exchange rates on reported numbers is based on the following exchange rates:

	2019	2018
Closing rate £1 =	\$ 1.33	\$ 1.27
Closing rate £1 =	€ 1.18	€ 1.11
Closing rate £1 =	MYR 5.38	MYR 5.27
Average rate £1 =	\$ 1.28	\$ 1.33
Average rate £1 =	€ 1.14	€ 1.13
Average rate £1 =	MYR 5.29	MYR 5.37

Taxation

	2019			2018		
	Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Taxation	(16.3)	1.4	(14.9)	(23.0)	6.0	(17.0)
Effective tax rate	14.0%	8.9%	14.8%	17.0%	40.5%	14.1%
Profit for the year	99.9	(14.3)	85.6	112.1	(8.8)	103.3
Profit attributable to non-controlling interests	0.4	0.6	1.0	0.5	3.0	3.5
Profit attributable to equity holders	99.5	(14.9)	84.6	111.6	(11.8)	99.8

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 for the year reduced to 14.0% (2018: 17.0%) in the year primarily as a result of changes in geographical split of profits, with increased profitability of the business in Malaysia, which benefited from the Pioneer Status tax exemption, relative to the European businesses.

- The effective tax rate for Special Items is driven by deferred and current tax credits on the amortisation of acquired intangibles along with current tax credits on restructuring costs.

Non-controlling interests

The Group continues to hold 70% of Revertex (Malaysia) Sdn Bhd and its subsidiaries. These entities form a relatively minor part of the Group and hence the impact on Underlying performance from non-controlling interests is not significant.

Special Items arose from the partial reversal of the 2018 restructuring provision for the closure of the natural rubber and polyester resins production lines at the Kluang site as certain elements have been less expensive than originally estimated. 2018 Special Items included the non-controlling interest share of 2018 restructuring provision as well as profits from the sale of a parcel of land, owned by Kind Action Sdn Bhd, a wholly owned subsidiary of Revertex (Malaysia) Sdn Bhd.

Earnings per share

	2019			2018		
	Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Earnings						
Profit attributable to equity holders (£m)	99.5	(14.9)	84.6	111.6	(11.8)	99.8
Number of shares						
Weighted average number of shares ('000)			393,349			363,977
Earnings per share						
Basic EPS (p)	25.3p	(3.8)p	21.5p	30.7p	(3.3)p	27.4p
Diluted EPS (p)	25.2p	(3.8)p	21.4p	30.5p	(3.2)p	27.3p

Earnings per share is calculated based on the average number of shares in issue during the year. Following the rights issue in July 2019, the Company issued a further 84,970,192 ordinary shares, bringing the total issued shares of the Company to 424,850,961 and the weighted average number of the shares for 2019 to 393,348,792.

Underlying earnings per share for the year is 25.3p, a reduction of 17.6% relative for 2018, and the IFRS earnings per share is 21.5p, a reduction of 21.5% relative to 2018. The reduction in the earnings per share reflects the change in profit after tax referred to above, and the dilutive effect of the rights issue ahead of the completion of the acquisition of OMNOVA.

Following the rights issue, the prior year earnings per share figures have been restated by an adjustment factor of 1.0713 to reflect the bonus element of the rights issue.

Chief Financial Officer's review continued

Cash performance

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

	2019 £m	2018 £m
Underlying operating profit (excluding joint ventures)	124.9	141.7
Movement in working capital	18.5	(35.2)
Depreciation of property, plant and equipment	43.4	37.8
Depreciation of right of use assets	7.3	–
Amortisation of other intangible assets	1.4	1.1
Share-based payments charge	0.6	1.5
Capital expenditure	(69.1)	(75.7)
Business cash flow	127.0	71.2
Net interest paid	(7.2)	(4.5)
Tax paid	(11.1)	(23.0)
Pension funding	(17.5)	(17.0)
Dividends received from non-controlling interests	1.6	1.1
Free Cash Flow	92.8	27.8
Cash impact of restructuring and site closure costs	(4.4)	(3.3)
Cash impact of foreign exchange gain on rights issue	3.5	–
Cash impact of aborted bond costs	–	(1.2)
Sale of property, plant and equipment	0.3	17.5
Acquisition costs and purchase of business	(7.5)	(26.3)
Sale of business	–	3.7
Rights issue proceeds	199.1	–
Repayment of principal portion of lease liabilities	(6.8)	–
Dividends paid	(47.9)	(42.5)
Dividends paid to non-controlling interests	(0.6)	(1.5)
Settlement of share-based payments	(2.5)	(5.4)
Foreign exchange and other movements	8.7	(2.3)
Movement in net debt	234.7	(33.5)
Opening net (debt)	(214.0)	(180.5)
Closing net cash/(debt)	20.7	(214.0)

At 31 December 2019, the Group had net cash of £20.7m compared to net debt of £214.0m at 31 December 2018. The £234.7m movement in net debt primarily reflects:

- A reduction in working capital investment leading to an inflow of £18.5m (2018: outflow of £35.2m) reflecting lower raw material prices and measures taken to structurally manage working capital. Working capital remains at circa 10% of sales on a twelve month rolling basis.
- Depreciation of right of use assets relates to depreciation of assets arising on the adoption of IFRS 16 Leases in 2019. Similarly the repayment of principal portion of lease liabilities relates to cash payments on liabilities recognised on adoption of IFRS 16.

- Capital expenditure is lower relative to the prior year, reflecting the substantial completion of our major capacity expansion projects in Pasir Gudang (Malaysia), Worms (Germany) and Roebuck (USA) in 2018 and 2019. The Group commenced investment in a new Innovation Centre and a new 60ktes NBR capacity expansion in Malaysia and began a three-year business transformation programme. Recurring expenditure on SHE and sustenance in the year is £21m (2018: £24m).

- Cash tax paid is lower at £11.1m (2018: £23.0m). The decrease is due to cash tax refunds received from Tax Authorities in 2019 relating to prior years and lower profitability in 2019.

- Pension funding relates mainly to the UK defined benefit deficit recovery funding of £16.2m (2018: £15.5m). The rise in the deficit recovery payment in 2019 reflects the schedule of contributions agreed with the trustees in 2019 as a part of the 2018 triennial pension scheme valuation. The outcome of the 2018 triennial valuation is discussed below in retirement benefit plans.

- Acquisition costs and purchase of business of £7.5m relate to the OMNOVA acquisition. In 2018, the £26.3m outflow principally related to the purchase of BASF Pischelsdorf.

- The sale of property, plant and equipment in 2018 related to the sale of the final parcel of Malaysian land.

- Rights issue net proceeds relates to the share issue in July 2019, raising £199.1m in anticipation of settling the OMNOVA acquisition purchase consideration.

- Foreign exchange and other movements reflect the impact of the significant strengthening of Sterling during the year where the Group has benefitted from a gain on translation of its Euro borrowings.

Financing and liquidity

The Group continues to make use of a €440m four-year multicurrency revolving credit facility (RCF) expiring in July 2022, with an option to request an extension to July 2023. The financial covenant for the RCF is for net debt to be less than 3.25 times EBITDA.

In July 2019 the Group repaid its €55m committed unsecured short-term loan facility upon expiry.

As part of the OMNOVA acquisition financing, the Group put in place new facilities conditional on completion of the acquisition. These consist of a \$260m term loan and €460m RCF with five-year terms ending on 3 July 2024, and a €520m acquisition financing bridging facility. The bridging facility is available for 15 months from July 2019 and may be extended for two periods of six months.

In 2018 the Group entered into swap derivative contracts to fix the Euribor interest rate on the full value of the €440m RCF until 2025. The full interest cost of these swaps is booked to finance costs as incurred. Fair value movement on the portion of the swap contracts that forms an effective hedging relationship with the Group's floating rate borrowings is taken to other comprehensive income. Fair value movement on the swap contracts in excess of the Group's borrowings is taken to profit and loss. It is treated as a Special Item, as it is not reflective of Underlying performance.

IFRS 16

On 1 January 2019, the Group adopted IFRS 16 Leases using the modified retrospective approach. The adoption of the new standard had the following impact on the Group's results:

Property, plant and equipment	Increase	£38.9m
Lease liability	Increase	£41.9m
Depreciation charge	Increase	£7.3m
EBITDA	Increase	£7.9m
Finance cost	Increase	£1.1m
Profit before tax	Decrease	£0.5m
Net debt to EBITDA	No impact	
Basic EPS	Decrease	0.1p

Note 3 of the financial statements provides more detailed information on the adoption of IFRS 16.

Other intangible assets

The Group has commenced a business transformation 'Pathway' programme which is designed to deliver a consistent set of global business processes across a unified target operating model, transform our technology architecture into a single set of proven integrated systems and to build additional efficiency and effectiveness globally. The programme will begin to deliver benefits in early 2021, is expected to be completed for the existing group in 2022 and meets the capital expenditure hurdle rates for Synthomer providing an attractive payback for the Group and a sound platform for future growth. The investment is shown as an intangible asset under construction until the deployment phase begins.

Retirement benefit plans

The Group's principal funded defined benefit pension scheme is in the UK and is closed to future accrual. The Group also operates an unfunded scheme in Germany and various other overseas retirement benefit arrangements.

The Group's net defined benefit obligation increased by 5.7% to £140.0m at 31 December 2019. The increase is principally attributable to a decrease in discount rates only partially offset by our deficit recovery funding of £16.5m, a decrease in inflation assumptions and strong return on plan assets.

The triennial valuation of the UK scheme was undertaken in 2018 and completed in 2019. The trustees of the scheme have agreed that the Group will continue to fund the deficit recovery plan in line with the previously agreed recovery plan, currently expected to end in April 2023.

Stephen Bennett

Chief Financial Officer
5 March 2020

Section 172 statement

We actively engage and listen to our stakeholders to understand their views, seek opportunities to learn and continually improve. The views of our stakeholders help to shape and inform our strategy and are a key input to our decision making.

Further information, which forms part of this statement, is included on page 69 where we provide examples of how the Directors fulfil their duties in accordance with section 172.



Customers

Through close and long working relationships with over 4,000 customers we aim to provide solutions to meet their needs through customer and technical service.

Why we engage

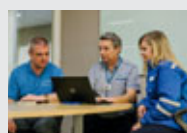
Through close technical partnerships we can better understand customer and society needs and deploy our extensive skills, broad product and technology portfolio to provide innovative solutions.

[Link to strategy](#)



Our impact

To provide best in class sustainable solutions to allow customers to meet the needs of society.



People

Our people drive our business. We have a culture that values meritocracy, openness, fairness and transparency and we seek to inspire our people to deliver their best.

Why we engage

Successful performance can be delivered only through a high level of engagement where our people share the Synthomer vision and values and feel supported by our culture and code of conduct.

[Link to strategy](#)



Our impact

We continue to drive improvements through our people agenda. Our first global employee engagement survey and Employee Voice initiatives are helping us to address areas for improvement to make Synthomer a better place to work.



Communities

Our global operations are an important part of the communities in which they are located. We seek to be a good corporate citizen in all our communities and have launched our 'We Care' initiative to support this approach.

Why we engage

We want to be a good citizen in our communities to make a positive impact, overcome concerns, be seen as an employer of choice and to inspire our employees who are passionate about making a difference to the communities in which they work.

[Link to strategy](#)



Our impact

Our engagement, charity and education programmes make an increasing difference to the communities in which we operate.



Suppliers

We work closely with our suppliers to ensure we can meet our business requirements in a cost effective and sustainable way. We are enthusiastic to work in partnership with suppliers and to allow additional value to be unlocked.

Why we engage

Dialogue with suppliers is important to mitigate supply chain risk, ensure we have access to the most cost-effective products and services and to be aware of new products and services which may be available and could provide the Company with advantage.

[Link to strategy](#)



Our impact

Our code of conduct sets out clear standards regarding our ways of working with suppliers. Building trust and long term relationships is beneficial to both parties.

Link to strategy

-  Research and development and technical expertise to exploit new markets
-  Driving efficiency and excellence through operations
-  Capacity utilisation
-  Investment in capacity
-  Business growth through acquisitions

Section 172 criteria:

- a) the likely consequences of any decision in the long term;
- b) the interests of the Company's employees;
- c) the need to foster the Company's business relationships with suppliers, customers and others;
- d) the impact of the Company's operations on the community and the environment;
- e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly between members of the Company



Shareholders

We are a public company listed on the FTSE 250 index. We provide fair, balanced and understandable information on the prospects and performance of the Company.

Why we engage
To ensure that we provide sufficient meaningful relevant information on which investors can make informed investment decisions.

Link to strategy 

Our impact
Our Board and Management have regular interaction with shareholders which feed into strategic discussions and opportunities, ensuring clarity and alignment over strategy and future expectations of the shareholder and the Company, as the Company moves forward.



Governments and authorities

In science and technology areas we cooperate and engage constructively so that the purpose and strategy of the business can be best delivered.

Why we engage
Policy and regulatory change have a direct impact on our business. We need to understand and influence where appropriate to ensure we can anticipate the consequences of this change.

Link to strategy 

Our impact
We actively participate in the Chemical Industry Association our industry trade body, and have contributed to the debate on a broad range of issues including Brexit, sustainability and decarbonisation, growth and innovation.

Our values

**Case Study
Growth Capex Investment in fast growing NBR market at the Pasir Gudang site in Malaysia**

We consider the impact on major stakeholders in all of our strategic capital investment proposals. These proposals are brought to the Board for approval and discussion and follow our best practice 'Project Excellence' methodology for managing projects. JOB6 is a 60ktes expansion of the Pasir Gudang (Malaysia) site to expand our capacity to meet the fast growing market for NBR latex. These products are used by our customers to manufacture gloves for health and protection applications. Gloves meet the growing needs of society for increased hygiene requirements and our state-of-the-art products provide differentiated polymers to meet and improve quality and performance requirements.

Our investment plans for JOB6 received approval from government and authorities with whom we consult on a regular basis. We engage closely with customers to ensure our product plans meet their needs and with suppliers to ensure that we can obtain cost effective supply in sufficient



quantities. We communicated with employees to ensure they were prepared for the project and had detailed plans to deliver the outcome – as well as preparing to recruit new colleagues who would meet the values that exist within Synthomer. In the communities around Pasir Gudang we ensured that we communicated our plans publicly and work to overcome concerns, manage the impact of the activity and be a supplier of choice. With our shareholders we discuss our capital policy, plans for future investment and communicate these openly to seek their feedback and support.

The project is now underway with a completion date in the second half of 2021.

Environmental, Social and Governance (ESG)

ESG is an increasing priority for our stakeholders and the Group. I am pleased to say that Synthomer continues to make progress in this important area.

2019 ESG highlights

- 58% improvement in recordable injury rate on three-year rolling basis, now 0.20 per 100,000 hours worked
- Best ever process safety event rate, 0.11 per 100,000 hours
- Policies and practices implemented to comply in full with 2018 UK Governance Code
- Improved CDP rating of 'B-' classification – 'taking coordinated action on climate issues' (2018: D)
- Further strengthening of our employer brand
- Launch of 'Your Voice' initiative – employees engagement survey
- Restated our commitment to our 2021 target to reduce greenhouse gas emissions
- Aligned our reporting to GRI Standards
- Introduced a carbon footprint measure to PSP scheme 2020

BUILDING SUSTAINABLY



Tim Hughes
President – Corporate Development

The focus on sustainability and the way in which companies improve their performance in Environmental, Social and Governance (ESG) aspects of corporate behaviour continues to increase.

Synthomer has responded to this challenge by integrating our ESG activities into the way we run our business and the broader reporting of our targets and achievements, as well as ensuring we have access to the data we require to direct our activity and maximise the impact of our work.

Synthomer is a specialised chemicals company. As a global leader in water-based polymer chemistry, our purpose is to continually innovate to meet the needs of customers and society in a sustainable way.

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 customers, suppliers and the wider community and environment in which we operate. At Synthomer, we hold the highest standards and work together to build an ethical and sustainable business, 'The Synthomer Way'.





Some of the ways in which we deliver on ESG

- We put safety, health and environmental performance as a core value of our business, delivering global top quartile performance in priority areas and becoming better through our commitment to continuous improvement.
- We are a world leading supplier of sustainable water-based polymers, our products and processes avoid the need to use an estimated 500ktes of solvents and volatile organic compounds (VOCs).
- Our strong global innovation drives the use of water-based technology – 22% of sales volume in 2019 came from products less than five years old delivering best in class, better performing products to global customers. Projects increasingly focus on sustainability compliance, alternative raw materials, lower energy intensive products and products with superior life cycle impact.
- We have a strategic focus on driving efficiency and excellence through our global operations to minimise the use of resources and maximise efficiency – debottlenecking our plants and driving better cycle times.
- We focus on the sustainability of our value chain in line with the requirements of our key stakeholders.
- We remain resolutely committed to our 2021 carbon target despite challenges in 2019 due to the weaker macroeconomic impact on volume and the unfavourable mix in our sales volumes.
- We remain committed to reporting to Global Reporting Initiative (GRI) standards.
- Our 2019 Carbon Disclosure Project (CDP) assessment report rates us at ‘B-’ classification – ‘management level – taking coordinated action on climate issues’.
- Our policies and practices fully comply with the 2018 UK Governance Code.
- We have strengthened our employer brand to attract and retain the best talent in the market.

We focus our sustainability work, through our Group Sustainability Committee, based around six pillars – strategy, governance and compliance, people, sustainable value chain, health and safety, and environment. In 2019 we broadened our sustainability activities to reach more widely across the Group and for the first time published our Sustainability Report to Global Reporting Initiative (GRI) standards. This approach is built on solid foundations, including the gathering of stakeholder expectations and assessing materiality, building key performance indicators against which we can be judged, engaging our employees through our first global engagement survey and our community-based ‘We Care’ initiative and finally 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 allow us to deliver on our purpose: Delivering ‘The Synthomer Way’.

Tim Hughes
President – Corporate Development

Environmental, social and governance continued

Highlights and achievements

**Strategy – see page 50**

- Introduced our purpose – As a global leader in water-based polymer chemistry, our purpose is to continually improve our products and technology to meet the needs of our customers and society in a sustainable way.
- Published first Synthomer Sustainability Report aligned to GRI standards following extensive stakeholder assessment and matched to our six key pillars identified by the materiality assessment.
- Sustainability Committee expanded to coordinate global ESG sustainability activities, reporting to the Executive Committee.
- Increased focus on innovation of products with lower energy intensity, the completion of life cycle analysis, alternative raw material development and full understanding of our sustainable value chain to guide future activity.
- Improved Ecovadis and CDP scores, maintaining Silver level in Ecovadis and achieving B- level in CDP.

**Governance and compliance – see page 52**

- Completing face-to-face interactive and scenario-based training sessions to support the launch of the Group's new Code of Conduct, with very positive feedback and results.
- Significant progress made in rolling out the Group's GDPR compliance programme, including delivering face-to-face awareness sessions to relevant employees.
- Launching an enhanced competition law compliance programme, involving making available online an improved guidance toolkit for employees, and rolling out face-to-face interactive and scenario-based training sessions to relevant employees.
- Introduction of a new third-party contracted software solution from AEB and Dow Jones which automatically undertakes weekly sanctions-checks of third-party data contained in our system (e.g. customer and supplier data) supporting the existing Group policy on conducting business in sanctioned countries.
- Creating a new Investigations Protocol to support the proper conduct of investigations, whether into matters arising through the new whistleblowing helpline or otherwise. The Investigations Protocol is designed to reinforce the Group's commitment to encouraging employees to speak up about any concerns they may have about unethical and/or unlawful behaviour, through giving reassurance around the integrity of any investigation that ensues.

**People – see page 53**

- Synthomer Talent Development Programme extended and second annual cohort selected and enrolled.
- Further investment in European Graduate Development Programme.
- Strengthened Asia and Europe Graduate Programme.
- Synthomer leadership attributes updated and launched globally.
- Multilingual Global Employee Engagement Survey with active participation from over 1,500 (62%) of Synthomer employees across seven largest countries where Synthomer employees are based.

**Sustainable value chain – see page 57**

- Strengthened sustainability assessment within procurement processes, and implemented revised supplier audit methodology.
- Initial assessment of active R&D projects against sustainability criteria.
- Extended supplier performance assessment criteria for supplier audits to cover wider aspects of sustainability.

**Health and safety (occupational and process safety) – see page 59**

- Completion of Group's Safety, Health and Environment Management System (SHEMS) review.
- Full roll-out of internal process safety training.
- ICCA process safety event rate reduced to 0.11 per 100,000 hours.
- 19% reduction of number of recordable Injuries compared with previous year.

**Environment – see page 60**

- Total waste generated reduced 1.6%.
- Waste to landfill decreased 23%.
- Water withdrawal reduced by 1.03%.
- Total Scope 1 and 2 CO₂ equivalent emissions 312,235 tonnes.
- VOC emissions reduced by 39.7% to 183 tonnes.
- Commitment to Scope 3 emissions evaluation in 2020.

Progress against 2019 targets and objectives

	Target year	Progress
Strategy		
Review approach to energy and GHG emissions reporting, targeting and data validation	2019	
Align sustainability reporting against GRI 'Core' Standards	2019	
Achieve and sustain 'Gold' rating from Ecovadis	2020	
Governance and compliance		
Comply with relevant sections of 2018 UK Corporate Governance Code	2019	
Complete Code of Conduct training globally	2019	
Introduce Code of Conduct, Anti-Bribery & Corruption, Competition Law, Criminal Finances Act and GDPR e-learning modules	2020	
GDPR – complete initial data security audit and begin implementing resulting improvements	2020	
People – employment conditions/ diversity and development		
Implement the Employee Voice programme in accordance with the 2018 UK Corporate Governance Code	2019	
Embed the Synthomer Leadership Development Programme	2019	
Implement the Synthomer diversity and inclusion plans	2019	
Implement the Executive Global Leadership Report	2019	
Launch globally the market-aligned role and compensation framework	2019	
Sustainable value chain		
Assessment of the consumer packaging value chain to identify opportunities for more sustainable systems	2019	
Complete the EPDLA life cycle assessment for major product lines	2019	
Undertake initial assessment of active R&D projects against sustainability criteria	2019	
Build upon the good performance achieved on customer complaints in 2018	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		
Recordable case rate of 0.21 incidents per 100,000 working hours	2019	
Process safety event rate of 0.16 incidents per 100,000 working hours	2019	
Environment		
<i>Targets carried forward, based on 2017 revised baseline</i>		
>50% site emissions calculated using location-based emissions factors (carried forward)	2019	
6% reduction in specific energy consumption (GJ/t production)	end 2021	
9% reduction in GHG emissions (tCO ₂ e/t production)	end 2021	
6% reduction in water consumption (m ³ /t production)	end 2021	
7.5% reduction in waste to landfill (metric tonne/metric tonne production)	end 2021	

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ACTIVITIES



Strategy

As a global leader in water-based polymer chemistry, our purpose is to continually improve our products and technology to meet the needs of our customers and society in a sustainable way. Today, our water-based products avoid the use of hundreds of thousands of tonnes of VOC-containing solvents. We are rapidly introducing state-of-the-art products with regulatory and environmental compliance, and are focusing on projects around alternative raw materials and lower energy intensive products and technologies. Our continuous improvement programmes in all our operations focus on driving efficiency and excellence to minimise the use of resources. And all of this is done to internationally recognised standards through our GRI reporting with our focus on continuous ESG improvements. Despite the progress that has been made, we recognise there is still much which remains to be done.

With sustainability and ESG interest accelerating, Synthomer is responding to this by reporting widely on its performance – from our ‘We Care’ community engagement programme to our strengthening

employer brand, our SHE progress to our Code of Conduct and external ESG reporting improvements. 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. We also consider the issues that are material to our business and seek to respond to them in a manner appropriate to the interests of all its stakeholders, and we are committed to approaching our business in an ethical and environmentally sound manner.

Our work in this area has been recognised through the Group’s inclusion in the FTSE4Good Index since 2004. The FTSE4Good Index is operated by FTSE and highlights the performance of stock market listed companies against a range of ESG 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.

Our work on sustainability is also reported through Ecovadis, CDP, ISS, Sustainalytics and MSCI amongst others. Through our extensive reporting and granular data, we continue to support open reporting. 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 innovate with a focus on energy intensity, alternative raw materials and sustainable technologies which we believe will grow more rapidly in the future. 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 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 and suppliers as well as all stakeholders and the environment.

Whilst there were no acquisitions completed in 2019, we announced the significant acquisition of OMNOVA – a highly synergistic US-based business in complementary chemistry. The Group recognises the impact that M&A activities can have on its overall sustainability profile and performance, and to reflect the acquisition of OMNOVA we will update future reporting to include the larger Group and strengthen our processes for evaluating these potential impacts, risk and opportunities.

The Group’s international operations fulfil their responsibility to record, monitor and make publicly available the potential impact of their 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.

The Sustainability Committee was established in 2018 to coordinate activities and was expanded in 2019 to reflect the wider involvement across our business. Membership includes representatives from the divisional businesses together with functional department heads of HR, R&D, Procurement and Corporate Governance, as well as senior members of the corporate SHE Network. The Committee is led by the President – Corporate Development who sits on and reports back to the Executive Committee.

The Group also remains committed to both the global chemical industries' Responsible Care® initiative and to the principles of sustainable development as set out in the UK Chemical Industries Association (CIA) 'Vision of Sustainability', published in August 2019.

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

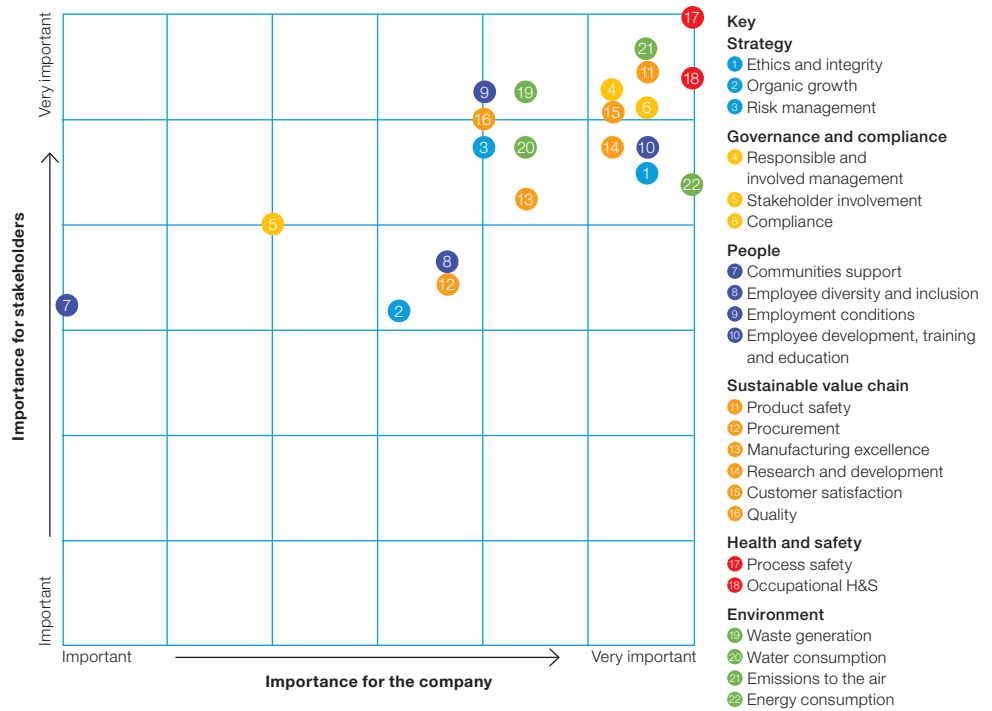
A key achievement in 2019 was the alignment of our sustainability reporting to the internationally recognised GRI standards. Our 2018 Sustainability Report (previously CSR Report) was published in July 2019 and meets GRI 'Core' reporting level requirements. Included in this report is an overview of the work undertaken across the six identified pillars, with more comprehensive data provided in the Sustainability Report.

During 2019 the Sustainability Committee reviewed the additional concerns and suggestions from the stakeholder survey to identify potential new focus areas for targeted action. These include increasing communities support, performing life cycle analysis, review of the UN Sustainable Development Goals and Scope 3 carbon data reporting. The 22 aspects previously identified and the six pillars they are grouped in have remained unchanged.

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

Materiality assessment chart

Materiality assesment (GRI 102-44, GRI 102-46, GRI 102-47)



Plan for 2020 and beyond

During 2020 the Group will review the materiality assessment, including seeking additional feedback from stakeholders. The OMNOVA business will be incorporated into the reporting of the enlarged Group.

In 2020 the Company will accelerate investment in the sourcing of green electricity, increasing the number of countries in which it purchases renewable electricity. Initial focus will be Europe but other countries will be also taken into consideration. This move towards green electricity will significantly decrease the Group's Scope 2 emissions and form an important step in meeting our proposed 2021 GHG emissions target.

The Group will consider the alignment of the sustainability aspects, pillars and targets and objectives with the UN Sustainable Development Goals and commence the gathering of Scope 3 related emissions data.

Environmental, social and governance continued

Non-financial information statement

The table below summarises where key elements of our governance reporting (including non-financial matters as required by the Non-Financial Reporting Directive) can be found, some of which are integrated into other sections of our Annual Report.

Topic	Page number
– Environmental matters	60
– Employees and employee engagement	53
– Social matters	55
– Respect for human rights	52
– Anti-corruption and anti-bribery matters	52
– Our business model	28
– Principal risks and uncertainties	32
– Non-financial key performance indicators	17

The updated Code of Conduct is available here: www.synthomer.com/company/corporate-responsibility/group-policies/



During 2019, scenario-based workshops were held across the Group to reinforce the importance of applying the highest ethical standards as set out in the Code of Conduct. The workshops delivered very positive results, as evidenced by the outcome of the recent 'Your Voice' employee survey which demonstrated, amongst other things, that most employees understand the Code of Conduct and how it applies to their role, and that they know how to report suspected unethical and/or unlawful behaviour.

In 2019, a new Investigations Protocol was also created to support the proper conduct of investigations, whether into matters arising through the whistleblowing helpline or otherwise. The Investigations Protocol is designed to reinforce the Group's commitment to encouraging employees to speak up about any concerns they may have about unethical and/or unlawful behaviour, through giving reassurance around the integrity of any investigation that ensues.

Bribery, corruption and anti-competitive behaviour

The Group's anti-bribery, corruption and competition law policies are key aspects of the Group's new Code of Conduct. As such, these topics have featured heavily in the scenario-based workshops held across the Group in 2019 to support the launch of the updated Code of Conduct.

In addition, during 2019, enhanced competition law training was given to employees more highly exposed to competition law risk, in addition to a new competition law toolkit being launched on the Group's intranet. This supplemented the existing e-learning training that had been provided.

In 2019, significant work was also put into providing new e-learning content, with a view to re-launching improved and more engaging content covering key compliance topics during the course of 2020.

In 2020, a new project will also be launched that takes a holistic look at the Group's Compliance Programme, and benchmarking this against best practice. This will include looking not only at the rules, procedures and training that the Group has in place, but also what else the Group can do to further embed a culture that promotes compliance with the highest ethical standards set out in the Code of Conduct. The aim is to produce a plan for improvement over the coming months and years.

Human rights

The Group is committed to promoting a culture that values diversity, meritocracy, openness, fairness and transparency, and which encourages a safe and trusting working environment.

These are reinforced through the Group's Code of Conduct, and through the work undertaken in 2019 and being undertaken in 2020 in the context of diversity and inclusion.

The Group is committed to ensuring that slavery and human trafficking is not taking place in any of its supply chains, as set out in our most recent Modern Slavery Statement available here: www.synthomer.com/company/corporate-responsibility/group-policies/.

In 2020, the Group will also be publishing a Conflict Minerals Policy in relation to its use of tin within the business operated by William Blythe Limited.



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 in later sections of this Annual Report.

Code of Conduct

Our updated Code of Conduct was published in 2018 in thirteen languages in interactive online and hard copy formats and was delivered to all of the Group's employees by e-mail and/or hard copy. 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.





People



Our commitment to science and education

Robin Harrison, Global Innovation Director, continues to be a member of the Board of trustees as part of our extensive ongoing support for the Society of Chemical Industry (SCI).

Amongst various ways in which we support the SCI and its members, we were proud to continue our sponsorship of the Bright SCIdeas Challenge in 2019. In March the SCI hosted the second annual final of the Challenge, bringing together some of the brightest business minds of the future to pitch their science-based innovation to a panel of expert judges and an invited audience. This initiative allows us to support UK and ROI students interested in commercialising their ideas and developing their business skills. The final included talks and training from judges and networking with industry professionals. The winning team and the runners-up were invited to our laboratories in Harlow. We will continue our sponsorship of this event in 2020.

We also continued to actively support the SCI 'mid careers workstream'. Senior leaders from both our Global Innovation and HR teams have supported committee meetings and development events in 2019.

Our CEO, Calum MacLean, continues to be an active member of 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. Additionally, we support the Chemistry Council Innovation Committee and have contributed significantly to work putting together the Innovation Strategy and Sector Deal proposal. This group has developed four innovation themes:

- Advanced Materials and Molecules
- Green Supply Chains
- Energy Storage and Distribution
- Digitisation and Big Data

Within these themes the Innovation Working Group has focused on identifying programmes for which there is a clear market opportunity and societal benefit, and where the chemical sector can have direct impact on delivering economic value to the UK.

We continue to work closely with a number of academic institutions and support academic study in the form of sponsorship of PhD and master's degree students in the UK and Malaysia. We have also supported one large European Union project, involving the Universities of Montpellier and Torino, looking at sustainable raw materials, that enabled students to spend time working in our labs.

Synthomer sponsored the 'Student of the Year Award' of the British Coatings Federation in 2019. This sponsorship continued for the third successive year.

In Malaysia we hosted more than 100 undergraduates from various universities for an industrial visit, enabling participants to gain valuable learning from visiting a chemical plant.

Several of our managers have been appointed as industry academic advisers for universities in Malaysia including UniKL-MICET for Bachelor of Chemical Engineering Technology (Hons) in Polymer, University of Malaya for Bachelor of Science (Hons) Chemistry, University of Technology, Malaysia for Bachelor of Science (Hons) Industrial Chemistry and University of Malaysia, Perlis for Material Engineering (Hons). Academic advisers evaluate and review the syllabus of the degree programme and contribute to the process of accreditation by the Malaysian Qualification Agency.

Product donations also continue to be a way of supporting science and education. During 2019 we donated disposable gloves to 13 different university laboratories and three Secondary Schools in Malaysia. We also donated to a university in Thailand.

Employees from our site in Roebuck (USA) had the opportunity to support local elementary students in 2019. Site representatives attended careers fairs and also were judges at school science fairs. This was linked to specifically supporting schools which focus on science, technology, engineering and maths.

Environmental, social and governance continued

Key highlights – Your Voice

63%

Response rate

80%

“Safety risks are quickly corrected at Synthomer”

92%

“Synthomer is committed to employee safety”

77%

“I’m treated with respect at work”

90%

“I understand Synthomer’s Code of Conduct and how it applies to my role”

76%

“From what I see, Synthomer employees follow Synthomer’s Code of Conduct in carrying out their work”

85%

“I can describe the main priorities for my team”

70%

“I have the resources I need to do my job”

84%

“I have the authority I need to do my job”

68%

“I am proud to work for Synthomer”

81%

“I know how to report suspected unlawful or unethical behaviour”



Our commitment to our people

Attraction and retention

In 2019 we were able to almost double our followers on LinkedIn from approximately 7,000 to over 13,000. A series of testimonial videos recorded with members of our talent programmes were part of our initiative to provide insights to what it’s like to work at Synthomer.

We drew more applications for our Synthomer Graduate Programmes in Europe and Asia. Our Asian Programme saw a 93% increase in applications compared with 2018, with over 3,000 applications received.

Listening to our employees

In 2019 we ran our first multilingual global engagement survey. Through participation in the ‘Your Voice’ survey, over 1,500 of our employees from all levels of our organisation across the globe were able to share their views on working for Synthomer.

To increase the connection between our Board and our employees and to comply with the UK’s Financial Reporting Council’s updated Corporate Governance Code, Alex Catto was appointed as the Non-Executive Director with responsibility for ‘Employee Voice’. In addition to being closely involved in the ‘Your Voice’ survey, Alex met with groups of employees at our sites in Marl (Germany) and Harlow (UK) to listen to their views on working for Synthomer. During 2019 our Board also met with members of our Graduate and European Talent Development Programmes.

We updated our values in 2019. As part of this exercise we held a number of focus groups across the business and also obtained input via a survey from over 200 of our employees. Our new values will underpin the way we work for the coming years.



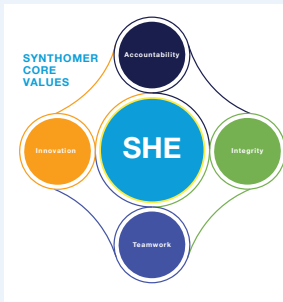
“We are delighted with the high response rate in this, our first multilingual global engagement survey. The Executive Committee is committed to understanding and taking actions to drive improvement and to continuing to use different ways to give our employees opportunity to share their feedback with us. We’re pleased particularly with some of our higher scoring areas around Safety, Health and Environment (SHE) and Code of Conduct as these areas are, we believe, fundamental to our future success and closely aligned to our core values.”

Matt Freeland
Group HR Director

“It is our aim to build our human capital to prepare for and meet the ever-increasing challenges presented by the ever-changing business landscape of today’s world. Developing our human capital capability is crucial to our Company growth. We are constantly on the look-out for ways to enhance our learning offering to contribute to the development of a sustainable talent pipeline, enhancing leadership effectiveness and achieving organisational effectiveness.”

Norashikin Ismail

Human Resource Director, Performance Elastomers & Asia



Leadership development

The new Synthomer Leadership Attributes were launched in January 2019, harmonising several different regional sets of attributes and competency models into one global framework; these leadership attributes have been incorporated into people processes like performance management, interview guidelines and 360 degree processes. Various engagement sessions have been held on the new leadership attributes framework.

We continued to recruit graduates onto our structured development programme in Europe and Asia, recruiting a further cohort in both regions. We currently have graduates working in our Manufacturing, Engineering, Finance, R&D, HR, Procurement and Commercial functions in locations across Asia, Europe and the USA. We have continued to invest time and resources in our graduate programmes and all of our executive leadership have had personal involvement in our programmes.

In Europe we have extended the Synthomer Talent Development Programme and run a second programme: this scheme provides a 12-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. A further 15 employees participated in this programme in 2019.

In Asia we ran our Leaders in Transition programme; this is a 12-month structured development initiative targeted at employees who have been identified as having potential to develop into management roles. Participants are supported with training modules, continuous improvement projects and mentoring.

Diversity and inclusion

Whilst in many respects Synthomer is very diverse we recognise that gender diversity, in particular, in senior roles in our organisation is behind where we would like it to be. We are addressing this and are guided by publications such as the UK’s Hampton Alexander FTSE Women Leaders Report.

	Male	Female	Total
Board	7	2	9
Senior management	41	4	45
Other employees	2,241	611	2,852



Our commitment to our corporate responsibility

‘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 and sustainability ambassadors rolled out the campaign on a number of our 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 with Group support.

In 2019 we published our first We Care newsletter, which going forwards will be issued twice a year to highlight activities across the Group.

In 2020 ‘We Care’ will be expanded to cover more of our wider global network to drive our community engagement as a core part of our sustainability activity.

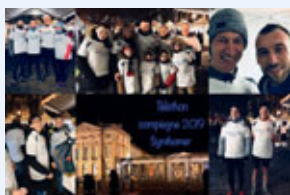


Environmental, social and governance continued

Corporate responsibility policies

Our global Code of Conduct is governed by a wide range of policies which we adopt to ensure our daily business is conducted in a professional 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 accountable.

Synthomer employees across the globe continue to engage in a variety of events and projects in support of local communities, for example:



People from the Ribécourt (France) site joined a national téléthon in the streets of Compiègne in December to raise money for national research on rare genetic illnesses.



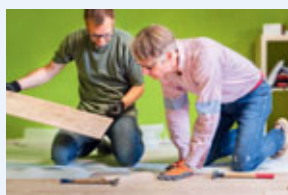
In June, employees from Harlow (UK) took part in the annual St Clare Hospice Business Football Tournament in their hometown. In the charity event, six local businesses went head to head at Harlow Town FC Arena to raise money for the hospice.



During the Christmas season, several of Synthomer's European sites decided to support charity organisations and underprivileged members of society. The charity projects were only made possible through the work of the many motivated employees who volunteered to establish contacts with local organisations. Ultimately, 11 sites across the Czech Republic, France, Germany, Italy and UK participated in these coordinated efforts.



Employees from the Marl office (Germany) participated in a 'Broom Day' in Marl on 5 April 2019. This is an annual event in the city of Marl with the goal to clean up the neighbourhood. The initiative is part of the 'Let's Clean Up Europe' campaign, an initiative active throughout all European countries.



In Marl (Germany), volunteers from Synthomer dedicated their time and skills to help install new flooring for the Children and Youth Centre Hillerheide in Recklinghausen in July. The floor laminates used were materials from the Synthomer booth at the European Coatings Show.



Following closure of the dispensary at the Kluang site in Malaysia, Synthomer donated a surplus of medical supplies and equipment to the Mint Hope Care Society.

Diversity and human rights

Our equal opportunities, diversity and human rights policy includes our responsibility to follow all applicable laws and regulations as well as a complete prohibition of forced, compulsory and child labour.

In 2020 we will take the following actions:

- We will launch a new Diversity and Inclusion Steering Group to give Executive Committee sponsorship, senior leader focus and structure to our efforts to improve our diversity and inclusion delivery.
- We will create a network for women in Synthomer – using the best practices that have been established by organisations across many different industry sectors.
- We will relaunch and improve our family friendly policies in the UK – increasing our support for new fathers via our paternity leave policy and for employees who are adopting a child by bringing the financial support provided via our adoption policy to the same level of the enhanced support we already offer via our maternity leave policy.
- We will conduct a full global review of parental leave policies.
- We will continue to deploy our new manager recruitment skills programme globally, with all workshops including specific sections on unconscious bias in recruitment.

Reflecting on 2019, positive elements of our diversity journey include the following:

- The rate at which women are joining our organisation continues to increase.
- The current participants on our European Talent Development Programme and European and Asian Graduate Programmes are approximately 50% male and 50% female and in addition represent more than ten different European, African and Asian nationalities.
- Malaysia saw particular progress in 2019 in gender diversity, with female employees constituting 22% of our Malaysian workforce and 31% of managerial level roles. 52% of high-potentials between junior executive and senior manager level are female, up from 45% in the prior year. There was an equal representation of hiring of female and male employees in Malaysia in 2019.
- We have two female Non-Executive Directors in Holly Van Deursen and Caroline Johnstone.
- Our Board and Executive Committee participated in a diversity and inclusion workshop in 2019 and our new Global Recruitment skills training programme, including training on recruitment bias, was piloted in the UK and attended by over 50 managers.

Read more Details of this policy, along with our Modern Slavery Act Statement are available on our website: www.synthomer.com



Sustainable value chain

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 covered in detail within the business policies in our Code of Conduct.

Before a vendor is on-boarded and approved as a trading partner, Synthomer employs standardised 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 develop programmes to understand and manage business and supply chain risk in order to drive sustainable business performance.

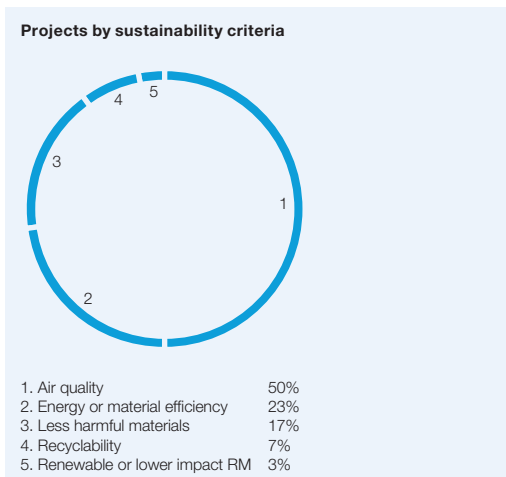
In 2019 the new audit process and questionnaires were fully rolled out, extending the criteria focused on sustainability. Seven full critical supplier audits and five sustainability audits were completed with no issues reported.

In 2020 we continue to target the audit efforts on critical suppliers across all expenditure streams.

Implementation of an advanced sourcing tool is being rolled out globally as part of our Pathway Programme. The tool will enable better supplier relationship management, increasing visibility and compliance to Synthomer standards, including code of conduct and sustainability requirements.

R&D and new product development

Synthomer prides itself on its innovative product development. Sustainability is a core part of our innovation mindset, with a multistrand approach to reducing environmental impact and improving human health. During 2019, an initial assessment of active R&D projects against sustainability criteria was undertaken: 30 projects relating to improved sustainability were ongoing in 2019, with the three biggest drivers clear in the chart below. These projects are spread across all of our technology platforms.



Synthomer's Synovus® technology for medical gloves has been commercialised to provide a patent pending sulphur-free curing system to produce gloves on state-of-the-art dipping lines that meet all stringent European and North American performance and regulatory requirements. The novel curing system leads to the elimination of chemical accelerators known to cause type IV allergic reactions. The technology also allows glove producers to significantly reduce the line curing temperature, decreasing overall energy usage by up to 20%.

To validate these environmental credentials of Synovus®, Synthomer has worked with a leading global glove producer and a third-party specialist prepare a full life-cycle analysis in accordance with ISO14040 and ISO14044 standards. This study assumed incineration at end-of-life, which is standard for medical gloves. This data indicated that Synovus® has a 15 - 20% lower CO₂ impact than conventional NBR glove technology and has an impact up to 30% lower compared to other latex technologies.

In 2019 we successfully launched Revacryl UltraGreen™ a low VOC binder that does not require the use of biocide for high pH biocide-free premium interior wall paints.

Synthomer has committed to participate with the European Polymer Dispersion and Latex Association (EPDLA) to create high quality, cradle-to-grave life-cycle inventories of our key emulsion polymer families. Preliminary evaluation has started, and the study will be completed in mid-2020.

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, as well as managing REACH-like schemes being introduced globally.

Environmental, social and governance continued



HEALTH AND SAFETY PERFORMANCE



Product development, Worms




Safety checks at Pasir Gudang

Key practices and programmes

The table below highlights some of the health and safety management practices and activities undertaken in 2019 and planned for 2020.

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.

Key SHE programmes	2019 SHE key actions		2020 SHE key focus
Group's Safety, Health and Environment Management System (SHEMS) standards and policies	Completion of Group's SHEMS review including the generation of 'Statements of Essential Requirements' – setting out in more detail what good compliance looks like	Statement of Essential Requirement SAQ Guidance	Supporting sites in reviewing the Group's SHEMS standards and policies to align with the new requirements
Group SHE audits	New cycle of auditing completed with continued focus in Process Safety, Permit to Work and Management of Change Development of additional auditing materials: Self-Assessment Questionnaires (SAQs) to support in understanding requirements Started networking and cross-site auditing to share best practices		Continuing audit activities Continuing and extending our networking and cross-site auditing
Accident and incident management and sharing	Effective use of lessons learnt and increased focus on high potential incidents 'Black Book' Lessons Learnt reviews undertaken on anniversaries of most significant internal process safety incidents from the past two decades		Introducing a "Yellow Book" collection of lessons learnt for the most frequent types of occupational injury across the Group
SHE training, communication and support	Full roll-out of internal Process Safety Training, linked to bow-tie and barrier analysis of sites' own identified significant hazards		Cascading of training through organisational levels
Process Hazard Assessment (PHA)	Completion of High Priority PHA actions		Prioritisation of medium priority PHA actions, extension of PHA review process to other sites
Sharing good practice	Initiated process of compiling, classifying and creating a library for sharing good practices		Continuing building and sharing the good practices library
SHE routines	Following implementation of our Permit to Work (PTW) and Management of Change (MOC) improvement programme, 2019 continued the focus on tracking and learning from 'Fundamental Issues' identified during PTW monitoring New indicators were defined to increase focus in PTW High Hazard activities		Developing and rolling out of Process Confirmation routines to improve monitoring and reviewing of other critical activities such as monomer offloading, shift handover and batch monitoring

Synthomer continues to make strong progress on health & safety performance. Our best ever process safety event rate and a 58% improvement in recordable injury rate over three years were highlights in 2019.

Health and safety

Management of Safety, Health and Environment (SHE) is the most mature aspect of the Group's sustainability activities and remains a critical aspect for both internal and external stakeholders. Having safe plants is a basic expectation of sites' licence to operate, in line with the Synthomer philosophy: we always have time to work safely.

In line with our SHE policy, the Board, Chief Executive 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.

Occupational safety

- Recordable injury case rate (RCR) of 0.20 per 100,000 hours worked
- No accidents resulting in fatality or permanent disabling, limited number with potential for disabling injury

The Group's main lagging indicator of SHE injury performance is the recordable injury rate for injuries involving more than first-aid treatment. 2019 saw a reduction in the number of recordable injuries, down to 13, three fewer than in 2018 but above the record low of nine in 2017. The associated frequency rate of 0.20 per 100,000 hours worked was the second best rate in the Group'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 2020 we will continue looking to improve our contractor management, including our line of fire and high hazard work guidance.

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

Process safety

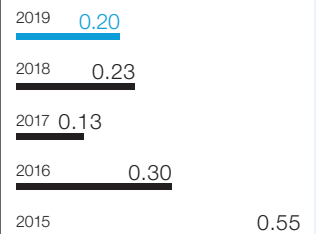
- Best ICCA Process Safety Event rate since tracking started of 0.11 per 100,000 hours
- No incidents resulting in serious injury or damage

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 four-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 Associations (ICCA).

There was a 30% improvement in the PSE rate, with seven incidents reported compared with ten in 2018. Ongoing focus on improving engineering and maintenance standards and addressing human-factor issues will help us continue to drive this rate lower. More information will be provided in our Sustainability Report.

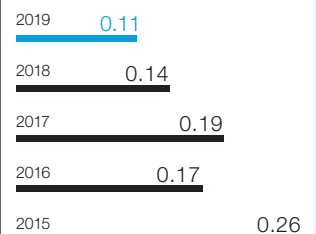
Frequency rate – all recordable accidents

Injuries per 100,000 hours



Recordable process safety event rate

Events per 100,000 hours



Environmental, social and governance continued

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 the Czech Republic.



ENVIRONMENTAL PERFORMANCE

Performance in 2019

- Total CO₂ equivalent emissions increased 0.5% to 312,235 tonnes.
- Emissions per production tonne increased 2.7% to 0.202 tonnes per tonne.
- VOC emissions dropped 39.7% to 183 tonnes after a correction to 2018 data.
- Reduction of 18.7% in reported refrigerant losses to 1,916 tonnes / equivalent CO₂ associated losses reduced to 7,320 tonnes.

Total primary energy use GJ per production tonne	
2019	3.63
2018	3.50
2017	3.54
2016	3.45
2015	2.62

2019 was a challenging year with regard to meeting our environmental performance targets. The figures reported below reflect the full year impact (compared with 11 months in 2018) of the ex-BASF latex site in Austria.

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

2017 Energy and CO₂ emissions baselines have been slightly modified since last year. Some corrections have also been made to 2018 electricity and gas consumption and CO₂ emission values. All changes are noted in the following sections. These changes have a limited impact in total energy consumption or emissions.

Energy

- Overall primary energy consumption increased 1.5% to 5,601,840 GJ
- Specific energy consumption increased 3.7% to 3.63 GJ per production tonne

2018 gas consumption values were corrected (leading to a 2.6% reduction) due to some mistakes detected in data collection.

2018 electricity consumption was corrected also due to some mistakes detected in data collection. In this case the change was lower than 0.1% and is not regarded as material.

The increase in both absolute and specific energy consumption is related mainly to the changes in the production mix coming from an increased production of high energy demand products. More stringent cleaning requirements also lead to an increase in associated energy consumption.

Several projects that have both energy and emissions improvement benefits are in the pipeline and will improve performance, targeted around the six sites with the largest energy and carbon footprint, but realisation in 2019 was behind target. More information on current and planned activities will be in the Sustainability Report.

Waste disposal to landfill

Kg waste per production tonne

2019	3.99
2018	5.08
2017	3.57
2016	3.67
2015	3.67

Total water withdrawal

m³ per production tonne

2019	3.95
2018	3.90
2017	3.79
2016	3.96
2015	3.35

Waste

- Total waste generated fell 1.6% to 33,648 tonnes and waste to landfill decreased 23% to 6,166 tonnes
- Specific waste generation was unchanged at 0.022 tonnes per production tonne
- Specific waste to landfill decreased 21% to 0.004 tonnes per tonne

2019 waste included significant one-off waste quantities, in particular associated with a major capital project in France that required the removal of legacy contaminated soil.

The reduction in total waste was influenced by lower production levels at some sites whose processes typically yield more waste, but was mainly driven by the implementation of several improvement projects, including some that led to a reduction in sludge levels produced in waste water treatment plants.

Water withdrawal and water consumption

- Water withdrawal reduced 1.03% to 6.10 million m³
- Specific water withdrawal rose 1.1% to 3.95m³ per tonne

During 2019 we began collecting information to enable more accurate reporting of Group 'Water Consumption' aligned with the GRI definitions.

2019 water consumption values will be used as a new reference for future improvement targets.

- Water consumption in 2019 was 1.73 million m³
- Specific water consumption was 1,025m³ per tonne

The absolute reduction in 2019 water withdrawal was driven by production reduction in some sites and by plant improvements and repairs that reduced losses associated with leaks.

Variance is expected year-on-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.

Greenhouse gas emissions

The Group reports environmental KPIs in the format recommended by the Department for 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 2019 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 the 0.1% of the Group total.

23%

Reduction in waste to landfill

All known emissions from the manufacturing process 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 VOCs and refrigerant gases. The only known emissions which have not been included are direct emissions of CO₂ 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 nitrous oxide or methane are associated with energy production and are not separately quantified. The Group continues to report Scope 1 and 2 emissions. No estimate has yet been made of Scope 3 emissions owing to the complexity of the Group's supply chain, but it is our intention to develop some estimation of Scope 3 emissions in 2020 with the assistance of specialist consultants. The Group continues to use emissions per production tonne as its intensity ratio.

Calculation methods

All direct energy production from fossil fuels has been aggregated on a Group-wide basis and converted to CO₂e by using the appropriate emissions factors. No allowance has been made for possible country to country variation in calorific value or CO₂ emission factors for primary fuels.

Electricity has been converted to CO₂e on a country by country basis. Scope 2 emissions have been calculated using three different approaches:

- Market-Based: using market-based emissions factors for electricity from suppliers of standard grid fuel mix tariffs. Where suppliers emissions factors were not available, the residual mix was used for the EU sites and Location-Based approach for non EU sites.
- Location-Based: emissions factors from DEFRA (dataset published in June 2019) were used for UK grid electricity, and for overseas grid electricity factors from the relevant IEA (International Energy Authority) 'World CO₂ Emissions from Fuel Combustion' databases. In accordance with UK Government guidance, factors used for 2019 reporting are based on 2017 validated data.
- Hybrid Approach: using Location-Based info except for sites within the Group that purchase certified 'green' electricity. Electricity for these locations has been given a CO₂e emissions factor of zero in calculating energy related emissions totals. These include the sites in the Netherlands, Spain, Marl (Germany) and all sites in the UK.

The Hybrid Approach is the approach used in previous years to establish the baseline and the targets. In order to be able to compare historical performance year-on-year, the Total Emissions (Scope 1 and 2) have been calculated using the Hybrid Approach.

Synthomer's site in Stallingborough, UK takes most of its electricity from an exclusive contract with an adjacent waste incinerator operated by Newlincs.

Environmental, social and governance continued



Marl is one of our sites that is certified 'green'

This electricity is certified as 'Green' by the UK Government. However, as a mixture of waste it is deemed both renewable and non-renewable, so it does not have a zero emission factor. For 2019 the applied emission factor for electricity from Newlincs is based around that determined for the site's Climate Change Agreement (CCA) reporting of around 0.417 kg CO₂e per kWh. The site is also provided with indirect heating in the form of hot water from Newlincs.

VOCs have been aggregated on a Group basis and converted to CO₂e using a factor of 11. 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 seven years. Releases of each individual gas have been aggregated each year to give a Group release total and then converted to CO₂e using the equivalence factors given by DEFRA for each gas. The emissions factors applicable to refrigerant release in 2019 are as per those in the previous two years, as no changes were reported by DEFRA—Global Warming Potential (GWP) factors from the IPCC 4th assessment report.

2017 and 2018 Scope 2 emissions were modified taking into consideration the mentioned changes in 2018 energy consumption and the use of more accurate emission factors for 2017 and 2018 Newlincs electricity.

The absolute increase in emissions was largely due to increased production of higher energy demand products and additional cleaning requirements as noted earlier. This higher absolute total also meant that the intensity of our emissions in terms of releases per tonne increased due to lower overall group production sales volume. The highest absolute increases are related to emissions from two sites: the plant in the Czech Republic that uses brown coal, and one plant in Malaysia where we had full year impact of a capacity expansion project realised during 2018. The Group is reviewing options relating to the fuel balance in the Czech Republic.

The reduction in reported VOC emissions related to completion of several small projects in 2019. The purchase of 'green' grid electricity for some additional countries also limited the overall emissions

increase. Year-on-year we are currently behind target and are reviewing the planned projects required to help achieve the 2021 goals.

These include the Company accelerating investment in sourcing green electricity, increasing the number of countries purchasing renewable electricity. Initial focus will be within Europe, but other countries will also be taken into consideration. This move towards green electricity will significantly decrease the Group's Scope 2 emissions and be an important factor in meeting our proposed 2021 Greenhouse Gas (GHG) targets.

The Group has no control over changes in the emissions factors in different countries, which can have a significant impact on emissions. For 2019 reporting the emissions factors for some countries showed an improvement, reflecting work done at national level to improve the renewables proportion of the grid supplies.

Scope 1 and 2 emissions are being validated by a third party; the results of the validation are not available at the time of preparing this Annual Report but will be published in the 2019 Sustainability Report.

Global warming burden

Tonnes CO₂ equivalent released per production tonne Includes CO₂ from energy generation/use

2019	0.202
2018	0.197
2017	0.201
2016	0.199
2015	0.157

Energy and GHG KPIs

This table presents environmental KPIs for 2017 to 2019, 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. Data from 2018 and 2017 has been modified as discussed in the environment section of this report.

Note that from next year we will amend the information included to align with The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018, which will apply to our financial reporting year commencing 1 January 2020.

	Units	2019	2018	2017	% change 2017 – 2019	% change 2018 – 2019
Energy consumption¹						
Gas	GJ	1,525,851	1,519,649	1,459,411	4.6%	0.4%
Light oil	GJ	21,599	22,625	24,990	(13.6%)	(4.5%)
Heavy oil	GJ	6,657	5,533	4,651	43.1%	20.3%
Steam (metered)	GJ	763,100	751,545	756,890	0.8%	1.5%
Electricity (primary basis)	GJ	2,663,373	2,634,611	2,523,661	5.5%	1.1%
Total energy consumption	GJ	5,601,840	5,520,570	5,352,562	4.7%	1.5%
Greenhouse gas emissions²						
Energy consumption						
Energy consumption (CO₂ equivalent)³	tCO ₂ e	302,906	299,693	297,804	1.7%	1.1%
Volatile Organic Compounds (VOC)						
VOC emissions	tonnes	183	303	164	11.1%	(39.7%)
VOC emissions (CO₂ equivalent)⁵	tCO ₂ e	2,008	3,330	1,807	11.1%	(39.7%)
Refrigerants (HCFC and others)						
Refrigerant emissions	Kg	1,916	2,355	1,773	8.1%	(18.7%)
Refrigerant emissions (CO₂ equivalent)	tCO ₂ e	7,320	7,627	4,485	63.2%	(4.0%)
Total greenhouse gas emissions (Hybrid Approach)⁶						
	tCO ₂ e	312,235	310,649	304,096	2.7%	0.5%
Comprising:						
Total Scope 1 emissions	tCO ₂ e	151,386	147,192	139,285	8.7%	2.8%
Total Scope 2 emissions (Hybrid Approach) ⁶	tCO ₂ e	160,849	163,457	164,811	(2.4%)	(1.6%)
	tCO ₂ e	312,235	310,649	304,096	2.7%	0.5%
Total Scope 2 emissions (Market-Based)	tCO ₂ e	176,971				
Total Scope 2 emissions (Location-Based)	tCO ₂ e	173,132				
Other emissions to air						
Sulphur dioxide (SO ₂)	tonnes	100.7	142.5	158.3	(36.4%)	(29.4%)
Nitrogen oxides (NO _x) ⁴	tonnes	150.8	130.0	121.3	24.3%	16.0%
Emissions per production tonne						
Total production tonnes	ktes	1,544.5	1,577.8	1,511.7	2.2%	(2.1%)
Energy consumption	GJ/t	3.63	3.50	3.54	2.4%	3.7%
Emissions to air						
Energy consumption ³	tCO ₂ e/t	0.196	0.190	0.197	(0.4%)	3.3%
Volatile Organic Compounds (VOC)	tCO ₂ e/t	0.001	0.002	0.001	8.8%	(38.4%)
Refrigerant Releases (HCFC and others)	tCO ₂ e/t	0.005	0.005	0.003	59.8%	(2.0%)
Total greenhouse gas emissions	tCO ₂ e/t	0.202	0.197	0.201	0.5%	2.7%
Sulphur dioxide (SO ₂)	Kg/t	0.065	0.090	0.105	(37.8%)	(27.8%)
Nitrogen oxides (NO _x)	Kg/t	0.098	0.082	0.080	21.6%	18.5%

Notes

- This comprises all site fuel usage and internal site transport. It excludes transport of goods to and from site and the movement of these vehicles on site.
- Greenhouse gas emissions have been calculated from the usage of all fuels except transport fuel. Therefore they include both direct and indirect scope 1 and 2 emissions related to bought-in electricity, steam, compressed air, cooling water etc.
- CO₂ equivalent emissions include contributions from CH₄ and N₂O associated with combustion.
- NO_x emissions arise predominantly from combustion processes. The CO₂ equivalent Global Warming Potential contribution from these releases is already included in the CO₂ from energy figure above.
- VOC contributions are converted using an average factor of 11 kg CO₂e per kg VOC.
- The Hybrid Approach takes into consideration location base emissions for all sites except for those consuming green energy (which are accounted as market base).

The Strategic Report was approved by order of the Board.

R Atkinson
Company Secretary
5 March 2020

Board of Directors

INTRODUCING YOUR BOARD



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 QinetiQ Group 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.



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. Designated Non-Executive Director to lead workforce engagement.

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.

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.



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 a Non-Executive Director and Chair of the Employee Engagement Committee of Spirax-Sarco Engineering plc, Chair of Reece Group Limited and is a Non-Executive Director and Chair of the Audit Committee of Shepherd Building Group Limited, a private company which owns Porakabin Limited.

Skills and experience: Caroline has nearly 40 years' experience of working 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 PricewaterhouseCoopers (PwC) as people partner. Caroline is a chartered accountant and a member of the Institute of Chartered Accountants of Scotland. She also provides consulting services to a range of international clients.



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 since 1 March 2019.

Key appointments: Holly is a Non-Executive Director of Kimball Electronics Inc and Albermarle Corporation and Chair of Capstone Turbine Corporation.

Skills and experience: Until 2005, Holly was Group Vice President, Petrochemicals, at BP. She has worked in the global chemical industry for over 25 years and held senior positions across North America, Europe and Asia. In addition, Holly has 13 years' experience as a Non-Executive Director in the USA.



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 Eonic 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 catalysts and new ventures. Just has extensive experience in the polyolefin industry and related value chains, in commercialising innovation and in monetising IP. Just has previous experience as a Non-Executive Director in the USA and as an advisor in Saudi Arabia.



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. He has experience in organisational transformations, acquisitions, chemical and manufacturing operations.



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.

Introduction to corporate governance



Neil Johnson
Chairman

STRENGTHENING GOVERNANCE

Highlights

- Commitment to achieve one third female Board membership
- Active “employee voice” programme
- Policies and practices implemented to comply in full with the 2018 Governance Code

Dear Shareholders,

Our proactive focus on the corporate governance agenda has enabled me to report that we were in full compliance with the 2018 UK Corporate Governance Code throughout 2019, being the first year that it applied to the Company.

Thanks to the practices and policies we had in place from the start of 2019 your Board was able to benefit from new governance mechanisms and gain a deeper insight into the Company. In turn we have taken the opportunity to use the new governance reporting requirements to take what I hope is a more informative approach to reporting how governance supports our strategy and to be more transparent in explaining our decision making during the year.

Consultations with our shareholders were a major feature of the activities of the Board and its Committees during 2019. As we prepared a new Directors’ remuneration policy to be brought to the 2020 AGM for approval, the Remuneration Committee Chair led an extensive consultation exercise. The feedback and guidance this provided has helped to shape and develop the proposed new policy that will be put forward.

The engagement exercise with a number of our major shareholders led by our Senior Independent Director following the significant minority vote against

my own re-election at the 2019 AGM resulted in our update statement issued in October 2019. The Board’s conclusion that it does not have any concerns over my availability to devote sufficient time to my role at the Company is explained on page 71 of this Governance report. With regard to attaining one third female representation on our Board, the Nomination Committee now has a search process underway for an additional female Non-Executive Director to be appointed during 2020.

The internal performance evaluation of the Board and its Committees carried out at the end of 2019 highlighted further areas of improvement to be made to our processes and procedures, and otherwise showed the Board to be functioning well with effective Committees. We are committed to carrying out an externally facilitated evaluation in 2020.

Looking forward, the Board will continue to support the Company’s diversity strategies in 2020 and the work of Alex Catto as he undertakes a second year as the Non-Executive Director responsible for representing the ‘employee voice’. We will also review our ‘Purpose’ statement and ensure alignment with our culture, values and strategy.

I do hope the information provided in the following pages of this Governance report will enable you to support all the resolutions to be proposed at our 2020 AGM.

Neil Johnson
Chairman
5 March 2020

“We were in full compliance with 2018 Corporate Governance Code throughout 2019.”

Neil Johnson
Chairman

Compliance with the UK Corporate Governance Code

The Board considers that it has complied throughout the financial year ended 31 December 2019 with the provisions set out in the 2018 UK Corporate Governance Code (the Code)*.

Application of the Code

The main principles of the Code were applied as follows:

Board leadership and Company purpose

An effective board

The activities of the Company are controlled by the Board which, during 2019, comprised two Executive Directors and seven Non-Executive Directors. 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 64 and 65.

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.

Note:
* A full version of the Code can be found on the Financial Reporting Council’s website: www.frc.org.uk

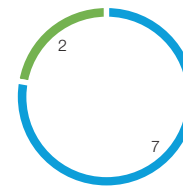
Governance snapshot

Board diversity – nationality



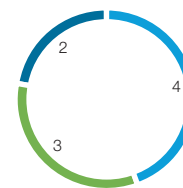
British	6
Dutch	1
Malaysian	1
American	1

Board diversity – gender



Male	7
Female	2

Board tenure



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

Corporate governance

Board activity in 2019 – 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 further NBR capacity expansion at Pasir Gudang (Malaysia) and projects at two sites in the UK, were approved. Investment in digitalisation and process standardisation under the Pathway Programme was approved and monitored throughout the year. Progress on the major capacity expansion projects approved in 2017 and 2018 at sites in Germany and the USA respectively were monitored throughout the year until they came online.

Growth through acquisition
The proposed acquisition of OMNOVA and its associated financing was the dominant Board topic in 2019 during which the investment case, strategic logic, synergy benefits, due diligence findings and funding were subject to detailed review and approval and progress of the transaction was closely monitored.

Financial and commercial performance
Financial and commercial 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.

Leadership and people
Succession planning processes and progress were reviewed with support from the Global HR Director. The Nomination Committee commenced a search process for an additional female Non-Executive Director.

Governance and stakeholder relations
Routine reports on governance and investor relations matters were given at each meeting. The appointment of a new joint broker was approved after a comprehensive tender process. The roll-out of new policies and practices under the Code were monitored. 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 continued to be paid to Brexit contingency planning.

Strategy review
The Board dedicated a half day meeting to a review of the five-year strategic plan and key strategic initiatives.

Site visits
The Board visited the Group’s acrylic dispersions plant at Worms (Germany). A visit was also made by Non-Executive Directors to the Group’s plant in Harlow (UK).

Purpose, culture and values
The Board has endorsed the Company’s ‘Purpose’ which is set out on the inside front cover. The Board first approved a formal set of ‘Values’ in 2014 with a ‘Core Values’ programme being implemented across the Group that year. A core values refresh project was completed in 2019 which included a survey of over one hundred employees. As a result, a revised set of values was agreed by the Executive Committee at the end of 2019 and received Board approval in early 2020 and will be launched across the Group in the first quarter of 2020. Details of the Company’s values are on page 54.

Our culture is described on the inside cover and the Board is conscious of its responsibility for setting the cultural tone. The Board and its Committees monitor and oversee the Group’s culture by receiving regular reports from management including on compliance with the Code of Conduct, use of the ethics hotline and attitudes to risk and risk assessments. The Board also engages with members of the wider workforce both formally during Board presentations and events and informally during site visits and most recently has received the outcome of an employee survey. The Board was satisfied that workforce policy, practices and behaviour across the Group were aligned with culture during 2019.

Stakeholder engagement
Our process to identify key stakeholder groups was carried out at the end of 2017 followed by an initial assessment of engagement mechanisms and the topics that were materially significant to those stakeholders. In 2018 representatives from the stakeholder groups were surveyed to better understand their priorities and ensure alignment with our approach to, and focus of, engagement.

This has allowed the development of six headline pillars which form the basis of the Group's approach to engagement on sustainability in its widest sense, which is set out on page 48. Further details of the work carried out in 2017 and 2018 can be found in our Sustainability Report for those years at www.synthomer.com/company/corporate-responsibility/sustainability. The information below supplements the details on stakeholder engagement on pages 44 and 45.

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 Senior Independent Director led an engagement exercise with a number of major shareholders following the significant minority vote against the Chairman's re-election at the 2019 AGM. The impact of that feedback on the decisions of the Board are set out in the Chairman's statement on page 7. The Chairman of the Remuneration Committee consulted extensively with major shareholders on the proposed new Directors' remuneration policy, which will be submitted to the 2020 AGM for approval by way of a binding vote. Further details of that consultation exercise and its outcome are contained in the Directors' Remuneration report on page 83.

The Board seeks to encourage participation of all shareholders, and in particular private investors, at the Company's AGM 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 can be found there.

Information on the Company's major shareholdings and share capital is included in the Directors' Report on pages 103 to 104.

Engagement with employees

The engagement with our employees is detailed on page 54 and includes: the appointment of Alex Catto as the designated Non-Executive Director for gathering the views of the workforce; social media and the Company intranet; the use of surveys; town hall meetings at sites and with specific groups such as members of the graduate development programme hosted by the Chief Executive Officer and other members of the Executive Committee; the externally hosted ethics hotline which provides a way of raising concerns in confidence; appraisal processes and structured career and competency reviews.

In addition the Board and its Committees routinely invite members of management to attend meetings to present on the matters being discussed. Board members take the opportunity to engage more widely with employees during site visits and in 2019 received informal presentations and had discussions with members of the European graduate development programme.

Stakeholders and our decision-making

Based on our engagement with and feedback from stakeholders, we factor their views into the decision making of the Board. Our statement describing how the Board has had regard to the matters set out in section 172 (1) (a) to (f) of the Companies Act 2006 when performing its duty under section 172 is set out on page 44 and how this works in practice is shown in the case studies below:

1. Capital investment in the business transformation 'Pathway' programme

The Board approved a capital investment proposal to invest in core systems and process standardisation across our global business. The Board took account of a number of stakeholder factors in reaching this decision including the benefits to the efficiency and effectiveness of our global employee workforce and our relationships with customers and suppliers, the ability of the investment to deliver compliance in taxation and the benefit to the scalability of our business to support our strategy of inorganic growth. The Board also took account of the financial returns in the project and considered it was in the best interests of the Company to approve the investment.

2. OMNOVA acquisition

The Board approved the proposed acquisition of OMNOVA Solutions Inc having considered a broad range of stakeholder factors. These included the benefits to shareholders from the financial investment case, the benefits to customers of improving our global distribution, innovation and manufacturing network and the benefits to our employees of strengthening our market position and deploying their extensive experience to grow through acquisition.

Corporate governance continued

3. Dividend policy and payments

The Board approved the consistent use of our dividend policy through the year having considered a broad range of stakeholder factors. The importance of meeting the stated dividend policy and therefore shareholder expectations; the need for transparency amongst our shareholders and employees who own shares in the Company; the need for the Company to deliver on its capital allocation and leverage policy in order to build credibility and enhance the reputation of the Company; together with the Company's commitment to reducing the UK pension fund deficit, were all taken into account.

4. Introduction of updated Company values

The Board approved the proposal to update Synthomer's Values. Our Values support our culture and our employees who drive our business. They also make a public statement and unify our business, which supports our reputation in the communities in which we work, the authorities we interact with and the customers and suppliers we deal with.

5. Approval of the annual budget and strategic plan

This year's budget and rolling strategic plan were approved following a comprehensive review of our strategic priorities and risks and opportunities for our business. The Board considered the long-term plans for capital allocation, investment in our employees and skills required to successfully deliver the plan. It also considered our product development plans, expected market and regulatory changes, and key changes impacting our customers and our supply chain.

Division of responsibilities

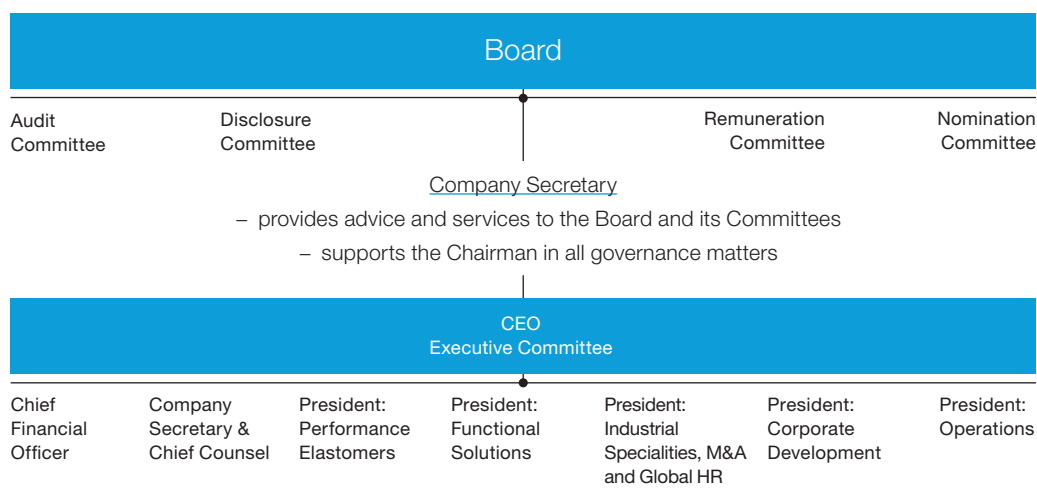
The Board has delegated to the Chief Executive Officer responsibility for the development and preparation of the business plan and the annual budget for recommendation to the Board. As the Senior Executive Director, the Chief Executive Officer is responsible for all aspects of day-to-day operational 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 72.

Chairman	<ul style="list-style-type: none"> — 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	<ul style="list-style-type: none"> — 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	<ul style="list-style-type: none"> — 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	<ul style="list-style-type: none"> — 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	<ul style="list-style-type: none"> — 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



During 2019 the Board held 13 meetings with an additional half day dedicated to a review of the five-year strategic plan and key strategic initiatives. 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. Details of sites visited in 2019 are set out on page 68.

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 prior to appointment and any proposed new significant commitments require prior Board approval.

The Non-Executive Directors, led by the Senior Independent Director, carefully considered the 'over boarding' concerns relating to the Chairman which were understood to have led, in part, to the significant minority vote against his re-election as a Director at the 2019 AGM. In concluding that there were no concerns over the Chairman's availability to devote significant time to his role at Synthomer, the Non-Executive Directors took account of the fact that whilst he had one other significant role as Chairman of QinetiQ Group plc his position as chairman of Electra Private Equity plc should not count as an additional significant commitment. In this connection, regard was had to the size of Electra, and the fact that it is undergoing a managed wind-down of its portfolio and therefore the applicability of proxy voting advisory body guidelines.

Holly A. Van Deursen received prior Board approval before accepting board positions at Kimball Electronics Inc and Albermarle Corporation during the year.

	Board	Committees			
	Scheduled	Audit	Remuneration	Nomination	Disclosure
Number of meetings held	13	5	6	1	5
Number of meetings attended					
Stephen Bennett	13	N/A	N/A	N/A	5
Alex Catto	13	N/A	N/A	N/A	N/A
Brendan Connolly	13	5	6	1	5
Holly A. Van Deursen	12	3 ¹	4 ¹	N/A	N/A
Just Jansz	13	5	6	N/A	N/A
Neil Johnson	13	N/A	N/A	1	5
Caroline Johnstone	13	5	6	1	N/A
Lee Hau Hian	13	N/A	N/A	N/A	N/A
Calum MacLean	13	N/A	N/A	N/A	5

Note:

1. Holly A. Van Deursen was appointed to the Audit Committee and the Remuneration Committee on 1 March 2019 and attended all meetings for which she was eligible to attend as a member of those Committees.

Corporate governance continued

Board composition, succession and evaluation

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 64 and 65. 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 throughout 2019 and was balanced between the number of independent and non-independent Directors.

A balanced Board during 2019

Chairman	
Independent Non-Executive Directors	Executive and Non-Independent Non-Executive Directors
Caroline Johnstone	Calum MacLean
Just Jansz	Stephen Bennett
Holly A. Van Deursen	Alex Catto
Brendan Connolly	Lee Hau Hian

Non-Executive Directors are appointed for one-year terms. All directors submit themselves for annual election at each AGM.

Induction and training

Induction arrangements are in place in order to ensure new Directors receive a full formal and tailored induction on appointment. As no new Directors were appointed in 2019, no induction arrangements were conducted during the year other than completing the induction requirements for Holly A. Van Deursen, who was appointed in September 2018 and details of which were set out in the 2018 Annual Report. 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 2019 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 in addition considered a presentation on ongoing reviews and potential reforms of the audit profession and practices, and the future of internal audit.

Performance evaluation

Following the externally facilitated evaluation of the performance of the Board, its Committees and Directors carried out in 2017, the 2019 performance evaluation involved the following internal processes:

- the performance of the Executive Directors was reviewed against their personal objectives for 2019 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 by the Chairman through a programme of one-to-one discussions.

Board and Committee evaluation process

The effectiveness of the Board and its Committees was assessed internally in 2019 using questionnaires 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 questionnaires 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 2020. The outcome of that process is reviewed in the Chairman's letter on page 66. An externally facilitated evaluation of the Board and its Committees will be carried out in 2020.

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 Committees' reports are set out at the end of this Governance report.

Succession

All matters relating to succession are dealt with in the Nomination Committee report on page 82.

Risk and internal control

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 103 to 105. Statements by the auditors about their reporting responsibilities are set out on pages 106 to 110.

A report on the approach to internal control is set out on page 73. 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 30 to 31. Risks associated with safety, health and the environment are, by the nature of the Group's business, always of the utmost concern and the ESG report on pages 46 to 63 reviews the Group's performance in this regard in 2019. The Board confirms that a robust assessment of the emerging and 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 2019.

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; and
- 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 minutes from all Audit Committee meetings; and
- 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 ESG section of the Strategic Report on pages 46 to 63.

Audit Committee report



Caroline Johnstone
Audit Committee Chair

Audit Committee membership

Since 1 January 2019

	Position	Appointment date	Number of meetings attended	Attendance ¹
Caroline Johnstone	Chair	April 2015	5	100%
Dr Just Jansz	Independent Non-Executive Director	May 2012	5	100%
Brendan Connolly	Senior Independent Non-Executive Director	March 2014	5	100%
Holly A. Van Deursen	Independent Non-Executive Director	March 2019	3	100%
Other attendees:				
Chief Executive Officer	Company Secretary (secretary to the Committee)			
Chief Financial Officer	Group Operational Review Manager			
Director of Group Finance	External Auditors			

Note:

1. Based on number of meetings eligible to attend.

This was another important year for Synthomer, with a busy agenda for the Audit Committee, both in our business as usual and in the Committee's areas of focus. In addition, the OMNOVA acquisition was a significant event and focus for the Board, including Audit Committee members, as we worked through the acquisition and financing of the transaction.

The feedback from the self-assessment of the Committee (undertaken in December 2019) confirms my view that the Committee is working well and we regularly have all members of the Board in attendance. We welcomed Holly, who joined the Committee in March 2019 and brings an additional perspective to our discussions. We have extended Audit Committee meetings in 2019 (we decided this was more productive than having additional meetings) and used that time primarily to have a wider range of deep dive risk reviews across the business, discussed on page 30.

Alongside our formal meetings, members of the Committee visited our facility in Worms with the rest of the Board. We also visited the Harlow site, discussed their business plans, controls and approach to risk management as well as business opportunities and challenges. I visited Marl as part of an ongoing programme of engagement with the business. Feedback on these visits is discussed by the Committee and the Board and we ask management to consider or address matters raised during our visits. In 2019, topics raised included optimising the number of alarms in site control rooms.

Key areas of focus

We delivered our core remit as set out in the detail below and have no major issues to report to shareholders. In last year's Annual Report, we set out our priorities for 2019 and this is how we addressed these:

Key area of focus	Committee activity in 2019	Actions
Internal control and risk management processes	Since my appointment as Audit Committee Chair, we have developed a programme of risk reviews, bringing people from across the business to discuss their division or function, the application of our approach to risk management and how they are addressing the changing risk landscape. This year we had ten sessions covering these topics – see page 77.	Ongoing
Recent acquisitions and capital investments, with a focus on payback from these investments	The Internal Audit function undertook a review of JOB5, the £45m investment in adding 90ktes tonnes of productive capacity to our Pasir Gudang plant and of our £3m reactor development project in Sant'Albano. The Committee undertook a review of the delivery of synergies for the Hexion PAC acquisition to ensure they were delivered in line with the expectation set at acquisition.	Ongoing
Key accounting controls across the business and site reporting, particularly around costs	In April, we reviewed with management site-by-site reporting and overall cost structure of the business. The Group commenced a programme of cost review called 'Project Mindset', undertaken by managers within the business and aimed at providing a better understanding and improved ownership. The Committee oversaw the process and reviewed the results. We undertook a review of the effectiveness of the finance function in July, with input from across the Group. This was particularly opportune, as it coincided with the start of planning for integration of the OMNOVA business.	Will develop across other sites in 2020 Implementation of changes during 2020

In November 2019 the Group was informed that the Financial Reporting Council (FRC) had reviewed the 2018 Annual Report*. The FRC asked for clarification regarding certain disclosures within that Report and provided us with a list of disclosure recommendations. Management worked with the external auditors, PwC, under the supervision of the Audit Committee and the Chairman of the Board to provide responses to the clarification requests and to give appropriate commitments to adopt the disclosure recommendations. I am pleased to report that in February 2020 the FRC wrote to us and confirmed that it was satisfied with our responses. We have prepared this Annual Report considering its disclosure recommendations.

* The FRC's review is based on the Annual Reports and Accounts and does not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It is, however, conducted by staff of the FRC who have an understanding of the relevant legal and accounting framework. Correspondence received from the FRC provides no assurance that the Annual Report and Accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The correspondence from the FRC is written on the basis that the FRC (which includes the FRC's officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

In 2020, in addition to our core remit, the Committee will:

- Monitor the work of Internal Audit in confirming that the control processes in the new ways of working developed as part of the Pathway programme comply with the control standards of the Group. The programme has been through a period of robust review throughout 2019 by the Board.
- Monitor completion and integration of the OMNOVA acquisition, with particular focus on internal controls.
- Complete the design of the appropriate Internal Audit function for the enlarged Group and oversee the implementation of these arrangements.

Caroline Johnstone
Audit Committee Chair
5 March 2020

Audit Committee report continued

Audit Committee role

Our role is to assist the Board's oversight of our financial systems and reporting, and the adequacy and effectiveness of our internal controls and risk management. We also lead the 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.

Committee members

The Committee comprises four members: myself, as Chair, and all of the other independent Non-Executive Directors – our experience is set out on pages 64 to 65. The Board considers that each of us is independent within the definition of the Code. I have recent and relevant financial experience for the purposes of Provision 24 of the UK Corporate Governance Code as a Chartered Accountant, my roles chairing and as a member of 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 as a whole has competence relevant to the chemical industry.

Committee meetings and operation

Other members of the Board have a standing invitation to attend meetings unless notified otherwise and we regularly have the full Board in attendance. In order to address our remit effectively, I believe it is important to have those working in the business attend our meetings and I am pleased that the Chief Executive Officer and the Chief Financial Officer both attend our Committee meetings and other senior managers have regularly attended Committee meetings in 2019, at our request. Our programme of risk reviews and updates has allowed us to invite other high potential diverse members of the management team to attend the Committee – for example, two of our senior female functional leaders, Group Head of Tax, and Group Pensions and Rewards Manager have presented to the Committee on a regular basis and we had a local team from Pasir Gudang report back to us on business continuity planning.

Senior members of the Group finance team and the Group Operational Review Manager (who leads the Internal Audit function) attend our meetings as well as PwC, led by audit partner Matthew Mullins.

The Committee meets on a regular basis with PwC and with the Group Operational Review Manager without management present. The Committee meets privately as required to discuss our views on matters such as Pathway, development of the Company culture and the forthcoming agenda.

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. It also enables me to explore and understand key issues as they arise and focus on ensuring that we have appropriate information prepared for and sufficient time to address key issues in Committee meetings.

As set out in my introductory comments, members of the Committee undertake a number of activities outside of the formal Committee meetings and we regularly visit sites and meet with head office staff.

How we addressed our core remit in 2019

The Committee met formally five times during 2019 and addressed our responsibilities as follows:

Integrity of financial reporting

- Monitored the Group's annual and interim financial statements and results announcements and reviewed significant accounting policies, estimates and judgements and alternative performance measures reported.
- In conjunction with the Board, reviewed and challenged the assumptions and sensitivities used to support preparing the accounts on a going concern basis and in assessing the longer-term viability of the Group.
- Assessed the processes for assuring the Board that the 2019 Annual Report and Accounts, when taken together, is fair, balanced and understandable.
- Received updates of new accounting standards (including IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments) throughout the year and assessed the rigour of the Group's approach to implementation.
- Undertook regular reviews of the Group's material litigation. We consider the Group's provisions appropriate.
- Supervised and reviewed the Group's response to the FRC review of the Company's 2018 Annual Report and Accounts.
- Reviewed the UK payment practices report, discussed the underlying data and challenged management on aspects of the report.
- Reviewed the accounting for and disclosure of the financial derivatives entered into during the year to manage the foreign exchange exposure of the rights issue and the acquisition of OMNOVA as well as the floating to fixed swap for the €440m revolving credit facility which was entered into in 2018.

External audit

- Approved after discussion and challenge the external audit plan for 2019, including assessment of significant audit risks, business risk profile, scope of the audit, materiality level and the de minimis reporting threshold. We also focused on the experience and expertise of the key members of the engagement team. The audit fee was approved, again after some challenge and discussion.
- Detailed review of auditor's reports, including accounting judgements and the control environment.
- Reviewed compliance with the FRC's Ethical Standard for auditors and the restrictions on auditors to provide non-audit services. Approved the provision of certain permissible non-audit services by PwC (page 80).

- Considered and confirmed the independence of PwC (page 80).
- Reviewed and assessed the performance of PwC and our lead audit partner and agreed to recommend the re-appointment of PwC. We also reflected on the Future of Audit debate and discussed the various reviews of the profession.

Internal audit and risk management

- The Committee reviewed the reliance placed by management on the risk mitigating controls of the Group's highest risks and analysed the types of assurance, both internal and external, that applied to these controls.
- Received a report from the Group Operational Review Manager at each meeting on the status of ongoing and completed internal audits. We also assessed the 2019 risk assurance activity carried out by internal audit in relation to the Group's principal risks, which included reviews of our major sites and a thematic review of our capital approval process.
- Considered the results of the 2019 controls assurance internal audits and the IT audits, the self-assessment process, the adequacy of management's response to matters raised and the time taken to resolve such matters. Where appropriate, we invited management to the Committee to discuss its response and action plan to address findings of the internal audit review.
- Reviewed and approved the 2020 internal audit plan and ensured there is sufficient resource to deliver the plans.
- We invited managers across the Group to provide a deeper insight into the controls and risk management of business units and functions, including:

Divisional	Function or thematic
Performance	
Elastomers	Pensions
Functional Solutions	Tax
Industrial Specialities	Insurance
	IT and cyber security reviews, including distributed control systems security
	R&D and regulatory affairs
	Strategic sourcing operations
	Business continuity planning

- Undertook an assessment of strengths of the Internal Audit function. We reflected on the draft Internal Auditors Code and how that might influence our approach to developing the Internal Audit function in the enlarged Group, when the acquisition of OMNOVA is completed. We are in the process of reviewing the Internal Audit arrangements for the future as indicated on page 75.

Governance

- Reviewed the effectiveness of the Group's anti-bribery and anti-fraud procedures, including those for whistleblowing, and had oversight of the roll-out of our new Code of Conduct and Ethics hotline across the Group.
- Received reports on the independent investigations that had been conducted in response to concerns raised under the whistleblowing policy and reported to the Board that we were satisfied with the outcome, including follow-up actions.
- Met with internal audit and external audit without management on a number of occasions.
- Undertook an effectiveness review, reviewing the results of an internal questionnaire, and concluded that the Committee was operating effectively.
- Reviewed our terms of reference to reflect the role and responsibilities of the Committee are aligned with the new UK Corporate Governance Code.
- Completed our annual review of the Group's tax strategy and risks (which can be found on our website: www.synthomer.com).

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 it 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 2019, together with a summary of our work, are set out below:

- Taxation: with operations across 18 countries, significant judgement has to be exercised by management, with advice from appropriate tax advisers, 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 on the basis for calculating the effective tax rate and provided regular updates on any local tax audits. She also set out the detailed rationale and judgement for each of the current tax liabilities. The Committee reflected on the liabilities in the light of our Group tax strategy and also the work done by PwC, which reviewed the judgements that had been made, using tax specialists as required, and provided the Committee with its assessment of the appropriateness of management judgements. The Committee concluded that the estimates and disclosures were appropriate.

- 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 scheme is closed to future accrual, both the UK and German schemes are sensitive to changes in actuarial assumptions.

Audit Committee report continued

The Group uses appropriately qualified external actuarial advisers to help establish the actuarial assumptions used in the valuation of the Group's pension liabilities. PwC 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. PwC reported to us that it was 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 the conclusions.

Fair, balanced and understandable

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

- 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'.
- Requesting that certain key contributors to sections of the Annual Report (for example, Presidents and Finance Directors of divisions) 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 Annual Report.
- An audit trail being 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.
- Discussing material disclosure items at a meeting of the Committee held in February 2020.

The Committee discussed the 'fair, balanced and understandable' statement at a meeting in March 2020 in the light of the above and, having done so, recommended that the Board provide it in the form set out on page 105.

Going concern and viability statements

The process conducted by management, and reviewed by the Committee to support the Board's statement, included the following:

- 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 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 2020 and, having done so, recommended that the Board provide it in the form set out on page 104.

The Board has chosen to consider the prospects of the Group over a five-year period ending 31 December 2024, consistent with the five-year Strategic Plan of the Group, as it considers 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. The scenarios included trading volatility, increased competition, disruption as a result of Brexit, delays in project delivery, failure of new products, the temporary loss of a manufacturing site, a fine by a regulating body and a situation where the OMNOVA acquisition does not complete. The scenarios also included risks such as significant foreign exchange rate movements, which are deemed to be outside the control of the Group. The Group considered the scenarios independently and then modelled the unlikely event of all downside scenarios.

The Committee discussed the viability statement at a meeting in February 2020, debated and challenged the scenarios modelled and, having done so, recommended that the Board confirm the statement in the form set out on page 37.

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 73. At a meeting in February 2020, 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 including the following:

- The internal audit programme completed during 2019 and the progress in implementing actions arising therefrom.
- Our own programme of risk reviews and discussions with senior managers and other staff across the Group throughout the year. We reviewed a re-mapping of existing risks to the new global business structure in February 2019 and all further reviews were based on the new structure.

- Assurance (via 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.
- Representations from financial and commercial management in the business to the Chief Financial Officer, made twice each year.

Code of Conduct and ethics (whistleblowing)

The updated Code of Conduct and a new external ethics (whistleblowing) helpline was implemented in December 2018 and the Committee has overseen the roll-out, communication and embedding of this, which has been very positively received across the business. The Code is available online and is available in 13 languages, and the Committee was impressed with the simple language and examples used to help employees identify with an issue and support them in its resolution. At each Committee meeting during the year, the Committee was provided with 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.

Cyber-security and GDPR

The Committee kept a watching brief as the Group completed its work to become GDPR compliant. It is a regular agenda item for the Committee and we have had no reportable breaches in 2019.

The risk reviews set out earlier included regular updates on the Group's cyber-security, across both our operational and support areas. There were no serious attacks in 2019 but, like all businesses, we are faced with attacks on our systems on a daily basis – the Group has implemented a range of training, education and live testing to help everyone in the business to protect themselves and the business. We will continue to focus on this and particularly on the programme to protect our operational control systems at our production sites.

Business continuity planning

The Group developed an updated Business Continuity Planning Framework and our largest site, Pasir Gudang, was selected to be the first site to implement and test the Framework. Using our Project Excellence methodology, a dedicated team, with involvement across the site, identified seven predefined scenarios and developed business impact analyses and recovery strategies for each – this was a detailed but vital exercise and by year end, the team had developed a comprehensive plan for each scenario. In 2020, the plans will be finalised, validated and stress-tested followed by roll-out of training and communications to ensure that those responsible react instinctively when required. This important work will be shared across the business with other sites. We will continue to oversee this work.

Pensions

Our Group Pensions and Rewards Manager regularly attended the Committee in 2019 to update the Committee on our UK pensions scheme and also to update us on a global review of all of the Group's pension arrangements. The Committee was pleased with progress, particularly in the overseas pensions, where the Group has a much better assessment of risks, having taken steps to mitigate and develop robust plans to monitor the schemes. In the UK, we reviewed the annual financial statements of the Yule Catto Retirement Benefits Scheme and noted that all governance matters had been addressed.

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.

The proposed acquisition of OMNOVA provides the Group with an opportunity to reflect on the appropriate form and nature of our Internal Audit arrangements which we discuss on page 77.

The internal audit plan for 2020 was reviewed at our meeting in November 2019 and includes auditing areas which account for more than 82% of net assets as well as certain thematic audits e.g. IT security, IT environment and procurement. Specialists will be included in a number of audits as appropriate. We mapped the plan to our key risks and also viewed a potential three-year audit plan of Synthomer in concluding that the plan was appropriate, ahead of completing the OMNOVA acquisition.

Audit Committee report continued

External audit

At its meetings in November 2019 and February 2020, the Committee discussed the 2019 audit process:

November 2019	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 the approach to identified risks)
Materiality level for the audit	Agreed with PwC (at a similar level to 2018), 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 2020	Outcome/action taken by the Committee
Confirmation of PwC's audit plan	PwC confirmed no material changes made to agreed plan
Audit findings, significant issues and other accounting judgements	Discussed with PwC and management
Management representation letter	Reviewed and approved by the Committee
PwC's independence and objectivity and quality control procedures	Independence and objectivity confirmed; 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 2020 meeting, the Committee met PwC without management being present: no significant issues were raised.

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

The Committee has a clear policy on the provision of non-audit services by the external auditor. We have 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 1 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 2019 are set out in note 7 on page 125. Non-audit fees principally relate to reporting accounting work for the Prospectus and Circular required for the acquisition of OMNOVA 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 2019 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.

PwC provides internal audit services and tax compliance and advice to OMNOVA. The Committee will monitor that PwC's independence is not impaired by ensuring that PwC cease all prohibited services immediately on acquisition of OMNOVA.

During the year, the Committee established a policy whereby all engagements for non-audit services with any audit firm must be pre-approved by the Committee. This is to ensure that as many firms as possible would be independent for the purpose of any audit tender.

How we reviewed PwC's performance

During the year, the Committee evaluated the performance and effectiveness of the external auditor, 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 its 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 re-tender process, having been the Group's auditor 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 2020 AGM.

Statement of compliance

The Committee confirms that, during the year ended 31 December 2019, 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 2019, we undertook a thorough internal evaluation of the Committee's performance using an internal 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.

There was positive feedback on our training in 2019 as we used technical accounting updates from two accounting firms and held a working session with Committee members and other Non-Executive Directors.

Areas for focus for the Committee reflect our priorities for 2020 set out above, and include:

- Integration and control environment of OMNOVA;
- Controls in new ways of working with the deployment of the Pathway programme; and
- Redefining our Internal Audit requirements.

Nomination Committee report



Neil Johnson
Nomination Committee
Chair

Nomination Committee Membership

Since 1 January 2019

	Position	Appointment date	Number of meetings attended	Attendance
Neil Johnson	Chair	May 2012	1	100%
Brendan Connolly	Senior independent Non-Executive Director	March 2014	1	100%
Caroline Johnstone	Independent Non-Executive Director	April 2015	1	100%

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 2019

The Nomination Committee held one formal meeting during 2019 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 have taken place in connection with succession planning.

The Committee reviewed progress against the 2019 management succession action plan presented to the Board at the start of the year and also reviewed the Board succession plan. The Board succession plan in place takes account of the Code provisions regarding the maximum tenure of board chairs and independent Non-Executive Directors.

In connection with the Board's commitment to recruit an additional female Non-Executive Director in 2020 the Committee is leading the process and will appoint an independent recruitment consultancy (with which the Company has no other connection), to assist with the search process.

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 (available at www.synthomer.com) 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.

Our diversity and inclusion initiatives for 2020 and reporting are set out on page 55 and will lead to the setting of measurable objectives when actions have been implemented. In the short term we are mindful of the need to make progress on gender diversity at a senior level given that our Executive Committee is all male and as reported to the Hampton-Alexander annual survey in 2019 women make up less than 10% of the Executive Committee and its direct reports.

Evaluation of the Board and its Committees and Director contribution

The processes deployed in connection with the evaluation of the Board and its Committees are set out on page 72. Details of individual Director contribution to the long-term success of the Company will be contained in the 2020 Notice of Annual General Meeting in support of the resolutions for Director re-appointment.

Neil Johnson

Chair
5 March 2020

Directors' Remuneration report



Brendan Connolly
Remuneration Committee
Chair

Remuneration Committee membership

Since 1 January 2019

	Position	Appointment date	Number of meetings attended	Attendance ¹
Brendan Connolly	Chair	March 2014	6	100%
Just Jansz	Independent Non-Executive Director	May 2012	6	100%
Caroline Johnstone	Independent Non-Executive Director	April 2015	6	100%
Holly A. Van Deursen	Independent Non-Executive Director	March 2019	4	100%
Other attendees:				
Chief Executive Officer		Company Secretary		
President Global HR		Deloitte LLP		
Group HR Director				

Note:

1. Based on number of meetings eligible to attend.

Dear Shareholders,

I would like to thank our stakeholders for their continued support in 2019 whereby the Remuneration report (reflecting our existing policy which was originally approved at the 2017 AGM) was approved by 99% of voting shareholders at the 2019 AGM.

This year, alongside our normal duties, we have been preparing and discussing a new remuneration policy and we have consulted extensively with our major shareholders on our proposed policy which will be presented for approval at the 2020 AGM. I would like to thank those shareholders who have participated in this process for their feedback and guidance, which resulted in changes to the original proposal.

2020 Directors' Remuneration Policy

Since our 2017 Policy was implemented, Synthomer has grown significantly in terms of size, geographic reach and complexity doubling in size since the last review. In 2015 there were 2,038 employees and 19 manufacturing sites and following the completion of the OMNOVA acquisition, we will be a business of over 4,750 employees with an additional 19 sites.

Over the last three years, the Group has expanded through acquisition as well as organic growth. Hexion PAC was acquired in 2016, adding seven sites and 760 employees, followed by an additional site from Perstorp OXO in Belgium and a BASF site in Austria. And finally, we announced the acquisition of OMNOVA Solutions Inc on 3 July 2019 (approved by shareholders on 31 July 2019) which we expect to complete by the end of March 2020 following Phase 1 European Commission merger clearance on 15 January 2020. This is a very exciting stage in Synthomer's development, with OMNOVA adding \$736 million of revenue², \$70 million of EBITDA², an additional 13 manufacturing sites and 1,850 employees to our footprint.

Notwithstanding the current challenging economic circumstances which have impacted short-term performance, the management team has continued to make positive steps in driving the Group forwards. Growth has accelerated through disciplined M&A activity and impressive organic growth of the Group assets, where over £140 million of capital expenditure has been invested during 2018/19 in large-scale manufacturing assets. During this transformation Synthomer will have (post OMNOVA acquisition) increased EBITDA more than two times since the last remuneration review and improved and maintained employee safety statistics in legacy Synthomer by circa 70% over 2014 rates.

Synthomer in 2020 is a larger, far more complex global speciality company than it was in 2015 when the new management team were appointed and the Company continues to follow an ambitious strategy but in a disciplined manner. The next three years are critical to the Group and include the integration of OMNOVA which has targeted over \$29.6 million of cost synergies. The Board considers that it is now of the utmost importance that we maintain momentum and deliver on this highly challenging agenda to ensure we continue to grow the value of the business and deliver returns to shareholders.

Note:

2. OMNOVA results for the year ended 30 November 2019.

Directors' Remuneration report continued

Given the significant change in the size and scope of Group's operations the Committee undertook a detailed review of remuneration arrangements including considering how arrangements compared to external and internal comparators. When reviewing external market levels the Committee considered practice within the following comparator groups: (i) companies in the FTSE 151 – 350 group; (ii) companies with a similar market capitalisation of Synthomer (c£1bn to £2bn); (iii) companies of a similar size and complexity taking into account financial size, headcount, complexity and geographical locations; and (iv) other FTSE All Share Chemical companies. In all cases, each of the Executive Directors' total remuneration level was close to or at the lower quartile.

In the context of the development of the business and the significant increase in our size and organisational complexity, described above the Committee has made a number of changes to the remuneration framework to better reflect the Company's current size and complexity. At the

same time, we continue our journey to create an increasingly performance-based package as well as improving shareholder alignment through deferrals and shareholding requirements. We have also made other changes to remuneration arrangements to reflect the 2018 UK Corporate Governance Code.

I have set out a summary of the changes to remuneration policy below. The Committee believes that the remuneration package offers a strong link between the Company's strategy and values incorporating targets that support innovation, excellence and growth.

Increase in annual and long-term incentive opportunities to better reflect the current size and complexity of the organisations

Annual bonus

- The annual bonus opportunity has been increased to 150% of base salary (previously 125% of salary for the CEO and 115% of salary for the CFO).
- In light of the change in opportunity, the portion of the bonus deferred has been increased to one third of the total bonus (previously 20% deferral for the CEO and 13% deferral for the CFO). This increase in deferral means that the cash bonus opportunity remains broadly the same as in previous years. Deferred shares will continue to be required to be held for two years.
- On target financial performance will result in 50% of the maximum bonus being paid (previously 60% paid for on-target performance) to align with shareholders' expectations.

PSP

- The maximum PSP award under our policy has been increased to 200% of salary for the CEO (currently 150% of salary) and 150% of salary for the CFO (currently 120% of salary). Taking into account feedback from shareholders, the increase in award levels will be phased over the next two years with awards for 2020 being limited to 175% of base salary for the CEO and 135% of base salary for the CFO. Awards for 2021 will be 200% of base salary for the CEO and 150% of base salary for the CFO.
- PSP awards will continue to be subject to performance over a three-year period plus a two-year post vesting holding period.
- The potential to grant an exceptional award of 300% of salary will be removed.
- The Committee considers that the revised incentive opportunities are a more appropriate reflection of the size and complexity of Synthomer today.

Clawback and malus provision expanded

- The circumstances in which clawback and malus may apply have been expanded to include serious misconduct or corporate failure to align with best practice. Clawback and malus could already be applied in the event of a material misstatement of results, error in the calculation of performance conditions which results in overpayment or material reputational damage to the Group.

Pension for new hires reduced to match wider workforce and CEO's pension frozen at the current value

- The pension arrangements for any new Executive Director hire to the Board will be aligned with the rate available for the majority of the workforce.
- The current pension allowance for the CEO has been frozen at current cash value of £137,891 (or 20% of salary if higher).
- The CFO's pension allowance will continue to be 20% of base salary.
- We have noted the current guidance and aside from existing contractual conditions have committed to align the pensions to the workforce average in the next policy.

Increased shareholding guidelines to further align executives with shareholders. Post-employment shareholding guideline introduced

- Shareholding guidelines will be increased to 220% of base salary for the CEO (currently 200% of salary) and 175% of salary for the CFO (currently 150% of salary).
 - A post-employment shareholding guideline will be introduced with effect from 25 April 2021 (being the anticipated first anniversary of the approval of the new policy) requiring Executive Directors to maintain their shareholding guideline (or actual shareholding if lower) for 1 year following stepping down as an Executive Director, and 50% of their guideline for a further year.
-

Implementation of policy for 2020

Base salaries

Salaries for the Chief Executive Officer and Chief Financial Officer were increased at the start of 2020 in line with the average pay increase for the Group's UK workforce of 2.7% plus an additional 2.5% giving a total increase of 5.2%. This increase was made to reflect the significant increase in the size and complexity of the Company as described above. Following this increase, salaries will continue to be positioned at or below the median when compared with a range of peer groups which the Committee considers to be appropriate.

Performance measures

For 2020 the annual bonus will continue to be based 80% on Underlying PBT performance, 10% on SHE objectives and 10% on personal strategic objectives.

For PSP awards granted in 2020, an additional measure will be introduced to incentivise and reward the successful integration of the OMNOVA acquisition and the achievement of cost synergy targets. Awards will be based 30% on TSR relative to the FTSE 250 excluding investment trusts and financial services companies, 30% on EPS, 30% on OMNOVA cost synergies and 10% on strategic measures.

Shareholder consultation outcome

We consulted with our largest 22 shareholders and leading proxy advisory bodies and had conversations, email exchanges or meetings with 18. There was a high level of support from our shareholders for the modified policy as presented opposite from those with whom we spoke.

Remuneration outcomes in 2019

During 2019 the Company has made significant progress against strategic objectives and has continued to expand with the announced acquisition of OMNOVA. Financial performance, however, has been impacted by economic and sector headwinds which has been reflected in the variable pay outcomes for 2019.

Bonus plan: 20% of maximum opportunity achieved

For 2019 the bonus plan consisted of three parts: Financial (80% on Underlying PBT), SHE (10%) and strategic personal goals (10%).

– **Financial:** 0% achieved. Due to trade headwinds, political uncertainty and specifically weakness in the European SBR markets, the threshold target was not met and as such the financial element will not be paid.

– **SHE:** 10% achieved: the continued journey to improve and sustain safety performance at the chemical industry upper-quartile levels has been demonstrated with an improved outcome in process safety and a third consecutive year of a stable outcome in the reportable injury rate. The Committee has decided that it was appropriate to award the full amount of the bonus based on SHE performance to recognise this strong progress notwithstanding the financial out-turn.

– **Personal strategic goals:** 10% achieved. The CEO and CFO have delivered fully against their strategic personal goals. A focus on M&A has led to the acquisition of OMNOVA after thorough due diligence, whilst the Pathway Programme is broadly within budgeted time and cost parameters. The leadership organisation has been strengthened in both the operational and finance function, and open and frequent communications with our shareholders have been maintained.

PSP: 10% achieved

The 2017 PSP award was based on EPS growth (40%), relative TSR (40%) and strategic goals (20%).

– **EPS growth:** 0% achieved. The threshold (4.5% compound annual growth) target from 2016 was not met, primarily due to the challenges in respect of 2019 performance.

– **Relative TSR:** 0% achieved. The Group performance against the FTSE 250 (excluding investment and financial services) was below median against the comparator group and therefore no portion of this award will pay out.

– **Strategic targets:** new product development (Vitality Index) of between 15% and 20% of total product sales (excluding Monomers) has been met at 22%. Cumulative PBT added through acquisitions of between £43.3m and £86.5m, has not been met. Half of the portion of the award linked to strategic targets will vest.

Activities during the year

As well as focusing on the policy review, the Remuneration Committee also considered, reviewed and debated all the required topics set out in its terms of reference (which can be found at www.synthomer.com) to ensure that best practice is followed. All new guidance has been considered during the year and adopted in a manner felt to be most applicable to the Company. Our tendency is to try and balance the 'new guidance' with the 'existing' in a manner that does not alienate the executive teams but rather keeps them focused on what will be a challenging next three years in the chemical industry. As examples, tailored policies on post-employment shareholdings and pension contribution alignment with the workforce have all been included in our proposed remuneration policy.

Directors' Remuneration report continued

UK Corporate Governance Code and other regulations

All new regulatory requirements, including those relating to the Chief Executive Officer's pay ratio and the impact of share price performance on remuneration, have been complied with in full in the Directors' Remuneration report.

The remuneration package of the Executive Directors remains structurally the same assuring clarity, simplicity, predictability and continuity. The rationale for each of the components of the remuneration structure was discussed with the shareholders during the consultation process. We aim to have a consistent and explainable approach which is fair, taking into account both external and internal ratios while supporting the execution of our strategy and being aligned with our culture.

The outcomes for 2019 reflect the overall performance of the Group in a challenging year, and therefore the structure seems appropriate and aligned. As a Committee we retain our ability to mitigate outcomes through discretion, though in 2019 none was applied as the outcomes reflected performance. The workforce engagement process has now started and though at an early stage, the Committee will discuss any feedback received on remuneration policy going forward. Pay ratios and pay gaps will continue to be reviewed when setting policy.

Remuneration report

The Directors' Remuneration Policy will require a binding vote at the 2020 AGM, with the Directors' Remuneration report being subject to an advisory vote.

I ask that you consider the changes to the policy and its implementation for 2020 outlined in the light of a Group that: will be over twice the size it was in 2015; has double the number of sites; has a significant increase in employees; is spread over an increased geography; and is much more complex.

I would like to thank all our stakeholders and shareholders and the Remuneration Committee for their time, input and guidance in forming and supporting this policy.

Brendan Connolly

Remuneration Committee

Chair

5 March 2020

At a glance

2019 outcomes:

Base salaries were increased for the Chief Executive Officer and Chief Financial Officer by 5.2% from 1 January 2020.

- Annual bonus plan – 20% of maximum opportunity achieved.
- 2017 PSP award vested at 10% of maximum opportunity.

Directors' remuneration – policy principles

The key principles for Executive Directors' remuneration at Synthomer are as follows:

- Remuneration should be clear and simple with maximum award levels being clearly defined.
- 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 while ensuring appropriate safeguards are in place to mitigate risk.
- 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 to ensure that the arrangements are appropriate in the context of internal pay ratios. 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.

Directors' remuneration policy

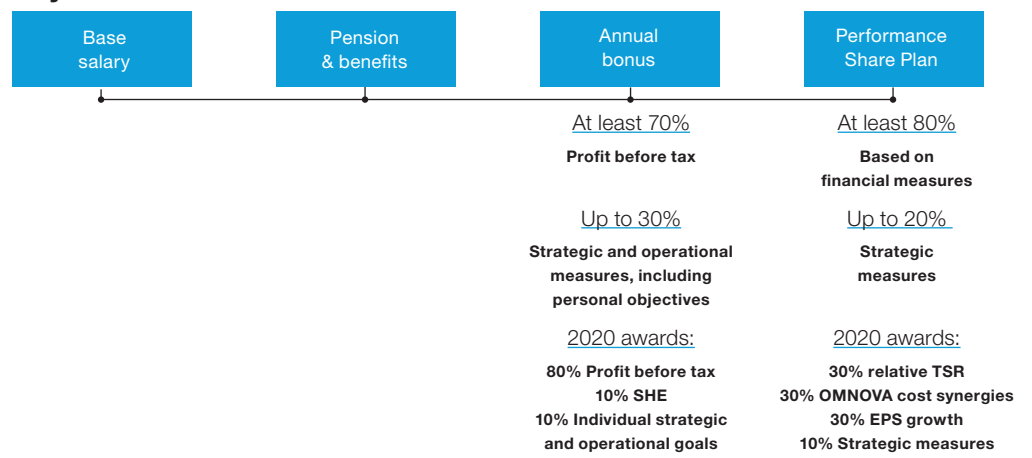
The following sections set out our proposed new Directors' Remuneration Policy (the 'Policy'). The new Policy, which is intended to replace the policy approved by shareholders at the 2017 AGM, is subject to a binding vote by shareholders at the AGM on 29 April 2020 and, if approved, will come into effect from that date. The background to and explanation of the key changes from the current policy are given in the letter from the Chairman of the Remuneration Committee starting on page 83.

In determining the new Remuneration Policy the Committee followed a robust process which included discussions on the content of the Policy at Remuneration Committee meetings during the year. The Committee considered the input from Management and our independent advisers, as well as considering best practice and guidance from major shareholders. We have consulted extensively with our major shareholders on our proposed policy. There was a high level of support for the modified policy. We also considered the approach to remuneration though-out the group to ensure it was appropriate. While we did not consult directly with employees on executive remuneration we considered general feedback provided via the designated employee Non-Executive Director.

The proposed Policy includes a number of changes from the previous policy approved by shareholders at the 2017 AGM:

- The maximum bonus opportunity will be increased from 125% to 150% of salary. The CEO and CFO bonus opportunities will be increased to 150% of salary.
- The bonus award for target performance will be reduced from 60% to 50% of maximum.
- Bonus deferral will be increased to one third of the bonus received by the Executive Directors and the deferred shares must be retained for two years.
- The annual PSP awards will be increased. The Chief Executive Officer's award will be increased from 150% to 200% of salary and the Chief Financial Officer's award will be increased from 120% to 150% of salary. The increases will be phased over two years, with the Chief Executive Officer and the Chief Financial Officer receiving an award of 175% and 135% of salary respectively in 2020.

Key elements of reward



Directors' Remuneration report continued

- The potential under the PSP to grant an exceptional award of 300% of salary will be removed.
- The current CEO's pension allowance will be frozen at its current cash value (or 20% of salary if higher). Pension allowances for new Executive Director hires will be aligned to the pension contribution rate available for the majority of the workforce.
- Post-employment shareholding guidelines will be introduced from April 2021, requiring Executive Directors to retain their shareholding at the date of leaving for one year post cessation and reducing to 50% of that holding in the second year post cessation.
- Shareholding guidelines will be increased. The Chief Executive Officer and Chief Financial Officer will be required to build an interest in shares of at least 220% and 175% of salary respectively within five years of appointment.
- The malus and clawback policy for bonuses and PSP awards will be extended to include serious misconduct and corporate failure.

Future Policy table

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: <ul style="list-style-type: none"> – 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: <ul style="list-style-type: none"> – 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 2020, Executive Director salaries are as follows: <ul style="list-style-type: none"> – C G MacLean: £580,246 (increase of 5.2% on 2019 salary of £551,565) – S G Bennett: £368,831 (increase of 5.2% on 2019 salary of £350,600) 	None, although individual and Company performance are factors taken into account when considering salary increases.
Benefits			
Provided to support the retention and recruitment of Executive Directors.	Benefits to Executive Directors may include private health insurance, life insurance and a 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 and will be set taking into account the benefits provided to other employees in the Group. Where Executive Directors are required to relocate or complete an international assignment, the Committee may offer additional benefits (either on a one-off or on-going basis) 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 circumstance and the level of any relocation benefits, allowances and expenses will depend on the specific circumstances.	None.

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Pension			
Provide a competitive level of retirement benefits to support both retention and recruitment of Executive Directors.	<p>Executive Directors are eligible to participate in the Group personal pension plan.</p> <p>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.</p>	<p>For new Executive Director hires, a maximum percentage of base salary aligned to the pension contribution rate available for the majority of the workforce.</p> <p>Allowances for current Executive Directors are:</p> <ul style="list-style-type: none"> – C G MacLean: frozen at its current cost value of £137,891 (or 20% of salary if higher) – S G Bennett: 20% of salary 	None.
Annual bonus			
Incentivises the delivery of financial, strategic and operational objectives selected to support our business strategy within the year.	<p>Performance targets will be determined by the Committee at the beginning of the annual performance period.</p> <p>The Committee will assess performance against these targets following the end of the performance period.</p> <p>The Committee may in its discretion, adjust annual bonus payments, if it considers that the outcome does not reflect the underlying financial or non-financial performance of the participant or the group over the relevant period or that such payout level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as the Committee considers relevant.</p> <p>The Committee may reduce or defer the level of payment of an award to take into account exceptional business circumstances, if there are circumstances giving rise to material reputational damage to the Group, if an Executive Director has committed an act of serious misconduct or in the event of corporate failure.</p> <p>A proportion of any bonus earned is deferred for two years. For current Executive Directors this is as follows:</p> <ul style="list-style-type: none"> – C G MacLean: one third of any bonus – S G Bennett: one third of any bonus <p>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 overpayment, if there are circumstances giving rise to material reputational damage to the Group, if an Executive Director has committed an act of serious misconduct or in the event of corporate failure.</p>	<p>The maximum opportunity is up to 150% of salary.</p> <p>Opportunities for current Executive Directors are as follows:</p> <ul style="list-style-type: none"> – C G MacLean: 150% of salary – S G Bennett: 150% of salary 	<p>At least 70% of awards are subject to Underlying profit before tax (or other relevant financial measure) targets.</p> <p>Up to 30% of awards are subject to strategic and operational measures, including personal objectives.</p> <p>For 2020 awards, performance measures will be 80% Underlying profit before tax, 10% SHE objectives, and 10% personal strategic and operational objectives.</p> <p>The award for threshold performance is normally 0% of maximum.</p> <p>The award for target performance is normally 50% of maximum.</p>

Directors' Remuneration report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
2011 Performance Share Plan (PSP)			
Approved by shareholders at the 2011 EGM			
Incentivises Executive Directors to deliver sustained performance and sustainable returns for shareholders over the longer term.	<p>The vesting of awards is conditional on the Group's performance against long-term targets over a performance period of at least three years.</p> <p>The Committee may in its discretion, adjust the level of vesting of an award, if it considers that the outcome does not reflect the underlying financial or non-financial performance of the participant or the Group over the relevant period or that such payout level is not appropriate in the context of circumstances that were unexpected or unforeseen when the targets were set. When making this judgement the Committee may take into account such factors as the Committee considers relevant.</p> <p>The Committee may reduce or defer the level of vesting of an award where an event has occurred, such as a material SHE incident or which otherwise gives rise to material reputational damage to the Group (for awards from 2020 onwards) or if an Executive Director has committed an act of serious misconduct or in the event of corporate failure.</p> <p>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, if there are circumstances giving rise to material reputational damage to the Group, or (for awards from 2020 onwards) if an Executive Director has committed an act of serious misconduct or in the event of corporate failure.</p> <p>Vested awards relating to grants made from 2017 onwards are subject to a holding period post vesting of an additional two years.</p>	<p>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 300% of salary.</p> <p>For 2020 annual awards to current Executive Directors are:</p> <ul style="list-style-type: none"> – C G MacLean: 175% of salary – S G Bennett: 135% of salary <p>From 2021 annual awards to current Executive Directors are:</p> <ul style="list-style-type: none"> – C G MacLean: 200% of salary – S G Bennett: 150% of salary 	<ul style="list-style-type: none"> – 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. <p>For 2020 awards, performance measures will be 30% relative TSR, 30% EPS, 30% cost synergies related to the OMNOVA acquisition and 10% strategic measures.</p> <p>A maximum of 25% of each element will vest for threshold performance.</p>

Shareholding guidelines during and post employment

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 will be expected to build interests in shares of at least 220% and 175% of salary respectively within five years of appointment.

Executive Directors that step down from their role from April 2021, will normally be expected to maintain their minimum shareholding (or actual shareholding if lower) for the first 12 months following departure from the Board and 50% of their minimum shareholding (or actual shareholding if lower) for the subsequent 12 months. The Committee retains discretion to waive this guideline if it is not considered to be appropriate in the specific circumstances.

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.

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed (i) before the policy set out above came into effect, provided that the terms of the payment were consistent with any applicable shareholder-approved Directors' remuneration policy in force at the time they were agreed or where otherwise approved by shareholders; or (ii) at a time when the relevant individual was not a Director of the Company (or other persons to whom the Policy set out above applies) and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company or such other person. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted. This policy applies equally to any individual who is required to be treated as a Director under the applicable regulations.

The Committee may make minor adjustments to the Policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Awards granted under the PSP may:

- a) be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;
- b) have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be fair, reasonable and not be materially less difficult to satisfy;
- c) incorporate the right to receive an amount equal to the value of dividends which would have been paid on the shares under an award that vest up to the time of vesting (or where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- d) be settled in cash at the Committee's discretion. For Executive Directors, this provision will only be used in exceptional circumstances such as where for regulatory reasons it is not possible to settle awards in shares; and
- e) be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may materially affect the Company's share price.

Deferred bonus shares may be structured as conditional share awards, nil-cost option or the delivery of shares subject to sale restrictions. In each case, the parameters of the PSP set out above will apply where applicable, save that shares subject to sales restrictions will receive dividends rather than dividend equivalents.

Performance measures and targets

Annual bonus

The annual bonus performance measures are chosen to provide an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific strategic and operational goals. The balance allows the Committee to effectively reward performance against key elements of our strategy.

The bonus targets are set by the Committee each year to ensure that Executive Directors are appropriately focused on the key objectives for the next 12 months. Targets are set by reference to the Company's business plan.

Performance Share Plan

The performance measures under the PSP are set to align the long-term strategy of the Company and long-term value creation for shareholders. Measures for 2020 awards include the following:

- EPS growth – reflects the financial performance of the Company. The Committee sets targets to be appropriately stretching, with regard to a number of internal and external reference points.
- Relative TSR – Total Shareholder Return (TSR) reflects the Company's ultimate delivery of value to shareholders. The Committee considers that this promotes alignment between the interests of Executive Directors and the shareholder experience.
- Cost synergies – reflects a key financial rationale for the acquisition of OMNOVA. The Committee has set targets to drive additional synergy benefits.
- Strategic measures – this element directly incentivises management to deliver the Company's key strategic priorities.

The Committee considers that this performance framework represents an appropriate and balanced basis on which to measure the performance of the Company.

Difference in policy for Executive Directors and other employees

The remuneration policy for our Executive Directors is designed in accordance with the same principles that underpin remuneration for the wider employee population. The wider employee group also participates in performance-based incentives. Throughout the Group, base salary and benefits levels are set in accordance with the prevailing market conditions. Differences between Executive Director pay policy and other employee pay reflects the seniority of the individuals, the prevailing market conditions and the corporate governance practices for Executive Director remuneration. The key difference in policy is that for Executive Directors a greater proportion of total remuneration is based on incentives.

Directors' Remuneration report continued

Non-Executive Director fees

Non-Executive Director fees

The Board reviews Non-Executive Director fees annually. When reviewing fee levels, the Board may consider the scope and time commitment of the role, the skills and experience of the individual, and fee levels at other companies. Non-Executive Directors do not participate in the determination of their own fees.

Non-executives are paid differential fee levels based on their membership of Board committees, chairmanship of Board committees or role as Senior Independent Director and the time commitment required from them. Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate.

Expenses incurred in the performance of Non-Executive Director duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the expenses.

Non-Executive Directors do not participate in incentive arrangements or receive pension or benefits. Non-significant additional benefits may be introduced if considered appropriate.

Chairman fees

The Committee reviews Chairman fees annually. When reviewing fee levels, they may consider the scope and time commitment of the role, the skills experience of the individual, and the fee levels at other companies. The Chairman does not participate in the determination of the fee level.

Expenses incurred in the performance of duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the expenses.

The Chairman does not participate in incentive arrangements or receive pension or benefits. Non-significant additional benefits may be introduced if considered appropriate.

Total fees to Non-Executive Directors, including the Chairman, operate within the cap defined in the Articles of Association, currently £750,000 per annum.

Recruitment policy

Executive directors

The Committee would have regard to the following principles when agreeing the components of a remuneration package upon the recruitment of a new Executive Director:

- Base salary will be set taking into account the principles set out in the policy table and may be set at a higher or lower level than the previous incumbent.
- The Committee may, on appointing an Executive Director, need to 'buy out' remuneration arrangements forfeited on leaving a previous employer. Any buy out would take into account the terms of the arrangements (e.g. form of award, performance conditions, time frame) being forfeited in the previous package. The form of any award would be determined at the time and the Committee may, if necessary, make use of LR 9.4.2 of the Listing Rules (for the purpose of buy-out awards only). The overriding principle will be that any replacement buy-out awards will, in the opinion of the Committee, be no more valuable than the entitlement which has been forfeited.
- Annual bonus opportunity will be no more than the maximum set out in the policy table. The Committee may determine that for the first year of appointment the annual bonus award will be subject to such conditions as it may determine.
- PSP opportunity will be no more than the plan rules maximum set out in the policy table.
- The maximum variable pay opportunity on recruitment (excluding buy-outs) is 350% of salary, consistent with the maximums in the policy table above.

Other

For interim positions, a cash supplement may be paid rather than salary (for example a Non-Executive Director taking on an executive function on a short-term basis).

Where an executive is appointed from within the Company, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions and that they would be appointed on a new service contract. Similarly, if an Executive Director is appointed following the acquisition or merger with another company, legacy terms and conditions would be honoured.

Non-Executive Directors and Chairman

In the event of the appointment of a new Non-Executive Director or Chairperson, remuneration arrangements will be in line with the principles detailed in the relevant table above.

Service contracts

The current contracts in place for Executive Directors are as follows:

Director	Date of contract
C G MacLean	17 November 2014
S G Bennett	31 March 2015

There is no unexpired term as each of the Executive Directors' contracts is on a rolling basis. Save in circumstances justifying summary termination, the notice period for each of the above contracts is one year. Service contracts for new executive directors will be limited to 12 months' notice. The Company may at the Committee's discretion make a payment in lieu of notice equal to the salary, pension contributions and contractual benefits that would have been paid during the notice period. This payment may be made at the Committee's discretion as a lump sum or monthly instalments and may be subject to mitigation if the Director finds an alternative position during the notice period.

The Executive Directors are also entitled to 25 working days' holiday plus public holidays per calendar year.

All Non-Executive Directors are appointed in writing. Letters of appointment do not include entitlement to participate in the Company's share incentive plans or any other of its employee benefits and do not currently have a notice period. The Company may add a notice period of no more than three months. The Non-Executive Directors are subject to annual re-election. There is no right to compensation for loss of office if they are not re-elected or if the Company terminates the appointment because the non-executive has accepted a position with another company without prior Board approval and which the Board reasonably considers likely to give rise to a material conflict. The period of appointment and the requirements for re-election of Non-Executive Directors are provided within the 'Composition, Succession and Evaluation' section of the Governance report on page 72.

Directors' service contracts and letters of appointment are available for inspection at the Company's registered office during normal business hours and will be available at the AGM.

Policy on payment for loss of office

The Committee takes a number of factors into account when determining leaving arrangements for an Executive Director:

- Where either party gives notice of the termination of an Executive Director's employment, the Committee may make a payment in lieu of notice for the outstanding period as described above. Other than this provision, the obligation to pay accrued but untaken holiday and as outlined below regarding bonus and the PSP, service contracts make no provision for pre-defined compensation on termination.
- The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of a compromise or settlement of any claim arising in connection with the cessation of the Director's office or employment. Any such payment may include but is not limited to paying any fees for outplacement assistance and/or the Director's legal or professional advice fees in connection with his or her cessation of office or employment.
- The Committee may award an annual bonus for leavers taking into account the circumstances of departure. Any bonus would normally be subject to performance and time pro-rating and would not be made in circumstances of poor performance. Any such bonus would be in such proportions of cash and shares and subject to such deferral arrangements as the Committee considers appropriate in the circumstances.
- On cessation of employment, the Executive Director will retain any deferred bonus shares and the deferred period will normally continue to the original release date.
- The treatment of outstanding PSP awards is governed by the 2011 PSP rules under which Executive Directors may currently hold awards in the form of share options or conditional rights to receive shares.

Plan	'Good leaver' categories	Treatment for 'good leaver'	Treatment for 'other leavers'
2011 Performance Share Plan	<ul style="list-style-type: none"> – Death – Injury, ill-health or disability – Transfer of employing company or business outside the Group – Retirement with agreement of the Committee – Redundancy – Any other reason as determined by the Committee 	<ul style="list-style-type: none"> – Awards will vest subject to the achievement of performance conditions and (unless the Committee determines otherwise) will be time pro-rated to reflect the proportion of the vesting period that has passed at the time of leaving. – The vesting date for such awards will normally be the original vesting date, although the Committee may determine that awards can vest upon the cessation of employment (subject to the assessment of any performance condition). Where unvested awards are subject to an additional holding period, the Committee will determine the extent to which the holding period applies following cessation. – Awards in the form of options that vest early due to cessation of employment may be exercisable until the earlier of (i) 12 months from the date of vesting, and (ii) the normal expiry of the exercise period. Following this date, unexercised awards will lapse. – If the participant ceases employment after the normal vesting date, options may be exercisable until the earlier of (i) 12 months from the date of cessation, or (ii) the normal expiry of the exercise period. Following this date, unexercised awards will lapse. 	<ul style="list-style-type: none"> – Unvested awards lapse in full

If an individual leaves holding vested PSP awards which are still subject to a holding period, the underlying shares will either be released at the end of the original holding period, or at an earlier date determined by the Committee.

Where an award is made for the purpose of recruitment (for example a buy-out award) then the leaver provisions would be determined at the time of award having regard to the circumstances of the recruitment, the terms of awards being bought out and the principles for leavers in the current policy.

In the event of a change of control of the Company, unvested PSP awards will normally vest early and deferred bonus shares will normally be released. The extent to which unvested PSP awards vest will be subject to achievement of the performance conditions (as determined by the Committee) at the time of the change of control and, unless the Committee determines otherwise, will be time pro-rated to reflect the proportion of the vesting period that has elapsed at that time. In the event of an internal reorganisation, the Committee may determine that awards are automatically surrendered for a new award which the Committee determines is equivalent to the surrendered award (including as to any performance condition) except that it shall be over shares in the acquiring company or some other company.

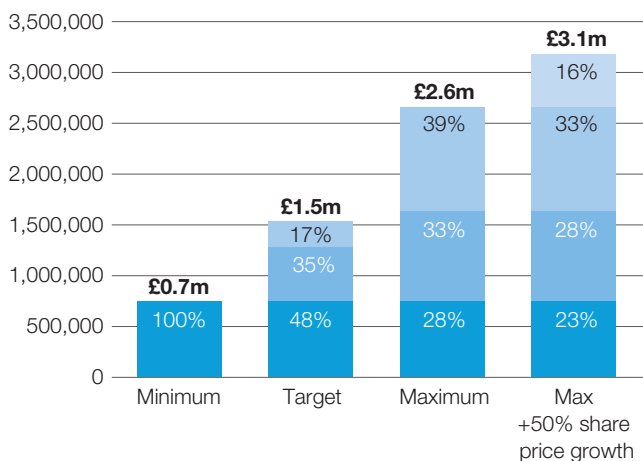
In the event of a demerger, special dividend or other similar event which, in the opinion of the Committee, would materially affect the market price of shares, the Committee may allow PSP awards to vest or deferred bonus shares to be released on the same basis as for a change of control.

Directors' Remuneration report continued

Illustrations of application of remuneration policy

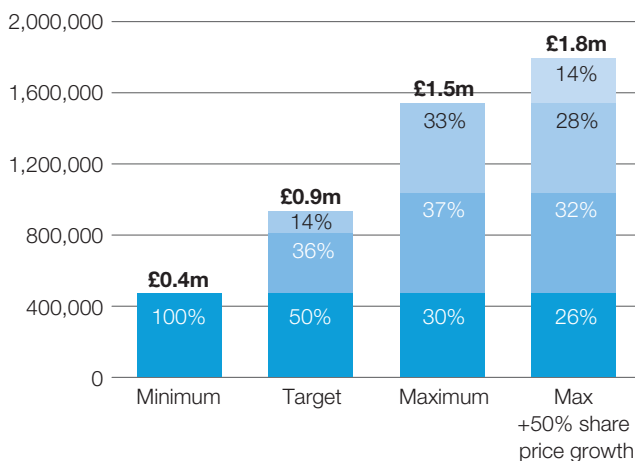
The following charts illustrate the different elements of the Executive Directors' remuneration under three different performance scenarios: 'Minimum', 'Target' and 'Maximum'. The assumptions used are provided below the charts. The illustrations are based on annual bonus awards for 2020 and PSP awards to be made in 2020.

C G MacLean



● Fixed Pay ● Annual Bonus
● Performance Share Plan ● 50% share price growth

S G Bennett



● Fixed Pay ● Annual Bonus
● Performance Share Plan ● 50% share price growth

	Component	Minimum	Target	Maximum	Maximum + 50% share price growth
Fixed	Base salary	Base salary for 2020 (C G MacLean: £580,246, S G Bennett: £368,831)			
	Pension	Value of cash supplement for 2020 (C G MacLean: £137,891, S G Bennett: £73,767)			
	Benefits	Taxable value of annual benefits provided in 2019 (C G MacLean: £13,200, S G Bennett: £17,820)			
Variable	Annual bonus	0% of maximum	60% of maximum	C G MacLean: 150% of salary S G Bennett: 150% of salary	Same as maximum
	2011 PSP ¹	0% vesting	25% vesting	C G MacLean: 175% of salary S G Bennett: 135% of salary	Maximum plus 50% share price growth

Note:
1. The value for the PSP is based on the face value of annual awards under the Policy and base salaries for 2020. The calculation excludes share price growth or dividends during the performance period other than where stated.

Annual Report on Remuneration for the year ended 31 December 2019

Operation of the Executive Director Remuneration Policy for 2020

The current Policy has been in force since 27 April 2017. Subject to approval of the new policy by shareholders at the AGM on 29 April 2020, the specific remuneration arrangements for 2020 are described below.

Base salary	<p>In order to reflect the substantial size and complexity differences of the Group from when the previous policy was set, increases were awarded with effect from 1 January 2020 of 2.5% for the Chief Executive Officer and the Chief Financial Officer on top of an increase in line with that for the average of the UK workforce, giving a total increase of 5.2% and 2020 salaries as follows:</p> <ul style="list-style-type: none"> – C G MacLean: £580,246 – S G Bennett: £368,831
Pension and benefits	<p>Executives receive a cash allowance in lieu of pension contributions, car allowance and private health insurance. The Committee reviewed pension provision for Executive Directors in light of the UK Corporate Governance Code and shareholder expectations. The Chief Executive Officer's pension allowance has been frozen at its 2019 value (or 20% of salary if higher). In making this decision the Committee took into consideration the views of our shareholders as well as the existing contractual commitments and considered that this approach struck an appropriate balance between the two.</p> <p>We have committed to align the pensions to the workforce average in the next policy aside from existing contractual conditions.</p> <p>2020 cash allowances in lieu of pension contributions are:</p> <ul style="list-style-type: none"> – C G MacLean: £137,891 – S G Bennett: 20% of salary
Annual bonus	<p>For 2020, performance under the annual bonus will be measured on the following basis:</p> <ul style="list-style-type: none"> – 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 2020 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. <p>2020 maximum award opportunity:</p> <ul style="list-style-type: none"> – C G MacLean: 150% of salary – S G Bennett: 150% of salary
Performance Share Plan	<p>For awards to be made in 2020, performance will be measured as follows:</p> <ul style="list-style-type: none"> – 30% based on relative TSR performance versus FTSE 250 (excluding investment trusts and financial services companies): <ul style="list-style-type: none"> – 25% of this element will vest for median performance. – 100% vesting for upper-quartile performance. – Vesting on a straight-line basis between these points. – 30% based on Underlying EPS growth: <ul style="list-style-type: none"> – 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. – 30% based on cost synergies related to the acquisition of OMNOVA¹ – 10% based on reduction of carbon dioxide equivalent¹ <p>2020 maximum award opportunity:</p> <ul style="list-style-type: none"> – C G MacLean: 175% of salary – S G Bennett: 135% of salary
Shareholding guidelines during employment	<p>The Chief Executive Officer and the Chief Financial Officer are expected to build interests in shares of at least 220% and 175% of salary respectively within 5 years of appointment.</p>
Chairman and Non-Executive Directors	<p>The fees to be paid in 2020 to the Chairman and the Non-Executive Directors were reviewed in November 2019 and as a result:</p> <ul style="list-style-type: none"> – the Chairman's fee was increased from £180,000 p.a. to £184,860 p.a. with effect from 1 January 2020; – the fees for the Non-Executive Directors were increased by 2.7% with effect from 1 January 2020.

Note:

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

Directors' Remuneration report continued

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	2019	551,565	13,200	137,891	58,998	137,891	899,545
	2018	535,500	13,200	512,072	612,304	133,875	1,806,951
S G Bennett	2019	350,600	17,820	80,638	29,485	70,120	548,663
	2018	334,560	22,730	294,329	306,033	66,912	1,024,564

- 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 2019 the values relate to awards granted under the 2011 PSP and made in 2017 and which vest in May 2020. Further information about the level of vesting is provided in this report. As these awards have not yet vested they have been valued based on the average share price for the period 1 October 2019 to 31 December 2019 of 306p, along with accrued dividends from the date of grant. There was no share price appreciation that impacted the value of the award and the Remuneration Committee did not exercise discretion in respect of the share price changes.
 3. 2016 PSP awards vested on 8 April 2019. For the purpose of the 2018 single figure these awards were valued based on the average share price for the period 1 October 2018 to 31 December 2018 of 399.7p. These awards have been re-valued based on the share price on the date of vesting of 389.4p. The values disclosed in the 2018 single figure were: C G MacLean, £728,581 and S G Bennett, £364,149. The share price used to value the awards on the date of grant of 11 April was 366.9p. The share price used to value the PSP for single figure purpose of 389.4p represents an increase of 22.8p per share. The proportion of the PSP value disclosed in the single figure attributable to share price growth was therefore 6.2%. The Remuneration Committee did not exercise discretion in respect of the share price changes.

Additional information for single figure remuneration**Benefits**

	Car expenses/benefit £	Others £	Total £
C G MacLean	13,200	–	13,200
S G Bennett	16,700	1,120	17,820

Annual bonus**2019 award**

For 2019 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 2019.

Executive Directors	Maximum bonus as a % of salary	Total bonus as a % of maximum	Total bonus £
C G MacLean	125	20	137,891
S G Bennett	115	20	80,638

During 2019 the Company has made significant progress against strategic objectives and has continued to expand with the announced acquisition of OMNOVA. Financial performance, however, has been impacted by economic headwinds which has been reflected in the annual bonus outcomes for 2019. The Committee considered that the overall level of bonus was appropriate to reflect the strong progress on our critical safety and strategic objectives during the year. No discretion was exercised in relation to the annual bonus outcome.

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%	0%
Underlying profit before tax ¹	£140.2m	£147.6m	£162.4m	£113.4m

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 purposes of calculating achieved Underlying profit before tax, adjustments were made for currency.

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	0.21 or less	0.16 or less
	0% for a rate greater than 0.21;	0% for a rate greater than 0.16;
	5% for a rate less than 0.21	5% for a rate less than 0.16
Level of award		
Rate achieved	0.20	0.11
Award outcome	5%	5%

Further details of the definition and measurement of the recordable injury rate and the process safety incident rate are given on page 59.

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	<ol style="list-style-type: none"> 1. Identification and where appropriate execution of acquisition opportunities. 2. Management of the Pathway Programme. 3. Strengthening of leadership and organisational capability. 	<ol style="list-style-type: none"> 1. Management of M&A processes. 2. Management of the Pathway Programme. 3. Management of investor relationships.
Level of award	Up to 10%	Up to 10%
Performance against targets	<ol style="list-style-type: none"> 1. OMNOVA acquisition delivered after a thorough due diligence process and conservatively financed. 2. Pathway Programme continues to progress on time and within budget. 3. Leadership organisation strengthened in the operational and finance functions. 	<ol style="list-style-type: none"> 1. OMNOVA acquisition delivered after a thorough due diligence process and conservatively financed. 2. Pathway Programme continues to progress broadly on time and within budget. 3. Delivery of investor relationship objectives for the year in full.
Award outcome	10%	10%

Directors' Remuneration report continued

Additional information for single figure remuneration

Long-term incentives

2011 Performance Share Plan

The awards made on 4 May 2017 for C G MacLean and for S G Bennett under the 2011 PSP were subject to a relative total shareholder return performance condition, an absolute Underlying earnings per share performance condition and a strategic measures condition as follows:

Relative TSR condition	EPS condition ¹		Performance achieved
Company relative TSR performance against the FTSE 250 Index (excluding investment trusts and financial services companies) over three-year period ended 31 December 2019	EPS for the 2019 financial year	Percentage of award that vests	
Upper quartile	35.2 pence or more	40%	EPS of 25.3 pence gives nil vesting for that condition.
Between median and upper quartile	Between 30.2 pence and 35.2 pence	On a straight-line basis between 10% and 40%	
Median	30.2 pence	10%	TSR performance at the 70th percentile gives vesting of 0% for that condition.
Below median	Less than 30.2 pence	0%	

1. The targets have been adjusted to take account of the bonus factor of 1.0713 for the rights issue in 2019.

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

— Percentage of Group sales (by volume) in the 2019 financial year derived from new products launched in the five years ended 31 December 2019.

New product percentage ¹	Percentage of award that vests	Percentage achieved
< 15%	0%	22% gives vesting of 10% of award.
15% – 20%	2.5% – 10%	
> 20%	10%	

Note:

1. Excluding volume attributable to Monomers, where there is no scope for new product development.

— Cumulative Underlying Profit before tax (PBT) added through acquisitions for the three years ended 31 December 2019.

Cumulative PBT added through acquisitions	Percentage of award that vests	Percentage achieved
< £43.3m	0%	<£43.3m gives vesting of 0% of the award.
£43.3m – £86.5m	2.5% – 10%	
> £86.5m	10%	

In aggregate, 10% of the 2017 award vested. The Committee considered that this level of vesting is appropriate to reflect the strategic progress delivered over the last three years while recognising the financial returns in 2019 which have been impacted by economic headwinds. No discretion was exercised.

The 2017 award will vest for C G MacLean and S G Bennett in April 2020 as follows:

	No. of shares in original award ¹	No. of shares that lapse	No. of shares that vest
C G MacLean	173,162	155,846	17,316
S G Bennett	86,548	77,894	8,654

Note:

1. Number of shares in original award were adjusted to take account of the bonus factor of 1.0713 for the rights issue in July 2019.

Overall, the Committee considers that the Remuneration Policy has operated as it intended during 2019 and that the pay outcomes are aligned with the experience of shareholders and other stakeholders.

Pension entitlements

Both Executive Directors receive a cash allowance in lieu of pension contributions as outlined above. No additional benefit is receivable in the event of a Director retiring early.

Single figure of remuneration for Non-Executive Directors

Non-Executive Directors		Base fee	Committee membership fee	Committee chair fee	Total
N A Johnson	2019	180,000	–	–	180,000
	2018	170,000	–	–	170,000
The Hon. A G Catto	2019	41,200	–	–	41,200
	2018	40,000	–	–	40,000
B W D Connolly ¹	2019	45,000	15,000	5,000	65,000
	2018	45,000	10,000	5,000	60,000
Dr J J C Jansz	2019	40,000	15,000	–	55,000
	2018	40,000	10,000	–	50,000
C A Johnstone	2019	40,000	15,000	5,000	60,000
	2018	40,000	10,000	5,000	55,000
Dato' Lee Hau Hian	2019	41,200	–	–	41,200
	2018	40,000	–	–	40,000
H A Van Deursen ²	2019	40,000	15,000	–	55,000
	2018	11,000	–	–	11,000

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.

Directors' shareholding and share interests

Directors	Interests in Company shares 31 December 2019	Vested unexercised performance related options 31 December 2019	Total unfettered interests in shares and vested options 31 December 2019	Unvested performance related options 31 December 2019 ¹	Share options exercised during 2019	Share ownership requirements (% of salary) ²	Interests in shares at 31 December 2019 (% of salary)
C G MacLean	606,504	–	606,504	584,430	157,243	200%	389
S G Bennett	153,662	–	153,662	294,150	78,591	150%	155
The Hon. A G Catto	1,614,239	–	1,614,239	–	–	–	–
	7,072,441*	–	7,072,441	–	–	–	–
B W D Connolly	4,000	–	4,000	–	–	–	–
Dato' Lee Hau Hian	55,953	–	55,953	–	–	–	–
Dr J J C Jansz	12,500	–	12,500	–	–	–	–
N A Johnson	125,000	–	125,000	–	–	–	–
C A Johnstone	–	–	–	–	–	–	–
H A Van Deursen	6,250	–	6,250	–	–	–	–

Notes:

* Non-beneficial interest.

1. Unvested performance related options comprise the awards made under the 2011 PSP in 2017, 2018 and 2019 and have been adjusted to take account of the bonus factor of 1.0713 for the rights issue in 2019. Details of the performance conditions attaching to the 2017 awards are set out on page 98; 2018 and 2019 awards are set out below.
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. 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. The share ownership requirements will increase to 220% for the Chief Executive Officer and 175% for the Chief Financial Officer with effect from the approval of the new remuneration policy.

2018 awards

The performance conditions attaching to the PSP awards granted in 2018 are as follows:

Relative TSR condition	EPS condition ¹	
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 vests
Upper quartile	40.7 pence or more	40%
Between median and upper quartile	Between 34.9 pence and 40.7 pence	On a straight-line basis between 10% and 40%
Median	34.9 pence	10%
Below median	Less than 34.9 pence	0%

Note:

1. The targets have been adjusted to take account of the rights issue in 2019.

A further 20% of the award is subject to strategic measures including ROIC, the targets for which will be disclosed following the end of the performance period.

Directors' Remuneration report continued

2019 award

The awards made on 11 March 2019 to C G MacLean and S G Bennett were as follows:

	Scheme	Basis of award	Number of shares ¹	Face value	Percentage vesting at threshold performance	Performance period end date
C G MacLean	2011 PSP – nil-cost options	150% of salary	235,069	£886,304	25%	31/12/2021
S G Bennett	2011 PSP – nil-cost options	120% of salary	119,536	£450,699	25%	31/12/2021

Note:

1. Number of shares in original award were adjusted to take account of the bonus factor of 1.0713 for the rights issue in 2019.

The face value of the awards was calculated using a share price of 377.04 pence per share, the average share price on the five dealing days prior to the date of grant.

The awards made on 11 March 2019 under the PSP are subject to the following performance conditions:

Relative TSR condition	EPS condition ¹	Percentage of award that will vest
Company relative TSR performance against the FTSE 250 Index (excluding investment trusts and financial services companies) over three-year period ending 31 December 2021	EPS for the 2021 financial year	
Upper quartile	40.7 pence or more	40%
Between median and upper quartile	Between 34.9 pence and 40.7 pence	On a straight-line basis between 10% and 40%
Median	34.9 pence	10%
Below median	Less than 34.9 pence	0%

Note:

1. The targets have been adjusted to take account of the rights issue in 2019.

A further 20% of the award is subject to strategic measures including ROIC, 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.

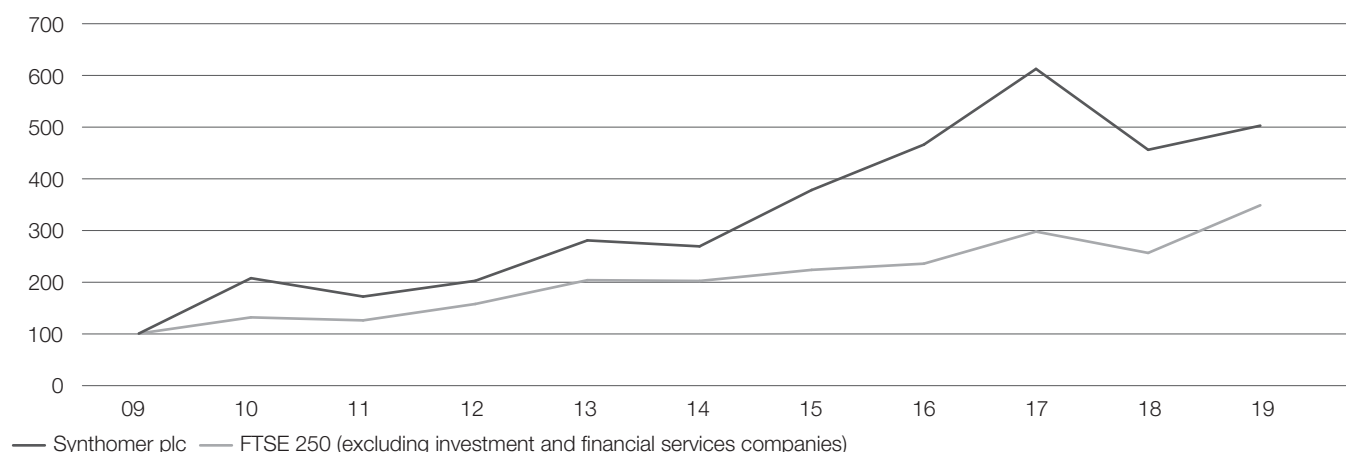
Payments for loss of office

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 TSR of the Company and the Chief Executive Officer remuneration outcomes over the last ten years.



The graph above compares the TSR 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 and was chosen because it represents a broad equity market index of which the Company is a constituent.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
CEO total single figure of remuneration (£000)	1,484	3,934	1,487	923	967	1,246	1,218	2,516	1,923	900
Bonus (% of maximum awarded)	100	100	27	0	57.3	96.7	100	100	76.5	20.0
PSP (% of maximum vesting)	100	100	100	50	0	n/a	n/a	96.3	86.2	10.0

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.

CEO to all employee pay ratio

The following table provides pay ratio data in respect of the CEO's total remuneration compared to the 25th, median and 75th percentile employee.

Financial year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option B	28:1	23:1	16:1

The employees used for the purposes of compiling the table above were identified on a full-time equivalent basis as at the pay period during which 5 April 2019 fell. Option B, which involves identifying the employees at the 25th, 50th and 75th percentile from our gender pay gap report, was chosen as the calculation methodology.

Option B was considered to be the most simple and accurate way of identifying the relevant employees. Using this methodology we were able to identify specific employees to make the required comparisons.

The definition of pay used included:

- Annual salary
- Overtime and extra pay
- Car allowances
- All other cash allowances
- All bonuses and incentive scheme payments
- Private medical insurance value

The value of company cars has been excluded from the data. The UK car scheme is closed to new entrants and very few employees are now provided with a car, the scheme will close completely within the next 12 months as remaining leases expire. The CEO is not provided with a company funded car.

The following table provides salary and total remuneration information in respect of the employees at each quartile.

Financial year	Element of pay	25th percentile employee	Median employee	75th percentile employee
2019	Salary	£33,387.36	£40,893.24	£57,656.19
	Total remuneration	£36,069.57	£45,012.30	£62,918.72

In future years we will provide context to any changes in the ratios by setting out a table showing changes over time and narrative explaining them.

Our CEO pay is made up of a higher proportion of incentive pay than that of the majority of our employees. This is likely to introduce more variability in the CEO total compensation.

The Board have confirmed that the ratios is consistent with the Company's wider policies on employee pay, reward and progression.

Percentage change in remuneration of Director undertaking the role of Chief Executive Officer 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 390 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	3	—	(73)
Total employee pay, benefits and bonuses	4	9	(80)

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.

	2019 £m	2018 £m	% change
Dividends	47.9	42.5	12.7%
Total employee remuneration	115.5	123.1	(6.2)%

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

Emoluments ¹	2019 £000	2018 £000
The total amounts for Directors' remuneration and other benefits were:		
Emoluments	1,649	2,138

Note:

1. Emoluments are recognised on a pro-rata basis for the period that Directors held their posts.

Directors' Remuneration report continued

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. S G Bennett does not currently hold any external appointments. C G 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 \$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 2019:

B W D Connolly	Chair
J J C Jansz	
C A Johnstone	
H A Van Deursen	

Attendance at Committee meetings is set out on page 83.

Key duties of the Committee

During 2019 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 the specific remuneration of all senior management and reviewing 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) which was appointed as the Committee's independent remuneration adviser 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 £22,100 for advice in 2019. The Committee is comfortable that the Deloitte engagement team that provides remuneration advice to the Committee do not have connections with the Company or its Directors that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts. 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 the AGM

The table below sets out the results of the votes on the Directors' remuneration at the 2019 AGM (Annual Report) and the 2017 AGM (Directors' Remuneration Policy).

	Votes for		Votes against		Votes withheld
	Number	% of vote	Number	% of vote	Number
2019 Annual Report on Remuneration	260,223,551	99	3,789,718	1	32,481
2017 Directors' Remuneration Policy	265,001,288	99	1,980,697	1	1,657,331

By order of the Board

R Atkinson

Company Secretary
5 March 2020

Report of the Directors

The Directors submit their Annual Report and the audited consolidated financial statements for the year ended 31 December 2019. None of the matters required to be disclosed by Listing Rule 9.8.4R apply to the Company other than the amount of capitalised interest (see Financial Statements note 2), details of long-term incentive schemes (see Directors' Remuneration report (pages 83 to 102) and shareholder waiver of dividends (see Financial Statements note 31). The Directors' Report comprises pages 103 to 104 and the following sections of the Annual Report which are incorporated by reference:

Item	Location in Annual Report
Statement of Directors' responsibilities	Page 105
Financial risk management	Financial statements – note 22
Present membership of the Board	Pages 64 to 65
Corporate Governance report	Pages 66 to 73
Strategic report (including principal activities)	IFC to 63
Management risk and Viability statement	Pages 30 to 37
Employee engagement	Pages 53 to 55
Directors' Remuneration report	Pages 83 to 102
Share capital	Financial statements – note 27
Greenhouse gas emissions	Pages 60 to 63
ESG report	Pages 46 to 63

Results and dividends

The profit attributable to shareholders for the year was £84.6m. The interim dividend of 4.0 pence per share was paid on 5 November 2019. The Directors recommend a final ordinary dividend of 6.9 pence per share payable on 7 July 2020 to those shareholders registered at the close of business on 5 June 2020. A dividend reinvestment plan is available to shareholders and this alternative will continue to be offered until further notice.

Acquisitions and Disposals

On 3 July 2019 the Company and its wholly owned subsidiaries Spirit USA Holdings Inc and Synthomer USA LLC signed an agreement and plan of merger with OMNOVA Solutions Inc (OMNOVA) on the terms of a recommended acquisition of the entire issued and to-be-issued share capital of OMNOVA at a price of \$10.15 per OMNOVA share.

Directors

All the Directors will retire and will be seeking election or re-election at the forthcoming AGM.

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

On 30 July 2019 the Company issued 84,970,192 new ordinary shares of 10p each in accordance with the terms of a rights issue on a 1 for 4 basis at a price of 240 pence per new share. During 2019 no shares were repurchased. A total of 73,812 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 www.synthomer.com. 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 21 February 2020, 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	85,424,250	20.11	Direct interest
Standard Life Aberdeen plc	26,390,337	6.21	Indirect interest
Merian Global Investors (UK) Limited	25,096,134	5.91	Indirect interest
Kames Capital Plc	14,117,612	3.32	Direct and indirect interest

Report of the Directors continued

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. 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. Alex Catto has been designated as the Non-Executive Director responsible for gathering the views of the workforce and further information on the Board's workforce engagement methods are on page 54. The Group's approach to diversity and inclusion is on page 55.

Authority to purchase own shares

The Company has a general authority, which expires at the conclusion of the 2020 AGM, 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 2019 AGM. A resolution will be tabled at the 2020 AGM to renew this authority for an amount representing approximately 10% of the Company's issued share capital as at 4 March 2020.

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 pages 152 to 153.

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 its report on pages 106 to 110.

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 (i) the refinancing in July 2018 of the Group's main borrowing facilities described on page 134, comprising a committed unsecured four-year revolving credit facility of €440 million and (ii) the putting in place of new financing facilities conditional on the completion of the acquisition of OMNOVA and comprising a \$260 million term loan on €460 million RCF with five year terms ending on 3 July 2024 and a €520 million acquisition financing bridging facility. The bridging facility is available for 75 months from July 2019 and may be extended for two periods of six months. 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 AGM.

Annual General Meeting

The AGM will be held at the offices of the Company at 45 Pall Mall, London SW1Y 5JG on 29 April 2020 at 11.00 am.

By order of the Board

R Atkinson

Company Secretary
5 March 2020

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 2019 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 2019; 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

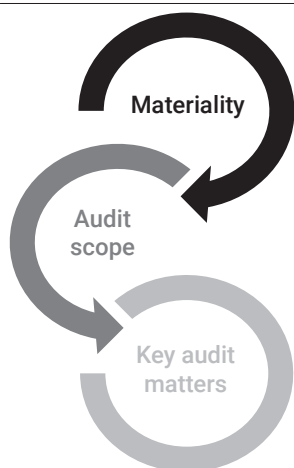
We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 7 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview



- Overall group materiality: £5,810,000 (2018: £6,750,000), based on 5% of underlying profit before taxation.
- Overall company materiality: £3,500,000 (2018: £5,500,000), based on 2% of total assets.

- Audit procedures provide coverage of 89% of revenue, 94% of operating profit and 95% of underlying operating profit.
- Audit scope covers eight countries, performing procedures over 14 entities.
- Financially significant components in the UK, Germany and Malaysia.

- Valuation of defined benefit pension liabilities.
- 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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of environmental, health and safety and competition regulations, tax legislation and equivalent local laws and regulations applicable to significant component teams, 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 preparation of the financial statements such as the Companies Act 2006. 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 and management bias in accounting estimates. The group engagement team shared this risk assessment with the component auditors 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 provisions for uncertain tax positions and the valuation of defined benefit pension liabilities (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.

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
<p>Valuation of Defined Benefit Pension Liabilities</p> <p>As set out in Note 26, 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 £55.7 million and £73.4 million, respectively, of the net pension deficit of £140.0 million recorded on the Group balance sheet at the year end. We focused on the pension liabilities as the amounts reflected in the financial statements for defined benefit scheme liabilities are sensitive to relatively small changes in a few key assumptions such as the inflation rate, mortality tables and 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' liabilities and accordingly it is 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.</p>	<p>We obtained external actuarial reports of the UK and German schemes which set out the calculations and assumptions underpinning the year end pension scheme liabilities valuation. We read these reports and held discussions with the external actuaries 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.</p>
<p>Provisions for Uncertain Tax Positions</p> <p>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 2019, the Group has recorded current tax liabilities totalling £38.7 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.</p>	<p>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.</p>

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

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.

Independent auditors' report continued

to the members of Synthomer plc

As set out on the inside front cover the Group reports its results as three segments: 'Performance Elastomers', 'Functional Solutions', and 'Industrial Specialities'. 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 10 reporting units located in the UK, Italy, Belgium, Germany, Malaysia, Finland, the Netherlands and the Czech Republic. These components accounted for 89% of the Group's revenue, 94% of the Group's operating profit and 95% 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. During the audit, senior members of the Group team held a number of meetings with the audit teams at the key reporting units in the UK, Germany and Malaysia and reviewed the work performed by these teams over those areas of higher audit risk.

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	£5,810,000 (2018: £6,750,000).	£3,500,000 (2018: £5,500,000).
How we determined it	5% of underlying profit before taxation.	2% of total assets.
Rationale for benchmark applied	We believe that underlying profit before taxation, being profit before tax adjusted for special items, is a key metric against which the Group's financial performance is measured in the Chairman's and CEO's statements within the Annual Report. It is also a key metric for investors.	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 £300,000 and £3,500,000. 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 £290,000 (Group audit) (2018: £337,000) and £290,000 (Company audit) (2018: £337,000) 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

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 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.

Outcome

We have nothing material to add or to draw attention to.

However, because 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 of the United Kingdom's withdrawal from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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).

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 2019 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 73 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 105, 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 pages 74 to 81 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)

Independent auditors' report continued to the members of Synthomer plc

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 in respect of the financial statements, 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 8 years, covering the years ended 31 December 2012 to 31 December 2019.

Matthew Mullins (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 March 2020

Consolidated income statement

for the year ended 31 December 2019

	Note	2019			2018		
		Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Revenue		1,459.1	–	1,459.1	1,618.9	–	1,618.9
Company and subsidiaries before Special Items		124.9	–	124.9	141.7	–	141.7
Acquisition costs	4	–	(9.2)	(9.2)	–	(0.5)	(0.5)
Restructuring and site closure	4	–	(0.8)	(0.8)	–	(12.2)	(12.2)
Foreign exchange gain on rights issue	4	–	3.5	3.5	–	–	–
Amortisation of acquired intangibles	4	–	(8.7)	(8.7)	–	(16.4)	(16.4)
Sale of business	4	–	–	–	–	3.8	3.8
Sale of land	4	–	–	–	–	16.4	16.4
Aborted bond costs	4	–	–	–	–	(1.7)	(1.7)
UK Guaranteed Minimum Pension equalisation	4	–	–	–	–	(2.8)	(2.8)
Company and subsidiaries		124.9	(15.2)	109.7	141.7	(13.4)	128.3
Share of joint ventures	18	0.9	–	0.9	0.4	–	0.4
Operating profit/(loss)	6	125.8	(15.2)	110.6	142.1	(13.4)	128.7
Interest payable	9	(6.7)	–	(6.7)	(4.9)	–	(4.9)
Interest receivable	9	0.9	–	0.9	1.1	–	1.1
Fair value loss on unhedged interest derivatives	4	–	(0.5)	(0.5)	–	(1.4)	(1.4)
		(5.8)	(0.5)	(6.3)	(3.8)	(1.4)	(5.2)
Net interest expense on defined benefit obligation	9	(2.7)	–	(2.7)	(3.2)	–	(3.2)
Interest element of lease payments	9	(1.1)	–	(1.1)	–	–	–
Finance costs		(9.6)	(0.5)	(10.1)	(7.0)	(1.4)	(8.4)
Profit/(loss) before taxation		116.2	(15.7)	100.5	135.1	(14.8)	120.3
Taxation	10	(16.3)	1.4	(14.9)	(23.0)	6.0	(17.0)
Profit/(loss) for the year		99.9	(14.3)	85.6	112.1	(8.8)	103.3
Profit attributable to non-controlling interests		0.4	0.6	1.0	0.5	3.0	3.5
Profit/(loss) attributable to equity holders of the parent		99.5	(14.9)	84.6	111.6	(11.8)	99.8
		99.9	(14.3)	85.6	112.1	(8.8)	103.3
Earnings/(loss) per share							
– Basic	13	25.3p	(3.8)p	21.5p	30.7p	(3.3)p	27.4p
– Diluted	13	25.2p	(3.8)p	21.4p	30.5p	(3.2)p	27.3p

Consolidated statement of comprehensive income

for the year ended 31 December 2019

	Note	2019			2018		
		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		84.6	1.0	85.6	99.8	3.5	103.3
Actuarial (losses)/gains	26	(27.2)	–	(27.2)	15.5	–	15.5
Tax relating to components of other comprehensive income	10	4.7	–	4.7	(2.3)	–	(2.3)
Total items that will not be reclassified to profit or loss		(22.5)	–	(22.5)	13.2	–	13.2
Exchange differences on translation of foreign operations		(15.3)	(0.4)	(15.7)	16.9	0.8	17.7
Exchange differences recycled on sale of business		–	–	–	(0.4)	–	(0.4)
Fair value loss on hedged interest derivatives	27	(8.7)	–	(8.7)	(3.9)	–	(3.9)
Losses on net investment hedges taken to equity	27	(1.9)	–	(1.9)	(3.2)	–	(3.2)
Total items that may be reclassified subsequently to profit or loss		(25.9)	(0.4)	(26.3)	9.4	0.8	10.2
Other comprehensive (expense)/income for the year		(48.4)	(0.4)	(48.8)	22.6	0.8	23.4
Total comprehensive income for the year		36.2	0.6	36.8	122.4	4.3	126.7

Consolidated statement of changes in equity

for the year ended 31 December 2019

	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 2019		34.0	230.5	0.9	6.4	192.1	463.9	21.1	485.0
Profit for the year		–	–	–	–	84.6	84.6	1.0	85.6
Other comprehensive expense for the year		–	–	–	(25.9)	(22.5)	(48.4)	(0.4)	(48.8)
Total comprehensive income for the year		–	–	–	(25.9)	62.1	36.2	0.6	36.8
Dividends	12	–	–	–	–	(47.9)	(47.9)	(0.6)	(48.5)
Issue of shares	27	8.5	190.6	–	–	–	199.1	–	199.1
Share-based payments		–	–	–	–	(1.9)	(1.9)	–	(1.9)
At 31 December 2019		42.5	421.1	0.9	(19.5)	204.4	649.4	21.1	670.5

	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
Other comprehensive income for the year		–	–	–	9.4	13.2	22.6	0.8	23.4
Total comprehensive income for the year		–	–	–	9.4	113.0	122.4	4.3	126.7
Dividends	12	–	–	–	–	(42.5)	(42.5)	(1.5)	(44.0)
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

Consolidated balance sheet

as at 31 December 2019

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	14	324.4	336.5
Acquired intangible assets	15	56.8	69.1
Other intangible assets	16	22.0	5.1
Property, plant and equipment	17	404.9	370.0
Deferred tax assets	11	22.8	23.4
Investment in joint ventures	18	7.5	8.6
Total non-current assets		838.4	812.7
Current assets			
Inventories	19	121.9	141.9
Trade and other receivables	20	190.6	232.9
Cash and cash equivalents	21	103.6	96.9
Derivative financial instruments	22	4.9	–
Total current assets		421.0	471.7
Total assets		1,259.4	1,284.4
Current liabilities			
Borrowings	21	–	(70.1)
Trade and other payables	24	(232.9)	(263.2)
Lease liabilities	23	(7.5)	–
Current tax liabilities	10	(38.7)	(38.3)
Provisions for other liabilities and charges	25	(4.9)	(9.4)
Derivative financial instruments	22	(14.3)	(5.3)
Total current liabilities		(298.3)	(386.3)
Non-current liabilities			
Borrowings	21	(82.9)	(240.8)
Trade and other payables	24	(0.5)	(0.7)
Lease liabilities	23	(34.4)	–
Deferred tax liabilities	11	(30.8)	(34.3)
Retirement benefit obligations	26	(140.0)	(132.5)
Provisions for other liabilities and charges	25	(2.0)	(4.8)
Total non-current liabilities		(290.6)	(413.1)
Total liabilities		(588.9)	(799.4)
Net assets		670.5	485.0
Equity			
Share capital	27	42.5	34.0
Share premium	27	421.1	230.5
Capital redemption reserve		0.9	0.9
Hedging and translation reserve	27	(19.5)	6.4
Retained earnings	27	204.4	192.1
Equity attributable to equity holders of the parent		649.4	463.9
Non-controlling interests		21.1	21.1
Total equity		670.5	485.0

The financial statements on pages 111 to 147 were approved by the Board of Directors and authorised for issue on 5 March 2020. 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 2019

	Note	2019		2018	
		£m	£m	£m	£m
Operating					
Cash generated from operations	28		170.2		124.9
Interest received		0.9		1.1	
Interest paid		(7.0)		(5.6)	
Interest element of lease payments		(1.1)		–	
Net interest paid			(7.2)		(4.5)
UK corporation tax paid		–		–	
Overseas corporate tax paid		(11.1)		(23.0)	
Total tax paid			(11.1)		(23.0)
Net cash inflow from operating activities			151.9		97.4
Investing					
Dividends received from joint ventures	18		1.6		1.1
Purchase of property, plant and equipment and intangible assets		(69.1)		(75.7)	
Sale of property, plant and equipment		0.3		17.5	
Net capital expenditure			(68.8)		(58.2)
Purchase of business			–		(25.8)
Proceeds from sale of business			–		3.7
Net cash outflow from investing activities			(67.2)		(79.2)
Financing					
Dividends paid	12		(47.9)		(42.5)
Dividends paid to non-controlling interests			(0.6)		(1.5)
Proceeds on issue of shares			199.1		–
Settlement of equity-settled share-based payments			(2.5)		(5.4)
Repayment of principal portion of lease liabilities			(6.8)		–
Repayment of borrowings	21		(216.3)		(63.5)
Proceeds of borrowings	21		15.0		103.9
Net cash outflow from financing activities			(60.0)		(9.0)
Increase in cash, cash equivalents and bank overdrafts during the year			24.7		9.2
Comprising increase in:					
Cash and cash equivalents	21	4.1		5.6	
Bank overdrafts	21	20.6		3.6	
			24.7		9.2
Cash, cash equivalents and bank overdrafts at 1 January			76.2		65.4
Foreign exchange and other movements	21		2.7		1.6
Cash, cash equivalents and bank overdrafts at 31 December	21		103.6		76.2

Reconciliation of net cash flow from operating activities to movement in net debt

	Note	2019 £m	2018 £m
Net cash inflow from operating activities		151.9	97.4
Add back: dividends received from joint ventures	18	1.6	1.1
Less: net capital expenditure		(68.8)	(58.2)
Less: net purchase of business		–	(22.1)
		84.7	18.2
Ordinary dividends paid	12	(47.9)	(42.5)
Dividends paid to non-controlling interests		(0.6)	(1.5)
Proceeds on issue of shares		199.1	–
Settlement of equity-settled share-based payments		(2.5)	(5.4)
Repayment for principal portion of lease liabilities		(6.8)	–
Foreign exchange and other movements	21	8.7	(2.3)
Decrease/(increase) in net debt		234.7	(33.5)

Notes to the consolidated financial statements

31 December 2019

1 General information

Synthomer plc (the 'Company') 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 156. The Company is listed on the London Stock Exchange.

The principal activities of the Company and its subsidiaries (the 'Group') and the nature of the Group's operations are set out in the Strategic report.

The consolidated financial statements are prepared in pounds sterling, the functional currency of the 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 IFRS 16 Leases for the first time for the reporting period commencing 1 January 2019 and the impact is disclosed in note 3.

Synthomer has also adopted IFRIC 23 Uncertainty over Income Tax Treatments. The interpretation clarifies the application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatment.

Synthomer applies judgement in quantifying uncertainties over income tax treatments and has considered whether it should adjust its uncertain tax provisions in line with this new criteria. Adoption of IFRIC 23 has not had a material impact on the Group's financial statements.

There are no other standards or interpretations 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

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS), IFRS Interpretations Committee interpretations and the Companies Act 2006.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

The principal accounting policies adopted are set out below.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

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 when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Consolidation of a subsidiary begins from the date the Company obtains control and ceases from the date the Company loses control. Where necessary on obtaining control, adjustments are made to the financial statements of subsidiaries to bring the accounting policies into line with those used by the Group.

The results of joint ventures are accounted for using equity accounting.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Subsequent to the date on which the Company obtains control, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, 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 a 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 recognised as of that date.

A 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 a business combination is achieved in stages, the Group's previously held interest in the acquired entity is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

Goodwill

Goodwill is measured as the excess of the consideration transferred over the Group's interest in acquisition-date identifiable assets acquired less liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. 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. An impairment loss for goodwill is not reversed in a subsequent period.

Notes to the consolidated financial statements continued

31 December 2019

2 Significant accounting policies continued

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.

Joint ventures

Joint ventures are accounted for using the equity method of accounting. Under the equity method, 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.

Revenue**General**

Synthomer manufactures and sells water-based polymers across a diverse range of end use applications. Our products are predominantly sold in liquid form, in bulk containers.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer when performance obligations are satisfied. Revenue is recognised at the point in time when control of the product is transferred from Synthomer to the customer.

The customer is deemed to obtain control of the resultant asset in line with the Incoterms under which it is sold. The significant majority of Synthomer's products are sold under Carriage Paid To ('CPT') and Carriage and Insurance Paid ('CIP') International Commercial Terms. Under these terms, control of the product is transferred when the goods reach their destination. At this point the risks of obsolescence and loss have been transferred and there is no unfulfilled obligation that could affect the customer's acceptance of the product. A receivable is recognised at this point in time as consideration is unconditional and only the passage of time is required before payment is due.

Rebates

Synthomer may grant customers rebates if the goods purchased by the customer exceed a contractually defined threshold within the specified period. Rebates are usually deducted from the amounts payable by the customer. Depending on the terms of the underlying contract, Synthomer uses either the expected value or the most likely amount to estimate the variable consideration for expected future rebates. Historical, current and forecast information is considered when calculating rebates.

The majority of rebate programmes are aligned with the Group's financial year end, providing certainty around how much should be recognised in the financial statements.

Other

The Group does not have any contracts where the period between the transfer of promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group applies the practical expedient in IFRS 15 and does not adjust any of the transaction prices for the time value of money.

Foreign currencies

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recognised 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.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on transactions entered into to hedge certain foreign currency risks (see below under 'hedge accounting'); and
- exchange differences on monetary items receivable or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's non-Sterling operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity.

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.

Operating profit

Operating profit represents profit from continuing activities before financing costs and taxation.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current 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.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

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 other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

Leases

Finance leases and operating leases for the year ended 31 December 2018 were recognised and measured in accordance with IAS 17 Leases.

The accounting policies set out below are those applied to the current period, in accordance with IFRS 16.

The Group assesses whether a contract is or contains a lease, at inception of the contract. The lease term is determined from the commencement date of the contract and covers the non-cancellable term. If considered reasonably certain, extension or termination options are included in the lease term.

At the commencement date, a lease liability is recognised, measured at the present value of the future lease payments and discounted using the Group's incremental borrowing rate. Subsequently, the lease liability is adjusted by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications.

At the commencement date, a right of use asset is recognised, measured at an amount equal to the lease liability plus any lease payments made before the commencement date and any initial direct costs, less any lease incentive payments. An estimate of costs to be incurred in restoring an asset, in accordance with the terms of the lease, is also included in the right of use asset at initial recognition. Subsequently, right of use assets are measured in accordance with the accounting policy for property, plant and equipment and are depreciated over the shorter period of lease term and the useful life of the underlying asset. Any adjustments to the corresponding lease liability are reflected in the corresponding right of use asset.

Short-term leases and low value leases are not recognised as lease liabilities and right of use assets, but are recognised as an expense straight-line over the lease term.

Property, plant and equipment

Property, plant and equipment is stated at cost, less accumulated depreciation and any recognised impairment loss. 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.

Freehold land is not depreciated.

Depreciation is recognised so as to write-off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

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 15 years

Assets in the course of construction are carried at cost, less any recognised impairment loss. Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised as part of the cost of those assets. Depreciation of these assets commences when the assets are ready for their intended use.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Acquired intangible assets

Intangible assets acquired in a business combination are initially recognised at their fair value at the acquisition date, which is regarded as their cost. Where necessary the fair value of assets at acquisition and their estimated useful lives are based on independent valuation reports.

Acquired intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over 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.

Acquired intangible assets are derecognised upon reaching the end of their useful lives.

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 up to ten years.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised only if all of the following conditions have been demonstrated:

- the technical feasibility of completing the asset;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the asset once development has been completed;
- the probability that the asset created will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development; and
- the asset created can be separately identified and the development cost can be measured reliably.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Notes to the consolidated financial statements continued

31 December 2019

2 Significant accounting policies continued

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 of disposal 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.

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 when the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial instruments in the following categories:

- financial assets and liabilities at amortised cost ('AC');
- financial assets and liabilities at fair value through profit and loss ('FVTPL'); and
- financial assets and liabilities at fair value through other comprehensive income ('FVTOCI').

Financial assets and liabilities are initially measured at fair value including, where permitted, any directly attributable transaction costs.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on their classification.

Financial assets and liabilities measured at amortised cost

Financial assets measured at amortised cost include cash and cash equivalents and trade and other receivables. Cash and cash equivalents comprise cash held in bank accounts with no access restrictions, bank term deposits repayable on demand or maturing within three months of inception.

At each reporting date the Group recognises a loss allowance for expected credit losses on financial assets measured at amortised

cost. In establishing the appropriate amount of loss allowance to be recognised, the Group applies either the general approach or the simplified approach, depending on the nature of the underlying class of financial assets:

- Under the general approach, the Group recognises a loss allowance for a financial asset at an amount equal to the 12-month expected credit losses, unless the credit risk on the financial asset has increased significantly since initial recognition, in which case a loss allowance is recognised at an amount equal to the lifetime expected credit losses.
- The simplified approach is applied to the impairment assessment of trade and other receivables. Under this approach, the Group recognises expected lifetime losses upon initial recognition.

Financial liabilities measured at amortised cost include trade and other payables, lease liabilities and borrowings. Borrowings are measured at amortised cost unless they form part of a fair value hedge relationship. The difference between the initial carrying amount of borrowings and the redemption value is recognised in the income statement over the contractual terms using the effective interest rate method.

Financial assets and liabilities held at fair value

Financial assets and liabilities are measured at fair value through profit or loss when they do not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income.

Financial assets and liabilities at FVTPL are measured at fair value at the end of each reporting period with fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see below).

Derivative financial instruments

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. Further details of derivative financial instruments are set out in note 22.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. 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.

Hedge accounting

To mitigate foreign currency and interest rate risk, the Group designates certain derivatives as hedging instruments in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate.

At the inception of the hedge relationship, the Group 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 is effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk.

On adoption of IFRS 9, the Group elected to continue to apply the hedge accounting requirements of IAS 39 as permitted by the standard.

Fair value hedges

The Group only applies fair value hedge accounting for foreign currency risk.

The fair value change on qualifying hedging instruments is recognised in the income statement and is recognised in the same line as the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge.

Gains or losses relating to an ineffective portion are recognised immediately in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified in the income statement in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed 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 gain or loss accumulated at that time in equity 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 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 other comprehensive income in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operation.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are treated as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution scheme.

For defined benefit schemes, the cost of providing benefits is calculated using the projected unit credit method, with actuarial valuations carried out at the end of each reporting period.

Defined benefit costs are split into three categories, namely:

- service costs, which includes current service cost, past service cost and gains and losses on curtailments and settlements;
- net interest expense; and
- remeasurements.

The Group presents service costs within cost of sales and administrative expenses in its consolidated income statement. Past service cost is recognised when the plan amendment or curtailment occurs.

Net interest expense is recognised within finance costs and is calculated by applying a discount rate to the net defined benefit liability.

Remeasurement comprising actuarial gains and losses and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge or credit to the statement of other comprehensive income in the period in which they occur and are not subsequently recycled.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. These are measured at the fair value of the equity instruments at grant date. The fair value excludes the effect of non-market-based vesting conditions. 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, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. The Group will on occasion, at its own discretion, settle these share-based payments in cash rather than equity.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

Alternative performance measures

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

- Underlying performance, which excludes Special Items from IFRS profit measures.
- 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 note 5.

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Critical accounting judgements and estimates

In the application of the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The assumptions for each estimate are set out in the relevant note referenced below.

- Defined benefit obligation (note 26):
Calculation of the Group's defined benefit obligation includes a number of assumptions which impact the carrying value of the obligation.
- Valuation of goodwill and intangible assets on acquisition:
In a business combination, intangible assets are identified and recognised at fair value. The assumptions involved in valuing these intangible assets require the use of estimates that may differ from the actual outcome. These estimates 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.
- Current tax liability and deferred tax (notes 10 and 11):
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.

Critical judgements in applying the Group's accounting policies

There are no critical judgements, apart from those involving estimations (which are discussed above), that the Directors have made in the process of applying the Group's accounting policies.

3 Adoption of new and revised standards

The Group has adopted IFRS 16 Leases with effect from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard.

- Reliance on previous assessments on whether leases are onerous.
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases.
- The exclusion of initial direct costs for the measurement of the right of use asset at the date of initial application.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Adjustments recognised on adoption of IFRS 16

The Group has a portfolio of leases mainly comprising land and buildings, chemical storage tanks and vehicles. On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using each lessee's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities in the balance sheet at initial adoption on 1 January 2019 was 2.49%.

Information in respect of the carrying value and interest arising on lease liabilities is set out below:

	2019		
	Amounts without adoption of IFRS 16 £m	IFRS 16 impact £m	As reported £m
Impact on the consolidated income statement			
EBITDA	170.0	7.9	177.9
Depreciation and amortisation	(44.8)	(7.3)	(52.1)
Underlying operating profit	125.2	0.6	125.8
Special Items	(15.2)	–	(15.2)
Operating profit	110.0	0.6	110.6
Finance costs	(9.0)	(1.1)	(10.1)
Profit before taxation	101.0	(0.5)	100.5
Taxation	(14.9)	–	(14.9)
Profit for the year	86.1	(0.5)	85.6
Earnings per share			
Basic	21.6p	(0.1)p	21.5p
			31 December 2019
Lease liabilities included in the balance sheet			£m
Current			7.5
Non-current			34.4
Total			41.9

The lease liability recognised on adoption of IFRS 16 was £45.6 million. Operating lease commitments under IAS 17 disclosed at 31 December 2018 were £30.4 million, which approximates to £26.6 million when discounted at the incremental borrowing rate disclosed above. The difference arises due to the different recognition criteria of IFRS 16 such as treatment of extension options and the inclusion of liabilities for onerous leases, previously recorded within provisions.

Right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. Onerous lease contracts required an adjustment to the right of use assets at the date of initial application.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

EBITDA, segment assets and segment liabilities for the year ended and as at 31 December 2019 all increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

	Depreciation £m	EBITDA £m	Finance costs £m	Increase in assets £m	Increase in liabilities £m
Performance Elastomers	(1.8)	2.0	–	15.3	(18.2)
Functional Solutions	(4.2)	4.4	–	17.8	(17.9)
Industrial Specialities	(0.7)	0.8	–	2.3	(2.4)
Unallocated corporate expenses	(0.6)	0.7	(1.1)	3.5	(3.4)
Total	(7.3)	7.9	(1.1)	38.9	(41.9)

Notes to the consolidated financial statements continued

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4 Special Items**IFRS and Underlying performance**

The IFRS profit measures show the performance of the Group as a whole and as such include all sources of income and expense, including both one-off items and those that do not relate to the Group's ongoing businesses. To provide additional 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.

Special Items

Special Items are disclosed separately in order to provide a clearer indication of the Group's underlying performance.

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 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.

The following are consistently disclosed separately as Special Items in order to provide a clearer indication of the Group's underlying performance:

- Restructuring 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 adjustments in respect of derivative financial instruments where 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.

Special Items comprise:

	Note	2019 £m	2018 £m
Acquisition costs		(9.2)	(0.5)
Restructuring and site closure		(0.8)	(12.2)
Foreign exchange gain on rights issue		3.5	–
Amortisation of acquired intangibles	15	(8.7)	(16.4)
Sale of business		–	3.8
Sale of land		–	16.4
Aborted bond costs		–	(1.7)
UK Guaranteed Minimum Pension equalisation	26	–	(2.8)
Operating loss		(15.2)	(13.4)
Finance costs			
Fair value loss on unhedged interest derivatives	9	(0.5)	(1.4)
Loss before taxation		(15.7)	(14.8)
Taxation	10	1.4	6.0
Loss for the year		(14.3)	(8.8)

Acquisition costs relate to the proposed acquisition of OMNOVA Solutions Inc partly offset by a gain of £4.0 million on a foreign exchange derivative entered into in July 2019 to hedge the acquisition price. The 2018 costs related to the BASF Pischelsdorf acquisition.

Restructuring and site closure largely comprise a charge of £1.9 million in relation to the reorganisation of the Group into global business segments. This is partly offset by a partial reversal of the provision recognised in 2018 for the closure of the natural rubber and polyester resins production lines as certain elements have been less expensive than originally estimated.

Foreign exchange gain on rights issue represents a gain made on a forward contract which was entered into to swap the proceeds of the Sterling rights issue into Euro in order to pay down part of the Group's Euro borrowings.

Amortisation of intangibles decreased during the year as the customer-related intangibles from the 2011 PolymerLatex acquisition reached the end of their amortisation period in H1 2018.

Sale of businesses in 2018 related to the disposal of the Leuna (Germany) site and the disposal of 51% of the Group's Dubai operations.

Sale of land in 2018 related to the disposal of the final tranche of Malaysian land at Kluang.

Ahead of the Group's 2018 refinancing, 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.

A £2.8 million actuarial adjustment was booked in H2 2018 following the UK High Court's ruling on equalisation of male and female Guaranteed Minimum Pensions. This was treated as a pension plan amendment, unrelated to Underlying performance of the Group.

In July 2018 the Group entered into swap arrangements to fix Euro interest rates on the full value of the €440 million committed unsecured revolving credit facility. The fair value of the unhedged interest rate derivatives relates to the mark-to-market of the swap at 31 December 2019 in excess of the Group's current borrowings.

5 Segmental analysis

The Group's Executive Committee, chaired by the Chief Executive Officer, examines the Group's performance.

Following a review in 2018, a new Group structure was adopted from 1 January 2019 to reflect the increasingly global nature of the Group's operations. The new structure enables Synthomer to better serve its customers, provide a global product offering and to drive operational efficiencies. Consistent with the new Group structure, three new reportable segments were identified:

Performance Elastomers

Performance Elastomers is focused on healthcare, carpet, paper and foam markets through our water-based Nitrile Butadiene Rubber latex (NBR) and Styrene Butadiene Rubber latex (SBR) products.

Functional Solutions

Functional Solutions is focused on coatings, construction, adhesives and technical textiles markets through our water-based acrylic and vinyl based dispersions products.

Industrial Specialities

Industrial Specialities is focused on speciality chemical additives and non-water-based chemistry for a broad range of applications from polymer additives to emerging materials and technologies.

The Group's Executive Committee is the chief operating decision maker and primarily uses a measure of earnings before interest, tax, depreciation and amortisation and Special Items (EBITDA) to assess the performance of the operating segments. No information is provided to the Group's Executive Committee at the segment level concerning interest income, interest expense, income tax or other material non-cash items.

No single customer accounts for more than 10% of the Group's revenue.

A segmental analysis of Underlying performance and Special Items is shown below.

	2019				Total £m
	Performance Elastomers £m	Functional Solutions £m	Industrial Specialities £m	Corporate £m	
Revenue					
Total revenue	623.7	612.8	228.8	–	1,465.3
Inter-segmental revenue	–	–	(6.2)	–	(6.2)
	623.7	612.8	222.6	–	1,459.1
EBITDA					
Depreciation and amortisation	96.3	69.9	24.8	(13.1)	177.9
	(24.8)	(17.6)	(8.8)	(0.9)	(52.1)
Operating profit before Special Items	71.5	52.3	16.0	(14.0)	125.8
Special Items	(0.3)	(4.3)	(4.7)	(5.9)	(15.2)
Operating profit	71.2	48.0	11.3	(19.9)	110.6
Finance costs					(10.1)
Profit before taxation					100.5

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5 Segmental analysis continued

	2018				
	Performance Elastomers £m	Functional Solutions £m	Industrial Specialties £m	Corporate £m	Total £m
Revenue					
Total revenue	704.5	680.1	240.2	–	1,624.8
Inter-segmental revenue	–	–	(5.9)	–	(5.9)
	704.5	680.1	234.3	–	1,618.9
EBITDA	107.9	64.1	23.5	(14.5)	181.0
Depreciation and amortisation	(20.7)	(11.1)	(6.8)	(0.3)	(38.9)
Operating profit before Special Items	87.2	53.0	16.7	(14.8)	142.1
Special Items	(2.5)	(2.6)	(4.6)	(3.7)	(13.4)
Operating profit	84.7	50.4	12.1	(18.5)	128.7
Finance costs					(8.4)
Profit before taxation					120.3

Geographical information

The Group's revenue from external customers and its non-current assets (excluding deferred tax) by geographical location are detailed below:

	Revenue by destination		Non-current assets	
	2019 £m	2018 £m	2019 £m	2018 £m
UK	80.0	87.0	134.6	117.1
Germany	201.3	234.5	198.5	195.1
Italy	78.3	87.5	52.1	54.9
Netherlands	76.3	94.9	15.9	5.2
France	64.5	82.4	17.3	14.0
Belgium	52.8	62.0	71.7	72.9
Other Europe	309.0	347.5	62.4	67.9
Malaysia	250.6	260.1	166.1	161.7
China	82.4	69.9	0.6	0.1
Other Asia	125.9	125.3	9.7	9.9
USA	90.2	80.4	79.1	81.9
Rest of World	47.8	87.4	7.6	8.6
	1,459.1	1,618.9	815.6	789.3

6 Operating profit

	Note	2019 £m	2018 £m
Revenue		1,459.1	1,618.9
Cost of sales		(1,185.3)	(1,325.1)
Gross profit		273.8	293.8
Sales and marketing costs		(43.8)	(42.9)
Administrative expenses		(53.0)	(70.3)
Share of joint ventures	18	0.9	0.4
EBITDA		177.9	181.0
Depreciation and amortisation – Underlying performance		(52.1)	(38.9)
Operating profit – Underlying performance		125.8	142.1
Special Items		(15.2)	(13.4)
Operating profit – IFRS		110.6	128.7

	Note	2019 £m	2018 £m
Operating profit is stated after charging the following:			
Amortisation of acquired intangibles	15	8.7	16.4
Amortisation of other intangibles	16	1.4	1.1
Depreciation of property, plant and equipment	17	43.4	37.8
Depreciation of right of use assets	17	7.3	–
Research and development expenditure		16.6	17.1
Net loss on foreign exchange		1.2	0.8

7 Auditors' remuneration

	2019 £'000	2018 £'000
Fees payable to the Company's auditors for:		
audit of the Company's annual financial statements and the consolidated annual financial statements	215	142
Fees payable to the Company's auditors and their associates for other services to the Group:		
audit of the Company's subsidiaries' annual financial statements	661	750
Total audit fees	876	892
Audit related assurance services	23	22
Other assurance services	1,010	95
Other taxation advisory services	–	3
Total non-audit fees	1,033	120

Details of the Company's policy on the use of auditors 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 80. No services were provided pursuant to contingent fee arrangements.

8 Staff costs

	2019	2018
The average monthly number of employees during the year by segment was:		
Performance Elastomers	877	788
Functional Solutions	1,203	1,313
Industrial Specialities	658	642
Corporate	201	175
	2,939	2,918

	2019 £m	2018 £m
The aggregate remuneration of all Group employees comprised:		
Wages and salaries	115.5	123.1
Social security costs	20.5	21.5
Pension costs	8.7	11.3
Share-based payments	0.6	1.5
	145.3	157.4

Directors' emoluments are disclosed in the Directors' Remuneration report on pages 95 to 102.

9 Finance costs

	2019 £m	2018 £m
Interest payable on bank loans and overdrafts	6.7	4.9
Less: interest receivable	(0.9)	(1.1)
	5.8	3.8
Net interest expense on defined benefit obligation	2.7	3.2
Interest element of lease payments	1.1	–
Net interest payable	9.6	7.0
Fair value loss on unhedged derivatives	0.5	1.4
Total finance costs	10.1	8.4

The fair value of the unhedged derivatives relates to the mark-to-market of the swap arrangements at 31 December 2019 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.

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10 Taxation

	2019 £m	2018 £m
Current tax		
UK corporation tax	–	0.1
Overseas tax	15.5	23.8
	15.5	23.9
Deferred tax		
Origination and reversal of temporary differences	0.8	(0.9)
	16.3	23.0
Special Items		
Current tax:		
Historical issues	–	(2.5)
Purchase and sale of business	(0.3)	(0.1)
Restructuring and site closure costs	(0.3)	–
Deferred tax:		
Restructuring and site closure costs	–	(0.2)
Amortisation of acquired intangibles	(0.8)	(3.2)
	(1.4)	(6.0)
Total tax on profit before taxation	14.9	17.0

UK corporation tax is calculated at 19.0% (2018: 19.0%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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.

	2019 £m	2018 £m
Profit before taxation	100.5	120.3
Tax on profit before taxation at standard UK corporation tax rate of 19.0% (2018: 19.0%)	19.1	22.9
Effects of:		
Expenses not deductible for tax purposes	9.9	4.8
Tax incentives and items not subject to tax	(15.5)	(11.8)
Higher tax rates on overseas earnings	4.5	6.8
Other deferred tax asset not recognised less amounts now recognised	(0.7)	(3.2)
Adjustments to tax charge in respect of prior periods	(2.1)	(2.4)
Effect of change of rate on deferred tax	(0.3)	(0.1)
Tax charge for year	14.9	17.0

Tax relating to components of other comprehensive income

	2019 £m	2018 £m
Current tax credit in respect of actuarial gains	2.6	–
Deferred tax credit/(charge) in respect of actuarial gains	2.1	(2.3)
Total tax credit/(charge) in respect of actuarial gains	4.7	(2.3)

Current tax liabilities

	2019 £m	2018 £m
Current tax liabilities	(38.7)	(38.3)

The tax incentives and items not subject to tax comprise profits from the Nitrile Latex business in Malaysia which benefits from Pioneer Status until 28 February 2020.

In April 2019, the European Commission released its final decision which concluded that, up until 31 December 2018, the Group Financing Exemption ('GFE') in the UK Controlled Foreign Company legislation partially represented State Aid. On 12 June 2019 the UK Government appealed this decision and on 4 July 2019 Synthomer plc filed an annulment application with the EU General Court, in-line with the approach of a number of other UK multinationals impacted by the Commission's decision. There remains considerable uncertainty as to how any final liability under this ruling will be determined, in particular given the need to consider the relevance of any UK Significant People Functions (SPFs). The maximum potential exposure, accessing certain tax attributes in line with latest HMRC guidance, is currently calculated at £4.6 million. This exposure significantly reduces on the basis only certain profits are attributable to UK SPFs. Based on our current interpretation of the relevant legislation, the Commission's decision, HMRC's latest guidance and management's judgement, the Group has partially provided in the current year against the GFE amounts previously claimed. Developments will continue to be monitored and assessed.

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

2019

	Accelerated tax depreciation £m	Acquired intangibles £m	Other £m	Total £m
At 1 January	(18.7)	(13.4)	(2.2)	(34.3)
Credited to income statement	0.1	0.8	1.1	2.0
Exchange adjustment	0.7	0.8	–	1.5
At 31 December	(17.9)	(11.8)	(1.1)	(30.8)

Deferred tax assets

2019

	Pension £m	Other £m	Total £m
At 1 January	17.7	5.7	23.4
Charged to income statement	(0.5)	(1.5)	(2.0)
Credited to statement of other comprehensive income	2.1	–	2.1
Exchange adjustment	(0.6)	(0.1)	(0.7)
At 31 December	18.7	4.1	22.8

Deferred tax assets not recognised

The amounts of deferred tax not recognised at the balance sheet dates are as follows:

	2019 £m	2018 £m
UK pension liability	3.5	5.2
Tax losses	14.9	13.9
Accelerated capital allowances	2.7	1.8
Other timing differences	0.2	0.2
	21.3	21.1

Of the unrecognised tax losses set out above, £0.6 million expire at the end of 2020, £0.6 million expire at the end of 2021, £0.5 million expire at the end of 2022, £0.4 million expire at the end of 2023, £0.3 million expire at the end of 2024 and £1.5 million expire at the end of 2025. Other losses of £11.0 million can be carried forward indefinitely.

12 Dividends

	2019 Pence per share	2019 £m	2018 Pence per share (restated)	2018 £m
Interim dividend	4.0p	17.0	3.7p	13.6
Proposed final dividend	6.9p	29.3	8.5p	30.9
	10.9p	46.3	12.2p	44.5

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements.

The 2018 dividend per share figures have been restated to reflect the bonus factor of 1.0713 arising from the rights issue which completed on 29 July 2019.

Dividends paid

	2019 £m	2018 £m
Interim dividend	17.0	13.6
Prior year final dividend	30.9	28.9
	47.9	42.5

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13 Earnings per share

	2019			2018 (restated)			
	Underlying performance	Special Items	IFRS	Underlying performance	Special Items	IFRS	
Earnings							
Profit/(loss) attributable to equity holders of the parent	£m	99.5	(14.9)	84.6	111.6	(11.8)	99.8
Number of shares							
Weighted average number of ordinary shares — basic	'000			393,349			363,977
Effect of dilutive potential ordinary shares	'000			2,109			1,937
Weighted average number of ordinary shares — diluted	'000			395,458			365,914
Earnings per share							
Basic earnings per share	pence	25.3	(3.8)	21.5	30.7	(3.3)	27.4
Diluted earnings per share	pence	25.2	(3.8)	21.4	30.5	(3.2)	27.3

The weighted average number of ordinary shares for the year to 31 December 2018, used in the calculation of earnings per share, have been adjusted by multiplying by an adjustment factor of 1.0713 to reflect the bonus element in the shares issued under the terms of the rights issue which completed on 29 July 2019.

14 Goodwill

	2019 £m	2018 £m
Cost		
At 1 January	350.6	343.2
Exchange adjustments	(12.1)	6.2
Purchase of business	–	1.2
At 31 December	338.5	350.6
Accumulated impairment losses		
At 1 January and 31 December	14.1	14.1
Net book value		
At 31 December	324.4	336.5

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.

From 1 January 2019, the Group reorganised its CGUs into three global divisions to better service customers and markets. The Group's goodwill was re-assessed and allocated into these new CGUs on an appropriate basis.

Fully impaired goodwill relating to disposed businesses was derecognised. Accumulated impairment losses at 31 December 2019 arose prior to the Group's adoption of IFRS and are denominated in pounds sterling.

The allocation of the carrying value of goodwill is represented below:

	Net book value at 1 January 2018 £m	Exchange adjustments £m	Purchase of business £m	Net book value at 31 December 2018 £m	Reallocation into new divisions on 1 January 2019 £m	Exchange adjustments £m	Net book value at 31 December 2019 £m
Performance Elastomers	–	–	–	–	124.8	(5.8)	119.0
Functional Solutions	–	–	–	–	184.7	(4.7)	180.0
Industrial Specialities	–	–	–	–	27.0	(1.6)	25.4
Europe & North America	295.7	4.6	1.2	301.5	(301.5)	–	–
Asia & Rest of the World	33.4	1.6	–	35.0	(35.0)	–	–
Total	329.1	6.2	1.2	336.5	–	(12.1)	324.4

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts for CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are the discount rate, profitability and growth rate. These assumptions have been revised in the year in light of the current economic environment.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. 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. A pre-tax discount rate of 8.4% has been used in the above calculations for each division. In 2018, pre-tax discount rates of 11% and 12% were used for Europe & North America and Asia & Rest of World respectively.

The Group prepares cash flow forecasts derived from the most recent five-year business plans approved by management and extrapolates cash flows for the following five years based on estimated growth rates of 3.5%, 2.6% and 2.6% for Performance Elastomers, Functional Solutions and Industrial Specialities respectively. In 2018, growth rates of 2% and 5% were used for Europe & North America and Asia & Rest of World respectively. These rates do not exceed average long-term growth rates for relevant markets. The cash flow for year ten is then assumed to apply without further growth into perpetuity.

The Group has conducted a sensitivity analysis on the impairment tests. For each CGU, the Directors believe that there is no reasonably possible change in the key assumptions on which the recoverable amount is based that would cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

15 Acquired intangible assets

	Customer relationships £m	Other acquired intangibles £m	Total £m
Cost			
At 1 January 2019	111.6	12.8	124.4
Exchange adjustments	(14.0)	(0.6)	(14.6)
Derecognition of fully amortised assets	(26.3)	(3.1)	(29.4)
At 31 December 2019	71.3	9.1	80.4
Accumulated amortisation and impairment			
At 1 January 2019	50.6	4.7	55.3
Exchange adjustments	(10.9)	(0.1)	(11.0)
Amortisation charge for the year	7.4	1.3	8.7
Derecognition of fully amortised assets	(26.3)	(3.1)	(29.4)
At 31 December 2019	20.8	2.8	23.6
Net book value			
At 31 December 2019	50.5	6.3	56.8
Cost			
At 1 January 2018	250.2	5.7	255.9
Exchange adjustments	5.0	0.2	5.2
Purchase of business	10.7	6.9	17.6
Derecognition of fully amortised assets	(154.3)	–	(154.3)
At 31 December 2018	111.6	12.8	124.4
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
Derecognition of fully amortised assets	(154.3)	–	(154.3)
At 31 December 2018	50.6	4.7	55.3
Net book value			
At 31 December 2018	61.0	8.1	69.1

The prior year comparatives have been restated to reflect the derecognition of fully amortised assets upon reaching the end of their useful economic lives.

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16 Other intangible assets

	Other intangible assets £m	Assets under construction £m	Total £m
Cost			
At 1 January 2019	4.6	3.2	7.8
Exchange adjustments	(0.2)	–	(0.2)
Additions	3.8	14.7	18.5
At 31 December 2019	8.2	17.9	26.1
Accumulated amortisation and impairment			
At 1 January 2019	2.7	–	2.7
Exchange adjustments	–	–	–
Amortisation charge for the year	1.4	–	1.4
At 31 December 2019	4.1	–	4.1
Net book value			
At 31 December 2019	4.1	17.9	22.0

	Other intangible assets £m	Assets under construction £m	Total £m
Cost			
At 1 January 2018	3.6	–	3.6
Additions	1.1	3.2	4.3
Disposals	(0.1)	–	(0.1)
At 31 December 2018	4.6	3.2	7.8
Accumulated amortisation and impairment			
At 1 January 2018	1.7	–	1.7
Amortisation charge for the year	1.1	–	1.1
Disposals	(0.1)	–	(0.1)
At 31 December 2018	2.7	–	2.7
Net book value			
At 31 December 2018	1.9	3.2	5.1

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.

During the year the Group invested £14.7 million in its Pathway programme. This programme is designed to deliver a unified operating model on a single set of integrated systems to improve the efficiency and effectiveness of the Group. This programme is expected to complete in 2022 based on the current Group and the investment is shown as an asset under construction until the deployment phase begins.

17 Property, plant and equipment

	Owned assets				Right of use assets		Total £m
	Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Assets under construction £m	Land and buildings £m	Plant and equipment £m	
Cost							
At 1 January 2019	108.9	8.6	590.2	29.3	-	-	737.0
Recognised on adoption of IFRS 16	-	-	-	-	18.2	24.6	42.8
Exchange adjustments	(4.1)	0.1	(19.7)	(1.1)	(0.9)	(1.2)	(26.9)
Additions	1.3	-	33.0	18.8	4.2	1.0	58.3
Disposals	-	-	(0.4)	-	-	-	(0.4)
Transfer from assets under construction	-	-	33.6	(33.6)	-	-	-
At 31 December 2019	106.1	8.7	636.7	13.4	21.5	24.4	810.8
Accumulated depreciation and impairment							
At 1 January 2019	37.0	4.6	325.4	-	-	-	367.0
Exchange adjustments	(1.5)	-	(9.8)	-	(0.1)	(0.2)	(11.6)
Depreciation charge for the year	5.0	0.3	38.1	-	2.5	4.8	50.7
Assets written down	-	-	(0.1)	-	-	-	(0.1)
Disposals	-	-	(0.1)	-	-	-	(0.1)
At 31 December 2019	40.5	4.9	353.5	-	2.4	4.6	405.9
Net book value							
At 31 December 2019	65.6	3.8	283.2	13.4	19.1	19.8	404.9
			Freehold land and buildings £m	Leasehold land and buildings £m	Plant and equipment £m	Assets under construction £m	Total £m
Cost							
At 1 January 2018			104.9	8.1	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	8.6	590.2	29.3	737.0
Accumulated depreciation and impairment							
At 1 January 2018			31.3	3.7	289.0	-	324.0
Exchange adjustments			0.6	-	5.7	-	6.3
Depreciation charge for the year			5.3	0.5	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	4.6	325.4	-	367.0
Net book value							
At 31 December 2018			71.9	4.0	264.8	29.3	370.0

Freehold land is not depreciated and is held at historical cost. At 31 December 2019, the Group's freehold land was recognised at £17.6 million (31 December 2018: £17.6 million).

At 31 December 2019 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £11.7 million (2018: £21.2 million).

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18 Investment in joint ventures

Details of the Group's joint ventures are as follows:

Name of entity	Place of incorporation	% of ownership		Principal activity	Segment
		2019	2018		
Synthomer Middle East	Saudi Arabia	49%	49%	Manufacture and sale of acrylic and vinyl resin emulsions	Functional Solutions
Synthomer Functional Solutions FZCO	UAE	49%	49%	Trading in adhesives and oilfield chemicals	Functional Solutions
Synthomer FZCO	UAE	49%	49%	Sales and marketing support for Synthomer Group companies	Functional Solutions
Super Sky Ltd	UK	50%	50%	Non-trading	Unallocated

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 prepared in accordance with IFRS.

Summarised balance sheet (100%)

	2019 £m	2018 £m
Non-current assets	6.6	5.2
Cash and cash equivalents	3.8	4.7
Other current assets	17.1	18.6
Total current assets	20.9	23.3
Other current liabilities	(12.3)	(10.9)
Total current liabilities	(12.3)	(10.9)
Net assets	15.2	17.6
Group share:	2019 £m	2018 £m
Total assets	13.5	14.0
Total liabilities	(6.0)	(5.4)
Net assets	7.5	8.6

Summarised statement of comprehensive income (100%)

	2019 £m	2018 £m
Revenue	48.2	42.3
Operating profit	2.0	0.9
Interest	-	-
Taxation	(0.1)	-
Profit for the year	1.9	0.9
Exchange differences on translation	(0.9)	1.1
Total comprehensive income	1.0	2.0
Dividends paid	(3.3)	(2.3)
Movement in retained earnings	(2.3)	(0.3)
Group share:		
Profit for the year	0.9	0.4
Exchange differences on translation	(0.4)	0.4
Dividends paid	(1.6)	(1.1)

The following table reconciles the summary information above to the carrying amount of the Group's interest in the joint ventures:

Investment in joint ventures

	2019 £m	2018 £m
At 1 January	8.6	7.5
Profit from continuing operations	0.9	0.4
Exchange differences on translation	(0.4)	0.4
Partial disposal of UAE business	–	1.4
Dividend paid	(1.6)	(1.1)
At 31 December	7.5	8.6

19 Inventories

	2019 £m	2018 £m
Raw materials and consumables	55.5	68.1
Finished goods	66.4	73.8
	121.9	141.9
Stock written off during the year	1.5	0.7
Cost of inventory recognised as an expense and included in cost of sales	985.5	1,126.6

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.

20 Trade and other receivables

	2019 £m	2018 £m
Trade receivables	162.7	196.2
Other receivables	22.3	30.6
Prepayments	5.6	6.1
	190.6	232.9

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

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. Other receivables mostly relate to indirect taxes.

The Group applies a simplified approach to measure the loss allowance for trade receivables classified at amortised cost, using the lifetime expected loss provision. The expected credit loss on trade receivables is estimated using a provision matrix by reference to past default experience and credit rating, adjusted as appropriate for current observable data. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. The following table details the risk profile of trade receivables based on the Group's provision matrix.

	Trade receivables – days past due				Total £m
	Not yet due £m	< 60 £m	61 – 120 £m	> 120 £m	
2019					
Gross carrying amount	145.9	16.9	0.1	0.7	163.6
Expected credit loss rate					0.06%
Lifetime expected credit loss					(0.9)
Total					162.7
	Trade receivables – days past due				Total £m
	Not yet due £m	< 60 £m	61 – 120 £m	> 120 £m	
2018					
Gross carrying amount	171.8	23.8	0.3	1.1	197.0
Expected credit loss rate					0.05%
Lifetime expected credit loss					(0.8)
Total					196.2

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20 Trade and other receivables continued

The following table shows the movement in the lifetime expected credit loss that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS 9:

	2019 £m	2018 £m
At 1 January	0.8	1.6
Exchange adjustments	(0.1)	–
Sale of business	–	(0.1)
Transfer to/(from) credit impaired	0.7	(0.1)
Uncollectable amounts written off or recovered	(0.5)	(0.6)
At 31 December	0.9	0.8

21 Cash and borrowings

	1 January 2019 £m	Cash inflows/ (outflows) £m	Exchange and other movements £m	31 December 2019 £m
Bank overdrafts	(20.7)	20.6	0.1	–
Current borrowings	(49.4)	49.7	(0.3)	–
Current liabilities	(70.1)	70.3	(0.2)	–
Non-current borrowings	(240.8)	151.6	6.3	(82.9)
Non-current liabilities	(240.8)	151.6	6.3	(82.9)
Total borrowings	(310.9)	221.9	6.1	(82.9)
Cash and cash equivalents	96.9	4.1	2.6	103.6
Net debt	(214.0)	226.0	8.7	20.7
Lease liabilities	–	(6.8)	(35.1)	(41.9)
Total cash and borrowings	(214.0)	219.2	(26.4)	(21.2)

Lease liabilities were recognised on adoption of IFRS 16 Leases.

Capitalised debt costs shown in the tables above, which have been recognised as a reduction in borrowings in the financial statements, amounted to £1.7 million at 31 December 2019 (31 December 2018: £1.8 million).

Analysis of cash and borrowings by currency:

	Cash and cash equivalents £m	Total borrowings £m	Cash and cash equivalents £m	Total borrowings £m
Sterling	3.1	–	0.3	2.1
Euro	13.4	84.6	39.0	309.4
US dollar	28.0	–	7.4	1.2
Malaysian ringgit	49.0	–	34.1	–
Other	10.1	–	16.1	–
Total	103.6	84.6	96.9	312.7

The principal features of the Group's borrowings are as follows:

The Group refinanced in July 2018 entering into a committed unsecured four-year multicurrency revolving credit facility ('RCF') of €440 million expiring July 2022 with an option to request an extension to July 2023.

As part of the Omnova acquisition financing, the Group put in place new facilities conditional on completion of the acquisition. These consist of a \$260 million term loan and €460 million RCF with five-year terms ending on 3 July 2024, and a €520 million acquisition financing bridging facility. The bridging facility is available for 15 months from July 2019 and may be extended for two periods of six months.

22 Financial instruments

The table below sets out the Group's accounting classification of each class of financial assets and liabilities:

	Financial instruments				
	Carrying amount £m	Carrying amount within scope of IFRS 7 £m	Valuation category in accordance with IFRS 9 ¹	Fair value £m	Fair value hierarchy level
Trade receivables	162.7	162.7	AC	162.7	Level 2
Other receivables	22.3	8.7	AC	8.7	Level 2
Cash and cash equivalents	103.6	103.6	AC	103.6	Level 2
Derivatives – no hedge accounting	4.9	4.9	FVTPL	4.9	Level 2
Total assets	293.5	279.9		279.9	
Borrowings	(82.9)	(82.9)	AC	(84.6)	Level 2
Trade and other payables	(233.4)	(225.8)	AC	(225.8)	Level 2
Derivatives – no hedge accounting	(11.0)	(11.0)	FVTPL	(11.0)	Level 2
Derivatives – hedge accounting	(3.3)	(3.3)	FVTOCI	(3.3)	Level 2
Total liabilities	(330.6)	(323.0)		(324.7)	

Note:

1. AC: amortised cost; FVTOCI: fair value through other comprehensive income; FVTPL: fair value through profit or loss; a more detailed description of the categories can be found in note 2.

The fair value of the Group's borrowings at 31 December 2019 was £84.6 million. This does not include capitalised debt costs.

Financial risk management

The Group's policies, approved by the Board, provide written principles on financial risk management and the use of financial derivatives. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Group has a policy of hedging significant foreign exchange transactional exposure at operating company level. The Group regularly reviews its net assets and borrowing currency exposures, borrowing in overseas currencies in order to hedge the net assets held in those currencies as appropriate. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Currency risk

The Group presents its consolidated financial statements in sterling and conducts business in many currencies. As a result, it is subject to foreign currency risk due to exchange rate movements, which will affect the Group's transactions and the translation of the results and underlying net assets of its operations.

To manage the currency risk the Group uses foreign 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 (2018: none).

Interest rate risk

The Group has an exposure to interest rate risk, arising principally on changes in US dollar and euro interest rates. To manage interest rate risk, the Group manages its proportion of fixed to floating rate borrowings, and utilises interest rate swaps. These practices aim to minimise the Group's net finance charges with acceptable year-on-year volatility.

At 31 December 2019 the Group had in place swap arrangements to fix interest rates on the full value of the €440 million committed, unsecured RCF.

The Group's interest rate derivatives are designated as fair value hedges with fair value movement on the hedged portion recognised in equity. Interest paid on these derivatives is recognised in the income statement, within interest paid. Fair value movement in the unhedged portion is also recognised in profit and loss, as a Special Item.

After taking account of interest rate swaps, the Group's currency and interest rate exposure as at 31 December 2019 was:

	2019			2018		
	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m
Sterling	–	–	–	2.1	–	2.1
Euro	–	84.6	84.6	17.4	292.0	309.4
US dollar	–	–	–	1.2	–	1.2
Total	–	84.6	84.6	20.7	292.0	312.7

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31 December 2019

22 Financial instruments continued**Market risk sensitivity analysis**

The Group's main exposure to market risk is in the form of interest rate risk and foreign currency risk. The Group uses a sensitivity analysis that estimates the impacts on the consolidated income statement and other comprehensive income of either an instantaneous increase or decrease of 1.0% in market interest rates or a 10% strengthening or weakening in sterling against all other currencies, from the rates applicable at 31 December 2019 and 31 December 2018 with all other variables remaining constant. The sensitivity analysis excludes the impact of market risks on the net post employment benefit liabilities and assets, and corporate tax payable. This analysis is for illustrative purposes only, as interest and foreign exchange rates rarely change in isolation.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

	2019			2018		
	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%	0.1	3.0	0.8	-	1.0	2.9
US interest rate +/- 1.0%	0.3	-	-	0.1	0.1	-
Foreign currency sensitivity analysis						
Sterling +/- 10%	(1.7)	(1.7)	-	(0.8)	(0.8)	(1.5)
Malaysian Ringgit exchange rate +/- 10%	-	-	-	-	-	-
Euro exchange rate +/- 10%	1.4	1.4	-	0.6	0.6	1.5
US dollar exchange rate +/- 10%	0.4	0.4	-	0.2	0.2	-

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 that 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.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises on cash balances, derivative financial instruments and credit exposures to customers.

The carrying amount of financial assets represents the Group's exposure to credit risk at the balance sheet date as disclosed at the start of this note. A financial asset is in default when the counterparty fails to pay its contractual obligations. Financial assets are written-off when there is no reasonable expectation of recovery. Credit risk is managed separately for financial and business-related credit exposures.

Financial credit risk

Synthomer aims to minimise its financial credit risk through the application of risk management policies approved and monitored by the Board. Counterparties are predominantly limited to major banks and financial institutions with a credit rating of investment grade and the policy restricts the exposure to any one counterparty by setting credit limits. The Group's policy is designed to ensure that individual counterparty limits are adhered to and that there are no significant concentrations of credit risk. The Board also defines the types of financial instruments which may be transacted. Synthomer annually reviews the credit limits applied and regularly monitors the counterparties' credit quality, reflecting market credit conditions.

Business related credit risk

Trade and other receivables exposures are managed locally in the operating units where they arise and active risk management is applied, focusing on country risk, credit limits, ongoing credit evaluation and monitoring procedures. There is no significant concentration of credit risk with respect to receivables as the Group has a large number of customers which are internationally dispersed. See note 20 for information on credit risk with respect to trade and other receivables.

Liquidity risk

Liquidity risk is the risk that Synthomer is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds at an acceptable price to fund actual or proposed commitments. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of assets and liabilities.

The following tables provide an analysis of the anticipated undiscounted contractual cash flows including interest payable for the Group's financial liabilities and derivative instruments. The liquidity analysis for lease liabilities is included in note 23. Where interest payments are calculated at a floating rate, rates of each cash flow until maturity of the instruments are calculated based on the forward yield curve prevailing at the respective year ends. Derivative contracts are presented on a net basis.

	2019				2018			
	Amount due				Amount due			
	within 1 year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	within 1 year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m
Overdrafts	–	–	–	–	(20.7)	–	–	–
Financial liabilities in trade and other payables	(225.3)	(0.2)	(0.3)	–	(253.4)	(0.4)	(0.3)	–
Bank loans – principal	–	–	(84.6)	–	(49.4)	–	(242.6)	–
Interest payments on borrowings	(0.9)	(0.9)	(0.5)	–	(2.3)	(1.9)	(2.9)	–
Total non-derivative financial liabilities	(226.2)	(1.1)	(85.4)	–	(325.8)	(2.3)	(245.8)	–

	2019				2018			
	Amount due				Amount due			
	within 1 year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	within 1 year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m
Deal contingent currency fix	4.0	–	–	–	–	–	–	–
Currency forwards	0.9	–	–	–	–	–	–	–
Total derivative financial assets	4.9	–	–	–	–	–	–	–
Interest rate swaps	(3.6)	(3.6)	(10.9)	(2.7)	(3.3)	(3.3)	(10.0)	(5.8)
Total derivative financial liabilities	(3.6)	(3.6)	(10.9)	(2.7)	(3.3)	(3.3)	(10.0)	(5.8)

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

Any non-compliance with covenants underlying Synthomer's financing arrangements could, if not waived, constitute an event of default with respect to any such arrangements, and any non-compliance with covenants may, in particular circumstances, lead to an acceleration of maturity on certain borrowings and the inability to access committed facilities. Synthomer was in full compliance with its financial covenants in respect of its borrowings throughout each of the years presented.

At the year end, Synthomer had available undrawn committed bank facilities as follows:

	2019			2018		
	Expiring between 2 and 5 years £m	Expiring after 5 years £m	Total £m	Expiring between 2 and 5 years £m	Expiring after 5 years £m	Total £m
Unsecured €440m multi-currency RCF expiring 23 July 2022	287.4	–	287.4	152.8	–	152.8
Unsecured €55m loan expiring 26 July 2019	–	–	–	–	–	–
	287.4	–	287.4	152.8	–	152.8

Fair value measurement

Certain of the Group's financial instruments are held at fair value. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

As prescribed by IFRS 13 Fair Value Measurement, fair values are measured using a hierarchy where the inputs are as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – not level 1 but are observable for that asset or liability either directly or indirectly.
- Level 3 – not based on observable market data.

Interest rate swaps and foreign currency forwards and swaps are valued using discounted cash flow techniques. These techniques incorporate inputs such as foreign exchange rates and interest rates, which are used in a discounted cash flow calculation incorporating the instrument's term, notional amount and discount rate, and taking credit risk into account. As significant inputs to the valuation are observable in active markets, all of the Group's financial instruments are classified as level 2 financial instruments.

The fair value of forward foreign exchange contracts, interest rate swaps and currency swaps is estimated by discounting the future contractual cash flows using forward exchange rates, interest rates and prices at the balance sheet date.

There were no transfers of any financial instrument between the levels of the fair value hierarchy during the current or prior years.

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22 Financial instruments continued**Hedge relationships**

The Group targets a one-to-one hedge ratio. Strengths of the economic relationship between the hedged item and the hedging instrument is analysed on an ongoing basis. Ineffectiveness can arise from subsequent change in the forecast transactions as a result of timing, cash flows or value except when the critical terms of the hedging instrument and hedged item are closely aligned. The change in the credit risk of the hedging instruments or the hedged items is not expected to be the primary factor in the economic relationship.

The notional amounts, contractual maturities and rates of the hedging instruments designated in hedging relationships as of 31 December 2019 by the main risk categories are as follows:

	Hedged risk	Notional amount	Maturity	Range of hedged rates
2019				
Cash flow hedges				
Interest rate swap	Interest rate	Up to €440m	28/08/2018 – 28/08/2025	0.517% to 0.535% fixed
2018				
Cash flow hedges				
Interest rate swap	Interest rate	Up to €440m	28/08/2018 – 28/08/2025	0.517% to 0.535% fixed
Fair value hedges				
Foreign currency debt	Currency	Up to €350m	01/01/2018 – 31/12/2018	£1 : €1.128 – €1.140

Where hedge accounting is applied, hedges are documented and tested for effectiveness on an ongoing basis.

The ratio for hedging instruments designated in both net investment and cash flow hedge relationships was 1:1. Ineffectiveness could occur on either hedging relationship due to significant changes in counterparty credit risk or a reduction in the notional amount of the hedged item during the designated hedging period.

Cash flow hedges

The Group designated as a cash flow hedge the interest rate swaps used to manage interest rate risk on its Euro borrowings.

In 2019 a loss of £8.7 million (2018: £3.9 million loss) was recognised in the cash flow hedge reserve in respect of these derivatives.

At 31 December 2019 the cash flow hedge reserve includes a loss of £12.6 million (2018: £3.9 million), all of which relates to continuing cash flow hedges. The cash flows are expected to occur between 2020 and 2025.

In the year, the Group's borrowings fell below the total of the interest rate derivative contracts, leading to a reduction in the balance designated as a cash flow hedge. The change in fair value relating to the unhedged portion of the interest rate swaps was £0.5 million (2018: £1.4 million) which was recognised in the income statement within finance costs as a Special Item.

Capital management

The Board is committed to enhancing shareholder value in the long term, both by investing in the business so as to deliver continued improvement in the return from those investments and by managing the capital structure.

Synthomer manages its capital structure to achieve capital efficiency and to provide flexibility to invest through the economic cycle and give efficient access to debt markets at attractive cost levels. This is achieved by targeting a net debt to EBITDA ratio between 1.0 and 2.0. In order to finance acquisitions, the Group may increase the ratio to 3.0, with deleveraging within 12-24 months.

As at 31 December 2019 the net debt to EBITDA ratio was -0.1 times.

The Board maintains a dividend policy to 2.5 times earnings cover. Should excess capital not be deployed for acquisitions or capital expenditure, the Board will periodically consider one-off capital returns to shareholders in order to maintain an efficient balance sheet.

23 Lease liabilities

Information presented in this note is in respect of the year ended 31 December 2019 and is presented in accordance with IFRS 16. Information in respect of the year ended 31 December 2018 is presented in accordance with IAS 17.

The Group has a portfolio of leases mainly comprising land and buildings, chemical storage tanks and vehicles. Further details are given in note 2.

Information in respect of right of use assets, including the carrying amount, additions and depreciation, are set out in note 17 to these financial statements. Information in respect of the carrying value and interest arising on lease liabilities is set out in note 23 and note 9 respectively. A maturity analysis of lease liabilities is set out below.

Synthomer also enters into short-term leases and low value leases which are not recognised as right of use assets and lease liabilities. The expense recognised in the period in relation to these leases is not material. Synthomer has no material exposure to variable lease payments, extension options or committed leases not yet commenced.

The weighted average incremental borrowing rate applied to the lease liabilities in the statement of financial position at the initial adoption on 1 January 2019 was 2.49%.

The total cash outflow for leases in the year was as follows:

	2019 £m
Payments for the principal portion of lease liabilities	6.8
Payments for the interest portion of lease liabilities	1.1
Lease liabilities included in the balance sheet	
	31 December 2019 £m
Current	7.5
Non-current	34.4
	41.9

The following table details the maturity of contractual undiscounted cash flows for lease liabilities:

	2019 £m
Less than one year	7.6
Between one and two years	7.3
Between two and five years	17.7
More than five years	17.5

24 Trade and other payables

	2019 £m	2018 £m
Amount due within one year		
Trade payables	186.8	204.9
Other payables	15.4	27.7
Accruals	30.7	30.6
	232.9	263.2
Amount due after one year		
Trade payables	-	-
Other payables	-	-
Accruals	0.5	0.7
	0.5	0.7

Average trade payable days in 2019 was 58 (2018: 61). 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.

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25 Provisions for other liabilities and charges

	Restructuring £m	Liability arising on a business combination £m	Total £m
At 1 January 2019	14.0	0.2	14.2
Credited to the income statement	(1.1)	(0.2)	(1.3)
Reclassified on adoption of IFRS 16	(2.8)	–	(2.8)
Utilised during the year	(3.2)	–	(3.2)
At 31 December 2019	6.9	–	6.9

Analysis of provisions

	31 December 2019 £m	31 December 2018 £m
Non-current	2.0	4.8
Current	4.9	9.4
	6.9	14.2

Analysis of (credit)/charge to the income statement

	2019 £m	2018 £m
Underlying performance	(0.2)	(2.5)
Special Items	(1.1)	9.3
	(1.3)	6.8

Restructuring

During the year, the Group progressed site restructuring activities in Ribécourt, France and Kluang, Malaysia. Costs in Kluang were lower than anticipated and £1.1 million was released back to Special Items in the year.

On adoption of IFRS 16, the Group elected to apply the practical expedient to rely on its assessment of whether leases are onerous under IAS 37. In accordance with IFRS 16, the right of use asset was adjusted at the date of initial application by the amount recognised on the balance sheet immediately before this date. At 31 December 2018, the Group held a £2.8 million onerous lease provision for the closed site in Ossett which was allocated against the right of use asset on 1 January 2019.

26 Retirement benefit obligations

The Group operates a variety of retirement benefit arrangements, covering both defined contribution and defined benefit schemes.

Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees. Costs recognised in respect of defined contribution pension plans across the Group for the year ended 31 December 2019 were £7.1 million (2018: £6.8 million).

Multi-employer schemes

The Group participates in several tariffs of the Pensionskasse Degussa in Germany, which is a multi-employer 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 a regular contribution of £2.3 million to the scheme in 2020.

To the extent that there is underfunding in the scheme, deficit contributions are payable based on an actuarial assessment of each participating employer's share of the future benefit accrual. At 31 December 2019 there is no indication of any commitment for additional deficit contributions in excess of regular contributions.

Defined benefit schemes**UK**

The Group's UK defined benefit scheme is administered by a fund that is legally separate 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.

The scheme was closed to future accrual in 2009 and all retirement benefits since that time are provided by way of a defined contribution scheme. The assets of the scheme are held separately from those of the companies concerned. A triennial actuarial valuation of the scheme was undertaken in 2018 and completed in 2019.

Germany

The Group operates a number of defined benefit schemes in Germany. These schemes are closed to new members. In line with common practice, these schemes are unfunded and liabilities are settled on a cash basis as they fall due. At each balance sheet date, obligations are calculated by external actuaries.

Other schemes

The Group operates a number of smaller overseas pension and retirement benefit schemes. For the funded schemes, assets are held separately from those of the Group.

The aggregated pension disclosures for the other defined benefit schemes have been compiled from a number of actuarial valuations at 31 December 2019.

Retirement benefit risks

Defined benefit schemes expose the Group 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.

Charge to income statement in respect of the Group's defined benefit pension schemes:

	2019				2018			
	UK £m	Germany £m	Other £m	Total £m	UK £m	Germany £m	Other £m	Total £m
Service cost	0.7	0.4	0.5	1.6	0.8	0.4	0.5	1.7
Net interest expense	1.3	1.3	0.1	2.7	1.8	1.3	0.1	3.2
Special Item — UK GMP equalisation	–	–	–	–	2.8	–	–	2.8
	2.0	1.7	0.6	4.3	5.4	1.7	0.6	7.7

Amounts recognised in the statement of comprehensive income:

	2019				2018			
	UK £m	Germany £m	Other £m	Total £m	UK £m	Germany £m	Other £m	Total £m
Return on plan assets excluding amounts included in interest expense/(income)	33.5	–	1.1	34.6	(13.5)	0.1	(0.2)	(13.6)
(Losses)/gains from changes in assumptions	(50.9)	(9.0)	(1.9)	(61.8)	27.7	1.1	0.3	29.1
Actuarial (losses)/gains	(17.4)	(9.0)	(0.8)	(27.2)	14.2	1.2	0.1	15.5

Amount included in the balance sheet arising from the Group's defined benefit scheme obligations:

	2019				2018			
	UK £m	Germany £m	Other £m	Total £m	UK £m	Germany £m	Other £m	Total £m
Present value of defined benefit obligations	(422.2)	(79.3)	(17.1)	(518.6)	(372.3)	(75.0)	(15.8)	(463.1)
Fair value of scheme assets	366.5	3.1	9.0	378.6	319.1	3.3	8.2	330.6
Net liability arising from defined benefit obligations	(55.7)	(76.2)	(8.1)	(140.0)	(53.2)	(71.7)	(7.6)	(132.5)

Notes to the consolidated financial statements continued

31 December 2019

26 Retirement benefit obligations continued

Fair value of scheme assets:

	2019				2018			
	UK £m	Germany £m	Other £m	Total £m	UK £m	Germany £m	Other £m	Total £m
At 1 January	319.1	3.3	8.2	330.6	332.5	3.2	7.6	343.3
Interest income	8.9	0.2	0.1	9.2	8.2	0.1	0.1	8.4
Amounts recognised in income in respect of defined benefit schemes	8.9	0.2	0.1	9.2	8.2	0.1	0.1	8.4
Remeasurement:								
Return on plan assets excluding amounts included in interest income	33.5	–	1.1	34.6	(13.5)	0.1	(0.2)	(13.6)
Amounts recognised in the statement of comprehensive income	33.5	–	1.1	34.6	(13.5)	0.1	(0.2)	(13.6)
Contributions:								
Employers	16.2	–	0.3	16.5	15.5	–	0.3	15.8
Payments from plans:								
Benefit payments	(16.8)	(0.2)	(0.2)	(17.2)	(23.6)	(0.2)	(0.2)	(24.0)
	(0.6)	(0.2)	0.1	(0.7)	(8.1)	(0.2)	0.1	(8.2)
Disclosure of annuity asset on a gross basis	5.6	–	–	5.6	–	–	–	–
Plan assets from acquired entities	–	–	–	–	–	–	0.6	0.6
Exchange adjustments	–	(0.2)	(0.5)	(0.7)	–	0.1	–	0.1
At 31 December	366.5	3.1	9.0	378.6	319.1	3.3	8.2	330.6

Plan assets are comprised as follows:

	2019		2018	
	UK £m	Germany £m	UK £m	Germany £m
Hedge funds	45.7	–	36.2	–
Equities	71.5	1.5	64.9	1.6
Debt instruments	229.5	1.6	192.2	1.7
Property	12.2	–	8.2	–
Annuity assets	5.6	–	–	–
Cash	2.0	–	17.6	–
Total fair value of assets	366.5	3.1	319.1	3.3

All investments in equities, bonds and property are quoted.

Present value of scheme liabilities

	2019				2018			
	UK £m	Germany £m	Other £m	Total £m	UK £m	Germany £m	Other £m	Total £m
At 1 January	(372.3)	(75.0)	(15.8)	(463.1)	(410.8)	(75.2)	(14.5)	(500.5)
Current service cost	(0.7)	(0.4)	(0.5)	(1.6)	(0.8)	(0.5)	(0.5)	(1.8)
Past service cost	–	–	–	–	(2.8)	0.1	–	(2.7)
Interest expense	(10.2)	(1.5)	(0.2)	(11.9)	(10.0)	(1.4)	(0.2)	(11.6)
Amounts recognised in income in respect of defined benefit schemes	(10.9)	(1.9)	(0.7)	(13.5)	(13.6)	(1.8)	(0.7)	(16.1)
Remeasurement:								
(Losses)/gains from changes in financial assumptions	(48.0)	(10.2)	(1.8)	(60.0)	16.9	1.2	0.4	18.5
Losses from changes in demographic assumptions	(2.9)	–	–	(2.9)	(0.3)	–	–	(0.3)
Gains/(losses) from experience adjustments	–	1.2	(0.1)	1.1	11.1	(0.1)	(0.1)	10.9
Amounts recognised in the statement of comprehensive income	(50.9)	(9.0)	(1.9)	(61.8)	27.7	1.1	0.3	29.1
Contributions:								
Employers	0.7	1.7	0.2	2.6	0.8	1.6	0.4	2.8
Payments from plans:								
Benefit payments	16.8	0.2	0.2	17.2	23.6	0.2	0.2	24.0
	17.5	1.9	0.4	19.8	24.4	1.8	0.6	26.8
Scheme liabilities from acquired entities	–	–	–	–	–	–	(1.2)	(1.2)
Other: Disclosure of annuity asset on a gross basis	(5.6)	–	–	(5.6)	–	–	–	–
Exchange adjustments	–	4.7	0.9	5.6	–	(0.9)	(0.3)	(1.2)
At 31 December	(422.2)	(79.3)	(17.1)	(518.6)	(372.3)	(75.0)	(15.8)	(463.1)

The Group remains committed to funding its deficit recovery plan for the UK scheme. The 2018 triennial valuation, which completed in 2019, indicated a shortfall of £77.0 million when measured against the scheme's technical provisions. This shortfall is expected to be eliminated by 2023 and the Group remains committed to paying contributions for the period 6 April 2015 to 5 April 2023, increasing from £16.4 million in the year commencing 6 April 2019 to £18.2 million for the year commencing 6 April 2022. Contributions from the sponsoring companies are expected to be £16.5 million in 2020.

The Group's other defined benefit schemes are largely unfunded, with minimal plan assets. Liabilities from these schemes are settled on a cash basis as they fall due.

Actuarial assumptions

The major assumptions used for the purposes of the actuarial valuations were as follows:

	2019			2018		
	UK %	Germany %	Overseas %	UK %	Germany %	Overseas %
Rate of increase in pensions in payment	2.80	1.00	2.00-2.25	2.00	1.00	1.90-2.63
Rate of increase in pensions in deferment	2.10	2.50	1.50-2.25	2.20	3.00	1.50-2.63
Discount rate	2.00	1.20	0.30-0.90	2.80	2.00	0.70-1.90
Inflation assumption	2.90	1.75	1.00-2.00	3.20	1.75	1.50-2.00

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26 Retirement benefit obligations continued

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 in the table below.

Mortality assumptions are based on country-specific mortality tables and, where appropriate, include an allowance for future improvements in life expectancy. In addition, where credible data exists, actual plan experience is taken into account. The Group's most substantial pension liabilities are in the UK and Germany where, using the mortality tables adopted, the expected lifetime of average members currently at age 65 and average members at age 65 in 20 years' time is as follows:

	2019				2018			
	Retiring today		Retiring in 20 years		Retiring today		Retiring in 20 years	
	UK	Germany	UK	Germany	UK	Germany	UK	Germany
Male	87.2	85.2	88.8	88.0	87.1	85.0	88.7	87.8
Female	89.5	88.7	91.3	90.9	89.4	88.6	91.2	90.8

The weighted average duration of the benefit obligation at the end of the reporting period is 15.7 years for the UK scheme (2018: 14.0 years) and 18.2 years for the German schemes (2018: 17.6 years).

Sensitivity analysis

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:

	Increase in scheme liabilities	
	UK £m	Germany £m
Discount rate (decrease of 1%)	61	14
Future mortality rate (one year increase in expectancy)	19	1

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.

27 Share capital and reserves**Share capital**

	2019 Number	2018 Number	2019 £m	2018 £m
Ordinary shares of 10 pence				
Shares in issue at 1 January	339,880,769	339,880,769	34.0	34.0
Issued in year	84,970,192	–	8.5	–
Shares in issue at 31 December	424,850,961	339,880,769	42.5	34.0

Ordinary shares carry no right to fixed income.

On 29 July 2019 the Group completed a rights issue on the basis of one share for every four fully paid ordinary shares held, resulting in the issue of 84,970,192 ordinary shares at 240 pence per share.

Share premium

	2019 £m	2018 £m
Balance at 1 January	230.5	230.5
Premium arising on issue of shares	195.4	–
Expenses of issue of shares	(4.8)	–
Balance at 31 December	421.1	230.5

The share premium account represents the difference between the issue price and the nominal value of shares issued.

Retained earnings

	2019 £m	2018 £m
Balance at 1 January	192.1	125.5
Dividends paid	(47.9)	(42.5)
Net profit for the year	84.6	99.8
Actuarial (losses)/gains recognised in other comprehensive income	(27.2)	15.5
Tax arising from other comprehensive income	4.7	(2.3)
Charge to equity for equity-settled share-based payments	(1.9)	(3.9)
Balance at 31 December	204.4	192.1

Hedging and translation reserve

	Cash flow hedging reserve £m	Translation reserve £m	Total £m
Balance at 1 January 2019	(3.9)	10.3	6.4
Exchange differences on translating the net assets of foreign operations	–	(15.3)	(15.3)
Loss on hedging instrument designated as a hedge of the net assets of foreign operations	–	(1.9)	(1.9)
Gain/(loss) recognised on cash flow hedges:			
<i>Interest rate swaps</i>	(8.7)	–	(8.7)
Balance at 31 December 2019	(12.6)	(6.9)	(19.5)
Balance at 1 January 2018	–	(3.0)	(3.0)
Exchange differences on translating the net assets of foreign operations	–	16.9	16.9
Exchange differences recycled on sale of business	–	(0.4)	(0.4)
Loss on hedging instrument designated as a hedge of the net assets of foreign operations	–	(3.2)	(3.2)
Gain/(loss) recognised on cash flow hedges:			
<i>Interest rate swaps</i>	(3.9)	–	(3.9)
Balance at 31 December 2018	(3.9)	10.3	6.4

Hedging reserve

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Translation reserve

Exchange differences relating to the translation of the net assets of the Group's foreign operations, which relate to subsidiaries only, from their functional currency into the parent's functional currency, being sterling, are recognised directly in the translation reserve. Gains and losses on hedging instruments that are designated as hedges of net investments in foreign operations are included in the translation reserve.

28 Reconciliation of operating profit to cash generated from operations

	2019 £m	2018 £m
Operating profit – continuing operations	110.6	128.7
Less: share of profits of joint ventures	(0.9)	(0.4)
	109.7	128.3
Adjustments for:		
Depreciation of property, plant and equipment	43.4	37.8
Depreciation of right of use assets	7.3	–
Amortisation of other intangibles	1.4	1.1
Share-based payments	0.6	1.5
Special Items	15.2	13.4
Cash impact of restructuring and site closure	(4.4)	(3.3)
Cash impact of acquisition costs	(7.5)	(0.5)
Cash impact of gain on rights issue	3.5	–
Cash impact of aborted bond costs	–	(1.2)
Pension funding in excess of service cost	(17.5)	(17.0)
Movement in working capital	18.5	(35.2)
Cash generated from operations	170.2	124.9
Reconciliation of movement in working capital		
Decrease/(increase) in inventories	15.0	(13.5)
Decrease/(increase) in trade and other receivables	34.3	(5.6)
Decrease in trade and other payables	(30.8)	(16.1)
Movement in working capital	18.5	(35.2)

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29 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	2019 £m	2018 £m
Short-term employee benefits	4.3	5.2
Pension costs	0.5	0.4
Share-based payments	0.6	1.5
	5.4	7.1

The key management figures given above include the Directors and members of the Executive Committee.

30 Contingent assets, contingent liabilities and guarantees

Other guarantees and contingent liabilities of the Group amount to £2.6 million (2018: £8.4 million) and relates to an environmental liability in France. The 2018 balance included a contingent liability arising from the European Commission State Aid case in relation to the Group Financing Exemption ('GFE') in the UK Controlled Foreign Company legislation. Following the release of the Commission's final decision in April 2019, the Group has partially provided for the GFE amounts previously claimed. This is discussed further in note 10.

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 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 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.

31 Share-based payments**Executive share option scheme**

The Group's share option scheme is described in the Directors' Remuneration report on pages 83 to 102. In addition to the two Executive Directors, it is available to other senior management. Movement in the options held under the scheme are defined as follows:

	Options 2019 number	Weighted av. exercise price (£) 2019 number	Options 2018 number	Weighted av. exercise price (£) 2018 number
Outstanding at 1 January	1,807,963	–	2,257,771	–
Granted during the year	914,184	–	547,752	–
Exercised during the year	(697,627)	–	(883,923)	–
Lapsed during the year	(87,522)	–	(113,637)	–
Outstanding at 31 December	1,936,998	–	1,807,963	–
Exercisable at 31 December	36,414	–	170,622	–

Grants in 2019 included 143,146 options arising to counter the dilutive effect of the rights issue.

The outstanding share options were all issued under the executive share option scheme. As at 31 December 2019 the following options were outstanding:

	Number
Exercisable between 2016-2023	12,725
Exercisable between 2017-2024	13,473
Exercisable between 2018-2025	10,216
Exercisable between 2019-2026	–
Exercisable between 2020-2027	532,849
Exercisable between 2021-2028	588,689
Exercisable between 2022-2029	779,046
	1,936,998

The total exercise price for all the above grants is £nil.

For options outstanding as at 31 December 2019, the exercise price was £nil and the weighted average remaining contractual life was 5.07 years (2018: 4.75 years).

The Group also operates a cash settled share-based payment scheme for which there was an expense in the year of £0.1 million (2018: £0.5 million) and for which there was a liability at the year end of £0.7 million (2018: £1.5 million).

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 2019, the Trust held 1,880 (2018: 110,969) ordinary shares in the Company with a market value of £0.0 million (2018: £0.4 million).

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 £3.61 (2018: £4.91).

The weighted average fair value of the options at the measurement date granted during the year was £1.81 (2018: £2.68). The valuation was based on the following inputs and assumptions, using a Monte Carlo simulation model:

	2019	2018
Weighted average share price (£)	3.77	4.88
Option price (£)	-	-
Value of optionality	nil	nil
Vesting assumption	48%	55%

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.

32 Share price information

The middle market value of the listed ordinary shares at 31 December 2019 was 353.8 pence (31 December 2018: 357.4 pence). During the year, the market price ranged between 279.0 pence and 420.8 pence. The latest ordinary share price is available on the Group's website, www.synthomer.com

33 Audit exemptions

The following subsidiaries have taken advantage of the exemption from an audit for the year ended 31 December 2019 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 2019.

Company	Company registration
Dimex Limited	01763129
Ecatto Limited	00978441
Harlow Chemical Company Limited	00778831
PolymerLatex Limited	03439041
Revertex Limited	00873653
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 2019

	Note	2019 £m	2018 £m
Non-current assets			
Investment in subsidiaries and joint ventures	3	264.6	208.1
Property, plant and equipment	4	5.6	2.3
		270.2	210.4
Current assets			
Other receivables	5	877.0	963.6
Cash and cash equivalents		21.8	53.3
Derivative financial instruments	9	4.9	–
		903.7	1,016.9
Current liabilities			
Borrowings	8	(11.5)	(74.3)
Other payables	6	(251.9)	(262.9)
Derivative financial instruments	9	(14.3)	(5.3)
Lease liabilities		(0.4)	–
		(278.1)	(342.5)
Net current assets		625.6	674.4
Total assets less current liabilities		895.8	884.8
Non-current liabilities			
Borrowings	8	(82.9)	(240.8)
Lease liabilities		(3.0)	–
Net assets		809.9	644.0
Equity			
Share capital	10	42.5	34.0
Share premium		421.1	230.5
Revaluation reserve		0.8	0.8
Capital redemption reserve		0.9	0.9
Retained earnings		344.6	377.8
Equity attributable to shareholders		809.9	644.0

As disclosed in note 2, the Company's profit for the year was £25.2 million (2018: £46.9 million).

The notes on pages 150 to 153 are an integral part of these financial statements.

The financial statements of Synthomer plc (registered number 98381) on pages 148 to 153 were authorised for issue by the Board of Directors on 5 March 2020.

C G MacLean
Director

S G Bennett
Director

Company statement of changes in equity

for the year ended 31 December 2019

	Share capital £m	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 January 2019	34.0	230.5	0.8	0.9	377.8	644.0
Profit for the year	-	-	-	-	25.2	25.2
Total comprehensive income for the year	-	-	-	-	25.2	25.2
Issue of shares	8.5	190.6	-	-	-	199.1
Dividends	-	-	-	-	(47.9)	(47.9)
Share-based payments	-	-	-	-	(1.9)	(1.9)
Fair value loss on hedged interest derivatives	-	-	-	-	(8.6)	(8.6)
At 31 December 2019	42.5	421.1	0.8	0.9	344.6	809.9

	Share capital £m	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Retained earnings £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 loss on hedged interest derivatives	-	-	-	-	(3.9)	(3.9)
At 31 December 2018	34.0	230.5	0.8	0.9	377.8	644.0

Notes to the Company financial statements

31 December 2019

1 Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the FRC. Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, standards not yet effective and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historic cost basis except for the remeasurement of certain financial instruments that are measured at fair values at the end of each reporting period.

The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except as noted below.

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment. The carrying amounts of the Company's investments are reviewed at each reporting date to determine whether there is an indication of impairment. If such an indication exists, then the asset's recoverable amount is estimated. Losses are recognised in the income statement and reflected in an allowance against the carrying value. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

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. All intercompany loans are repayable on demand and the Company has the ability to refinance any of its subsidiaries using equity allowing the subsidiary to repay any receivables owed to Synthomer plc.

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.

There are no significant accounting judgements and estimates applied in preparing the Company's account except for the impairment testing of amounts owed by subsidiary undertakings. When measuring the potential impairment of receivables from subsidiaries, forward-looking information based on assumptions for the future movement of different economic drivers are considered.

2 Profit for the year

As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account or statement of comprehensive income is presented for Synthomer plc. The Company reported a profit of £25.2 million for the year ended 31 December 2019 (2018: profit of £46.9 million).

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

The Company had no employees during the current or prior year.

3 Investment in subsidiaries and joint ventures

	Subsidiaries £m	Joint ventures £m	Total £m
Cost			
At 1 January 2019	207.8	0.5	208.3
Additions	56.5	–	56.5
At 31 December 2019	264.3	0.5	264.8
Provisions			
At 1 January and 31 December 2019	–	0.2	0.2
Net book value			
At 31 December 2019	264.3	0.3	264.6

Details of the Group's subsidiaries and joint ventures are included in note 11 on pages 152 to 153.

Following a return of capital in December 2018, the Company's investment in Synthomer Jersey Limited was reduced to nil. As the qualifying criteria for hedge accounting were no longer met, the Company de-designated the fair value hedge of euro denominated borrowings against this investment.

Directors consider the value of investments to be supported by underlying assets.

4 Property, plant and equipment

	2019 Land and buildings			2018 Land and buildings	
	Right of use assets £m	Freehold £m	Total £m	Freehold £m	Total £m
Cost					
At 1 January	–	3.0	3.0	2.8	2.8
Additions	3.2	–	3.2	0.2	0.2
Recognised on adoption of IFRS 16	0.9	–	0.9	–	–
At 31 December	4.1	3.0	7.1	3.0	3.0
Accumulated depreciation					
At 1 January	–	0.7	0.7	0.7	0.7
Charge for the year	0.6	0.2	0.8	–	–
At 31 December	0.6	0.9	1.5	0.7	0.7
Net book value					
At 31 December	3.5	2.1	5.6	2.3	2.3

Freehold land amounting to £1.8 million (2018: £1.8 million) has not been depreciated.

5 Other receivables

	2019 £m	2018 £m
Amounts owed by Group undertakings	875.6	962.9
Other receivables	0.3	0.7
Prepayments and accrued income	1.1	–
	877.0	963.6

Amounts owed by Group undertakings are valued at fair value at inception and are repayable on demand.

Of the parent company's amounts owed by subsidiaries, £149.0 million is impaired (2018: £151.4 million). Future expected credit losses on amounts receivable from subsidiaries are immaterial.

6 Other payables

	2019 £m	2018 £m
Amounts owed to Group undertakings	244.5	254.1
Other creditors	4.1	2.3
Accruals and deferred income	3.3	6.5
	251.9	262.9

Amounts owed to Group undertakings are valued at fair value at inception and are repayable on demand.

7 Guarantees

The Company has provided financial guarantees amounting to £19.1 million (2018: £37.2 million) in respect of bank and other facilities of subsidiaries and joint ventures.

8 Borrowings

	2019 £m	2018 £m
Current borrowings		
Overdrafts	11.5	24.9
Bank loans	–	49.4
	11.5	74.3
Non-current borrowings		
Bank loans	82.9	240.8
	82.9	240.8

Details of the bank loans are given in note 21 to the consolidated financial statements.

Notes to the Company financial statements continued

31 December 2019

9 Financial instruments

The fair value of the financial instruments disclosed in the Company's statement of financial position are as follows:

	Financial instruments				
	Carrying amount £m	Carrying amount within scope of IFRS 7 £m	Valuation category in accordance with IFRS 9 ¹	Fair value £m	Fair value hierarchy level
Other receivables	877.0	876.8	AC	876.8	Level 2
Cash and cash equivalents	21.8	21.8	AC	21.8	Level 2
Derivatives – no hedge accounting	4.9	4.9	FVTPL	4.9	Level 2
Total assets	903.7	903.5		903.5	
Borrowings	(82.9)	(82.9)	AC	(84.6)	Level 2
Trade and other payables	(251.9)	(251.9)	AC	(251.9)	Level 2
Derivatives – no hedge accounting	(11.0)	(11.0)	FVTPL	(11.0)	Level 2
Derivatives – hedge accounting	(3.3)	(3.3)	FVTOCI	(3.3)	Level 2
Total liabilities	(349.1)	(349.1)		(350.8)	

1. AC: amortised cost; FVTOCI: fair value through other comprehensive income; FVTPL: fair value through profit or loss.

Further disclosures on financial instruments are included in note 22 of the consolidated financial statements.

10 Share capital and share premium

Details of the Company's share capital and share premium are shown in note 27 of the consolidated financial statements.

11 Subsidiaries and joint ventures

Country of incorporation and registered address	Principal activity	Ownership %	Country of incorporation and registered address	Principal activity	Ownership %
United Kingdom			Austria		
Central Road, Harlow, Essex, CM20 2BH			Industriepark, Pischelsdorf, 3435		
Dimex Limited	Holding Company	100	Synthomer Austria GmbH	Trading	100
Ecatto Limited	Holding Company	100 ³	Brazil		
Harlow Chemical Company Limited	Holding Company	100 ²	Av. Casa Verde, 3100, Sala 1, Casa Verde, São Paulo, 02520-300		
PolymerLatex Limited	Holding Company	100	Synthomer Participacoes Ltda	Trading	100
Revertex Limited	Dormant	100 ³	China		
S.A. (300) Limited	Holding Company	100 ³	Building 53-55, 1000 Zhangheng Road, Zhangjiang High-Tech Park, Pudong, Shanghai, 201203		
Star Pharma Limited	Dormant	100	Shanghai Synthomer Chemicals Co Ltd	Trading	100
Super Sky Limited	Holding Company	50 ^{1,3}	Czech Republic		
Synthomer (UK) Limited	Trading	100	Tovární 2093, Sokolov, 356 01		
Synthomer Holdings Limited	Holding Company	100 ³	Synthomer AS	Trading	100
Synthomer Overseas Limited	Holding Company	100 ³	V Celnici 1031/4, Prague, 110 00		
Temple Fields 510	Dormant	100	Synthomer Holdings (CZE) SRO	Non-Trading	100
Temple Fields 512 Limited	Dormant	100 ³	Egypt		
Temple Fields 514 Limited	Holding Company	100 ³	Industriel Zone 1-B, 10th of Ramadam City, Sharkiya		
Temple Fields 515 Limited	Holding Company	100	Synthomer SAE	Trading	88
Temple Fields 522 Limited	Holding Company	100 ³	Finland		
Temple Fields 523 Limited	Holding Company	100 ³	PO Box 175, Oulu, FI 90101		
Temple Fields 530 Limited	Holding Company	100	Synthomer Finland Oy	Trading	100
Temple Fields 534 Limited	Dormant	100	France		
William Blythe Limited	Trading	100	704 rue Pierre et Marie Curie, Ribécourt-Dreslincourt, 60170		
Yule Catto Overseas	Dormant	100 ³	Synthomer France SAS	Trading	100
45 Pall Mall, London, SW1Y 5JG			6 Place de la Madeleine, Paris, 75008		
Synthomer Trading Limited	Trading	100	Yule Catto France SA	Non-Trading	100
44 Esplanade, St Helier, Jersey, JE4 9WG			Yule Catto International SA	Non-Trading	100
Synthomer Jersey Limited	Dormant	100 ³			
Australia					
58 Gipps Street, Collingwood, Victoria, 3066					
Synthomer Australia Pty Limited	Trading	100			

Country of incorporation and registered address	Principal activity	Ownership %
Germany		
Werrastrasse 10, Marl, 45768		
Synthomer Deutschland GmbH	Trading	100
Temple Fields GmbH	Non-Trading	100
Temple Fields GmbH & Co Chemie oHG	Non-Trading	100
Temple Fields Verwaltungs GmbH	Non-Trading	100
Yule Catto Holdings GmbH	Holding Company	100
Italy		
Via delle Industrie 9, Filago, BG, 24040		
Synthomer S.r.l.	Trading	100
Via Morozzo 27, Sant'Albano Stura, CN, 12040		
Synthomer Specialty Resins S.r.l.	Trading	100
Piazza Cavour 3, Milano, MI, 20121		
UQUIFA Italia S.r.l.	Non-Trading	100
Malaysia		
Unit 16-2, Wisma Uoa Damansara II, 6 Changkat Semantan, Damansara Heights, Kuala Lumpur, 50490		
Desa Baiduri Sdn Bhd	Property Letting	70
Fine Chemicals Sdn Bhd	Non-Trading	70
Kind Action (M) Sdn Bhd	Trading	70
PolymerLatex Sdn Bhd	Trading	100
Quality Polymer Sdn Bhd	Trading	70
Revertex (Malaysia) Sdn Bhd	Trading	70
Rexplas Sdn Bhd	Dormant	70
Synthomer Sdn Bhd	Trading	100
Terra Simfoni Sdn Bhd	Holding Company	100
Netherlands		
Ijsselstraat 41, Oss, 5347 KG		
Synthomer BV	Trading	100
Yule Catto BV	Non-Trading	100
Yule Catto Nederland BV	Non-Trading	100
Saudi Arabia		
27 Street, 2nd Industrial City, Dammam, 31472		
Synthomer Middle East Company Ltd	Trading	49 ¹
Spain		
Camino de Sangroniz 8, Sondika, 48150		
Synthomer Asua SL	Trading	100
Rambla de Catalunya 53, Barcelona, 08007		
Yule Catto Spain SL	Non-Trading	100
Sweden		
Tostarpsvagen 11, Kavlinge, 244 32		
Synthomer Speciality Additives AB	Trading	100
Thailand		
219/16 Moo 6, Bowin, Si Racha, Chonburi, 20230		
Synthomer (Thailand) Limited	Trading	100
Synthomer Bangkok Limited	Trading	100
Synthomer Holdings (Thailand) Limited	Non-Trading	100
UAE		
Building 2101, Office S10122A2, Jabel Ali Free Zone, Dubai		
Synthomer Functional Solutions FZCO	Trading	49 ¹
East Wing 2, Office 201, Po Box 54645, Dubai Airport Free Zone, Dubai		
Synthomer FZE	Trading	49 ¹

Country of incorporation and registered address	Principal activity	Ownership %
USA		
1201 Peachtree Street NE, Atlanta, GA, 30361		
Synthomer LLC	Trading	100
Yule Catto Inc	Non-Trading	100
160 Greentree Drive, Suite 101, Dover, DE, 19904		
Synthomer USA LLC	Trading	100
Vietnam		
8, 6th Street, Song Than Industrial Park, Di An		
Synthomer Vietnam Co Ltd	Trading	60

Notes

1. Joint ventures.
2. Harlow Chemical Company Limited is incorporated in UK but is resident in Netherlands.
3. Shares directly held by Synthomer plc.

Glossary of terms

AGM	Annual General Meeting	Net debt	Cash and cash equivalents together with short- and long-term borrowings
AIMS	Accident and Incident Management System	NO _x	Nitrogen Oxides
APMs	Alternative Performance Measures	Operating profit	Operating profit represents profit from continuing activities before finance costs and taxation
C&C	Construction and Coatings	PBT	Profit Before Tax
C&F	Carpet and Foam	PE	Performance Elastomers
Capital employed	Net assets excluding third party net debt	PHA	Process Hazard Assessment
CDP	Carbon Disclosure Project	PPE	Property, Plant and Equipment
CGU	Cash Generating Unit	PSA	Pressure Sensitive Adhesive
CH ₄	Methane	PSE	Process Safety Events
CIA	Chemical Industries Association	PSP	Performance Share Plan
CO ₂	Carbon Dioxide	PTW	Permit to Work
CO ₂ e	Carbon Dioxide equivalent	PVC	Polyvinyl Chloride
Constant currency	Reflects current year results for existing business translated at the prior year's average exchange rates, and includes the impact of acquisitions	R&D	Research and Development
CRM	Customer Relationship Management system	RC	Responsible Care
CSR	Corporate Social Responsibility	ROIC	Return on Invested Capital is calculated as Group Underlying operating profit as a percentage of Group capital employed
DEFRA	Department for Environment, Food and Rural Affairs	SBR	Styrene Butadiene Rubber
EBITDA	EBITDA is calculated as operating profit before depreciation, amortisation and Special Items	SD	Sustainable Development
EGM	Extraordinary General Meeting	SEC	Specific Energy Consumption
EPS	Earnings Per Share	SHE	Safety, Health and Environment
ERP	Enterprise Resource Planning	SHEMS	Safety, Health and Environment Management System
ESG	Environmental, Social and Governance	The Code	The UK Corporate Governance Code
FEED	Front End Engineering Design	TSR	Total Shareholder Return
FP	Functional Polymers	UK GAAP	UK Generally Accepted Accounting Practice
FRC	Financial Reporting Council	Underlying performance	Underlying performance represents the statutory performance of the Group under IFRS, excluding Special Items
Free Cash Flow	The movement in net debt before financing activities, foreign exchange and the cash impact of Special Items, asset disposals and business combinations	VOCs	Volatile Organic Compounds
FRS	Financial Reporting Standard		
FS	Functional Solutions		
GHGs	Greenhouse Gases		
GJ	Gigajoule		
GRI	Global Reporting Initiative		
GWP	Global Warming Potential		
H&P	Health and Protection		
HR	Human Resources		
HSSBR	High Solids Styrene Butadiene Rubber		
IAS	International Accounting Standard		
ICCA	International Council of Chemical Associations		
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 ₂ O	Nitrous Oxide		
NBR	Nitrile Butadiene Rubber		

Five-year financial summary

		2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Revenue		1,459.1	1,618.9	1,480.2	1,045.7	870.1
Underlying performance	(a)					
EBITDA	(b)	177.9	181.0	176.2	160.1	125.0
Operating profit	(c)	125.8	142.1	139.0	130.2	102.9
Finance costs		(9.6)	(7.0)	(9.0)	(8.0)	(7.6)
Profit before taxation		116.2	135.1	130.0	122.2	95.3
Basic earnings per share	(f)	25.3p	30.7p	28.7p	26.4p	20.1p
Dividends per share	(f)	10.9p	12.2p	11.4p	10.5p	8.0p
Dividend cover		2.3	2.5	2.5	2.5	2.5
IFRS						
Operating profit	(c)	110.6	128.7	95.4	144.7	80.3
Finance costs		(10.1)	(8.4)	(9.0)	(8.0)	(7.8)
Profit before taxation		100.5	120.3	86.4	136.7	72.5
Basic earnings per share	(f)	21.5p	27.4p	20.3p	30.3p	16.6p
Dividends per share	(f)	10.9p	12.2p	11.4p	10.5p	8.0p
Dividend cover		2.0	2.2	1.8	2.9	2.1
Net debt	(d)	20.7	(214.0)	(180.5)	(150.3)	(80.1)
Capital expenditure	(e)	69.1	75.7	60.3	45.6	22.8

Notes:

- (a) As presented in the consolidated income statement on page 111.
 (b) As defined in the accounting policies note and reconciled in note 5.
 (c) As defined in the accounting policies note on page 116.
 (d) As reconciled in note 21.
 (e) As presented on the consolidated cash flow statement.
 (f) Dividends and earnings per share figures for 2018 and prior have been restated to reflect the bonus factor of 1.0713 arising from the rights issue which completed on 29 July 2019.

Advisers

Registered office

Synthomer plc
Temple Fields
Harlow
Essex
CM20 2BH
Registered number 98381

Company Secretary

Richard Atkinson

Bankers

Barclays Bank plc
Commerzbank AG
HSBC Bank plc
Citibank
Lloyds Bank plc
SEB
China Construction Bank Corporation

Joint stockbrokers

Barclays Bank plc and Numis Securities Ltd

Registrars

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Lochside House
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Independent Auditors

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