



# DELIVERING TODAY, INVESTING FOR TOMORROW

**Synthomer plc**  
Annual Report 2016  
Company number 98381



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

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**CHIEF EXECUTIVE OFFICER  
CALUM MACLEAN**

"2016 has been a consecutive year of record profitability with strong growth in our core business."

→ [READ MORE P6](#)

**BUSINESS MODEL AND STRATEGY**

Creating and sustaining value through innovative solutions

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**OUR STRATEGY IN ACTION**

Examples of our innovation and growth

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# DELIVERING TODAY, INVESTING FOR TOMORROW

Synthomer is one of the world's major suppliers of aqueous polymers with leadership positions in many markets including coatings, construction, textiles, paper and synthetic latex gloves. With the acquisition in 2016 of the Performance Adhesives and Coatings (PAC) business, Synthomer grew its global manufacturing network and introduced new products, geographical strength and capacity to support future growth.

The Company has its operational headquarters in London, UK, and provides customer focused services from regional centres in Harlow, UK; Marl, Germany; Kuala Lumpur, Malaysia; and new in 2016 Atlanta, USA.

**Employees**  
**2,698**

**Countries**  
**16**

**Manufacturing sites**  
**25**

**R&D centres**  
**4**

## EUROPE AND NORTH AMERICA (ENA)

Volumes (ktes)

**936.7**

2015: 820.7

EBITDA

**£111.2m**

2015: £85.5m

Underlying operating profit

**£93.3m**

2015: £73.3m

Revenue

**£746.1m**

2015: £582.1m

IFRS operating profit

**£75.4m**

2015: £49.9m

Volume by market

Revenue by product

➔ READ MORE P34

## ACQUISITION

### NORTH AMERICA

The new manufacturing site and R&D centre in the USA introduces a manufacturing presence in North America for the first time and accelerates our business development program.

### ASIA

One new plant in Thailand gives us additional capacity to take advantage of opportunities in the growing dispersions market.

### EUROPE

Five new sites in Europe bring new products, capacity and market opportunities.

## ASIA AND REST OF THE WORLD (ARW)

Volumes (ktes)

**388.2**

2015: 395.2

Revenue

**£299.6m**

2015: £288.0m

EBITDA

**£60.4m**

2015: £50.3m

Underlying operating profit

**£48.7m**

2015: £40.5m

IFRS operating profit

**£81.3m**

2015: £41.5m

Volume by market

Revenue by product

 [READ MORE P36](#)

Please see the bottom of page 1 for an explanation of the Group's use of underlying numbers.

# DELIVERING TODAY, A CONSECUTIVE YEAR OF RECORD PROFITABILITY

## COMMERCIAL HIGHLIGHTS

- Europe and North America (ENA) momentum underpinned by margin improvement and PAC contribution:**
  - Underlying operating profit at £93.3m increased 27.3% (2015: £73.3m) due to improved unit margins, the acquisition of PAC and foreign currency gains.
  - IFRS operating profit at £75.4m increased 51.1% (2015: £49.9m).
  - Synthomer 2015 cost savings programme delivered annualised savings of €13m in 2016.
- Asia and Rest of the World (ARW) resilient in challenging market environment:**
  - Underlying operating profit up 20.2% to £48.7m (2015: £40.5m) mainly driven by a good performance in Nitrile latex, in a challenging market, a strong performance in the dispersions market and foreign currency gains.
  - IFRS operating profit up 96.0% to £81.3m (2015: £41.5m).
- M&A activity:**
  - The acquisition of PAC for \$221m on 30 June represented a milestone for our new team and reinforced a key part of our strategy for growth.
  - Acquisition of Perstorp Oxo Belgium AB ('Perstorp Belgium'), a speciality chemicals company, for enterprise value of €78m announced 6 March 2017.
- R&D driving innovation:**
  - Products launched in last five years represented 20.0% of sales calculated on a legacy business basis (2015: 18.0%).
- Significant cash generation:**
  - Cash inflow from operating activities grew 41.1% to £136.6m (2015: £96.8m).
- Investments in our organisational structure:**
  - An Operational and Manufacturing Excellence team.
  - A specialist procurement function for Europe.
  - Business Development teams created to drive growth.
- Earnings per share:**
  - Underlying earnings per share for the year rose 31.6% to 28.3p (2015: 21.5p) and on an IFRS basis earnings per share rose 82.6% to 32.5p (2015: 17.8p).
- Dividend:**
  - Full year dividend increased by 31.4% to 11.3p per share in line with dividend policy (2015: 8.6p per share).

## FINANCIAL HIGHLIGHTS

	Underlying		IFRS	
	2016	2015	2016	2015
Volume (ktes)	<b>1,324.9</b>	1,215.9	<b>1,324.9</b>	1,215.9
Revenue (£m)	<b>1,045.7</b>	870.1	<b>1,045.7</b>	870.1
EBITDA (£m)	<b>160.1</b>	125.0	-	-
Operating Profit (£m)	<b>130.2</b>	102.9	<b>144.7</b>	80.3
Profit before tax (£m)	<b>122.2</b>	95.3	<b>136.7</b>	72.5
Earnings per share (p)	<b>28.3</b>	21.5	<b>32.5</b>	17.8
Ordinary dividends per share (p)	<b>11.3</b>	8.6	<b>11.3</b>	8.6
Net Borrowings (£m)	<b>150.3</b>	77.4	<b>150.3</b>	80.1

### 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 3. 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. Where appropriate, IFRS performance inclusive of Special Items is also described. References to 'unit margin' and 'margin' are used in the commentary on Underlying performance. Unit margin (or margin) is calculated on selling price less variable raw material and logistics costs. Further explanations can be found in notes 4, 5 and 6.

# DELIVERING TODAY, INVESTING FOR TOMORROW



Organic growth, our first acquisition and further investment in management, processes and assets have underpinned another strong year.”

Neil Johnson  
Chairman

## GOVERNANCE HIGHLIGHTS

- Stable board with no membership changes enabling it to focus on supporting the Executive Management to achieve corporate objectives
- Shareholders consultation on executive directors' remuneration led by Remuneration Committee
- Thorough external audit tender process led by Audit Committee
- Internal evaluation of Board Committees performed to assess effectiveness
- Strengthened human resources framework to attract, reward, develop and retain talent consistently across our businesses

## A CONSECUTIVE YEAR OF SUBSTANTIAL EARNINGS GROWTH AND RECORD RESULTS

Synthomer has delivered another strong performance in 2016 and I am pleased to report a consecutive year of substantial earnings growth and record results. This reflects strong progress in both our Europe and North America ('ENA') and Asia and Rest of the World ('ARW') segments, a first time contribution from PAC, which is included in our accounts from the start of July, and favourable currency translation resulting from the weakening in Sterling during the course of the year.

Organic growth in our ENA and ARW segments has been a key feature of our results. We saw growth across most areas which was supported by our ongoing focus on efficiency, new product initiatives, a strengthened procurement function and investment in business development activities.

Group sales have increased from £870.1m to £1,045.7m, reflecting stable volumes in our existing businesses, the lower average raw material prices, favourable currency translation, and the incremental sales contributed by PAC.

Underlying profit before tax increased from £95.3m to £122.2m, an increase of 28.2%, and on an IFRS basis, increased from £72.5m to £136.7m, an increase of 88.6%. The significant rise in Underlying profit before tax reflected strong growth in our existing business (11.4%), the contribution made by PAC (4.9%) and the depreciation in Sterling (11.9%). The additional rise in IFRS profit before tax mainly related to the profits on the Malaysian land sales (£33.2m) and the disposal of our South African business (£4.7m).

## PAC ACQUISITION HIGHLY COMPLIMENTARY TO SYNTHOMER'S EXISTING BUSINESS

In line with our growth strategy, we successfully acquired PAC on 30 June 2016 for \$221m, representing a headline multiple of 7.5 times EBITDA. The bolt-on acquisition significantly strengthens Synthomer's position in the performance adhesives and coatings market, offering access to new products, customers and markets. PAC is also highly complementary to Synthomer's existing business both geographically and in the product markets in which it operates. The integration process is firmly on track to deliver synergies of \$12m in the next two years.

On 6 March we announced another bolt-on acquisition, Perstorp Belgium, for a total enterprise value of €78m. We will continue to assess acquisition opportunities going forwards.

**Q How has the PAC acquisition complemented Synthomer's offering?**

**A** Synthomer completed the acquisition of PAC on 30 June 2016 adding seven plants to the Group's asset base and welcoming approximately 760 employees. PAC gives us access to new markets in Europe, USA and Thailand and also new products such as powder coatings and redispersible powders and new end markets. The acquisition process governance ran smoothly with our robust due diligence ensuring there were no significant unknown risks or hidden liabilities on acquisition.

**CONTINUED INVESTMENT TO SUPPORT ORGANIC GROWTH**

Organic growth remains an important part of our strategy and we see significant opportunities to drive growth from our existing business in both business segments. As set out at the Capital Markets Day in 2016, we intend to step up in the capital spend of the Group to circa £40-60m in 2017 and 2018. The Board has approved plans to invest in significant plant expansions at our ENA Worms dispersions plant, and our ARW Pasir Gudang Nitrile latex plant. We will also be enhancing and integrating the ARW Chonburi dispersions plant into our Asian plant network to provide needed capacity to meet growing market demand.

**GOVERNANCE AND BOARD**

Our corporate governance framework is recognised by the Board as a key part of the Group's control structure. The Board is committed to maintaining high governance standards. The Board approves the strategy, long-term objectives, risk appetite and risk management framework under which day to day decisions are taken.

Whilst there have been no changes to the Board of Directors during the year, the Board committees have been busy delivering changes to the governance framework: The Remuneration Committee, following consultation with our significant shareholders, is proposing changes to the executive directors' remuneration terms and conditions to bring the Group into line with the median of the FTSE 250 companies which will be voted on at the Annual General Meeting. The Audit Committee conducted a thorough external audit tender process in the first half of the year, with PricewaterhouseCoopers LLP (PwC) retaining the external audit appointment at the conclusion of this process.

The Board received training on the introduction of the Market Abuse regulations, and further developments in corporate governance requirements and good practice. A number of methods were used to evaluate the performance and effectiveness of the Board as detailed in the Corporate Governance section of the Annual Report on pages 44 to 79.

**OUR PEOPLE**

The number of employees grew by approximately 760 during 2016 when we welcomed PAC employees to Synthomer. We now have approximately 2,700 employees in the Group, spread across

25 manufacturing sites and offices. The culture and values of employees at Synthomer including respect, integrity and trust are closely aligned with our new PAC employees, which has helped to ensure a smooth integration process.

Our people agenda continues to evolve as we implement a consistent grading structure, graduate recruitment programme, succession planning and a focused bonus scheme, all designed to support and underpin the future growth of our Group.

For a consecutive year the Group has reported record profitability and the contribution that employees have made cannot be emphasised enough. The results are, in no small part, a testament to the hard work and ingenuity of our team all over the world and I would like to thank them for their significant efforts during 2016.

**SAFETY, HEALTH AND ENVIRONMENT (SHE)**

Synthomer manufactures speciality chemicals using large scale and complex manufacturing processes, consuming hazardous raw materials. Our high safety, health and environmental standards are fundamental to what we do across the business. We have clear policies and procedures that underpin all our processes, and we remain resolute in our commitment to continuous improvement.

During 2016, we introduced our SHE Principles and 10 Golden Rules across all existing sites and the newly acquired PAC sites, directly targeting and improving the safe operation of our plants. Our key performance measures highlight the step change in performance delivered in the current year, and in particular the significant reduction in the reportable injuries to our employees and contractors.

**DIVIDEND**

The Capital Management Policy of the Group remains unchanged, and the Board is committed to investing in the Group's significant organic and inorganic growth plans to secure its future progress. Accordingly, the Board periodically assesses the balance sheet strength in the light of these growth plans, and will continue to consider the appropriateness of returning excess capital to shareholders.

The Board has proposed a final ordinary dividend per share of 7.8p (2015: 5.4p), resulting in a total dividend per share for the year of 11.3p (2015: 8.6p). This is in line with the Group's dividend policy of a dividend covered 2.5 times by the underlying earnings per share. The final dividend per share is subject to shareholder approval at the Annual General Meeting on 27 April 2017 and will be distributed to shareholders on the register at 9 June 2017.

**OUTLOOK**

At this early stage of the year, we still expect to see resilient trading in Europe, although the raw material and macroeconomic environments remain volatile. Whilst we also expect our Asian Nitrile business to be further impacted by the introduction of the additional industry capacity in 2016, this will be partially offset by a full year of PAC and ten months of Perstorp Belgium being included in the Group's results.

Despite these uncertainties and challenges, the Board expectations remain unchanged from the trading update on 20 January and we remain confident in delivering long term growth in profitability and shareholder value.

**NEIL JOHNSON**

Chairman  
6 March 2017

# ANOTHER YEAR OF GROWTH AND INVESTMENT

**RECORD PROFIT BEFORE TAX**  
Synthomer delivered record profit before tax in 2016 through strong growth in its core business, acquisition growth and more favourable exchange rates.

**PAC ACQUISITION COMPLETED**  
Significantly strengthens access to new chemistries, customers and markets. Integration on track to deliver \$12m targeted synergies.

**BUSINESS GROWTH**  
Our Europe and North America business delivered strong growth. The Synthomer 2015 cost reduction programme delivered €13m run rate cost savings.

**€13m**

**NEW PRODUCT SALES**

Sales of new products launched in the last five years reached 20% of total revenue on a legacy basis – a key milestone and measure of our capacity to innovate.

**SAFETY, HEALTH AND ENVIRONMENT**

Significant reduction in recordable accident rate in the business (down 46%). New SHE Principles and 10 Golden Rules introduced to sustain improvements and develop a stronger SHE culture.

 [READ MORE P20 TO 27](#)

# 46%

Reduction in recordable accident rate in the enlarged Synthomer

**STRONGER ORGANISATION**

Investment in business development, procurement and manufacturing excellence to capture value and drive growth.

# 90ktes

Investing in additional Nitrile Butadiene Rubber (NBR) capacity in Malaysia

**CAPACITY EXPANSION**

Capital investments in our Pasir Gudang, Malaysia and Worms, Germany sites were approved by the Board, securing future organic growth for the Group.

# DELIVERING TODAY, INVESTING FOR TOMORROW



2016 has been a consecutive year of record profitability with strong growth in our core business alongside significant investment to strengthen our platform for future growth.”

**Calum MacLean**  
Chief Executive Officer

## STRATEGIC HIGHLIGHTS

- Delivering strong organic earnings growth
- First acquisition under new management team completed, integration on schedule with synergies accruing as expected
- Achieving 20% sales from products launched in the last five years in legacy business, underscores the importance of our R&D investment
- Approved investment in our Worms, Germany and Pasir Gudang, Malaysia sites to drive future growth
- Investment in people and processes surrounding manufacturing excellence, procurement and business development

Our strategy of driving both an improved performance from our existing business as well as inorganic growth delivered excellent results in 2016. Our two reporting segments generated increased profitability and our first bolt on acquisition, PAC, made a strong contribution in the second half of the year.

The Underlying profit before tax increased by 28.2% from £95.3m to £122.2m. The substantial improvement in profitability reflects: improved trading activity of all our existing businesses driven by our strong focus on innovation, margins, utilisation and costs; our acquisition of PAC which completed on 30 June and added £6.4m to operating profit in the second half; and favourable foreign currency translation due to the depreciation in Sterling, which added a further £11.5m to profits. The IFRS profit before tax increased by 88.6% from £72.5m to £136.7m, including the profits on the Malaysian land sales (£33.2m) and the disposal of our South African business (£4.7m).

Net cash inflow from operating activities was strong at £136.6m (2015: £96.8m) and the cash flows were again robust with good conversion of EBITDA to cash. In addition, the cash flow benefitted from the Malaysian land sales receipts £33.8m and the sale of our South African business £12.8m. The cash performance of the business over the year has resulted in the Group's leverage at the yearend to be below 1 times net debt:EBITDA, after paying £165.8m for PAC in the middle of the year. This gives us a strong position from which to consider options for both organic and inorganic investment to support future growth.

## CONTINUED FOCUS ON INNOVATION

The Group made further progress in the year on new product sales, a key measure of our capacity to innovate and bring new value enhancing products to the market and our customers. In 2016, sales of new products launched in the last five years was 20%, an increase on the prior year 18%, and meeting our stated target of 20% for the first time since the metric was introduced in 2013. Although this is an important milestone for our business, as outlined at our Capital Markets Day in December, we fully intend to continue to focus on our innovation pipeline to maintain the momentum seen over the last few years.

## PAC HAS ENHANCED SYNTHOMER'S PLATFORM FOR FUTURE GROWTH

The acquisition of PAC for \$221m on 30 June represented a milestone for our new team, and reinforced a key part of our strategy for growth. The acquisition brought seven new sites, 760 employees and was bought on an EBITDA multiple of 7.5 times pre synergies and 5.5 times post synergies. Furthermore, PAC has brought us our first manufacturing site in the US, and extended our product range to include powder coatings and redispersible powders.

## SAFETY, HEALTH AND ENVIRONMENT

The Group sets high standards in relation to safety, health and environment which are rigorously assured through a multi-tiered approach under the governance and supervision of our Group SHE team, and reported on at each executive team and Board meetings.

**Q Why are you investing in the manufacturing excellence and procurement functions?**

**A** Driving organic growth in our existing business is underpinned by (1) improving our manufacturing performance and manufacturing products more efficiently, and (2) effective procurement recognising the Group's raw material spend is approximately £700m per annum. Optimising these two functions is fundamental to the growth of our business.

**Q What is behind the significant rise in capital investment in 2017 and 2018?**

**A** We have approved large expansion projects in our Nitrile latex plant in Pasir Gudang, Malaysia (£45m) and Worms, Germany (£17m) to capture strong market growth opportunities. Additionally we are committed to debottlenecking and integrating our newly acquired PAC sites in Roebuck, USA; Sant' Albano, Italy and Chonburi, Thailand.

Significant investment has been made during 2016 to further enhance the Group's performance, instilling the importance of compliance with the safety standards set, and individual employee responsibility. The Group SHE team introduced the SHE Principles and 10 Golden Rules targeting the safety of our employees and our plants and sites, across existing and newly acquired PAC sites, with employees certifying that they had read and were committed to the principles. Our key performance measures highlight the step change in performance delivered in the current year, and in particular the significant reduction in the reportable injuries to our employees and contractors.

**DELIVERING ORGANIC GROWTH**

We have continued to focus on driving an improved performance from our underlying business, an important aspect of our strategy. At our Capital Markets Day in December, we provided insight on how we are building growth momentum. Whilst the organic growth strategies for our ENA and ARW segments have bespoke elements, there are a number of common attributes such as optimising the organisational structure, driving greater efficiencies from the existing operations and manufacturing, and investment in Research and Development to provide product differentiation and improve margin performance.

We have invested in our organisational structure to create functional excellence to better capture value including establishing:

- An Operational and Manufacturing Excellence team to drive cost performance and asset utilisation across the manufacturing sites;
- A specialist procurement function with significant experience in buying raw materials for the European asset base and;
- Business Development teams to coordinate and generate new business leads for existing and new products, to drive volume growth.

In optimising the existing operations, we have:

- Driven a significantly improved Safety, Health and Environmental (SHE) performance;

- Undertaken asset profitability benchmarking and performed gap analysis to explore incremental opportunities to drive further efficiencies;
- Developed plans to fully utilise existing plants and to debottleneck plants where we are capacity constrained and;
- Redesigned the Group bonus schemes to ensure that the bonus targets are more aligned to the activities of employees, to drive behaviour and value.

As a speciality chemicals company, our Research and Development centres are fundamental to our reputation, strength and growth, and accordingly we have taken steps to:

- Invest in new facilities at our Harlow site, and in upgrading our Customer Relationship Management systems to capture and develop business opportunities;
- Leverage customer lead development initiatives, ensuring the close working relationships with the Business Development teams;
- Be disciplined on project prioritisation and stage gate scrutiny to optimise our return from the investment in development projects.

Whilst these Group-wide initiatives are supporting our organic growth strategy, we see significant opportunities to drive further growth in our ENA and ARW segments through investment. Accordingly we have approved capital expenditure to invest in significant plant expansions at our ENA Worms dispersions plant, and our ARW Pasir Gudang Nitrile latex plant. Both these investments will substantially increase manufacturing capability in our water based polymers. Similarly we will also be enhancing and integrating the ARW Chonburi dispersions plant into our Asian plant network to provide needed capacity to meet growing market demand. We expect that all these capacity investments to be delivered in mid 2018 to capture market growth.

As outlined earlier in 2016, these significant strategic investments in capacity expansion projects coupled with our ongoing SHE and sustenance programmes and the integration costs associated with the PAC acquisition will, as set out at the Capital Markets Day, lead to a step up in the annual capital spend of the Group to circa £40-60m in 2017 and 2018.

**DELIVERING M&A GROWTH**

Today we have announced another bolt-on acquisition, Perstorp Belgium, for a total enterprise value of €78m. Acquisitions remain a key part of our growth strategy for the Group and we are highly active in targeting and reviewing speciality chemical acquisition opportunities. We are looking at both bolt-on acquisitions, similar to PAC, as well as more transformational step change transactions in adjacent chemistries. We have assembled an experienced M&A and due diligence team to review the acquisition opportunities as and when sale mandates are issued. As we have previously commented, we will be opportunistic but disciplined in our approach to acquisitions and we will not be limited by geography or chemistry.

**OUTLOOK**

At this early stage of the year, we still expect to see resilient trading in Europe, although the raw material and macroeconomic environments remain volatile. Whilst we also expect our Asian Nitrile business to be further impacted by the introduction of the additional industry capacity in 2016, this will be partially offset by a full year of PAC and ten months of Perstorp Belgium being included in the Group's results.

Despite these uncertainties and challenges, the Board's expectations remain unchanged from the trading update on 20 January and we remain confident in delivering long term growth in profitability and shareholder value.

**CALUM MACLEAN**  
Chief Executive Officer  
6 March 2017

# GLOBAL TRENDS DRIVING OUR GROWTH STRATEGY

We provide products to a broad range of manufacturing industries. Whilst trends within the various industries vary considerably, we aim to drive value from the differing market dynamics whilst focusing our investments on growth markets.

One of our aims is to add value by differentiating our products to make them more efficient in use, offering superior quality and enhanced product performance. The trends in the market segments are the key driver for Synthomer's investment decisions. These trends and industry descriptions are contained in the table opposite.

## What we make

### Market position

### Principal markets served

### Main product areas

## EUROPE AND NORTH AMERICA

### Where we manufacture

### Revenue

### Market trends

### Outlook

### Priorities

→ [READ MORE P34](#)

## ASIA AND REST OF THE WORLD

### Where we manufacture

### Revenue

### Market trends

### Outlook

### Priorities

→ [READ MORE P36](#)

## DISPERSIONS

No.2 producer in Europe and Middle East and No.1 producer in Malaysia.

Construction, coatings, adhesives and textiles.

Cement modification, primers, flooring adhesives, flexible roof coatings, emulsion and specialist paints, coatings and oilfields.

USA, Germany, Italy, Spain, France, UK and Czech Republic.

**£179.1m**



Markets are growing, environmental regulations support growth, higher demand for specialist niche products.

Innovation, technology and sales synergies via expanded network, capacity expansion and debottlenecking, operational efficiencies and consolidation.

Malaysia, Vietnam, Thailand and Middle East

**£66.5m**



Market growth forecast in South East Asia and new capacity acquired in Thailand. Middle East construction sector remains subdued.

Innovation, utilise new acquisition capacity, and introduction of new products from Europe into market.

**NITRILE BUTADIENE RUBBER (NBR)**

No.1 producer globally.

Health and protection.

Medical gloves, medical devices (e.g. catheters) and other dipped latex products.

Italy.

**£21.1m**



Demand in line with strong growth mainly Asia/US markets.

Innovation and operational efficiencies.

Malaysia.

**£176.4m**



High growth in end user demand for nitrile latex gloves.

Innovation, capacity expansion and delivery of NBR project in Malaysia, operational efficiencies.

**STYRENE BUTADIENE RUBBER (SBR)**

(including compounds, high solid SBR formulations)

No.1 producer in Europe.

Paper, carpet and foam markets.

Coated paper, packaging, bindings for carpet, foams for mattresses, pillows and shoes. Compounds for carpet backing and high solid latex applications.

Germany, Italy, Finland, UK, Netherlands and Egypt.

**£306.5m**



Paper declining, carpet flat, foam and compounds growing.

Innovation, strong cost and cash control, debottlenecking and asset rationalisation. Capacity improvements to supply foam markets.

Malaysia.

**£6.3m**



Good demand expected medium term, particularly in niche products.

Introduce products from Europe and look to maximise asset capacity.

**SPECIALTIES**

(including inorganic products)

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

Automotive sound dampening, PVC, polyester resins for powder coatings, catalysts, flame retardants and monomers.

UK, Italy and Czech Republic.

**£239.4m**



Positive outlook, though challenges in certain catalysts markets continue.

Innovation, integration, operational efficiencies, capacity debottlenecking.

Malaysia.

**£50.4m**



Increase in demand expected.

Continue to supplement market growth from Europe.

# CREATING AND SUSTAINING VALUE THROUGH INNOVATIVE SOLUTIONS

## OUR SUSTAINABLE VALUE CHAIN

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

### RESEARCH AND DEVELOPMENT

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.

### CONSUMERS

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

### TECHNICAL SERVICES

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

### FORMULATIONS

Our formulations are designed for use in customer specific products.

### SOURCING RAW MATERIALS

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

### PRODUCTION

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

### QUALITY CONTROL

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

### LOGISTICS

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

We produce chemical formulations for thousands of customers in a range of industries, from construction and coatings to healthcare and automotive. Our strategic procurement specialists acquire the upstream raw materials used in our complex production processes.

The production process involves controlling the pressure, temperature and duration of mixing reactions of our raw materials in order to create specific formulations. Our highly skilled and experienced Operations teams, supported by our R&D, deliver cost effective and flexible operational capabilities to maximize output and quality.

## OUR STRATEGY

Our mission is to provide our customers with innovative and high performance solutions that enable them to efficiently produce their own high quality products.

Our strategy is composed of five key elements:

- 1 **RESEARCH AND DEVELOPMENT AND TECHNICAL EXPERTISE TO EXPLOIT NEW MARKETS**  
We anticipate market trends and customer requirements to deliver improved products with improved margin and product differentiation.
- 2 **DRIVING EFFICIENCY AND EXCELLENCE THROUGH OPERATIONS**  
We operate continuous improvement across our operations to improve production efficiency, sales effectiveness and functional excellence. We seek to identify good practice in all areas of our business and ensure that relevant learnings are disseminated throughout the business.
- 3 **CAPACITY UTILISATION**  
Our aim is to drive profitability through maximum utilisation of our assets. This involves identifying the root causes of production bottlenecks and finding innovative solutions.
- 4 **INVESTMENT IN CAPACITY**  
We seek to add capacity, particularly in growth markets.
- 5 **BUSINESS GROWTH THROUGH ACQUISITION**  
We actively seek opportunistic bolt on acquisitions in similar chemistries or transformational step change transactions not limited by geography or chemistry.

 **READ MORE** P12 AND 13

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

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

## KEY BENEFICIARIES OF OUR VALUE CHAIN

### 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 environment to work.

### GOVERNMENTS

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

### COMMUNITIES

We look to be a valued part of the 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.

### 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 Innovation and Technical Services teams, to develop products that support their goals.

### 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.

STRATEGIC PRIORITY

1

Research and development and technical expertise to exploit new markets



DESCRIPTION

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

2016 ACHIEVEMENTS

Sales of new products launched in the last five years reached 20.0% of total revenue on a legacy basis achieving a key milestone and a measure of our capacity to innovate.

We acquired new chemistry formulations through our PAC acquisition, including redispersible powders, powder coating resins and monomers.

2

Driving efficiency and excellence through operations



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

Synthomer 2015 was an efficiency program involving site overhead reductions, automation and plant rationalisation which is now complete and delivering annualised savings of €13m.

Established a specialist procurement function with significant expertise in raw materials and non direct purchases to drive savings.

Established an operational and manufacturing excellence team to drive cost performance.

3

Capacity utilisation



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

Operational and manufacturing excellence team drives asset utilisation.

4

Investment in capacity



**We seek to add capacity, particularly in growth markets.**

Approved large scale capacity expansion at Pasir Gudang nitrile latex plant, Malaysia and the Worms dispersion plant, Germany.

5

Business growth through acquisition



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

We completed the acquisition of PAC adding seven new plants, expanding geographical reach in growth segments, and introduced new products in powder coatings and redispersible powders. Integration of PAC is progressing to plan.

## KEY PERFORMANCE INDICATORS

**20%**

Revenue from new products less than five years old.

## 2017 PRIORITIES

Delivery of new product launch program including nitrile latex product development.

## RISK

- Protection of IP
- Competition
- Market cyclicality

**£160.1m**

Underlying EBITDA

**3.37**

Energy consumption (GJ/tonne)

We will employ process reengineering techniques to maximise efficiency.

Utilise value gap analysis to embed operational excellence tools and drive improved performance.

- Raw material price volatility
- Accidents or environmental incident
- Failure of Plant or systems
- Compliance
- Financial market volatility

**0.30**

Recordable accident frequency rate

**£122.2m**

Underlying PBT

Roll out Customer Relationship Management system across business to trace new product leads, capitalise on customers' needs and enhance cross selling opportunities.

**£160.1m**

Underlying EBITDA

**£122.2m**

Underlying PBT

We will debottleneck and consolidate sites as part of the development of the manufacturing network following the acquisition of PAC.

- Competition
- Raw material price volatility
- Failure of Plant or systems

**28.3p**

Underlying EPS

**1,324.9**

Volume (WET KTES)

**£160.1m**

Underlying EBITDA

**£122.2m**

Underlying PBT

Delivery of Project Excellence methodology in capacity expansion projects in Malaysia and Germany.

- Failure of projects
- Market cyclicality

**28.3p**

Underlying EPS

**1,324.9**

Volume (WET KTES)

**£160.1m**

Underlying EBITDA

**£122.2m**

Underlying PBT

We are highly active in identifying, targeting and reviewing opportunities, both in relation to bolt on acquisitions and transformational step change transactions in adjacent chemistries.

- Availability of suitable opportunities
- Failure of acquisition to deliver benefits
- Financial market volatility

**28.3p**

Underlying EPS

[READ MORE P18 AND 19](#)[READ MORE P30 TO 32](#)

# How does Synthomer understand our customers' needs, their global ambitions and help them succeed?

The global nature of the Synthomer organisation gives us an excellent platform to anticipate new market trends in every region of the world. In the adhesives market we are constantly balancing the broad requirements of the global market, such as the move to transparent film glass bottle labels, with our ability to tailor to local customer needs, for example, coating technology. We have adhesive applications experts at our technical centres in the US, Europe and Asia who closely connect with customers in the market to get a full understanding of new requirements. This insight allows our co-located Technical Service and R&D teams to quickly deliver the optimum solutions from our broad technology portfolio.

→ **IN ACTION:**  
Pressure sensitive adhesives (PSA)

## **INNOVATION**

Our 2016 acquisition of PAC gave us access to acrylic platforms in PSA. These technologies are used in the fast growing food packaging and bottle labelling segment to supplement and protect manufacturers' brand images and in packaging where water based PSA acrylics are increasingly replacing water borne and natural latex.

## **EXCELLENCE**

PSA technology enables transparent labelling film to be placed on windows and bottles to enhance a brand's image and protect the labels from damage. This technology allows labels to be applied using pressure only and without the use of adhesives.

## **GROWTH**

We will utilise our global sales network, customer insight and key account management to drive sales synergies globally across more than 800 customers.

Global sales network to promote newly acquired technology.

# No 1

In liquid applied membranes

## IN ACTION:

Construction – meeting future building standards

## INNOVATION

We have developed a full range of cementitious membrane products for use in the construction industry. These products allow construction to progress more quickly due to their faster drying time, improve protection from groundwater, reduce odours within buildings and improve construction efficiency in hostile building environments with extreme temperature ranges.

## EXCELLENCE

Synthomer has long experience in working with customers to identify new innovations that meet their current and future needs.

## GROWTH

We have a strong number one market position in liquid applied membranes and expect to see strong growth opportunities in Asia and North America. This technology can provide a strong platform for use in alternative segments of the market such as oilfield chemicals.



# How does Synthomer respond to new regulations to help customers and maintain our competitive advantage?

Synthomer works with its construction customers and industry regulators to provide a clear future view on regulations at a regional and global level. This insight feeds into our product development programs to ensure our pipeline of innovations meets the future market requirements and keeps our product portfolios ahead. Recent examples of this are Synthomer's new range of SBR latices for flexible cement which were launched in advance of upcoming Registration, Evaluation, Authorisation & Restriction of Chemicals (REACH) Regulation deadlines, and our modern range of cement membranes and construction adhesives that meet new stringent indoor air quality standards.

## How can Synthomer deliver solutions to our customers in an increasingly global market?

Technical textiles are found in a diverse range of applications from hygiene products to automotive components to glass fibre composites. Our technical centres sit close to our customers to get good alignment on requirements and state of the art applications. Labs are able to mimic industry standard testing in these areas. Our core NBR, SBR, acrylic and vinylic platforms give Synthomer the broadest range of chemistries available in this applications space and this allows our global R&D to quickly identify and deliver the best technical solutions.

### → IN ACTION: Textile and fibre bonding

#### INNOVATION

As the demand for new non-woven products grows, Synthomer continues to innovate and introduce new products to meet the needs of its customers. With over 400 customers in its technical textile and non-woven business, Synthomer is a leader in this market, developing high performance products with lower environmental impact.

#### EXCELLENCE

Our newly developed latex grades for non-woven hygiene applications allow customers to improve the efficiency of their product processes and reduce the environmental impact of volatile organic compounds (VOC).

#### DELIVERING GROWTH

Our global network allows new technology to be introduced to customers in every region of the world.

**IN ACTION:**

## Health and protection ←

**INNOVATION**

Synthomer is the world's leading NBR producer supporting production and innovation for medical and industrial glove applications. We have developed products that enable glove manufacturers to produce stronger but lighter and more elastic gloves for medical professionals to protect themselves and patients when performing their work. We continue to innovate and are working on new grades of nitrile latex to improve glove manufacturing efficiency and further enhance comfort for glove users.

**EXCELLENCE**

Synthomer 6338 latex launched in 2015 is formulated specifically to meet the needs of customers wishing to produce high strength and ultra-low weight gloves and we hope to announce further innovation in due course.

**DELIVERING GROWTH**

The markets supplied by our health and protection business continue to grow strongly. The new products recently developed and launched have, in addition to delivering improved customer benefits, allowed more efficient use of our production assets in Malaysia, resulting in an expansion of available capacity to meet the needs of our customers. 60.0% of our NBR for medical gloves sales come from new products launched in the last five years.

**NBR revenue from new products** developed in last five years

**60.0%**

## How do global trends influence the focus and prioritisation of R&D in Synthomer?

Market trends continue to influence the medical glove market including the continued move away from natural rubber latex towards synthetic alternatives, increasing healthcare standards and the need for material and production efficiency. By focusing research initiatives we have developed a new product line suitable for thinner, stronger gloves that have an improved touch and feel whilst maintaining barrier properties. These NBR latices can be used on the fastest glove lines in the industry which has led to strong uptake at major glove producers. The trend to reduce environmental impact, for example through lower energy usage, is an area of research with a view to bringing further innovations to the market.

# MEASURING OUR PROGRESS

## VOLUME (WET KTES)

## UNDERLYING EBITDA (£M)

## UNDERLYING PROFIT BEFORE TAX (£M)

## UNDERLYING EARNINGS PER SHARE (PENCE/SHARE)

### STRATEGIC FOCUS



#### KPI DEFINITION

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

#### COMMENT

- Growth mainly due to the acquisition of PAC

### STRATEGIC FOCUS



#### KPI DEFINITION

Underlying earnings before interest, tax, depreciation, amortisation and special items.

#### COMMENT

- Record year for EBITDA benefitting from the acquisition, performance improvements and foreign currency translation gains
- Innovation, capacity expansion and cost control critical to continuing improvement

### STRATEGIC FOCUS



#### KPI DEFINITION

Underlying profit before tax.

#### COMMENT

- Record year for underlying profit before tax benefitting from the acquisition, performance improvements and foreign currency translation gains

### STRATEGIC FOCUS



#### KPI DEFINITION

Basic underlying earnings per share before special items.

#### COMMENT

- 31.6% growth in underlying EPS in the year benefitting from the acquisition, performance improvements and foreign currency translation gains

**REVENUE FROM  
NEW PRODUCTS (%)****RECORDABLE ACCIDENT  
FREQUENCY RATE****ENERGY CONSUMPTION  
PER TONNE (GJ/TONNE)****STRATEGIC FOCUS****1****KPI DEFINITION**

Percentage of revenue in the year that can be attributed to new products launched in the last five years.

**COMMENT**

- Continued success in our strategy to increase revenue contribution from new products
- Legacy business, excluding PAC, achieved our target of 20.0% for the first time since the KPI was introduced
- We continue to integrate PAC to enable them to report on the same basis

**STRATEGIC FOCUS****2****KPI DEFINITION**

Recordable injury rate for accidents involving more than first aid treatment, expressed as accidents per 100,000 hours worked.

**COMMENT**

- 46% reduction in the accident rate in 2016 including the new PAC sites
- On a legacy business basis we achieved a 64% reduction as we successfully implemented our SHE Principles and 10 Golden Rules

**STRATEGIC FOCUS****2****KPI 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 these vehicles on site, but internal transport on site is included.

**COMMENT**

- Energy use has increased 29% due to the PAC acquisition
- Our newly acquired plant in the Czech Republic produces energy intensive monomers, acrylic acid and polymer dispersions and is more dependent on brown coal accounting for 24% of the Group's total energy consumption
- 2017 will focus on energy savings at our top five sites by energy consumption

→ **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 acquisition

→ **READ MORE** P12 AND 13

# SUSTAINABILITY AT THE HEART OF OUR BUSINESS

## SUSTAINABILITY HIGHLIGHTS

- Successfully launched our SHE principles and 10 Golden Rules to further strengthen the Synthomer SHE culture
- Total recordable accident rate reduced by 46% compared to 2015
- Increased focus on process safety supported by our new SHE audit approach which proved effective at both existing and newly acquired sites
- A Human Resources framework was introduced to enhance the performance of our employees and provide the "Synthomer Way" to newly acquired sites

## OUR APPROACH

Financial results remain an important measure of success but Synthomer recognises that to be a truly successful global business we must work hard to continually improve our safety, health and environment (SHE) performance and identify how we can positively impact our employees and the communities in which we operate.

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 minimise any environmental burden created by our activities;
2. To have no accidents or incidents; and
3. 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.

## KEY PRACTICES AND PROGRAMS

SHE management practices and systems are embedded throughout the Group with the aim of continuously improving SHE performance.

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.

We reviewed significant incidents and injuries from the past few years and identified a number where both system failings and behavioural issues were a factor. Following "Line of Fire" work in 2015 the Group launched a set of 10 SHE Principles and 10 Golden Rules during 2016 across the whole group, and these are now an integral part of how Synthomer operates.

## OUR APPROACH

### Our people

We have developed a Human Resources Framework covering five pillars supported by an open and positive working environment to get the best out of our excellent people.

[▶ READ MORE P22](#)

### Safety, health and the environment

We have continued to focus on reducing accident rates in the past year. Total recordable accident rate including the PAC sites fell 46%. We are committed to achieving a zero accident rate.

[▶ READ MORE P24](#)

**KEY SHE PROGRAMMES**

**Group's Safety, Health and Environment Management System (SHEMS) standards and policies**

**2016 SHE KEY ACTIONS**

All corporate SHE Standards reviewed and streamlined.

Roll-out of SHE Principles and 10 Golden Rules to underpin all of SHEMS.

**2017 SHE KEY FOCUS**

Identification and sharing of best practice; refreshing of Group SHE Procedures linked to key areas such as management of change and permit to work.

**Group SHE audits**

Completed second year of new audit process, focusing on process safety risks and identification of key improvement actions with agreed timescales to implement.

All new sites underwent a high level "shallow dive" SHE audit to identify potential priority areas for follow-up in 2017.

Completion of 3 year audit cycle on legacy sites and full audit of some new sites. Group SHE will also carry out additional assurance checks on sites' internal audit process as part of site visits.

**The Group Accident and Incident Management System (AIMS)**

Our electronic reporting system was modified to enable more effective identification of any system failings/ failures to apply SHE Principles and Golden Rules.

Trend analysis to identify any common themes as regards system failings – will influence future work programmes.

**SHE training, communication and support**

Introduction of the SHE Principles and Golden Rules across the Group.

Leadership workshop with all Site Managers to share learning and build on the Principles and Golden Rules roll-out.

Further roll-out of first line manager competence assurance programme.

Ongoing process safety training across the Group.

Global SHE Managers' and Site Managers' Workshops.

**Alignment of staff incentives**

Group 2016 bonus scheme revised to reflect the importance of safety to our business and emphasize how all employees can influence SHE performance – targets based on both occupational and process safety.

Continuation of 2016 process with improved performance targets defined.

The Group publishes an annual Corporate Social Responsibility (CSR) report which is available online. It discusses a wider range of safety, health and environmental measures of our performance as well as other CSR measures and activities. Please go to [www.synthomer.com](http://www.synthomer.com) to find the latest report.

**OUR SHE PRINCIPLES**

We launched our Safety, Health and Environment principles in 2016 across all sites including our 2016 acquisition. We always have time to work safely.

Look after yourself

Look after each other

Effective last line of defence

Stop and think

Safe workplace

Safe vehicle, safe driver

Safe processes and operations

Safe systems of work

No change without assessment

Learning from our mistakes

**Our SHE Principles and 10 Golden Rules**

For more information on our SHE Principles and 10 Golden Rules

Employees in emerging markets

**26%**

Total Group employees

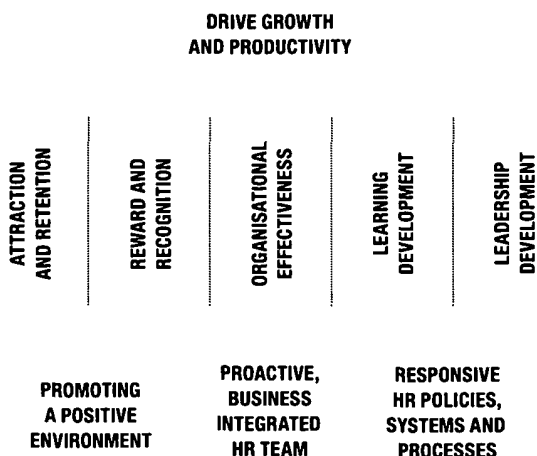
**2,698**

Employees working in R&D

**138**

#### OUR PEOPLE

Human Resources has developed a new framework to drive growth and productivity of our people. The framework is composed of five elements supported by an open and positive working environment, HR policies and processes, and an integrated HR Business Partnership team.



	Male	Female	Total
Board	8	1	9
Senior management	22	3	25
Employees	2,186	512	2,698

#### ATTRACTION AND RETENTION

Our aim is to further enhance the attraction, selection and retention of staff through enhancing our employer brand, incorporating improved selection techniques when filling vacancies and continuing the development of a vibrant, challenging yet supportive culture. Over the last year improvements have been made in our Global Engineering Graduate Programme. These improvements will be rolled out into our Global Technical and Commercial Graduate programmes in the coming year.

Part of the heritage of Synthomer is the cultural diversity across the Group and this continued to grow following the acquisition of the PAC business at the end of June. We continue to embrace diversity as an equal opportunity employer and have seen a small increase in females within our senior management population.

We recruit, train and promote employees according to their achievements and commitment, treating employees equally regardless of their race, national origin, religious affiliation, gender sexual orientation, disability, age or background.

It is a common challenge in the chemistry industry to recruit and retain a workforce that properly reflects the communities in which they operate, particularly in respect of gender. We actively promote gender equality and work with local universities to inspire women to consider careers in our industry and with us.

#### CASE STUDY:

##### OUR COMMITMENT TO OUR LOCAL COMMUNITIES

We seek to play a positive role in the communities in which we operate. In particular, we use our unique talents, expertise and passion for chemistry and engineering to inspire the next generation to learn and consider future careers in these important disciplines.

Our specialist manufacturer William Blythe teamed up with Catalyst to inspire young people from a local school in Accrington to take a closer look at science. Catalyst is an interactive science centre and museum devoted to chemistry and how the products of chemistry are used in everyday life. The excited pupils discovered that science can be engaging and fun when they visited the Catalyst Science Discovery Centre in Widnes sponsored by William Blythe.

We strive for fair and transparent mechanisms for recognition and reward of staff. In the past year we have simplified and updated an internationally recognised role assessment process which forms the framework of our reward and benefit policies. This enables a fair comparison of jobs across the Group and gives a validated platform on which salary and benefits can be benchmarked. Reward is linked to a global performance management process that tracks achievement of objectives together with the way that these are delivered.

The global bonus system was amended in 2016 to align performance, where practicable, with targets that the employee can impact. All staff have safety targets in their bonus scheme and the majority of staff that are based at the local manufacturing operations have KPI and EBITDA targets aligned to their local site and business unit. This scheme is being further simplified in the coming year.

#### ORGANISATIONAL EFFECTIVENESS

With an emphasis on productivity, and alignment of our Human Resource capital with value adding contribution towards the business, simple performance management principles continue to be developed. Training has been undertaken in parts of the Group including managing effective performance and coaching for performance.

Succession planning has been a significant area of focus through 2016 with particular focus on senior management levels. It was recognised that the business and functional leadership needed to be cost effectively strengthened to support delivery of the ambitious organic and acquisition growth plan. The succession plan is reviewed by the Executive Committee and the Board.

#### LEARNING AND DEVELOPMENT

Through the second half of 2016 the Human Resources and Operational Excellence teams have developed simple Leadership Attributes based on best practice within the Chemical industries. These simple attributes compliment work done within ENA and ARW and will, together with past performance, form the basis for selection and development of current and future leaders. This is also being embedded into the revamped Global Graduate Development Programme. Compliance training has been developed into an on-line training suite that allows employees to keep up to date with important developments in ethics and compliance law.

#### LEADERSHIP DEVELOPMENT

Linked across all of the pillars is our commitment to support and challenge authentic leaders who are focused on empowering staff and helping them to understand and grow their contribution to the Group and its stakeholders. Encouraging leaders to treat others as they would like to be treated and also by leading by example, the culture continues to thrive and encourage employees to perform and to grow. Organisational climate surveys, 360° feedback, coaching and mentoring are all utilised to support our leaders to understand their strengths and weaknesses.

In Asia a new career ladder has been introduced in 2016 with an aim to recognise staff and leadership development against firm criteria.



Annual appraisals are a core HR process to align employee objectives with the strategy of the business. An electronic system is in place to manage this process with 91% of eligible employees having completed their appraisals by the end of March 2016.”

#### CASE STUDY: OUR COMMITMENT TO DEVELOP KNOWLEDGE AND SCIENCE

We actively partner with eight universities in the UK and one each in the USA, Germany, France and Spain to support science undergraduates and post graduates as well as enhance our own innovative capability through joint research on new monomers, polymers and improved process. We have recruited three PhD graduates directly as a result of these programs.

As part of our strategy to maintain our leadership position in Nitrile Latex, the Innovation Group continues to extend its fundamental research partnership and sponsorships with local universities in Malaysia. Most recently this was extended to UTM (Universiti Teknologi Malaysia) with Synthomer sponsorship of Masters Degrees focused on emulsion polymerisation in latex/ acrylic systems. On successful completion, the students will join the Innovation Team in Kluang. Further recognition programmes were made during the year with an award for the best Polymer Science PhD thesis at the Malaysian Institute of Chemistry (Institut Kimia Malaysia).

## SAFETY, HEALTH AND ACCIDENT PERFORMANCE

### OCCUPATIONAL SAFETY

On a like for like basis the Group's reportable lost time accident rate improved in 2016 to give Synthomer its best ever performance, with five over three day accidents during the year. Including full year data from the PAC sites, there were 12 over three day accidents, giving a consequent frequency rate of 0.20 per 100,000 hours worked.

Our main lagging indicator of SHE injury performance is now the recordable injury rate for accidents involving more than first aid treatment. Based on legacy site performance we achieved a significant reduction in such injuries, from 28 in 2015 to ten in 2016. The new Group had 18 recordable injuries in 2016 with a frequency rate of 0.30 per 100,000 hours worked, a 46% improvement on 2015 (see **figure 1**).

Our target ultimately is to have *no accidents or injuries so, whilst improving, we recognise there is more to be done to achieve a sustained performance and interdependent safety culture. We are confident that this can be achieved by building on the SHE 10 Principles and Golden Rules work in 2016.*

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

#### Note

Except where stated the performance data in this report reflects the composition of the new Group including the PAC sites, and excludes the South African business divested in 2016.

### PROCESS SAFETY

At the end of 2015 we refined our definitions for process safety events (PSE) to align them with the new International Council of Chemical Associations (ICCA) definition of a reportable PSE under Responsible Care®. Internally we now track 4 levels of severity for a PSE, focusing on root cause identification for the 2 most severe levels (Level 2 being equivalent to an ICCA Reportable PSE).

There were ten such events reported in 2016 across all sites but none resulted in injury, significant plant damage or environmental contamination. These are covered in more detail in our full CSR Report. As a result of reviewing the underlying failings that led to these events there are programmes of work planned in 2017 around process hazard analysis review, management of change and permit to work.

### ENVIRONMENTAL PERFORMANCE

We are proud of the fact that since 2000 we have reported ongoing reductions in each of our main environmental targets: global warming burden; energy and water consumption per tonne of production; and waste disposal from our sites.

In 2014 we rebased our ten year targets to 2005 actual levels for reporting purposes. We also set new 2020 targets for the above 4 metrics based on a 2012 baseline year, selected as it reflected the composition of the Group following the PolymerLatex acquisition in 2011.

With the acquisition of seven new sites in 2016, including those such as the monomer plant in the Czech Republic that has a wholly different energy profile to our core polymer operations, we will be reviewing and revising the baseline and targets in 2017 against the new 2016 figures.

The performance of each of the key measures is discussed below.

### ENERGY

Including full year data from the PAC sites, the total net specific energy consumption (SEC, i.e. energy use per tonne of production) rose 29% (see **figure 2**), the majority relating to a new acquisition in the Czech Republic that produces monomers, acrylic acid and polymer dispersions. The site uses brown coal in the onsite power station as well as gas, and overall accounts for 24% of the new Group's total energy consumption.

On a legacy site basis, absolute energy consumption (based on primary rather than metered electricity) was down 2.3%, but a 2.7% drop in production meant the specific energy consumption in GJ/tonne was 0.4% worse than last year.

Factors that negatively impacted performance included product mix at some sites where there was an increase in the manufacture of more energy intensive high solids SBR latex; an increase in natural gas usage for a waste gas thermal oxidiser unit following retrofitting work in Summer 2016 and new steam meters installed at another site highlighted a likely under-reporting of consumption in 2015.

Against this there was significant improvement seen on a number of sites as the benefits of a number of energy projects were realised. Installation of new steam generators to replace old boilers at a plant in the UK during Q4 led to a large reduction in gas consumption, and further efficiency gains have been seen a 3% improvement at one of our largest sites in Malaysia.

Better integration of energy projects within overall site manufacturing strategies is planned from 2017, and there will be a focus on the top third of sites with the highest contribution to Group energy consumption in order to improve from the broadly flat performance seen in recent years.

#### WATER USE

Total water consumption per tonne of production increased 14.6% in 2016 (see **figure 3**), with the PAC Czech site accounting for 20% of the absolute volume increase. Excluding the PAC sites the consumption per tonne was virtually unchanged in 2016.

Excluding river water (used for "once through" cooling and then returned to the river on a number of sites), water usage per tonne improved by 1.1% on the new site basis but was 1.9% worse on a legacy basis. Whilst most sites in the Specialities Division saw improvements in water management, this was offset by increases in consumption on the sites in Malaysia and Germany that consume the most water. As the majority of our products are water based dispersions some of the increases are 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.

#### WASTE DISPOSAL

Considering only the legacy sites there was a 15.5% reduction in total waste generated in 2016 and a 13% reduction on a per tonne basis.

Including the PAC sites overall waste generation in 2016 increased by 33%, and on a per tonne production basis by 11.6%. The process at the PAC speciality plant in Italy generates a high proportion of hazardous waste which is currently not recoverable. The PAC French site generates a large amount of non-hazardous waste but 96% of this is recovered as energy or via recycling.

The absolute amount of waste sent to landfill rose just under 16% but was down on a per tonne basis by 3.1% (see **figure 4**). As a result of the sale of the South African business, the reported 2016 hazardous waste to landfill dropped 27% in absolute terms and 39% on a per tonne basis.

#### GREENHOUSE GAS EMISSIONS

The Group reports environmental KPIs in the format recommended by the Department of Environment, Food and Rural Affairs (DEFRA), with Annual Reports containing data for each year since 2005 on a three year rolling basis. In 2013 the format was revised to comply with DEFRA's guidance relating to greenhouse gas emission reporting requirements within the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

#### REPORTING PARAMETERS

The 2016 financial year reporting includes all manufacturing operations, all office locations co-located with manufacturing and those listed as contact locations in the annual report or on the Company's website. It does not include some very small locations such as home offices. These locations will have no material effect on the Group's overall GHG emissions, being estimated at considerably less than 0.1% of the Group total.

All known emissions from manufacturing 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 volatile organic compounds (VOCs)

and refrigerant gases. The only known emissions which have not been included are direct emissions of CO<sub>2</sub> 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 & 2 emissions. No estimate has been made of scope 3 emissions. The Group continues to use emissions per production tonne as its intensity ratio. The data sources for emissions factors (CO<sub>2</sub>e) are those from DEFRA (dataset for 2016 reporting published in June 2016) and the IEA (International Energy Authority).

### **CASE STUDY: OUR COMMITMENT TO THE ENVIRONMENT**

Kluang is our original site in Malaysia and over the last few years we have worked to upgrade the facility to reduce our environmental impact and benefit the local community. In order to promote the use of natural rainfall and reduce our dependency on mains water, which can be scarce in Malaysia at certain times of the year, we initiated a capital project on land adjacent to the facility to increase the size of the existing rainwater reservoir to capture water which is then treated and used in our production processes. We also worked closely with the local Indian community and Malaysian Ministry of Education to move the Tamil school and associated temple, which previously were next to our plant, to a better location with upgraded facilities.

### **CALCULATION METHODS**

All direct energy production from fossil fuels has been aggregated on a group wide basis and converted to CO<sub>2</sub>e by using the appropriate DEFRA emissions factors. No allowance has been made for possible country to country variation in calorific value or CO<sub>2</sub> emission factors for primary fuels.

Electricity has been converted to CO<sub>2</sub>e on a country by country basis. For 2015 and 2014 figures the factors provided by DEFRA for all operating countries was used. For 2016 factors from DEFRA were used for UK grid electricity and for overseas grid electricity factors have been taken from the 2016 IEA "World CO<sub>2</sub> Emissions from Fuel Combustion" database.

As per UK Government guidance factors used for 2016 reporting are based on 2014 validated data. In preparing the 2016 annual report using the IEA emissions factors it has been noted that there is variance in some cases for the emissions from electricity factors used in previous years between DEFRA and IEA. However, figures for earlier reporting years have not been changed.

Several sites within the Group now purchase certified "green" electricity. Electricity for these locations has been given a CO<sub>2</sub>e emissions factor of 0.00 in calculating energy related emissions totals. These sites were Oss in the Netherlands, Marl in Germany and the Ossett site in the UK.

Synthomer's site in Stallingborough, UK takes most of its electricity from an exclusive contract with an adjacent waste incinerator operated by Newlincs. This electricity is certified as "Green" by the UK government. As a mixture of waste deemed both renewable and non-renewable is consumed, it does not have a zero emission factor. For 2016 the applied emission factor for electricity from Newlincs is based around that determined for the site's Climate Change Agreement (CCA) reporting of around 0.50 kg CO<sub>2</sub>e per kWh. Work is ongoing to validate the factors applied. 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 CO<sub>2</sub>e 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 2011-2016. Releases of each individual gas have been aggregated each year to give a Group release total and then converted to CO<sub>2</sub>e using the equivalence factors given by DEFRA for each gas. The emissions factors applicable to refrigerant release in 2016 have been updated in line with DEFRA's adoption of the Global Warming Potential (GWP) factors from the IPCC 4th assessment report.

**PERFORMANCE IN 2016**

The introduction into the Group of facilities that burn brown coal and heavy oil to generate heat and power has had a significant impact on our reporting emissions total. Compared to 2015 the overall emissions total (as tonnes of CO<sub>2</sub> equivalent) increased by 48% and on a per tonne basis by 24% (see **figure 5** on page 25). If the Czech plant is taken out, Group performance including the other PAC sites would indicate a 4.9% increase in absolute emissions but a 2.7% improvement on a per tonne basis.

On a legacy site basis, the Group saw a 9% reduction in total emissions and 6% reduction on a per tonne basis. This is part driven by the energy improvements noted on some sites, but also by changed grid electricity emissions factors.

Changes in the emissions factors in different countries have a significant impact over which the Group has no control.

**ENVIRONMENTAL KPIS**

This table presents environmental KPIs for 2014–16, 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.

	2016	2015 (restated) <sup>7</sup>	2014 (restated) <sup>7</sup>	% change 2014 – 16 <sup>a</sup>	% change 2015 – 16 <sup>a</sup>
<b>Energy consumption<sup>1</sup></b>					
<b>GJ</b>	<b>5,328,447</b>	3,458,905	3,418,716	55.9%	54.1%
Gas	<b>1,375,411</b>	701,901	737,416		
Light oil	<b>24,933</b>	26,930	27,340		
Heavy oil	<b>4,452</b>	0	0		
Steam (metered)	<b>792,785</b>	746,797	701,117		
Electricity (primary basis)	<b>2,600,153</b>	1,969,619	1,940,581		
GJ/tonne production	<b>3.374</b>	2.618	2.634	28.1%	28.9%
<b>Emissions to Air<sup>2</sup></b>					
Carbon Dioxide (CO <sub>2</sub> ) equiv. from Energy tonnes <sup>3</sup>	<b>299,123</b>	199,011	206,565	44.8%	50.3%
Tonnes CO <sub>2</sub> equivalent /tonne production	<b>0.189</b>	0.151	0.159	19.0%	25.7%
Sulphur Dioxide (SO <sub>2</sub> ) (tonnes)	<b>140.6</b>	22.8	18.0	681.3%	517.0%
Kilos SO <sub>2</sub> /tonne production	<b>0.0890</b>	0.0172	0.0139	542.2%	416.1%
Nitrous Oxides (NOx) tonnes <sup>4</sup>	<b>112.54</b>	24.61	24.56	358.2%	357.2%
Kilos NOx/tonne production	<b>0.0713</b>	0.0186	0.0189	276.6%	282.4%
Volatile Organic Compounds (VOC) tonnes	<b>184</b>	222	185	-0.5%	-17.1%
Kilos VOC/tonne production	<b>0.117</b>	0.168	0.143	-18.2%	-30.6%
Refrigerant Releases (HCFC and others) Kgs	<b>1,681</b>	1,958	4,277	-60.7%	-14.1%
Tonnes CO <sub>2</sub> equivalent	<b>5,930</b>	5,383	11,816	-49.8%	10.2%
Kilos Refrigerant/tonne production	<b>0.0011</b>	0.0015	0.0033	-67.7%	-28.2%
Total Carbon Dioxide (CO <sub>2</sub> ) equiv. tonnes <sup>5</sup>	<b>307,081</b>	206,840	220,419	39.3%	48.5%
Tonnes CO <sub>2</sub> equivalent /tonne production	<b>0.194</b>	0.157	0.170	14.5%	24.2%

**Notes**

1. Data relates to site usage of all fuels, excluding transport of goods to and from site and the movement of these vehicles on site. Internal transport on site is included.
2. Emissions to air have been calculated from the usage of all fuels, excluding transport fuel. They therefore include both direct emissions and indirect emissions related to bought-in electricity, steam, compressed air, cooling water etc, with the exception of transmission and distribution losses for electricity (these losses are in Scope 3, this report is for Scope 1 & 2).
3. CO<sub>2</sub> equivalent emissions include contributions from CH<sub>4</sub> and N<sub>2</sub>O associated with combustion.
4. NOx emissions are predominantly those from combustion processes. The CO<sub>2</sub> equivalent Global Warming Potential contribution from these releases is already included in the CO<sub>2</sub> from energy figure above.
5. The total CO<sub>2</sub>e figure is the total of the CO<sub>2</sub> equivalent from energy + the VOC contribution (assuming an average factor of 11 kg CO<sub>2</sub> e per kg VOC) + the refrigerant contribution.
6. Percentage changes are calculated from the base data and may differ slightly from changes calculated from the data in the tables because of rounding.
7. CO<sub>2</sub>e emissions for energy have been revised to more accurately reflect emissions linked to steam usage – the generic "heat and steam" emissions factors from DEFRA have been used for imported steam at our German and Finnish sites where exact data from the producer could not be obtained.

**STRATEGIC REPORT**  
**Risk management**

**RISK OBJECTIVES**

The Board is responsible for determining the “risk appetite” outlining the nature and extent of the risks the Group is willing to take to achieve the strategic objectives. Successful risk management is fundamental to achieving the Synthomer strategy by facilitating good decision making, embracing opportunities and mitigating risks that could impact the achievement of the strategy.

**RISK STRATEGY**

The Board is responsible for creating an effective risk management framework to assist the Group to meet its strategic objectives including setting the risk appetite and risk tolerances. The risk management framework includes a twice yearly formal assessment of risks which are compiled and assessed in a controlled register. The Board is also responsible for ensuring that appropriate and proportionate resources are allocated to risk management activities.

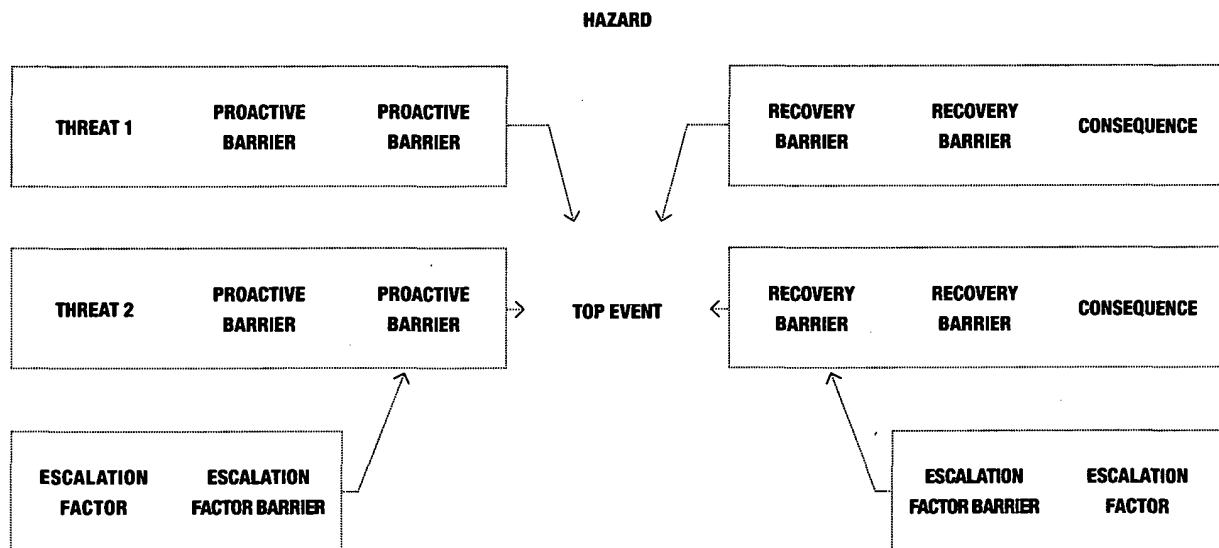
**OUR RISK MANAGEMENT FRAMEWORK**

We have a structured risk management framework operated at regional and Group level. The Business Risk Assessment Methodology was enhanced in 2016 and now defines a standard set of risk categories with generic risk descriptions to assist management in identifying areas of risk and a simple scoring methodology to quantify risk. We rank risks, taking into account

the effectiveness of controls in place, by combining their economic, operational or environmental impact and the likelihood that they may occur. Those risks that score the highest against the assessment methodology, before the impact of any new or incomplete actions is considered, are identified as key risks below.

We use a barrier-based “bow tie” methodology to help management define the most critical risk events, analysing and demonstrating causal relationships and considering the effectiveness and vulnerabilities of existing or potential new control measures.

By using a common framework, we are able to view risk from different perspectives and increasingly incorporate a functional view of risk provided by specialist departments. Reflecting its importance to our values, safety, health, and environmental (SHE) risks are reviewed and considered monthly by our Executive Committee. All Synthomer people are responsible for managing SHE risks.



**RISK RESPONSE**

Management are responsible for selecting an appropriate response and implementing actions that ensure risks remain within the risk tolerance set by the Board. Assurance on the effectiveness of the various actions and controls is provided by various internal and external groups and Synthomer runs a three lines of defence model (see illustration below).

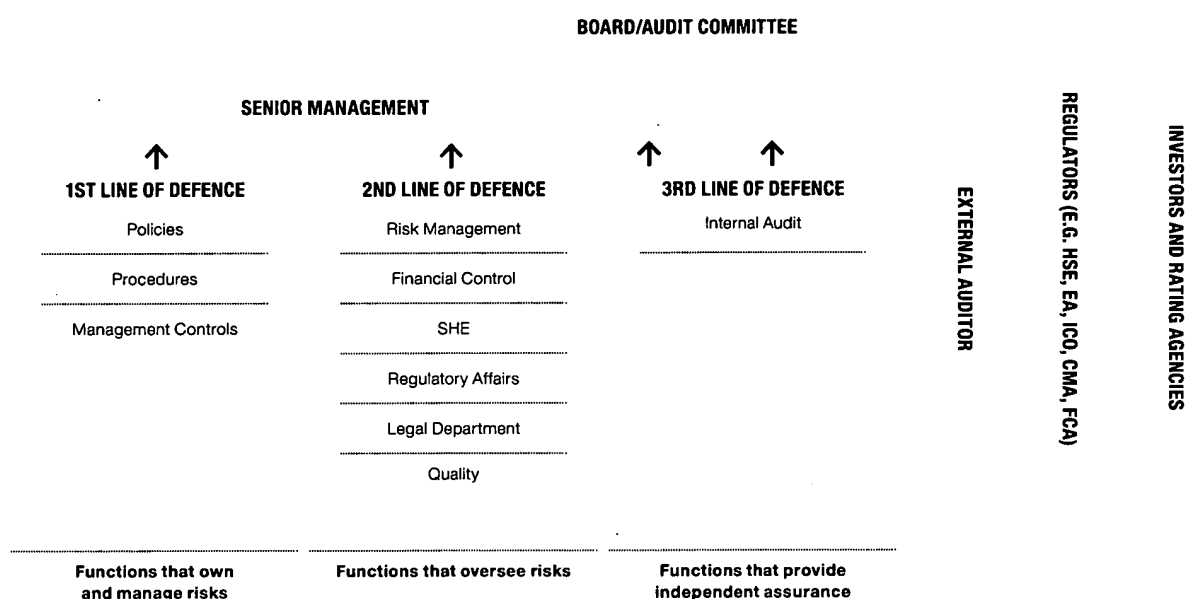
**OUR KEY RISKS**

Risks affect us in many ways. We identify the fast changing nature, likelihood and potential impact of risks through our formal twice yearly risk submissions and also more regularly through empowering local management to consider and react to risks. These reviews, together with our three line defence model, enable us to sustain effective control. We categorise our risks into 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.
- Financial risks relating to the funding and fiscal security of the Group.
- Compliance risks where a breach of regulations or laws could lead to fines from Regulators and reputational risk.

The table on pages 30 to 32 shows the key risks identified in 2016. 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. There are other risks that we have not included here as they have been assessed as lower risk. All risks (current and emerging) are reviewed formally twice a year by the Board and more regularly by members of the Executive Committee.

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.



Principal risks and uncertainties

The Group’s strategic objectives can only be achieved if certain risks are taken and managed effectively. We have listed below the key risks that may affect our business, although there are other less significant risks that may occur and impact the Group’s performance.



STRATEGY RISKS

Risks	Response	2017 Plans
<p><b>Volatility and cyclical nature of the global chemicals and polymers markets may adversely affect the results of the Group. The political risk of Brexit and other events on the worldwide economy together with economic slowdowns in growth markets could impact the business.</b></p>	<p>The Group maintains a balanced portfolio of products serving a wide range of end markets around the globe. Business unit performance is closely monitored and corrective actions are taken as necessary.</p>	<p>New product development and our acquisition strategy targeting adjacent speciality chemicals businesses will help us diversify this risk further.</p>
<p>Link to strategy <b>1 4</b></p>		<p>Change in risk level <b>↑</b></p>
<p><b>The markets in which the Group operates are highly competitive and the Group may lose market share to other producers of speciality chemicals or to other products that can be substituted for the products of the Group.</b></p>	<p>The Group continues to invest in existing and new products through R&amp;D and also an active acquisition strategy targeting new technological knowhow.</p> <p>The Group continues to invest in new facilities to allow the Group to maintain its key market positions.</p> <p>All sites operate quality management systems, such as ISO, to ensure products that reach customers meet agreed standards.</p>	<p>We have strengthened our business development teams and expect a number of projects and new product releases to bring additional competitive advantage.</p>
<p>Link to strategy <b>1 3</b></p>		<p>Change in risk level <b>→</b></p>
<p><b>The ability of the Group to compete is highly dependent on its ability to protect its intellectual property and trade secrets as well as defend manufacturing sites from potential cyber-attack.</b></p>	<p>The Group protects its intellectual property through use of patents.</p> <p>The Group is improving disaster recovery and resilience across the Enterprise Resource Planning software.</p>	<p>Disaster recovery and security improvements for non ERP systems such as those used in plants is a focus in 2017 as well as improving the overall IT Governance framework.</p>
<p><b>The Group could suffer significant losses of intellectual property or other assets through theft. The Group is exposed to continually evolving cyber and other security risks which could lead to regulatory fines, reputational damage and loss of opportunity.</b></p>		
<p>Link to strategy <b>1</b></p>		<p>Change in risk level <b>↑</b></p>




## KEY

- |   |                                       |
|---|---------------------------------------|
| 1 Research and development and technical expertise to exploit new markets | 3 Capacity utilisation                |
| 2 Driving efficiency and excellence through operations                    | 4 Investment in capacity              |
|   | 5 Business growth through acquisition |

➔ READ MORE P12 AND 13

Risks	Response	2017 Plans
Capacity enhancements designed to take advantage of growth and new markets, or other projects, are dependent on Synthomer managing projects well to correctly anticipate and deliver the benefits associated with the enhancement.	We have a robust capital appraisal process in place to assess projects proposed to ensure they will deliver value. We introduced the Project Excellence methodology to improve project management.	We expect to develop a project assurance capability and revamp our processes around post investment review to ensure lessons are learned around development of business cases, assumptions and project management discipline.
Link to strategy <b>4</b>		Change in risk level 
The Group's strategic plan involves significant M&A activity to enhance market positions including expanding the target search to adjacent speciality chemical businesses to provide new technologies. There is a risk that we fail to identify enough suitable opportunities, pay too high a price, fail to integrate acquired assets and drive planned synergies across the business, or encounter performance, funding and cash flow issues and potentially unknown liabilities.	Transactions are managed by the Executive Committee with extensive experience of successful M&A and integration of acquired assets with the use of external specialist advice as required.	We will continue to develop our Procurement and IT functions to drive synergies.
Link to strategy <b>5</b>		Change in risk level 

## OPERATIONAL RISKS




Risks	Response	2017 Plans
Volatility in the prices of raw materials and energy prices may adversely affect the profitability of the Group and its working capital position.	The Group actively manages margins and seeks to recover input cost increases from customers.	We are strengthening our procurement teams and improving strategic sourcing.
Link to strategy <b>2 3</b>		Change in risk level 
The manufacture, storage and transportation of chemicals is inherently dangerous and any incidents relating to the hazards which the Group faces may adversely impact its financial condition, results of operations and reputation.	Robust maintenance programmes are undertaken in order to ensure that our facilities meet Group and local legal requirements.  Synthomer operates a central safety audit function dedicated to SHE issues and it provides advice to our sites to enable continuous improvement across all major SHE areas. Increasingly the focus is on process safety risk to mitigate the risk of a catastrophic accident.	We aim to make progress on our long term ambition to move further towards an increasingly proactive approach to maintenance.  The central SHE audits will continue to improve our approach to process safety with additional training of auditors in this area. Assurance processes for lower risk SHE areas will continue to be devolved to local site specific SHE representatives with the central SHE providing oversight over these assurance areas.
Link to strategy <b>2</b>		Change in risk level 
The failure or loss of a manufacturing Plant, process, information or communication system, whether temporarily or permanently could occur, directly or otherwise, through natural disaster, failure of supplier, sabotage or cyber-attack, and would have an adverse impact on operations.	Crisis management procedures are in place for all sites which are reviewed and tested regularly.  Our strategic sourcing initiative ensures that Group-wide strategies are in place to access multiple sources for key raw materials and the Group works closely with key suppliers to ensure availability.	We plan to improve our overall approach to business continuity and disaster recovery planning to include alternative suppliers, identify the potential to move production between sites and prioritise customer's needs. We will increase our IT resilience through a refreshed IT security policy and disaster recovery arrangements.
Link to strategy <b>2 3</b>		Change in risk level 

## KEY


- |   |                                       |
|---|---------------------------------------|
| 1 Research and development and technical expertise to exploit new markets | 3 Capacity utilisation                |
| 2 Driving efficiency and excellence through operations                    | 4 Investment in capacity              |
|   | 5 Business growth through acquisition |

➔ READ MORE P12 AND 13

## COMPLIANCE RISK

Risks	Response	2017 Plans
<p><b>The Group may be liable for damages based on product liability claims brought against its customers in end-use markets.</b></p>	<p>Technically qualified personnel and control systems are in place around the Group to ensure products meet certification and quality standards.</p> <p>Synthomer has industry standard insurance policies in place which cover product liability exposure.</p>	<p>The Group will continue to invest in quality control systems and quality assurance testing.</p>
<p>Link to strategy <b>2</b></p>		<p>Change in risk level </p>
<p><b>Compliance with extensive environmental, health and safety laws and regulations could require material expenditure, changes in the operations of the Group or site remediation. Failure to comply could result in fines or the loss of a licence to operate.</b></p>	<p>Detailed safety, health and environmental processes are documented in operating guidance which is updated and communicated to staff on a regular basis. Our Regulatory Affairs Department provides advice to Operations and also conducts assurance activity.</p>	<p>Our SHE audit program will continue to improve process safety and assurance activity. Additionally, our Regulatory Affairs team will implement the strategy to register under the EU REACH Directive in line with the published timetable.</p>
<p>Link to strategy <b>2</b></p>		<p>Change in risk level </p>
<p><b>The Group could suffer substantial penalties, damage to reputation and other sanctions for any failure to control anti-competitive behaviour, such as bribery and corruption, or otherwise not be in compliance with laws and regulations in the jurisdictions where we operate.</b></p>	<p>All our key employees affirm their understanding of the code of business conduct, covering corruption and anti-competitive business practices. Malpractice reporting and whistleblowing protection are similarly covered in the Group policy on protecting our reputation. Training is provided regularly.</p>	<p>E-learning will be used in 2017 covering key compliance risks to targeted employees to ensure training is refreshed and to ensure that all new employees receive training relevant to their role.</p>
<p>Link to strategy <b>2</b></p>		<p>Change in risk level </p>

## FINANCIAL RISK

Risks	Response	2017 Plans
<p><b>The Group is exposed to significant risk of volatility in markets which may affect us:</b></p> <ul style="list-style-type: none"> <li>A significant proportion of the Group's turnover and assets are in currencies other than UK sterling and fluctuations in currency exchange rates may significantly impact the results of the Group.</li> <li>The Group's balance sheet and cash flow, and also credit market conditions and credit ratings, may restrict the ability of the Group to obtain credit facilities or to refinance its existing debt facilities in the longer term.</li> <li>The Group has funding risks relating to defined benefit pension schemes, the value of which are highly dependent on volatile stock markets.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>The Group closely monitors its operating cash flow and capital expenditure on a monthly basis and regularly reviews covenant compliance.</li> <li>The UK pension scheme was closed to future accrual in 2009 and additional contributions and careful asset management are targeted to reduce the deficit over the longer term. Overseas schemes are reviewed by actuaries to provide assurance over unfunded liabilities.</li> </ul>	<p>We will continue to hedge currency risks. We will continue to monitor our covenants as we pursue our M&amp;A strategy and ensure we pay the right price for acquisitions.</p> <p>Pension deficits should continue to reduce over the longer term as we pay the incremental contributions agreed with the Trustees in 2016 but the timescale will be subject to market volatility and also moves in the discount rate. The trustees of the UK pension scheme will retain the services of an investment manager to manage the risk and returns of the UK scheme assets and liabilities.</p>
<p>Link to strategy <b>2 5</b></p>		<p>Change in risk level </p>

## VIABILITY STATEMENT

In accordance with the provision of section C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a five-year period to December 2021, being the period covered by the Group's approved strategic plan. The Group strategic plan, which is updated annually, includes analysis of product and profit performance, cash flow, investment programmes and returns to shareholders.

The Board considers five years to be an appropriate time horizon for our 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 Board to be too long given the uncertainties that exist beyond this time frame.

In making their assessment, the Directors have considered the Group's current strong financial position, undertaken a sensitivity analysis over the key trading assumptions and the potential impact of the principal risks (detailed on pages 30 to 32) over the five year period. The risks have been assessed for their potential impact on the Group's business model, future trading and funding structure.

The sensitivity analysis focuses on critical economic volatility risks such as significant exchange rate or interest rate movements, which are deemed to be outside the control of the Group as well as the effect on operating profit from crystallisation of the other risks outlined above.

In completing the viability assessment, the Directors considered the Group's ability to refinance our current debt, raise new finance and complete our investment plans during the review period.

Based on the results of this analysis, the Directors have a reasonable expectation, predicated on the assumption that a significant event (for example, the loss of a large plant or operating licence in a key country) does not inhibit the Group's ability to manufacture for a sustained period, that the Group will be able to continue in operation and meet its liabilities as they fall due over the five year period.

# EUROPE AND NORTH AMERICA (ENA): GOOD ORGANIC GROWTH, COMPLEMENTED BY PAC CONTRIBUTION



## HIGHLIGHTS

Delivery of Synthomer 2015 programme, run rate savings €13m at end of 2016

Growing unit margins across all market sectors

Stable volumes with reduction on paper offset by growth in other markets

PAC contribution in six months of £6.9m and performing in line with expectations

Further strengthening of manufacturing excellence, procurement and business development functions

## Volumes

# 936.7ktes

2015: 820.7ktes

## Revenue

# £746.1m

2015: £582.1m

## EBITDA

# £111.2m

2015: £85.5m

## Underlying performance

	2016	2015	Increase/(decrease)	
			% reported	% constant currency
Volumes (ktes)	936.7	820.7	14.1	
Revenue (£m)	746.1	582.1	28.2	18.1
EBITDA (£m)	111.2	85.5	30.1	19.5
Operating profit – Underlying performance (£m)	93.3	73.3	27.3	16.4
Operating profit – IFRS (£m)	75.4	49.9	51.2	

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

ENA revenues increased from £582.1m in 2015 to £746.1m in 2016 (excluding JV revenues), an increase of 28.2%. The rise in revenue mainly reflects incremental volumes associated with the PAC acquisition, the positive impact of weaker Sterling, and the lower average raw material prices year on year.

Underlying operating profit at £93.3m was 27.3% higher than 2015 (£73.3m), and IFRS operating profit at £75.4m was 51.2% higher than 2015 (£49.9m).

The significant improvement in ENA's trading performance was due to good organic growth (7.0%), the acquisition of PAC (9.4%) and the favourable currency translation associated with the depreciation in Sterling (10.9%).

The segment achieved an improved overall margin, driven by higher unit margins across all our end-markets. Excluding PAC volumes, volumes in our legacy business were broadly flat (+1.0%), with volume increases in most markets compensating for a further reduction in paper volumes.

We extended our market share in pressure sensitive adhesives through the introduction of high performance products into the market and the addition of PAC sales volumes into the market. Dispersion sales volumes going into construction markets showed good progress year on year particularly in Germany and the UK. We also introduced new acrylic flooring adhesives in the US. The textiles and non-wovens product portfolios grew on the back of successful launches for hygiene and household products.

To ensure a good understanding of developing technology trends and to underpin the basic science of our product platforms, there is an ongoing program to partner with leading European universities. Funded PhD projects have, for example, looked at new polymer systems, developed an understanding of fundamental film forming and adhesion performance and evaluated novel process technology. As part of the programme, we have recruited two staff members since 2015 with PhDs that were sponsored by Synthomer. In partnership with the Royal Society of Chemistry, we sponsor the award for best Polymer Science PhD thesis from a UK university and support a number of events for young chemists.

Investment in capacity, particularly in our dispersions business, is being stepped up in 2017/18 to meet the continuing market demand. The Board has approved a £17m investment at the Worms (Germany) site to build two new make-to-order speciality acrylic lines that will meet the highest green and clean standards, and to address the pressure sensitive adhesives and speciality coatings markets in Europe. Additionally, we have committed to expanding the PAC facility at Roebuck (USA) by spending £5m to introduce a new acrylic reactor line to secure access to the US performance and construction adhesives markets.

Unit margins have remained resilient throughout the year, following the fall in raw material prices at the end of 2015 and the gradual rise in material prices during the course of 2016. Unit margins have been supported by new product launches and business development activities, improved procurement of raw materials in the latter part of the year, and the final savings associated with our Synthomer 2015 cost efficiency programme. The Synthomer 2015 programme was completed at the end of 2016 and delivered the expected annualised run rate saving of €13m per annum, compared with €7m at the previous year end.

The \$221m PAC acquisition, predominantly an ENA business with six of the seven sites located in Europe and America, completed on 30 June 2016. The business has traded in line with expectations and contributed £6.9m operating profit to the segment results. The acquisition secured our leading position as the No. 1 latex and dispersions producer in Europe, focusing on innovative eco-friendly water-based products in the fastest growing markets. It has also expanded our product range with redispersible powders and powder coatings.

The integration process of the PAC sites was started after completion and the annualised run rate in costs savings at the year end was \$2.4m, although most of this related to headcount reductions where the headcount remained on the payroll until the year end.

# PERFORMANCE IN ASIA AND REST OF THE WORLD (ARW): RESILIENCE IN A CHALLENGING MARKET



## HIGHLIGHTS

Resilient unit margins in Nitrile latex in a challenging market  
Good growth in dispersions volumes  
PAC contribution in six months of £0.5m, with significant scope for growth in utilisation of the new dispersions asset  
Strengthening of operations and commercial functions

### Volumes

**388.2ktes**

2015: 395.2ktes

### Revenue

**£299.6m**

2015: £288.0m

### EBITDA

**£60.4m**

2015: £50.3m

## Underlying performance

	2016	2015	Increase/(decrease)	
			% reported	% constant currency
Volumes (ktes)	<b>388.2</b>	395.2	(1.8)	
Revenue (£m)	<b>299.6</b>	288.0	4.0	(3.1)
EBITDA (£m)	<b>60.4</b>	50.3	20.1	11.1
Operating profit – Underlying performance (£m)	<b>48.7</b>	40.5	20.2	11.1
Operating profit – IFRS (£m)	<b>81.3</b>	41.5	95.9	

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

2016 was another year of progress in ARW, driven by the performance of the Asian Nitrile latex business, and positive growth in the Dispersions businesses in both APAC and China.

Underlying operating profit at £48.7m was 20.2% ahead of the prior year (£40.5m), and the IFRS operating profit at £81.3m was 95.9% ahead of the prior year (£41.5m). The IFRS operating profit includes the profit on the Malaysian land sale of £33.2m and the profit on the sale of the South African business of £4.7m.

The reported improvement in the Underlying profit was due to strong organic growth 12.3% in our Asian Nitrile latex and Dispersion businesses and the favourable impact of the depreciation in Sterling 9.1%, offset slightly by the negative contribution of the start-up PAC Chonburi asset 1.2%.

ARW performed modestly ahead of our expectations in 2016, with the competitive dynamics in our Asian Nitrile business continuing to evolve following the introduction of additional industry capacity in the second half of the year.

Segment sales volumes remained broadly flat at 388.2ktes, as the disposal of our South African business in August 2016 was offset by the addition of the PAC Chonburi asset in Thailand in June 2016. Notwithstanding the 8% average annual volume growth in demand for Nitrile latex products seen in recent years, following strong market growth in 2015, the market consolidated in early 2016, with growth returning to the market towards the end of the year.

The first half performance of the Asian Nitrile latex business was characterised by much stronger margins and lower volumes relative to the comparative period. During the second half, post expansion of market Nitrile capacity, we saw margins soften and volumes stable relative to the comparative period, with the second half also benefitting from the marked depreciation in Sterling relative to first half year, compensating for the weaker unit margins. For the year as a whole, Asian Nitrile volumes were broadly flat, with \$ margins lower.

Positively we saw strong take-up by our customers of our 6330 and 6338 Nitrile latex products which were launched in 2015, allowing customers to reduce unit glove weight. We continue to invest in research and development to bring new innovative Nitrile products to market and cement our position as the Nitrile latex innovation market leader.

As part of our strategy to maintain our leadership position in Nitrile latex, the Innovation Group continues to extend its fundamental research partnership and sponsorships with local universities in Malaysia. Most recently this was extended to UTM (Universiti Teknologi Malaysia) with the sponsorship of a Master's Degree focused on emulsion polymerisation in latex/acrylic systems. On successful completion, the student will join the Innovation Group in Kluang. Further programmes were introduced during the year with an award for the best Polymer Science PhD thesis at the Malaysian Institute of Chemistry (Institut Kimia Malaysia).

During 2016, we secured Board approval for our 90ktes capacity expansion at Pasir Gudang. At an estimated capital cost of £45m, the Nitrile latex expansion represents one of the largest investment projects ever undertaken by the Group, underscoring our commitment to Nitrile latex and our confidence in this rapidly growing market. Ground was broken in October and the new investment includes the move to new and larger reactor technology, and will increase our Nitrile latex capacity by 40% when fully complete.

The Monomer Storage Terminal was completed during the first half of the year. This facility is part of the Synthomer Strategic Supply Chain initiative to increase the flexibility and ensure butadiene supplies are able to support the expansion projects for Nitrile latex. The two sphere terminal was acquired in 2014 and an extensive £7m refurbishment was carried out to bring it to best in class safety and operational standards.

The Asian Dispersions business, which predominantly serves the construction and coatings markets, had another strong year with volumes rising by 11% and stable margins, underpinned by production of seven local grades following the styrene butadiene latex project completed in 2015.

As a part of the PAC acquisition, we acquired an additional production site in Chonburi in South East Thailand. This new, albeit small, facility offers an opportunity to expand Synthomer's business in the Thai and export markets. In addition, the plant has both water and solvent based technologies which strengthen the Group's product offer at its coatings and adhesive customers. The integration of the Chonburi site into the ARW asset base represents a significant opportunity to both alleviate our regional dispersions capacity constraints and thus avoid new plant capital expenditure, and to improve the utilisation of this important new regional asset. The Chonburi asset contributed an operating loss in the six months of £0.5m.

We announced the sale of our South African business earlier in the year and the sale completed during August realising net proceeds of £12.8m. This small dispersions activity, selling circa 30ktes per annum, was better suited to being run by a local producer, allowing the Group to focus on its core activities in ARW.

# 2016 FINANCIAL PERFORMANCE



Strong organic growth, the PAC acquisition and the favourable translation of foreign currency earnings all contributed to the improved earnings and cash flows.”

**Stephen Bennett**  
Chief Financial Officer

## OVERVIEW

2016 has been a successful year for the Group with the momentum continuing in the legacy business and the successful acquisition of the PAC business. The key drivers behind the significant increase in overall performance were:

- The ENA segment saw good growth in its profits as unit margins increased across all of its markets.
- ARW performed modestly ahead of expectations supporting the decision to invest in a further increase in nitrile capacity of 90ktes.
- The acquisition of the PAC business has strengthened the Group's production platform and provided access to new markets and products. This is already being reflected in the six months of profit delivered since the acquisition on 30 June 2016. The plan to fully integrate the business is on track to deliver the US\$12m synergies identified at acquisition.
- The weakness of Sterling, particularly since the Brexit vote, has resulted in a significant positive impact on the Group's reported results. The translation of the overseas profits at more favourable rates has seen an increase in operating profit of £11.5m when compared to that using prior year currency rates.

## ALTERNATIVE PERFORMANCE MEASURES

Following the publication of the Guidelines on Alternative Performance Measures ('APMs') by the European Securities and Markets Authority ('ESMA') on 5 October 2015, the Group has reviewed its use of APMs. The conclusion of this review was that whilst the Group was in full compliance with the guidelines, there was scope to improve the explanation on the use of APMs and the clarity of their derivation.

The Group has consistently used two significant APMs since its adoption of International Financial Reporting Standards ('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 reasons for the use of these APMs and the reconciliation to the IFRS measures has been expanded in notes 1, 2 and 6 on pages 90 and 101 respectively.

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### Q How has PAC traded since acquisition?

**A** PAC was acquired on 30 June 2016 and earned £6.4 million in its first six months. Synergies are in line with expectations with US\$2.4m run rate of savings at 31 December 2016.

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**INCOME STATEMENT****OPERATING PROFIT**

The table below bridges the 2015 operating profit to that for the current period, showing the improvement in the legacy businesses, the impact of the PAC acquisition, the impact of the weakness of sterling on translation and the effect of the Special Items.

	Europe & North America £m		Asia & Rest of World £m		Unallocated corporate expenses £m		Total £m	
2015 – IFRS	49.9		41.5		(11.1)		80.3	
Add back: 2015 – Special Items	23.4		(1.0)		0.2		22.6	
2015 – Underlying performance	73.3		40.5		(10.9)		102.9	
2016 – Underlying legacy business improvement at 2015 exchange rates -	5.1	7.0%	5.0	12.3%	(0.7)	-6.4%	9.4	9.1%
2016 – Underlying performance at 2015 Exchange rates	78.4		45.5		(11.6)		112.3	
2016 – Impact of acquisition of PAC	6.9		(0.5)		-		6.4	
2016 – Impact of 2016 exchange rates	8.0		3.7		(0.2)		11.5	
2016 – Underlying performance	93.3	27.3%	48.7	20.2%	(11.8)	-8.3%	130.2	26.5%
Deduct: 2016 – Special items	(17.9)		32.6		(0.2)		14.5	
2016 – IFRS	75.4	51.2%	81.3	95.8%	(12.0)	8.1%	144.7	80.2%

The following should be noted:

- The underlying improvement in the ENA legacy segment of £5.1m (7.0%) reflects growth in the overall margin being achieved by the business. This growth is primarily down to improved unit margins.
- Synthomer ARW had good growth in the Dispersions business in APAC and China. This, together with tight cost control in a more challenging nitrile latex market, delivered a 12.3% increase in the operating profit in the legacy business.
- Underlying unallocated corporate costs increased by £0.7m reflecting the full year effect of the investment made in 2015 in the strengthening of the management team and the investment in the London Head Office.
- The weakness of Sterling, especially after the Brexit vote, caused a substantial increase in the Group's reported profit in Sterling. For the European businesses, the rate used for translating profit has moved from £1:€1.3830 to £1:€1.2180 with a resulting uplift in the 2016 ENA profit of £8.0m. Similarly the strengthening of the Malaysian Ringgit against Sterling from £1:MYR 6.0020 to £1:MYR 5.5620 is the main driver for the £3.7m currency uplift in the ARW profit.

**SPECIAL ITEMS**

	2016 £m	2015 £m
Restructuring and site closure	(5.2)	(5.4)
Profit on sale of South African Business	4.7	-
Sale of land in Malaysia	33.2	6.5
Net acquisition costs of the PAC business	8.8	-
Amortisation of acquired intangibles	(27.0)	(23.7)
	14.5	(22.6)

The following items of income and expense have been reported as Special Items, in line with the comments above.

- The restructuring costs relate to the post acquisition integration of the PAC business. Further costs to complete the integration are expected in 2017. The 2015 spend related to the completion of the European cost reduction programme.
- Substantial tranches of Malaysian land sales, where contracts had been exchanged in prior years, were completed in 2016 producing a significant profit.
- The transaction costs associated with the purchase of the PAC business were £4.3m. This has been offset in the amount included in the above table by the gain of £13.1m on the foreign exchange contracts taken out as a hedge against the US dollar purchase consideration.
- The amortisation of intangibles has increased during the year, partly due to exchange movements and partly due to the intangibles acquired as part of the PAC transaction.

## FINANCE COSTS &amp; PROFIT BEFORE TAXATION

	2016			2015		
	Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Operating profit	130.2	14.5	144.7	102.9	(22.6)	80.3
Finance Costs	(8.0)	-	(8.0)	(7.6)	(0.2)	(7.8)
Profit before taxation	122.2	14.5	136.7	95.3	(22.8)	72.5
Increase in profit/loss before tax %	28.2		88.6			

Finance costs are at a similar level to 2015 reflecting the offsetting impacts of the repayment of the high coupon \$ loan notes which were repaid in September 2016 and the increase in borrowing levels to fund the PAC acquisition.

Overall, both the IFRS and Underlying performance profit before taxation have increased significantly reflecting the improvement in business performance, the acquisition of PAC and the favourable foreign currency translation of overseas earnings, and in the case of IFRS the one off profits related to the Malaysian land sales (£33.2m) and the disposal of our South African business (£4.7m).

## TAXATION

	2016			2015		
	Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Taxation (charge)/credit £m	(24.5)	9.1	(15.4)	(21.0)	11.6	(9.4)
Effective tax rate %	20.0	(62.8)	11.3	22.0	50.9	13.0

The IFRS effective tax rate is impacted by the tax credit on the Special Items. It is therefore helpful to consider its two components separately:

- The effective tax rate on an Underlying basis, excluding the Special Items, has reduced in the period. The reduction is due to the reduced tax rates the Group benefits from as a result of our Malaysia pioneer status and the reduced corporate tax rates in the UK being greater than the upward pressure on the tax rate we face from operating in higher tax jurisdictions such as Germany. As we have previously commented, we expect the rate to move up significantly in the next few years as governments start implementing the BEPS related legislation.
- The effective tax rate for the Special Items is negative due to the largest charge to profit, the amortisation of the intangibles, attracting a full deferred tax credit. The tax charge associated with the profit on sale of land in Malaysia and the sale of the South African business is relatively insignificant.

The impact of the Special Items produces a much reduced IFRS effective tax rate of 11.3%.

## NON-CONTROLLING INTERESTS

	2016			2015		
	Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Non-controlling interests	1.5	9.4	10.9	1.2	1.5	2.7

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

The large increase in the Special Item reflects the non-controlling interests' share (30%) in the land sale referred to in the Special Items section above. The land was owned by Kind Action Sdn Bhd, a 100% subsidiary of Revertex (Malaysia) Sdn Bhd.

**EARNINGS PER SHARE**

	2016			2015		
	Underlying performance	Special items	IFRS	Underlying performance	Special items	IFRS
Earnings per share £m	28.3	4.2	32.5	21.5	(3.7)	17.8
Growth %	31.6	-	82.6			

The Group's issued share capital has not changed for a number of years and therefore the average number of shares in issue remains similar to last year at 340 million. The growth in underlying and IFRS earnings per share shown in the above table is therefore driven predominantly by the same factors that influence the improved profit before taxation described above.

**CASH PERFORMANCE**

The consolidated cash flow statement shows a 41.1% increase in net cash inflow from operating activities from £96.8m to £136.6m, reflecting the continued strength of the existing businesses. After other operating, investing and financing flows, this leads to an increase in cash, cash equivalents and bank overdrafts of £43.9m (2015: decrease £20.8m).

The Group's primary focus is on managing net borrowings, as set out on page 88, rather than on cash. The following summarises the movement in underlying net borrowings and is in the format used by management:

	2016 £m	2015 £m
Underlying operating profit (before joint ventures)	128.2	99.1
Movement in working capital	10.2	9.8
Depreciation and amortisation (underlying)	29.9	22.1
Purchase of property, plant and equipment	(45.6)	(22.8)
<b>Business cash flow</b>	<b>122.7</b>	<b>108.2</b>
Interest paid (net)	(3.3)	(3.4)
Tax paid	(17.1)	(15.4)
IAS 19 Interest charge	(4.5)	(4.3)
Pension funding in excess of IAS 19 charge	(12.4)	(6.3)
Share based payments	1.6	0.6
Non-controlling interest and joint venture cash flows	(1.1)	0.6
<b>Operating cash flow</b>	<b>85.9</b>	<b>80.0</b>
Cash impact of restructuring	(5.5)	(5.4)
Sale of property, plant and equipment	34.4	6.8
Purchase of business	(156.7)	-
Sales of business	12.8	-
Dividends paid	(30.3)	(53.7)
Exchange	(13.5)	7.0
<b>Movement in underlying net borrowings</b>	<b>(72.9)</b>	<b>34.7</b>

The strong cash performance shown in the above table together with the investment in organic growth and the PAC acquisition is highlighted in the following comments:

- Working capital control is a key focus of the Group's financial management. The success of this is demonstrated by achieving a cash inflow in a period of both growth for the existing businesses and rising raw material costs during the course of the year.
- The increase in capital expenditure, which is largely being invested in our plants, reflects the cash spend on the previously announced nitrile latex capacity increase in Pasir Gudang, Malaysia (£14m), and capital expenditure on PAC sites of £7m.
- The cash tax rate based on underlying profit before taxation is 13.9%. The difference between this and the Underlying effective tax rate in the income statement of 20% is due largely to an increase in the tax creditor in a number of jurisdictions as the rise in profits have not yet been reflected in payments on account. Going forward, it is likely that the Underlying deferred tax charge will start to reverse at some time in the next few years resulting in a cash tax rate above that in the income statement.
- The amount shown as pension funding in excess of IAS19 charge mainly reflects the UK deficit funding of £14.5m. This represents a full year of contributions. The 2015 comparative amount was reduced by prepayments made in 2014.
- The amount shown for the purchase of the PAC business takes the amount in the IFRS cash flow of £165.8m, increases it by £4.0m cash costs of acquisition and reduces it by the £13.1m gain on the forward contracts taken out to protect the Group from currency movements in the period from exchange to contract completion.
- The business sale proceeds of £12.8m is the net cash consideration received on the disposal of South African business.
- Substantial amounts of the Group's borrowings are maintained in Euros and US dollars as a natural hedge against the asset base in these two currencies. With the devaluation of Sterling referred to above, the translation at the year end rates has resulted in an exchange loss and therefore a higher borrowings amount (offset by a corresponding increase in the asset base in these currencies).

#### FINANCING AND LIQUIDITY

On 17 March 2016, the Group increased the size of its revolving credit facility from £210m to £370m and at the same time increased the number of banks supporting the facility from three to five. This increase both provided the necessary funds to complete the acquisition of the PAC business and maintained substantial headroom. In addition to the facility headroom identified, the Group had cash and cash equivalents at 31 December of £117.4m (2015: £50.9m).

	2016 £m	2015 £m
Committed facilities	<b>370.0</b>	224.9
Drawn at 31 December	<b>203.9</b>	89.9
Headroom	<b>166.1</b>	135.0

The principal financial covenant in this facility remains net borrowings must be less than 3.5 times EBITDA at 31 December 2016 reducing to 3.0 times EBITDA by 31 December 2017, providing greater headroom in the first 18 months after the acquisition of the PAC business.

	2016	2015
Net borrowings £m	<b>150.3</b>	77.4
EBITDA £m	<b>160.1</b>	125.0
Net borrowings / EBITDA	<b>0.9</b>	0.6

The financial strength shown in the above tables both confirms the Group's liquidity and demonstrates the availability of funds for both organic growth and bolt-on acquisitions. It also provides a strong base to finance a more transformational acquisition.

The viability statement is included on page 33.

**PENSIONS**

	Charge / (credit) to operating profit		Post retirement benefit obligations	
	2016 £m	2015 £m	2016 £m	2015 £m
<b>Defined Benefit</b>				
UK	4.6	5.0	112.5	77.1
Overseas	6.9	5.2	74.2	62.1
	<b>11.5</b>	<b>10.2</b>	<b>186.7</b>	<b>139.2</b>

The above table show the total pension charge included in the income statement and the total defined benefit obligation included in the balance sheet.

The following should be noted:

- Whilst the UK pension cost has remained static, the charge for the overseas pension schemes has increased. This is mainly due to the additional employees associated with the acquisition of the PAC business.
- The most significant factor in the £47.5m increase in the post retirement obligations is the actuarial loss suffered by the UK scheme. This loss of £47.2m reflects the reduction in the discount rate assumption to be applied under IFRS which reduced from 3.8% to 2.70%.

**ACQUISITION AND DISPOSAL ACCOUNTING**

The accounting for the acquisition of the PAC business and for the disposal of the South African business is shown in the notes 31 and 32 respectively. For the acquisition, the assets and liabilities have been included at fair value with the balance of consideration shown as goodwill. KPMG LLP were engaged to advise on the fair value of the Property, Plant and Equipment (PPE). Overall their conclusion was that the total fair value of the PPE was in line with the carrying values although there were some differences in asset categories which have been adjusted accordingly. KPMG LLP also performed a valuation of the intangibles, of which the only one of significant value was the customer relationships. Accordingly, on acquisition the Group recognised goodwill and acquired intangibles in relation to the PAC business of £53.9m and £22.0m respectively.

**POST BALANCE SHEET EVENT**

Today we have announced another bolt-on acquisition, Perstorp Belgium, for a total enterprise value of €78m. This will be funded from the Group's existing financial resources.

Our 2016 Strategic Report from pages 1 to 43 has been reviewed and approved by the Board of Directors on 6 March 2017.

**STEPHEN BENNETT**

Chief Financial Officer

6 March 2017



In 2016 we continued with our approach of having a focused and proportionate governance framework and we were in full compliance with the 2014 UK Corporate Governance Code throughout the year.”

**Neil Johnson**  
Chairman

**DEAR SHAREHOLDER**

I am pleased to introduce the corporate governance section of our annual report which sets out how our governance standards support the Board's business growth strategy and which we believe are critical to its delivery.

In 2016 we continued with our approach of having a focused and proportionate governance framework and we were in full compliance with the 2014 UK Corporate Governance Code throughout the year. There were no Board changes during 2016 and our internal evaluation exercise indicated that the Board processes are generally functioning well. I will work with the Nomination Committee in 2017 to monitor the skill set and experience required for your Board and ensure it keeps pace with the Group's growth and development. Other areas for continuous improvement highlighted through the evaluation exercise included:

- An extension of the time devoted to the annual strategy review process
- More scheduled site visits and exposure to the wider management across the group
- Maintaining levels of training in an environment of fast moving developments in governance

I have already put in hand changes to the Board timetable for 2017 to ensure these improvements are implemented. Your Board has committed to carrying out an externally facilitated evaluation exercise in 2017.

2016 saw the creation of a new standing Committee, the Disclosure Committee, to address the changes to the regulatory environment brought about by the introduction of the Market Abuse Regulation. Both the Remuneration and Audit Committees had particularly busy years. The Remuneration Committee dealt with the formulation of a proposed new remuneration policy and associated shareholder consultation exercise. The Audit Committee carried out a thorough and competitive tender process for the external audit and oversaw changes brought about by bringing the co-sourced internal audit function in-house and the introduction into UK law of the EU audit framework.

Finally we have introduced a number of changes to the format of our governance reporting which is set out on the following pages with the aim of enhancing its clarity and which I do hope you find of benefit.

**NEIL JOHNSON**  
Chairman  
6 March 2017

**COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE**

The Board considers that it has complied throughout the financial year ended 31 December 2016 with the provisions set out in the September 2014 UK Corporate Governance Code ("the Code").\*

**Application of the code**

The main principles of the Code were applied as follows:

**Leadership and effectiveness****Operation of the board**

The activities of the Company are controlled by the Board which, during 2016, 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 46 and 47.

The Board has reserved to itself a schedule of matters which includes setting long-term objectives for the Group and the strategies to be employed in achieving them. The Board has delegated to the Chief Executive Officer responsibility for the development and preparation of the business plan for the Group and the annual Group 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 vice 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 51.

**Note**

- \* A full version of the Code can be found on the Financial Reporting Council's ('FRC') website [www.frc.org.uk](http://www.frc.org.uk).

**GOVERNANCE**  
**Board of Directors**

**N A Johnson (67)**  
Chairman

**Nationality:** British

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

**Key appointments:** Neil is Chairman of Motability Operations Group plc, e2v technologies 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 (53)**  
Chief Executive Officer

**Nationality:** British

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

**Key appointments:** No external appointments.

**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 most recently 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 (52)**  
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 (64)**  
Non-executive director

**Nationality:** British

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

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

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

**B W D Connolly (60)**  
Senior Independent Director

**Nationality:** British

**Position and date of appointment:** Senior Independent non-executive director since January 2014; Chairman of the Remuneration Committee; member of the Audit, Disclosure and Nomination Committees.

**Key appointments:** Brendan is Chairman of two private equity backed companies.

**Skills and experience:** 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 (56)**  
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 deputy chair, non-executive director and chair of the Audit Committee of Leeds Teaching Hospital Trust; provides consulting services to a range of global chemical organisations; is a member of the governing council of the University of Leeds; and is a non-executive director of the Shepherd Group.

**Skills and experience:** Caroline was a partner at PwC until 2009 having worked extensively with large global organisations on turnaround strategy, culture change, delivering value from mergers and acquisitions and cost reduction programmes.

**Dato Lee Hau Hian (63)**

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.

**J Chen (64)**

Non-executive director

**Nationality:** Chinese/American

**Position and date of appointment:** Independent non-executive director since October 2012.

**Key appointments:** Jinya is a corporate vice president at Alcoa Inc based in Shanghai and a board member of Zhong Nan University.

**Skills and experience:** Jinya practised as a US attorney and then spent 12 years in a series of legal and operational roles at General Motors and Delphi Corporation in China before joining Alcoa in 2007.

**Dr J J C Jansz (60)**

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 globally to chemical and polymer companies. He is a senior advisor at Natrium Capital (UK) and Siluria Technologies (US).

**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 previous experience as a non-executive director in the US and as an advisor in Saudi Arabia.

**R Atkinson (54)**

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.



During 2016 the Board held eight meetings with a half day dedicated to an annual strategy development review. The directors receive in advance full information on all matters to be discussed at Board meetings as well as a detailed review of performance. The non-executive directors met once without the Chairman to appraise his performance.

In addition, arrangements are made each year for the Board to visit up to two of the Group's operational sites and meet local management. Ad hoc site visits are facilitated for individual non-executive directors on request. During 2016 the Board held one of its meetings in the Czech Republic and in conjunction with that Board meeting visited the Company's plant in Sokolov where presentations were given by local senior management and a plant tour took place.

## BOARD ACTIVITY IN 2016 – SUPPORTING OUR STRATEGY

### SAFETY, HEALTH AND ENVIRONMENT (SHE)

Review and approval of SHE Principles and 10 Golden Rules. SHE performance and initiatives are reviewed at every meeting supported by a written report and presentation by the Vice President for Operations.

### INVESTING IN ORGANIC GROWTH

Material capital expenditure projects are subject to Board review and approval. During the year investment in capacity expansion projects costing £45 million in Malaysia and £17 million in Germany were approved.

### GROWTH THROUGH ACQUISITION

The \$221 million acquisition of PAC was subject to detailed review and approval and ongoing post completion integration monitoring. Several bolt-on acquisition opportunities were reviewed and the 'deal log' was monitored at every meeting.

### FINANCIAL PERFORMANCE

Financial and operational performance and strategic initiatives are reviewed at every meeting supported by reports and presentations from the executive directors. Detailed reviews of specific business areas were provided by the responsible vice president 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 implementation and outcome of 'Wellness' programmes for senior management were reviewed.

### GOVERNANCE AND STAKEHOLDER RELATIONS

As well as routine reports on governance and investor relations matters, systems and procedures in connection with the Market Abuse Regulation were approved; developments in CSR and non-financial reporting were reviewed; the re-appointment of the auditor following a competitive tender process was approved; and a new proposed executive remuneration policy reviewed.

### 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 the potential issues arising from Brexit and associated mitigation steps were considered.

### INNOVATION

The Group's global innovation strategy and new product pipeline was reviewed and discussed with the Global Innovation Director.

### SITE VISITS

The Board visited the plant at Sokolov, Czech Republic, newly acquired in 2016 as part of the PAC acquisition. Visits were made by individual non-executive directors to the Group's plants in Malaysia and the UK.

## GOVERNANCE

### Corporate governance continued

#### BOARD MEMBERSHIP AND BALANCE

The Chairman, Chief Executive Officer and Senior Independent Director together with Chairs and members of the Audit, Nomination, Remuneration and Disclosure Committees are identified on pages 46 and 47. The Board considers Caroline Johnstone, Just Jansz, Jinya Chen and Brendan Connolly are independent in accordance with the provisions of the Code.

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

#### A BALANCED BOARD

CHAIRMAN	
↓	↓
INDEPENDENT NON-EXECUTIVE DIRECTORS	EXECUTIVE AND NON-INDEPENDENT NON-EXECUTIVE DIRECTORS
Caroline Johnstone	Calum MacLean
Just Jansz	Stephen Bennett
Jinya Chen	Alex Catto
Brendan Connolly	Lee Hau Hian

The table below shows 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.

	Committees				
	Board	Audit	Remuneration	Nomination	Disclosure
<b>Number of meetings held</b>	<b>8</b>	<b>4</b>	<b>3</b>	<b>1</b>	<b>5</b>
<b>Number of meetings attended</b>					
Stephen Bennett	8/8	N/A	N/A	N/A	5/5
Alex Catto	7/8	N/A	N/A	N/A	N/A
Jinya Chen	6/8	N/A	N/A	N/A	N/A
Brendan Connolly	7/8	4/4	3/3	1/1	5/5
Just Jansz	8/8	4/4	3/3	N/A	N/A
Neil Johnson	8/8	N/A	N/A	1/1	4/5
Caroline Johnstone	7/8	4/4	3/3	1/1	N/A
Lee Hau Hian	8/8	N/A	N/A	N/A	N/A
Calum MacLean	8/8	N/A	N/A	N/A	5/5

#### INDUCTION AND TRAINING

Induction arrangements are in place in order to ensure new directors receive a full formal and tailored induction on appointment. 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 2016 briefings were delivered to the Board on the introduction of the Market Abuse Regulation, developments in corporate governance reporting and governance and best practice in remuneration. The Audit Committee was provided with updates and workshop training provided by PwC LLP. As no directors were appointed during the year no induction training was required to be given.

#### PERFORMANCE EVALUATION

##### Overview

Performance evaluations of the Board, its committees and its directors were carried out in the last year by the following internal processes:

- an assessment of the performance of individual non-executive directors is carried out by the Chairman through a rolling programme of one-to-one discussions using performance evaluation questions as the centrepiece for those discussions. Every non-executive director is assessed in this way once a year;
- the performance of the executive directors was reviewed against their personal objectives for 2016 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; and
- the effectiveness of the Board and its Committees (Audit, Nomination, Remuneration) was evaluated by way of an internal self-assessment questionnaire process.

#### BOARD AND COMMITTEE EVALUATION PROCESS

For the second year following the externally facilitated evaluation process carried out in 2014 the effectiveness of the Board and its Committees was assessed internally in 2016. Questionnaires were developed and produced by the Company Secretary in conjunction with the Chairman of the Board and the Chair of each of the Audit, Remuneration and Nomination Committees. The questionnaire comprised open questions on the workings and effectiveness of the Board and its Committees. All directors were requested to complete questionnaires relating to the Board and each of the Committees. In addition regular attendees from management at the Audit Committee meetings were also requested to complete the questionnaire relating to that Committee. A report was prepared by the Company Secretary for the Chairman and the results of the evaluation were reviewed and discussed at the Board meeting held in January 2017. The outcome of that process led to a number of actions and areas for focus in 2017 which are outlined in the Chairman's letter on page 44.

For 2017 the Board has committed to carrying out an externally facilitated evaluation process.

STRATEGIC REPORT

Information on the Company's major shareholdings and share capital is included in the Report of the Directors on pages 76 to 78.

**BOARD COMMITTEES**

The Board has formally established Nomination, Audit, 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 Board Committee reports are set out at the end of this Corporate Governance report.

**RELATIONS WITH SHAREHOLDERS**

Dialogue with institutional investors is conducted on a regular basis by the Chief Executive Officer and the Chief Financial Officer and meetings take place following the announcement of interim and full year results and at other times according to circumstances. In addition to interim 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. A capital markets day was held in December 2016 and provided an opportunity for investors and analysts to hear presentations from senior members of management as well as the executive directors.

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 fully understand 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. Details of the interaction with shareholders by the Chairs of the Audit and Remuneration Committees in connection with the competitive tender process for the audit and the proposed new executive director remuneration policy respectively are given in the reports by those Committees. Written reports on all meetings between non-executive directors and institutional shareholders and their representative bodies are presented 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 which contact through the normal channels of the Chairman or the Chief Executive Officer has failed to resolve or for which such contact is inappropriate.

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

The Company makes use of its website [www.synthomer.com](http://www.synthomer.com) to communicate with its shareholders and also publishes interim and full year results, Company announcements, share price and corporate governance and other investor information there.

**ACCOUNTABILITY**

An explanation of the directors' responsibility 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 77 to 78 and 79 respectively. Statements by the auditor about his reporting responsibilities are set out on pages 80 to 84 and 128 and 129 respectively.

A report on the approach to internal control is set out below. 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 mis-statement or loss. The Group risk management framework is set out on pages 28 to 29. Risks associated with safety, health and the environment are, by the nature of the Group's business, always of the utmost concern and the Sustainability report on pages 20 to 27 reviews the Group's performance in this connection in 2016. The Board confirms that a robust assessment of the principal risks facing the Group has been carried out and that it has monitored and reviewed the effectiveness of the Group's risk management and internal control systems in 2016.

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 auditor, on the system of internal financial control and any material control weaknesses;
- discussion with management of the actions taken on any possible problem areas for the business that are identified.

In addition, the Board:

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

GOVERNANCE

GROUP FINANCIAL STATEMENTS

COMPANY FINANCIAL STATEMENTS

OTHER INFORMATION

## GOVERNANCE

### Corporate governance continued

#### 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. The Sustainability report on pages 20 to 27 includes a report on the initiatives the Group has adopted regarding sustainable development.

#### SOCIAL, COMMUNITY AND HUMAN RIGHTS MATTERS

The Board takes account of social and ethical matters as part of its review of internal control which, by virtue of its approach to risk identification, covers areas which encompass social and ethical matters.

The Board is conscious of its responsibility to the communities in which the Group's businesses operate and encourages local engagement by management which includes supporting environmental, health and education initiatives.

The Board is also aware of the reputational and legal risks associated with social and ethical issues and has a Group-wide code of business conduct on corruption and anti-competitive activities, which is available on the Company's website and upon request from the Company Secretary. The purpose of this code is to ensure that the Group's employees have a clear understanding of the principles that are important in these areas when conducting the Group's business. The application of the code is explained to senior management at regular intervals and they are charged with its communication throughout their businesses supported by internal and external training. A compliance procedure involving annual certification by senior management and a procedure for maintaining a register of, and where appropriate gaining prior approval for, gifts, entertainment and corporate hospitality operates throughout the Group. A report is made to the Audit Committee annually on the code and the Company's whistleblowing procedure.

The Group's operating activities are highly regulated in all territories and largely carried out in countries that have established legislation on human rights issues. As such, information on human rights issues is not considered to be necessary for an understanding of the development, performance or position of the Group's business. The Group has nonetheless adopted a policy on equal opportunities, diversity and human rights which is available at [www.synthomer.com](http://www.synthomer.com).

The Company is a member of the FTSE4Good Index.

# AUDIT COMMITTEE

**Caroline Johnstone**  
Audit Committee Chair



#### AUDIT COMMITTEE Membership since 1 January 2016

	Position	Appointment Date	Number of meetings attended
Caroline Johnstone	Chair	April 2015	4/4
Just Jansz	Independent non-executive director	May 2012	4/4
Brendan Connolly	Senior independent non-executive director	March 2014	4/4
Other attendees:			
Chief Executive Officer		Company Secretary	
Chief Financial Officer		Group Operational Review Manager	
Vice President, Tax and Financial Reporting		External Auditors	

#### DEAR SHAREHOLDER

I am pleased to report on the work of the Committee in 2016, my first full year as Chair.

The Committee has continued to focus on the Group's internal controls and its approach to risk management. We recognise just how important this is in periods of change as the Group evolves and grows in line with our agreed strategy. We have supported the Board in overseeing both the PAC acquisition and the significant capital expenditure projects in Malaysia and Germany. During the year, good progress was made by the Committee in overseeing and supporting the refreshing of the Group finance, IT and internal audit functions carried out by the Chief Financial Officer. Like many Committees, we started to consider the implications of Brexit, both short and longer term.

The main activities of the Committee during the year comprised the discharge of its duties in connection with financial reporting, internal controls and risk management systems and the external and internal audit functions. During the first half of the year the Committee took primary responsibility for the competitive tender process for the external audit which resulted in the re-appointment of PwC. I found the process of great value and was grateful for the discussions we held with the Standard Life Investments governance team during the process. I would like to thank all the teams from the three firms who worked through the tender process and who provided valuable input to the Committee. In August, I was pleased to welcome Matt Mullins as our new lead engagement partner. Further details of the tender process are contained in this report on page 54.

The Committee had particular focus on risk management and IT (including cyber security) during the year and had the benefit of presentations from and discussions with those members of the management team charged with responsibilities in these areas, including regular reports from the Chief Information Officer who was appointed in April 2016. The co-sourced internal audit model (operated since 2012) was reviewed by the Committee and Chief Financial Officer and it was agreed to replace it with a dedicated in-house resource, following which a Group Operational Review Manager was appointed in August 2016 after approval by the Committee. In conjunction with this appointment, the Committee has also approved a new internal audit charter.

The Committee was requested by the Board to extend its remit to include taxation matters and a proposal for the terms of reference is in the course of preparation. Other activities during the year included adoption of a new policy on non-audit services provided by the auditors as a result of the introduction into UK law of the EU audit framework. We also took the opportunity to undertake training workshops on developments in accounting, governance and corporate reporting.

This year, we decided to undertake an evaluation of the Committee's performance using an internal questionnaire process. In general, the feedback was positive about our activities and approach but we recognise that the extending scope of the activities and responsibilities of the Committee necessitates the need for sufficient time to be set aside. As such we will likely hold additional informal meetings on key topics going forward. We will also revisit the Group's risk appetite statement in 2017. For 2017 the Committee will continue its focus on the risk management review processes and the development of the internal audit.

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

**CAROLINE JOHNSTONE**  
Audit Committee Chairman  
6 March 2017

#### COMMITTEE MEMBERSHIP

The Committee is made up of Caroline Johnstone (chair), Brendan Connolly and Just Jansz – their experience is set out on page 46. Mrs Johnstone is considered by the Board to have 'recent and relevant financial experience' for the purposes of Provision C.3.1 of the Code as a chartered accountant and due to her previous position as a partner at PwC. The Committee members have a wide range of financial and commercial experience in chemicals and engineering sectors.

#### THE ROLE AND RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Committee has established a detailed remit regarding the application of financial reporting and internal control principles, which covers:

- Monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and results and reviewing significant financial reporting issues and judgements contained in them.
- Reviewing the adequacy and effectiveness of the Group's internal controls and risk management systems as well as the Group's internal audit function.

- Making recommendations to the Board regarding the selection and appointment of the external auditor, approving their remuneration and terms of engagement, reviewing and monitoring their independence, objectivity and the effectiveness of the audit process.
- Developing and implementing the Group's policy on the engagement of the external auditor to supply non-audit services.
- Ensuring that the external audit services contract is put out to tender at least once every ten years.
- Supporting the Board in considering whether the published financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance of the Group, along with its business model and strategy.

#### MEETINGS

The Chief Financial Officer, Stephen Bennett, senior members of his department and the Group Operational Review Manager normally attend meetings of the Committee together with members of the external audit team. The head of IT has attended many of the Committee meetings in 2016 to discuss progress in developing our IT infrastructure and processes. Other members of the Board have a standing invitation to attend meetings unless notified otherwise. The Committee meets periodically with the external auditor and with the Group Operational Review Manager without management present. I also have regular meetings with PwC, Stephen Bennett as well as other senior managers of the Group.

#### ACTIVITIES DURING THE YEAR

The Committee met formally four times during 2016 and carried out the following main activities in addition to the items mentioned in the Chairman's overview:

- Reviewed the financial statements in the 2015 Annual Report and the 2016 interim statement in conjunction with papers prepared by the Chief Financial Officer regarding accounting policies and basis of preparation and a number of disclosure considerations;
- Advised the Board in connection with its obligation under Section C.1.1 of the Code;
- Reviewed the scope and effectiveness of the external audit;
- Received reports from the external auditor on the major findings of its work;
- Approved the annual external audit plan and the basis on which the auditor assesses materiality;
- Approved a new policy on the provision of non-audit services by the external auditor;
- Reviewed the remit and effectiveness of the Committee;
- Reviewed the Group's whistleblowing arrangements and anti-bribery and corruption procedures;
- Reviewed the Group's Risk Register;
- Reviewed the IT control environment and IT systems security;
- Monitored the effectiveness of internal controls and risk management;
- Reviewed the Group's internal audit plan; and
- Received reviews undertaken by the Group Operational Review Manager. Reviewed reports relating to the implementation of recommendations from KPMG, the co-sourced internal auditor, to enable the Committee to assess the improvements in the Group's controls and reporting and where further actions are required.
- Ensured that the provisions of the Competition and Market Authority Audit Order relating to competitive tender processes and audit committee responsibilities were complied with throughout 2016.

In addition the Chair of the Committee had regular dialogue with the external auditor, Chief Financial Officer and other senior members of the head office finance team during the course of the year.

### TENDER OF EXTERNAL AUDIT

In my last report, I indicated that we intended to carry out a competitive tender process in the first half of 2016. As the audit partner was due to rotate in 2017 and given the Group's aspirations and strategy as well as a new Committee Chair and CFO, we decided it was appropriate to review the market and ensure we had the right team for the future.

The tender process was carried out in compliance with the provisions of the Competition and Markets Authority Order 2014 and had regard to governance best practice. The Company's major shareholders were consulted in advance on the process. We had discussions with major shareholders as the process developed.

The Audit Committee had primary responsibility for the process and met regularly through the process. A tender sub-committee, comprising the Chair of the Audit Committee, the Chairman of the Board and the Chief Financial Officer, was appointed to develop the evaluation criteria, the request for proposal documentation and to have oversight of presentations by those firms invited to tender. Support for the process, including the supply of information and relevant background knowledge to the audit firms, was given by the Audit Committee Chair, the Chief Financial Officer and the Group Controller. The principles under which the tender was to be operated and the process to be followed were clearly defined at the outset in order to ensure efficiency, fairness and transparency.

Evaluation criteria against which firms were scored comprised experience (including geographical and chemical industry), firm specific audit processes, added value resources and commitment to the relationship and encompassed those contained in the FRC 'Audit Tenders Notes on best practice'. Following presentations and question and answer sessions involving three firms, a unanimous recommendation to retain PwC was made to and accepted by the Board. The process was initiated at the Audit Committee's meeting on 27 April 2016 and culminated with the announcement of the outcome on 31 May 2016.

### AUDITOR OBJECTIVITY AND INDEPENDENCE

#### Non-audit services provided by the auditor

With effect from 1 January 2017 the Committee has adopted a policy on the provision of non-audit services by the external auditor that the auditor can be engaged, subject to prior approval of the Committee in all cases, to provide services which are outside the required scope of the statutory audit but are consistent with the role of statutory auditor. This category includes work that is reasonably related to the performance of an audit or review and is a logical extension of the audit or review scope, is of an assurance or compliance nature and is work that the auditor must or are best placed to undertake eg reporting accountant activities in connection with shareholder circulars and prospectuses. The auditor is prohibited from providing all other non-audit services.

A full copy of the policy on the provision of non-audit services by the external auditor is available on the Company website.

In addition the auditor has been requested not to provide services to executive directors or senior executives except where approved by the Audit Committee. Non-executive directors are required to disclose any relationship they have with the auditor.

Details of audit and non-audit fees paid to the auditor in 2016 are set out in note 8 on page 102. Non-audit fees principally relate to advisory work in connection with the PAC acquisition and tax compliance and other tax advisory services which were approved within the terms of the Committee's policy in force during 2016. PwC were awarded the acquisition related work following a competitive tender process.

### ASSESSMENT OF EFFECTIVENESS OF THE EXTERNAL AUDIT

During the year the Committee evaluated the performance, independence and effectiveness of the external auditors. As part of this process feedback was obtained from head office and operating company staff involved with the external audit and from the Committee's meetings with the external auditors. A review of performance against an evaluation checklist was also conducted by the Audit Committee Chair and the Chief Financial Officer. 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 handle key accounting and audit adjustments. Considering all of these factors the Committee concluded that the external auditors were effective.

### RE-APPOINTMENT OF THE AUDITOR

As a result of an external audit tender process in 2012 PwC was first appointed in July that year. Following the tender carried out in 2016 and the assessment of the effectiveness of the external audit referred to above the Committee is pleased to recommend the re-appointment of PwC at the 2017 Annual General Meeting.

## FINANCIAL REPORTING AND SIGNIFICANT JUDGEMENTS

As part of their monitoring of the integrity of the financial statements, the Committee reviews whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and also considers the views of the external auditors.

The main issues reviewed in the year ended 31 December 2016 are set out below:

- **Provisions for uncertain taxation positions:**

Significant judgement is exercised by management, with advice from appropriate tax advisors, to arrive at the amounts provided for tax as the final tax outcome of several transactions is uncertain and may not be known for several years. As part of their audit, the external auditor reviewed the judgements that had been made, using tax specialists as appropriate, and provided the Committee with an assessment of the appropriateness of management judgements. The Committee reviewed the provisions and judgements taken by management and also the auditor's conclusions.

- **Defined benefit pension accounting:**

The Group operates a number of defined benefit schemes which have significant liabilities as outlined in note 26 to the Group financial statements. Although the UK schemes are closed to future accrual, they are sensitive to changes in actuarial assumptions. During their audit, the external auditor evaluated the assumptions and methodologies used by the Group's actuarial advisors and management and assessed whether the assumptions made were appropriate and not materially different from external benchmarks. The external auditors reported to us that they were satisfied with the assumptions used and with the way that the schemes had been accounted for. The Committee reviewed the assumptions used by the management, methodology and conclusions.

- **Purchase of business:**

The accounting for the acquisition of the PAC business and for the disposal of the South African business is shown in the notes 31 and 32 to the accounts respectively. For the acquisition, the assets and liabilities have been included at fair value with the balance of consideration shown as goodwill. KPMG LLP were engaged to advise on the fair value of the Property, Plant and Equipment (PPE). Overall their conclusion was that the total fair value of the PPE was in line with the carrying values although there were some differences in asset categories which have been adjusted accordingly. KPMG LLP also performed a valuation of the intangibles, of which the only one of significant value was the customer relationships.

# NOMINATION COMMITTEE

**Neil Johnson**  
Chairman



## NOMINATION COMMITTEE MEMBERSHIP Since 1 January 2016

	Position	Appointment Date	Number of meetings attended
Neil Johnson	Chair	May 2012	1/1
Brendan Connolly	Senior independent non-executive director	March 2014	1/1
Caroline Johnstone	Audit Committee Chair	April 2015	1/1

## ROLE

The Committee's remit includes responsibility for:

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

## ACTIVITIES IN 2016

The Committee reviewed senior management succession planning within the Group during the course of the year. As there were no appointments to the Board during the year the Committee was not involved in any recruitment activity and did not appoint or work with any advisers.

The Nomination Committee held one formal meeting during 2016.

## DIVERSITY

The Board adopted its current policy on diversity in 2014 in recognition of the importance of diversity in strengthening decision making and competitiveness. This policy seeks to ensure that diversity in its broadest sense is taken into account in the process of making appointments on merit against objective selection criteria.

Gender is acknowledged as a significant element of diversity and the Committee is mindful of the recommendations of the Hampton-Alexander review published in November 2016 but has not recommended to the Board the setting of quotas for female representation at this time.

A copy of the diversity policy is available at [www.synthomer.com](http://www.synthomer.com). Further details on the Company's approach to diversity are contained within the Strategic report.

**NEIL JOHNSON**  
Chairman  
6 March 2017

# REMUNERATION COMMITTEE

**Brendan Connolly**  
Chairman



## REMUNERATION COMMITTEE MEMBERSHIP Since 1 January 2016

	Position	Appointment Date	Number of meetings attended
Brendan Connolly	Chair	March 2014	3/3
Just Jansz	Independent non-executive director	May 2012	3/3
Caroline Johnstone	Independent non-executive director	April 2015	3/3

### DEAR SHAREHOLDER

It has been a year of continued debate on remuneration, during which we, like many companies, have undertaken a review of our remuneration arrangements including a full consultation process with our largest shareholders. Shareholders' comments were taken into account by the Committee in finalising the Policy. I am therefore pleased to present the Directors' Remuneration report for the financial year ended 31 December 2016 and our new proposed Remuneration Policy.

I also take this opportunity to thank the Committee and Board members for their input, discussion and debate. I specifically thank our shareholders and other stakeholders who provided feedback during our consultation process.

### OUR POLICY

Our current policy has been in force since 1 May 2014 and we are required to submit a new policy for approval at the upcoming AGM. Subject to shareholder approval, this policy will be effective from that date. The new policy will be applied to the salary, bonus and Performance Share Plan awards for 2017.

The Board strongly believes the new policy will strengthen the alignment between remuneration and shareholder interests, while providing management with an incentive to continue the strong performance that Synthomer has delivered recently.

Our proposals include moderately increasing bonus and LTIP opportunities, along with freezing base salaries, increasing shareholding guidelines, reducing threshold bonus pay out, widening clawback, and introducing a two-year holding period for LTIP awards. Additionally, following shareholder consultation we are also introducing bonus deferral, increasing the stretch of annual bonus targets and further increasing shareholding guidelines.

The proposed changes to the policy are as follows:

**Base salary:** We plan to 'freeze' base salaries at 2016 levels for a minimum of two further years, with no increase in 2017 and 2018. This would mean that salaries would stay at the current levels for a period of three years in total.

**Bonus:** We plan to increase the bonus potential to 125% for the CEO and 115% for the CFO from their current levels of 100%. This will broadly place the executives at the median for lower half FTSE 250 Companies. However, we will reduce the threshold payment from 20% to 0%. This means that a more stretching level of performance will be required to achieve a bonus below on-target performance. Additionally, we will increase the target for the maximum level from 108% to 110% to further challenge and stretch the executive team at the top end of the target range.

**Bonus deferral:** We will introduce a compulsory two-year bonus deferral on the increased bonus opportunity for both the CEO (20% of any bonus) and CFO (13% of any bonus). We will also implement a further 'shareholding' based deferral of up to 50% of the bonus if shareholding targets have not been met after three years.

**LTIP:** We will increase the potential award to 150% for the CEO from 125% and 120% for the CFO from 100%. This will broadly place the executives at the median of lower half FTSE 250 Companies. Though this is an increase in the award level, it is within the current policy guidelines.

We will also seek flexibility in the LTIP policy to include financial measures other than Relative TSR and EPS, for example a 'ROIC', but we will commit to further consult with shareholders before we make any substantive changes. As under the current policy, we will not move EPS (or any financial metric) beyond 50% weighting, and the 20% for Strategic Objectives will remain. The awards proposed for 2017 will not change and will be; 40% EPS, 40% Relative TSR and 20% Strategic.

**LTIP deferral:** We will introduce an additional 'two-year' holding period for all vested LTIP awards granted from 2017 onwards.

**Claw back:** We will include 'reputational damage' in the 'claw back' circumstances in both LTIP and Bonus awards.

**Shareholding:** We will increase shareholding requirements for the CEO and CFO to 200% and 150% respectively from their current level of 100% each.

### REMUNERATION OUTCOMES FOR 2016

- **Base salaries:** these will remain unchanged for the CEO and CFO into 2017 despite an overall 2% increase within the Group and as per the proposed policy.
- **Bonus plan:** the three parts of the bonus plan were met in their entirety in 2016 for both the CEO and CFO.
  - **Financial – 80%:** The Adjusted PBT target was fully met. It was a strong year, and a record for Synthomer historically, with both Europe and Asia performing well above expectations, despite the expected challenges in



## AT A GLANCE

## 2016 outcomes

- Base salaries in 2017 unchanged for CEO and CFO
- Annual bonus targets fully met

Key changes proposed to be made to current remuneration policy:

Element	Changes to strengthen alignment with shareholders	Incentivising management
<b>BASE SALARY</b>	<ul style="list-style-type: none"> <li>• <b>Freeze base salaries</b> at 2016 levels for a minimum of two years:               <ul style="list-style-type: none"> <li>• Chief Executive Officer: £535,500</li> <li>• Chief Financial Officer: £334,560</li> </ul> </li> </ul>	
<b>BONUS</b>	<ul style="list-style-type: none"> <li>• <b>Compulsory bonus deferral.</b> Two year deferral for any bonus in excess of previous levels.</li> <li>• <b>Must defer 50% of bonus</b> if shareholding requirements not met after three years.</li> <li>• <b>Increase stretch of maximum bonus targets</b> from 108% to 110% of budget PBT.</li> <li>• <b>Reduce threshold bonus award</b> from 20% to 0%.</li> <li>• <b>Wider clawback circumstances</b> to include 'reputational damage'.</li> <li>• <b>Improved disclosure</b> of the personal and SHE objectives.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Increase maximum bonus opportunity</b> to 125% for the CEO and 115% for the CFO from their current levels of 100%.</li> </ul>
<b>LTIP</b>	<ul style="list-style-type: none"> <li>• <b>Introduce a two year holding period</b> for all vested LTIP awards.</li> <li>• <b>Retain current policy on LTIP performance measures</b> – for 2017 this will be 40% EPS, 40% relative TSR, 20% strategic objectives.</li> <li>• <b>Wider clawback circumstances</b> to include 'reputational damage'.</li> </ul>	<ul style="list-style-type: none"> <li>• Within the current policy limits, <b>increase the operational LTIP award</b> level to 150% for the CEO (from 125%) and 120% for the CFO (from 100%).</li> </ul>
<b>SHAREHOLDING REQUIREMENTS</b>	<ul style="list-style-type: none"> <li>• <b>Increase shareholding requirements</b> from 100% of salary to 200% of salary for the CEO and 150% for the CFO.</li> </ul>	

Element	Policy in 2016	Proposed Policy in 2017
<b>BASE SALARY</b>	<p>Salary levels are generally reviewed annually by the Committee.</p> <p>For 2016, executive director salaries were:</p> <ul style="list-style-type: none"> <li>• Chief Executive Officer: £535,500</li> <li>• Chief Financial Officer: £334,560</li> </ul>	<p>Base salaries frozen at 2016 levels until at least the end of 2018.</p>
<b>BENEFITS</b>	<p>Benefits to executive director may include private health insurance, life insurance and a fully expensed car. From time to time the Committee may review the benefits provided. The Remuneration 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.</p> <p>Where executive director are required to relocate or complete an international assignment, the Remuneration Committee may offer additional benefits or vary benefits according to local practice.</p>	<p>No change.</p> <p>No change.</p>
<b>PENSION</b>	<p>Executive directors are eligible to participate in the Group personal pension plan. Executive directors may receive payments as a cash allowance which they may use either in conjunction with that plan and/or to enable them to make their own arrangements up to a maximum of 25% of base salary.</p>	<p>No change.</p>

Element	Policy in 2016	Proposed Policy in 2017
<b>ANNUAL BONUS</b>	Performance targets will be determined by the Committee at the beginning of the annual performance period.	No change.
	The Committee will assess performance against these targets following the end of the performance period.	No change.
	The Committee may adjust awards upward or downward to reflect the overall performance of the Company or the individual.	No change.
	The Committee may reduce or defer the level of payment of an award to take into account exceptional business circumstances.	No change.
	The Committee may claw back awards up to three years after payment if the Group's accounts have been materially misstated or there has been an error in the calculation of any performance conditions which results in over payment.	Claw back is extended to include material reputational damage.
	At least 70% of awards are subject to underlying profit before tax (or other relevant financial measure) targets.	No change.
	Up to 30% of awards are subject to strategic and operational measures, including personal objectives.	No change.
	The award for threshold performance is normally 20% of maximum.	The award for threshold performance is reduced to 0%.
	The maximum opportunity is 100% of base salary.	The maximum opportunity is increased to 125% of base salary for the CEO and 115% of base salary for the CFO with compulsory deferral into shares to be held for two years in relation to the increase in bonus opportunity.
<b>2011 PERFORMANCE SHARE PLAN</b>	Awards of shares or nil-cost options are made annually with vesting conditional on the Company's performance against long-term targets over a three year performance period.	No change.
	The Committee may reduce or defer the level of vesting of an award where an event has occurred, such as a material health or safety incident	No change.
	Awards may give rise to dividend equivalents.	No change.
	The Committee may claw back awards up to three years after vesting if the Group's accounts have been materially misstated or there has been an error in the calculation of any performance conditions which results in overpayment.	Claw back is extended to include material reputational damage.
	All vested awards (net of tax if applicable) must be retained by executive directors until share ownership guidelines are met.	No change.
	Under the plan rules approved by shareholders, the value of shares awarded to an individual in any one year may not normally exceed 150% of salary.	No change.

## Directors' Remuneration report continued

Element	Policy in 2016	Proposed Policy in 2017
<b>2011 PERFORMANCE SHARE PLAN CONTINUED</b>	<p>Annual awards to executive directors are:</p> <ul style="list-style-type: none"> <li>• Chief Executive Officer: 125% of salary</li> <li>• Chief Financial Officer: 100% of salary</li> </ul> <p>subject to the following performance measures:</p> <ul style="list-style-type: none"> <li>• At least 40% based on relative TSR performance.</li> <li>• At least 40% based on EPS growth targets.</li> <li>• Up to 20% based on performance measures linked to the delivery of the business strategy.</li> <li>• No single financial measure will constitute more than 50% of an annual award.</li> </ul>	<p>Annual awards to the executive directors are increased to:</p> <ul style="list-style-type: none"> <li>• Chief Executive Officer: 150% of salary</li> <li>• Chief Financial Officer: 120% of salary</li> </ul> <p>subject to the following performance measures:</p> <ul style="list-style-type: none"> <li>• At least 80% based on financial measures. This may include TSR, EPS, ROIC or any other measure considered appropriate by the Committee. Any change to the financial measures used would be subject to prior shareholder consultation.</li> <li>• Up to 20% based on performance measures linked to the delivery of the business strategy.</li> <li>• No single measure will constitute more than 50% of an annual award.</li> </ul>
	A maximum of 25% of each element will vest for threshold performance.	No change.
	The Committee may amend the final vesting level under the TSR element if it does not consider it to be reflective of the underlying performance of the Group.	No change.
	Under the plan rules approved by shareholders there is the ability to make additional awards in exceptional circumstances.	No change.
	Additional awards may be made in the case of a transformative Company event. Any such awards would be subject to additional shareholding guidelines or holding periods to be determined by the Committee.	No change.
	Any additional award would be subject to the overall plan limit of 300% of salary.	No change.
	Any additional awards made in exceptional circumstances will be subject to performance conditions and vesting schedules as determined by the Committee at the time of award.	No change. Introduction of a two year holding period post vesting for awards made in 2017 and thereafter.
<b>SHAREHOLDING GUIDELINES</b>	The executive directors are required to build unfettered interests in shares of at least 100% of salary.	The Chief Executive Officer and the Chief Financial Officer are required to build interests in shares of at least 200% and 150% of salary respectively. If the guidelines are not met within three years of appointment the executives would be required to use 50% of any bonus to buy shares until the guidelines are met.

### DIRECTORS' REMUNERATION – POLICY PRINCIPLES

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

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

In setting executive directors' remuneration, the Committee takes account of pay and conditions throughout the Company. 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'). This new Policy, which is intended to replace the Policy approved by shareholders at the 2014 AGM, is subject to a binding vote by shareholders at the AGM on 27 April 2017 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 56. In addition a summary of these changes is set out in the 'At a glance' tables on pages 58 to 60.

The proposed Policy includes a number of changes from the previous policy approved by shareholders at the 2014 AGM:

- Base salaries will be frozen at 2016 levels until at least the end of 2018.
- The maximum bonus opportunity will be increased from 100% to 125% of salary. The CEO's bonus opportunity will be increased to 125% of salary. The CFO's opportunity will be increased to 115% of salary.
- The bonus award for threshold performance will be reduced from 20% to 0% of maximum.
- Bonus deferral will be introduced in respect of the increased bonus opportunity. 20% of the CEO's bonus and 13% of the CFO's bonus will be deferred into shares for two years.
- The annual PSP awards will be increased. The Chief Executive Officer's award will be increased from 125% to 150% of salary. The Chief Financial Officer's award will be increased from 100% to 120% of salary.
- PSP awards granted from 2017 onwards will include a two year holding period following the end of the three year performance period.
- The policy for financial PSP performance measures will be simplified. At least 80% of any award will be based on financial performance, with no single measure having a weighting of more than 50% of an annual award.
- Shareholding guidelines will be increased. The Chief Executive Officer and the Chief Financial Officer will be required to build an interest in shares of at least 200% and 150% of salary respectively. If the guidelines are not met within three years of appointment the executives would be required to defer 50% of any bonus into shares until the guidelines are met.
- The clawback policy for bonuses and PSP awards will be extended to include material reputational damage.

### KEY ELEMENTS OF REWARD

#### BASE SALARY

#### PENSION & BENEFITS

#### ANNUAL BONUS

#### PERFORMANCE SHARE PLAN



At least 70%  
Profit before tax

Up to 30%  
Strategic and operational objectives

2017 awards:  
80% Profit before tax  
10% Health & Safety  
10% Individual strategic and operational goals



AT LEAST 80%  
Based on financial measures

UP TO 20%  
Strategic measures

2017 awards:  
40% Relative TSR  
40% EPS growth  
20% Strategic measures

## FUTURE POLICY TABLE

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<b>BASE SALARY</b>	<p>Supports the recruitment and retention of executive Directors.</p> <p>Reflects the individual's skills, experience, performance and role within the Company.</p>	<p>Salary levels are generally reviewed annually by the Committee.</p> <p>When reviewing salary levels the Committee takes into account:</p> <ul style="list-style-type: none"> <li>• the individual's skills, experience and performance;</li> <li>• the size and scope of the individual's responsibilities;</li> <li>• pay and conditions elsewhere in the Group;</li> <li>• pay at companies of similar size; and</li> <li>• the complexity and international scope of the Group.</li> </ul>	<p>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.</p> <p>Larger increases may be made under certain circumstances, including, but not limited to:</p> <ul style="list-style-type: none"> <li>• an increase in the scope and/or responsibility of the individual's role;</li> <li>• the development of the individual within the role;</li> <li>• alignment to market levels; and</li> <li>• corporate events such as a significant acquisition or Group restructuring which impact the scope of the role.</li> </ul> <p>For 2017, executive director salaries are:</p> <ul style="list-style-type: none"> <li>• C G MacLean: £535,500</li> <li>• S G Bennett: £334,560</li> </ul> <p>and will be frozen at this level until at least the end of 2018.</p>	None, although individual and Company performance are factors taken into account when considering salary increases
<b>BENEFITS</b>	<p>Provided to support the retention and recruitment of executive Directors.</p>	<p>Benefits to executive directors may include private health insurance, life insurance and a fully expensed car or car allowance. From time to time the Committee may review the benefits provided. The Committee may remove benefits that executive directors receive or introduce other benefits if it considers it is appropriate to do so. Any other benefits will be proportionate with the current benefits provided.</p> <p>Where executive directors are required to relocate or complete an international assignment, the Committee may offer additional benefits or vary benefits according to local practice.</p> <p>Executive directors may participate in any all-employee share schemes or other benefit arrangements on the same basis as other employees.</p>	<p>There is no overall maximum for benefits, as the cost of insurance benefits may vary from year-to-year depending on the individual circumstances and the level of any relocation benefits, allowances and expenses will depend on the specific circumstances.</p>	None

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<b>ANNUAL BONUS</b>	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 adjust awards upward or downward to reflect the overall performance of the Company or the individual.</p> <p>The Committee may reduce or defer the level of payment of an award to take into account exceptional business circumstances.</p> <p>A proportion of any bonus earned is deferred for two years. For current executive directors this is 20% and 13% of any bonus for C G MacLean and S G Bennett respectively.</p> <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 over payment or if there are circumstances giving rise to material reputational damage to the Group.</p>	<p>The maximum opportunity is up to 125% of salary.</p> <p>Opportunities for current executive directors are:</p> <ul style="list-style-type: none"> <li>• C G MacLean: 125% of salary</li> <li>• S G Bennett: 115% of salary</li> </ul>	<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 2017 awards, performance measures will be 80% profit before tax, 10% health and safety objectives, 10% personal strategic and operational objectives.</p> <p>The award for threshold performance is normally 0% of maximum.</p>

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<b>2011 PERFORMANCE SHARE PLAN</b> 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 Company's performance against long-term targets over performance period of at least three years.</p> <p>The Committee may reduce or defer the level of vesting of an award where an event has occurred, such as a material health or safety incident.</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 or (for awards from 2017 onwards) if there are circumstances giving rise to material reputational damage to the Group.</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 150% of salary.</p> <p>Annual awards to current executive directors are:</p> <ul style="list-style-type: none"> <li>• C G MacLean: 150% of salary</li> <li>• S G Bennett: 120% of salary</li> </ul> <p>Under the plan rules approved by shareholders there is the ability to make additional awards in exceptional circumstances.</p> <p>Additional awards may be made in the case of a transformative Company event. Any such awards would be subject to additional shareholding guidelines or holding periods to be determined by the Committee.</p> <p>Any additional award would be subject to the overall plan limit of 300% of salary.</p>	<ul style="list-style-type: none"> <li>• At least 80% based on financial measures. This may include TSR, EPS, ROIC or any other measure considered appropriate by the Committee. Any change to the financial measures used would be subject to prior shareholder consultation.</li> <li>• Up to 20% based on performance measures linked to the delivery of the business strategy.</li> <li>• No single measure will constitute more than 50% of an annual award</li> </ul> <p>For 2017 awards, performance measures will be 40% Relative TSR, 40% EPS and 20% strategic measures.</p> <p>A maximum of 25% of each element will vest for threshold performance.</p> <p>The Committee may amend the final vesting level under the TSR element if it does not consider it to be reflective of the underlying performance of the Group.</p> <p>Any additional awards made in exceptional circumstances will be subject to performance conditions and vesting schedules as determined by the Committee at the time of award.</p>
<b>PENSION</b>	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>Maximum of 25% of base salary.</p> <p>Allowances for current executive directors are:</p> <ul style="list-style-type: none"> <li>• C G MacLean: 25% of salary</li> <li>• S G Bennett: 20% of salary</li> </ul>	None
<b>SHAREHOLDING GUIDELINES</b>	<p>The Company operates shareholding guidelines for executive directors to strengthen the alignment between the interests of the executive directors and the shareholders. The Chief Executive Officer and the Chief Financial Officer are required to build interests in shares of at least 200% and 150% of salary respectively.</p> <p>All vested awards under the 2011 Performance Share Plan (net of tax if applicable) must be retained by executive directors until this requirement is met. If the requirement is not met within three years of appointment the executive directors would be required to defer 50% of any bonus to buy shares until the guidelines are met.</p>			

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 27 April 2014 (the date the Company's first shareholder-approved directors' remuneration policy came into effect); (ii) before the Policy set out above came into effect, provided that the terms of the payment were consistent with the shareholder-approved directors' remuneration policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. 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" at the time the award is granted.

The Committee may make minor amendments 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 fair, reasonable and not materially less difficult to satisfy;
- c) incorporate the right to receive an amount (in cash or additional shares) 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; 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 options 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. This balance allows the Committee to effectively reward performance against the 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 with the long-term strategy of the Company and long-term value creation for shareholders. Measures for 2017 awards include:

- 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.
- 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 participate in performance-based incentives. Throughout the Group, base salary and benefit levels are set in accordance with the prevailing market conditions. Differences between executive director pay policy and other employee pay reflect 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.

## GOVERNANCE

### 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.

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

##### 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 and experience of the individual, and 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.

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 level higher or lower 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 buyout would take into account the terms of the arrangements (e.g. form of award, performance conditions, timeframe) 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 buyout 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 exceptional maximum may be used for the purpose of recruitment.
- The maximum variable pay opportunity on recruitment (excluding buyouts) is 425% 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 of 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 Chairman, 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 participation 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 director 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 periods of appointment and the requirements for re-election of non-executive directors are provided within the Board Membership and Balance section of the Corporate Governance report on page 50.

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 Annual General Meeting.

#### 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 Performance Share Plan, 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 a director's office or employment. Any such payments may include but are not limited to paying any fees for outplacement assistance and/or the director's legal or professional advice fees in connection with his 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 circumstance.
- 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 Performance Share Plan 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 leaver'
<b>2011 Performance Share Plan</b>	<ul style="list-style-type: none"> <li>• Death</li> <li>• Injury, ill-health or disability</li> <li>• Transfer of employing company or business outside the Group</li> <li>• Retirement with agreement of the Committee</li> <li>• Redundancy</li> <li>• Any other reason as determined by the Committee</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• If the participant ceases employment after the normal vesting date, options may be exercisable until the earlier of 12 months from the date of cessation, or the normal expiry of the exercise period. Following this date unexercised awards will lapse.</li> </ul>	<ul style="list-style-type: none"> <li>• Unvested awards lapse in full</li> </ul>

## GOVERNANCE

### Directors' Remuneration report continued

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 buyout 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.

#### 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 2017 and Performance Share Plan awards to be made in 2017.

#### C G MACLEAN

#### S G BENNETT

	Component	Minimum	Target	Maximum
Fixed	Base salary	Base salary for 2017		
	Pension	Value of cash supplement for 2017		
	Benefits	Taxable value of annual benefits provided in 2016		
Variable	Annual bonus	0% of maximum	60% of maximum	C G MacLean 125% of salary S G Bennett 115% of salary
	2011 Performance Share Plan <sup>1</sup>	0% vesting	25% vesting	C G MacLean 150% of salary S G Bennett 120% of salary

Note:

1. The value for the Performance Share Plan is based on the face value of annual PSP awards under the forward looking policy and base salaries for 2017. The calculation excludes share price growth or dividends during the performance period.

#### CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

When setting the policy for the remuneration of the executive directors, the Committee has regard to the pay and employment conditions of employees within the Group. The Committee considers salary increases within the business but does not formally consider comparison metrics.

The Committee does not consult directly with employees when formulating the Policy for executive directors.

## CONSIDERATION OF SHAREHOLDER VIEWS

The Committee undertook a comprehensive review of the remuneration policy during 2016. The Committee consulted with its largest shareholders as part of this process, and shareholders' comments were taken into account by the Committee in finalising the Policy.

## ANNUAL REPORT ON REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2016

### Operation of the executive director Remuneration Policy for 2017

The current Policy has been in force since 1 May 2014. Subject to approval of the new policy by shareholders at the AGM on 27 April 2017, the specific remuneration arrangements for 2017 are described below.

<b>BASE SALARY</b>	<p>There were no salary increases awarded for 2017 and accordingly salaries remain at 2016 levels as follows:</p> <ul style="list-style-type: none"> <li>• C G MacLean: £535,500.</li> <li>• S G Bennett: £334,560.</li> </ul>
<b>PENSION AND BENEFITS</b>	<p>No changes. Executives receive a cash allowance in lieu of pension contributions, a fully expensed car or car allowance and private health insurance.</p> <p>2017 cash allowances in lieu of pension contributions:</p> <ul style="list-style-type: none"> <li>• C G MacLean: 25% of salary</li> <li>• S G Bennett: 20% of salary</li> </ul>
<b>ANNUAL BONUS</b>	<p>For 2017, performance under the annual bonus will be measured on the following basis:</p> <ul style="list-style-type: none"> <li>• 80% subject to performance against underlying profit before tax targets.</li> <li>• 10% subject to performance measures against key health and safety targets.</li> <li>• 10% subject to performance against individual strategic and operational goals.</li> <li>• Targets and objectives for 2017 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.</li> </ul> <p>2017 maximum award opportunity:</p> <ul style="list-style-type: none"> <li>• C G MacLean: 125% of salary</li> <li>• S G Bennett: 115% of salary</li> </ul>
<b>PERFORMANCE SHARE PLAN</b>	<p>For awards made in 2017, performance will be measured on the same basis as for awards made in 2016 other than in relation to the business strategy target as follows:</p> <ul style="list-style-type: none"> <li>• 40% based on relative TSR performance versus FTSE 250 excluding investment trusts and financial services companies: <ul style="list-style-type: none"> <li>– 25% of this element will vest for median performance.</li> <li>– 100% vesting for upper quartile performance.</li> <li>– Vesting on a straight-line basis between these points.</li> </ul> </li> <li>• 40% based on underlying EPS growth: <ul style="list-style-type: none"> <li>– 25% of this element will vest for EPS growth of 4.5% per annum.</li> <li>– 100% vesting for EPS growth of 10% per annum.</li> <li>– Vesting on a straight-line basis between these points.</li> <li>– This target range was set following consideration of the long-term strategy and the outlook for the markets in which we operate.</li> </ul> </li> <li>• 20% based on performance against two equally weighted measures directly linked to the delivery of the business strategy: <ul style="list-style-type: none"> <li>– Proportion of sales from new products, measured over the five years to the end of the performance period – incentivising greater innovation through new product development.</li> <li>– Cumulative underlying profit before tax growth in respect of acquisitions in line with the strategic plan as approved by the Board – incentivising the delivery of profitable growth.</li> <li>– For each of these measures, 25% will vest for threshold performance.</li> <li>– The targets for these measures, and the level of performance achieved, will be disclosed following the end of the performance period.</li> </ul> </li> </ul> <p>2017 maximum award opportunity:</p> <ul style="list-style-type: none"> <li>• C G MacLean: 150% of salary</li> <li>• S G Bennett: 120% of salary</li> </ul>
<b>SHAREHOLDING GUIDELINES</b>	<p>The Chief Executive Officer and the Chief Financial Officer are required to build interests in shares of at least 200% and 150% of salary respectively. The Committee will keep the level under review.</p>

GOVERNANCE

Directors' Remuneration report continued

The following information is audited:

**SINGLE FIGURE OF REMUNERATION FOR EXECUTIVE DIRECTORS**

	Year	Base salary £	Benefits <sup>1</sup> £	Annual bonus £	Long-term incentives <sup>2</sup> £	Pension £	Total £
<b>Executive directors</b>							
C G MacLean	<b>2016</b>	<b>535,500</b>	<b>13,200</b>	<b>535,500</b>	–	<b>133,875</b>	<b>1,218,075</b>
	2015	500,943	135,845	484,412	–	125,234	1,246,434
S G Bennett	<b>2016</b>	<b>334,560</b>	<b>21,125</b>	<b>334,560</b>	–	<b>67,360</b>	<b>757,605</b>
	2015	223,594	93,717	216,214	321,100	44,719	899,344

Notes

- This is the total taxable value of benefits received by each Director during 2016. The table below provides details of the main component of the relevant benefits paid to executive directors.
- For 2015 the value includes the 'buyout' award made following the appointment of Mr Bennett as detailed on page 73.

	Car expenses/benefit £	Others £	Total £
C G MacLean	13,200	–	13,200
S G Bennett	20,118	1,007	21,125

**ADDITIONAL INFORMATION FOR SINGLE FIGURE REMUNERATION**

**Base salary**

The base salary levels for 2017 have been frozen at those effective 1 January 2016 and are set out below.

Executive directors	2016 base salary	2017 base salary	% change
C G MacLean	<b>£535,500</b>	£535,500	0%
S G Bennett	<b>£334,560</b>	£334,560	0%

**Annual bonus**

**2016 award**

For 2016 the Company operated a cash bonus plan for the executive directors related to the achievement of profit before tax targets, health and safety targets and individual strategic and operational goals.

The achievement of the profit before tax target represented up to 80% of the maximum bonus opportunity achievable of 100% of annual basic salary.

The health and safety 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 2016.

Executive directors	Maximum bonus as a % of salary	Total bonus as a % of maximum	Total bonus £
C G MacLean	100	100	535,500
S G Bennett	100	100	334,560

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

**1. PROFIT BEFORE TAX (80%)**

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

	Threshold	Target	Maximum	Achieved <sup>2</sup>
Level of award (% of element)	20%	60%	100%	100%
Profit before tax <sup>1</sup>	£90.25m	£95.00m	£102.60m	£106.60m

Notes

- Targets are set by reference to the Board approved internal budget for the Group and measured on a constant currency basis.
- For the purposes of calculating Achieved Profit Before Tax the contribution from the acquisition of PAC was deducted from 2016 underlying profit before tax and interest relating to monies borrowed to fund that acquisition were added back and the disposal of Synthomer South Africa was annualised. Further details of this achievement are given in the letter from the Chairman of the Remuneration Committee on page 56.

**2. HEALTH & SAFETY (10%)**

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

**(A) PERSONAL SAFETY**

Target recordable injury rate	Recordable injury rate achieved
0.47 or less	0.21

Level of award: 0% for a rate above 0.47; 5% for a rate equal to or less than 0.47.

**(B) PROCESS SAFETY**

Target process safety incident rate	Process safety incident rate achieved
0.26 or less	0.17

Level of award: 0% for a rate above 0.26; 5% for a rate equal to or less than 0.26.

As a result of out-performance against both measures the maximum award of 10% was achieved. Further details of the definition and measurement of the recordable injury rate and the process safety incident rate are given on page 24.

**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:

**C G MacLean**

- achievement of cost control targets, completion of Synthomer 2015 programme at the end of 2016.
- delivery of synergy benefits from acquisitions, integration of, and cost savings from, the PAC acquisition on track.
- development of succession planning for leadership roles, management team upgraded and succession pool strengthened.

The maximum opportunity was awarded.

**S G Bennett**

- performance relating to merger and acquisition activity, successful financial integration of the PAC acquisition.
- development of Group IT function, CIO recruited and work programme in the course of implementation.
- enhancement of aspects of financial reporting, development of profitability by site measure.

The maximum opportunity was awarded.

Further details of performance against these goals is given in the letter from the Chairman of the Remuneration Committee on page 56.

**2011 PERFORMANCE SHARE PLAN****2016 award**

The awards made on 8 April 2016 to C G MacLean and S G Bennett were as follows:

Executive Directors	Scheme	Basis of award	Number of shares	Face value	Percentage vesting at threshold performance	Performance period end date
C G MacLean	2011 PSP – nil-cost options	125% of salary	182,416	£669,375	25%	31/12/2018
S G Bennett	2011 PSP – nil-cost options	100% of salary	91,173	£334,560	25%	31/12/2018

The face value of the awards was calculated using a share price of 366.95 pence per share, the average share price on the four dealing days prior to the date of grant.

**GOVERNANCE**

**Directors' Remuneration report** continued

The awards made on 8 April 2016 under the 2011 PSP are subject to the following performance conditions:

Relative total shareholder return condition	EPS condition	
Company relative TSR performance against the FTSE 250 Index (excluding investment trusts and financial services companies) over three year period ending 31 December 2018	EPS for the 2018 financial year	Percentage of award that will vest
Upper quartile	28.6 pence or more	40%
Between median and upper quartile	Between 24.5 pence and 28.6 pence	On a straight-line basis between 10% and 40%
Median	24.5 pence	10%
Below median	Less than 24.5 pence	0%

A further 20% of the award is subject to strategic measures as referred to on page 60, the targets for which will be disclosed following the end of the performance period.

**PENSION ENTITLEMENTS**

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

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

**SINGLE FIGURE OF REMUNERATION FOR NON-EXECUTIVE DIRECTORS**

Non-executive directors		Base fee	Committee membership fee	Committee chair fee	Total
N A Johnson	2016	160,000	-	-	160,000
	2015	160,000	-	-	160,000
The Hon. A G Catto	2016	40,000	-	-	40,000
	2015	40,000	-	-	40,000
J Chen	2016	40,000	-	-	40,000
	2015	40,000	-	-	40,000
B W D Connolly <sup>1</sup>	2016	45,000	5,000	5,000	55,000
	2015	43,354	5,000	5,000	53,354
Dr J Jansz	2016	40,000	5,000	-	45,000
	2015	40,000	5,000	-	45,000
C A Johnstone <sup>2</sup>	2016	40,000	5,000	5,000	50,000
	2015	32,333	3,333	3,334	39,000
Dato' Lee Hau Hian	2016	40,000	-	-	40,000
	2015	40,000	-	-	40,000

Notes

1. Base fee includes an amount of £5,000 per annum for role as Senior Independent Director from 1 May 2015.
2. Appointed to the Board on 20 March 2015.

The fees of the non-executive directors and the Chairman were reviewed in 2016 and as a result of which the Chairman's annual fee was increased by £10,000 to £170,000 and the annual committee membership fee of £5,000 was increased to £10,000 for Mr Connolly, Dr Jansz and Mrs Johnstone, all with effect from 1 January 2017. The fee increases reflected the increased demands of these roles.

**DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (NUMBER OF SHARES/OPTIONS)**

Directors	Interests in Company shares 31 December 2016	Vested unexercised performance related options 31 December 2016	Total unfettered Interests in shares and vested options 31 December 2016	Unvested performance related options 31 December 2016 <sup>1</sup>	Share options exercised during 2016	Share ownership requirements (% of salary)	Interests in shares at 31 December 2016 (% of salary) <sup>2</sup>
C G MacLean	218,161	0	218,161	414,142	0	100%	129%
S G Bennett	0	0	0	159,656	0	100%	0%
The Hon. A G Catto	1,492,392 7,647,500*						
J Chen	–						
B W D Connolly	2,200						
Dato' Lee Hau Hian	44,763						
Dr J J C Jansz	10,000						
N A Johnson	100,000						
C A Johnstone	0						

**Notes**

\* Non-beneficial interest.

- Unvested performance related options comprise the awards made under the 2011 PSP in 2015 and 2016. Details of the performance conditions attaching to the 2016 awards are set out on page 70. As disclosed in the 2015 Annual Report, in addition to his performance related award S G Bennett was granted a 'buyout' award of 100,000 shares in 2015 which will vest subject to continued employment until 31 December 2017.
- As at 31 December 2016 executive directors are required to hold 100% of their annual salary in the Company's shares. 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 100% salary guideline. As noted on page 69 it is intended to increase the shareholdings required to be held by the executive directors following the approval of the Remuneration Policy at the 2017 AGM.

The performance conditions attaching to the 2011 PSP awards granted in 2015 are as follows:

Relative total shareholder return condition	EPS condition	
Company relative TSR performance against the FTSE 250 Index (excluding investment trusts and financial services companies) over three year period ending 31 December 2017	EPS for the 2017 financial year	Percentage of award that vests
Upper quartile	25.95 pence or more	40%
Between median and upper quartile	Between 22.25 pence and 25.95 pence	On a straight-line basis between 10% and 40%
Median	22.25 pence	10%
Below median	Less than 22.25 pence	0%

A further 20% of the award is subject to strategic measures as referred to on page 69 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 office were made during the year.

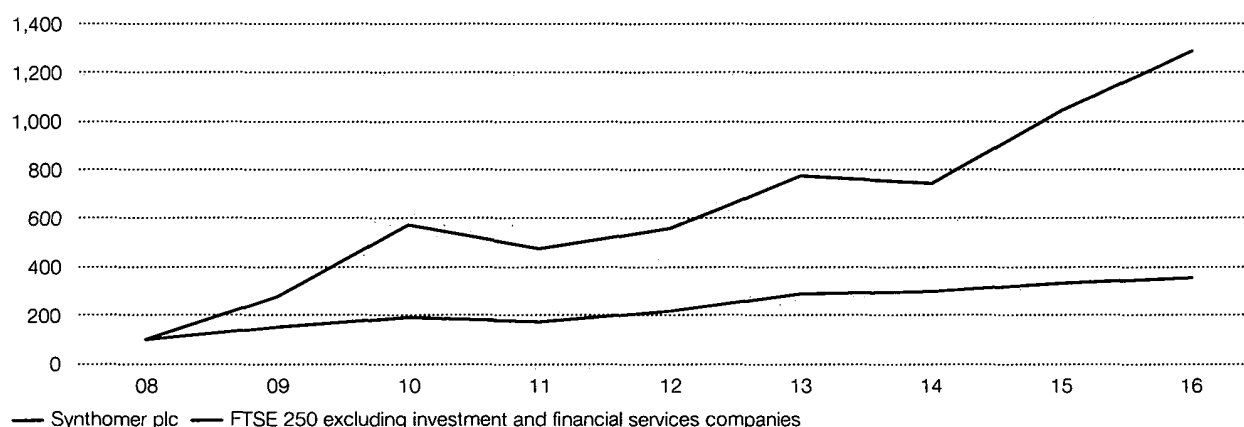
**GOVERNANCE**

**Directors' Remuneration Report continued**

The following information is unaudited:

**PERFORMANCE GRAPH AND TABLE**

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



The graph above compares the total shareholder return performance of the Company with that of the FTSE 250 which is considered to be the most appropriate index against which to make a comparison.

	2009	2010	2011	2012	2013	2014	2015	2016
CEO total single figure of remuneration (£000)	786	1,484	3,934	1,487	923	967	1,246	<b>1,218</b>
Bonus (% of maximum awarded)	100	100	100	27	0	57.3	96.7	<b>100</b>
LTI (% of maximum vesting)	0	100	100	100	50	0	n/a	<b>n/a</b>

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

**PERCENTAGE CHANGE IN REMUNERATION OF DIRECTOR UNDERTAKING THE ROLE OF CHIEF EXECUTIVE COMPARED WITH UK GROUP EMPLOYEES**

The table below sets out the increase in total remuneration of the Chief Executive Officer and that of the employees of the Group's main UK trading subsidiary. Total employee pay is based on the total salary, benefits and bonuses for employees of that company comprising some 335 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	Annual bonus % increase
C G MacLean	2	(90.3)	10.5
Total employee pay, benefits and bonuses	3.3	25.6	9.6

**RELATIVE IMPORTANCE OF SPEND ON PAY**

The 2015 dividend includes a special dividend of 7.8p per share equating to £26.5m. Excluding this special dividend, dividends to shareholders increased by 11.4%.

Total employee remuneration in 2016 is impacted by the depreciation in sterling relative to 2015, and the remuneration of the PAC employees from 1 July 2016.

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

	2016 £m	2015 £m	% change
Dividends <sup>1</sup>	<b>30.3</b>	53.7	(43.6)
Total employee remuneration <sup>2</sup>	<b>93.5</b>	76.2	22.7

**Notes**

- The 2015 dividend includes a special dividend of 7.8p per share equalling £26.5m. Excluding this special dividend, dividends to shareholders increased by 15.6%.
- Total employee remuneration in 2016 is impacted by the depreciation in sterling relative to 2015 and the remuneration of the PAC employees from 1 July 2016.

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

Emoluments*	2016 £000	2015 £000
The total amounts for Directors' remuneration and other benefits were:		
Emoluments	<b>2,204</b>	2,351

**Note**

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

**EXTERNAL APPOINTMENTS**

Executive directors are permitted to accept external appointments with the prior approval of the Board provided that there is no adverse impact to their role and duties to the Company. Any fees arising from such appointments may be retained by the executive directors where the appointment is unrelated to the Group's business. Neither Mr MacLean nor Mr Bennett currently hold any external appointments.

**REMUNERATION COMMITTEE**

Remuneration Committee membership since 1 January 2016:

Brendan Connolly	Chairman
Just Jansz	
Caroline Johnstone	

Attendance at Committee meetings is set out on page 50.

**KEY DUTIES OF THE COMMITTEE**

The Committee is 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 is also responsible for reviewing the remuneration of senior executives throughout the Group.

**ADVISERS**

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

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

During the year, Deloitte provided advice on the proposed new remuneration policy, 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 £27,550 for advice in 2016. Deloitte also provided tax services to the Company in the year. The Committee was satisfied that this did not compromise the independence of the advice received.

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

**STATEMENT OF VOTING AT GENERAL MEETING**

The table below sets out the results of the vote on the Directors' remuneration report in 2016.

Member	Votes for		Votes against		Votes withheld
	Number	% of vote	Number	% of vote	Number
2015 Annual Report on Remuneration	266,192,043	>99	1,495,056	<1	2,818,002
2014 Directors' Remuneration Policy	231,338,319	93	17,333,766	7	4,858,658

By order of the Board

**R ATKINSON**  
Company Secretary  
6 March 2017

## GOVERNANCE

### Report of the Directors

The Directors submit their Annual Report and the audited consolidated financial statements for the year ended 31 December 2016. The Report of the Directors comprises pages 76 to 78 and the following sections of the Annual Report which are incorporated by reference:

Item	Location in Annual Report
Directors' responsibility statements	Page 79
Financial instruments and financial risk management	Financial Statements – note 23
Present membership of the Board	Pages 46 to 47
Corporate Governance Report	Pages 48 to 55
Strategic Report (including principal activities and principal risks and uncertainties and Viability Statement)	Pages 2 to 43
Directors' Remuneration Report	Pages 56 to 75
Share capital	Financial Statements – note 28
Sustainability Report	Pages 20 to 27

#### RESULTS AND DIVIDENDS

The profit attributable to shareholders for the year was £110.4m. The interim dividend of 3.5 pence per share was paid on 4 November 2016. The Directors recommend a final ordinary dividend of 7.8 pence per share payable on 6 July 2017 to those shareholders registered at the close of business on 9 June 2017. A dividend reinvestment plan is available to shareholders and this alternative will continue to be offered until further notice.

#### ACQUISITIONS AND DISPOSALS

On 30 June 2016 the Group completed the acquisition of the Performance and Adhesives Coatings business of Hexion Inc. On 11 August 2016, the Group sold Revertex South Africa (Pty) Limited. Further details of these transactions are contained in notes 31 and 32 respectively to the consolidated financial statements.

#### DIRECTORS

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

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

#### DIRECTOR INDEMNITY PROVISIONS

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

#### SHARE CAPITAL AND CONTROL

During 2016 no shares were issued or repurchased. A total of 76,636 shares were purchased on the open market on behalf of the shareholders who elected to participate in the dividend reinvestment plan.

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

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

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

## MAJOR SHAREHOLDINGS

Other than the shareholdings disclosed as Directors' interests in the Directors' remuneration report as at 17 February 2017, 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
Kames Capital Plc	10,314,503	3.03	Direct and indirect interest
Old Mutual plc	18,934,855	5.57	Direct and indirect interest
FIL Limited	19,820,888	5.83	Direct interest
Standard Life Investments (Holdings) Limited	30,596,643	8.89	Direct and indirect interest
Kuala Lumpur Kepong Berhad Group	66,879,401	19.68	Direct interest

## EMPLOYMENT POLICIES AND EMPLOYMENT INVOLVEMENT

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

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

## AUTHORITY TO PURCHASE OWN SHARES

The Company has a general authority, which expires at the conclusion of the 2017 Annual General Meeting, to make market purchases of not more than 33,988,076 of the Company's ordinary shares in accordance with the terms of the special resolution passed at the 2016 Annual General Meeting. A resolution will be tabled at the 2017 Annual General Meeting to renew this authority.

## POLITICAL DONATIONS

No political donations were made in the year.

## UK PENSION FUNDS

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

## SUBSIDIARIES

All the Group's subsidiaries, joint ventures and related undertakings are listed on page 139 to 141.

## STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR

Each Director of the Company confirms that, so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware and that he or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. For these purposes, relevant audit information means information needed by the Company's auditor in connection with preparing their reports on pages 80 to 84 and 128 and 129.

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

## GOVERNANCE

### Report of the Directors continued

#### GOING CONCERN

The Directors have acknowledged the latest guidance on going concern and in reaching their conclusions have taken into account factors which include the amendment and restatement in March 2016 of the Group's main credit facility put in place in July 2014 and which involved the putting in place of an extended commitment of £370 million under the multicurrency revolving loan until July 2019. 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 parent 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 PwC as the Company's auditor will be proposed at the Annual General Meeting.

#### ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the offices of Canaccord Genuity Limited, 88 Wood Street, London EC2V 7QR on 27 April 2017 at 10.00am.

By order of the Board

**R ATKINSON**  
Company Secretary  
6 March 2017



## GOVERNANCE

## Statement of Directors' responsibilities

**FINANCIAL STATEMENTS, INCLUDING ADOPTION OF GOING CONCERN BASIS**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 101: "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**OTHER MATTERS**

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

**RESPONSIBILITY STATEMENT**

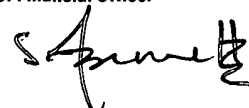
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- As required by the UK Corporate Governance Code: The Annual Report and financial statements, taken as a whole, provides the information necessary to assess the Group's performance, business model and strategy and is fair, balanced and understandable.

By order of the Board

**C G MACLEAN**  
Chief Executive Officer

**S G BENNETT**  
Chief Financial Officer

## GROUP FINANCIAL STATEMENTS

### Independent auditors' report

to the members of Synthomer plc

## REPORT ON THE GROUP FINANCIAL STATEMENTS

### Our opinion

In our opinion, Synthomer plc's group financial statements (the financial statements):

- give a true and fair view of the state of the group's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Consolidated Balance Sheet as at 31 December 2016;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

### Our audit approach

#### Overview

- 
- Overall group materiality: £6.1 million which represents 5% of underlying profit before tax.

- 
- Our group audit focused on twelve reporting units which were subject to audit procedures.
  - The reporting units where we performed audit procedures accounted for 93% of the Group's revenue, 93% of the Group's operating profit and 92% of the Group's underlying operating profit.

- 
- Acquisition of Hexion PAC.
  - Defined benefit pension accounting.
  - Provisions for uncertain tax positions.
- 

#### The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as “areas of focus” in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>ACQUISITION OF HEXION PAC</b></p> <p>On 30 June 2016 the Group completed the acquisition of Hexion PAC for consideration of £165.1 million, as described in Note 31.</p> <p>IFRS 3 “Business combinations” (“IFRS 3”) requires that all assets and liabilities acquired in the business combination are recorded at fair values on acquisition. Judgement is required in identifying and valuing all the assets and liabilities acquired, in particular intangible assets which are recognised on acquisition and valuing the acquired property, plant and equipment.</p> <p>Intangible assets totalling £22.0 million were identified relating to customer relationships. The key judgements were in determining an appropriate methodology to value these assets and appropriate assumptions, including forecast revenue and profit, discount rate and rates of obsolescence to determine the fair values.</p> <p>Tangible assets relating to land, buildings and plant and machinery have been valued at £67.6 million. The key judgements were in determining an appropriate methodology to value these assets, assessing current market values for similar assets, replacement costs and other valuation assumptions.</p>	<p>We evaluated the process used by management to identify and value the assets and liabilities acquired. We assessed the assets and liabilities acquired and the fair value adjustments applied. The fair value adjustments were considered appropriate.</p> <p>We considered the Directors’ process for identifying the intangible assets acquired, considering the rationale for the acquisition and the nature of the Hexion PAC business. Using our valuation specialists, we assessed the valuation methodology used by the Directors in valuing the identified assets. We evaluated the forecasts and data used and the key assumptions made.</p> <p>We compared the overall outcome compared to other approaches that could have been taken. We were satisfied that the fair values of the intangible and tangible assets were supportable, and that the assumptions used in valuing the assets were within an acceptable range.</p>
<p><b>DEFINED BENEFIT PENSION ACCOUNTING</b></p> <p>As set out in Note 26 on page 118 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 £178.7 million of the net pension deficit of £186.7 million recorded on the Group balance sheet at the year end.</p> <p>We focused on the pension liabilities in particular, as the amounts reflected in the financial statements for defined benefits schemes are sensitive to relatively small changes in a few key assumptions such as the inflation rate, mortality tables and most notably, the discount rate applied.</p> <p>The Group uses third party actuaries to calculate the amounts to reflect in the financial statements in respect of these schemes and it is accordingly important for us to assess the work they perform and their competency to undertake the work in order to conclude on the results of their work.</p>	<p>We obtained external actuarial reports of the UK and German schemes which set out the detailed calculations and assumptions underpinning the year end pension scheme valuation. We read these reports and were satisfied that the scope of their work was such that we could use this work to provide evidence for the purpose of our audit.</p> <p>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.</p> <p>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><b>PROVISIONS FOR UNCERTAIN TAX POSITIONS</b></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.</p> <p>As set out in Note 10 at 31 December 2016, the Group has recorded current tax liabilities totalling £39.0 million. A significant element of this tax liability relates to uncertain tax positions.</p> <p>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.</p> <p>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.</p> <p>No significant issues arose from this work to suggest that the judgements made and amounts recorded were inappropriate.</p>

## GROUP FINANCIAL STATEMENTS

### Independent auditors' report plc continued to the members of Synthomer plc

#### How we tailored the audit scope

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

As set out on the inside front cover the Group reports its results as two segments: 'Europe and North America' and 'Asia and the Rest of the World'. The Group financial statements are a consolidation of reporting units, being holding companies, intermediate holding companies and twenty-eight operating companies, across sixteen countries. Three countries being the UK, Germany and Malaysia account for the majority for the Group's results. We accordingly focused our work on the five 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 three reporting units located in the UK, Italy and Finland and also the three key reporting units of the acquired Hexion PAC business, located in the UK, US and Czech. These components accounted for 93% of the Group's revenue, 93% of the Group's operating profit and 92% of the Group's underlying operating profit.

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

#### Materiality

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

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

Overall group materiality	£6.1 million (2015: £4.3 million).
How we determined it	5% of underlying profit before tax.
Rationale for benchmark applied	We believe that underlying profit before tax, being profit before tax adjusted for special items, is the principal metric against which the Group's financial performance is measured in the Chairman's and CEO's statements within the financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £300,000 (2015: £200,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

#### Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 78, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the directors' statement, the directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the group's ability to continue as a going concern.

## OTHER REQUIRED REPORTING

### Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Corporate Governance section set out on pages 44 to 75 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- the information given in the Corporate Governance section set out on pages 44 to 75 with respect to the company's corporate governance code and practices and about its administrative, management and supervisory bodies complies with rules 7.2.2, 7.2.3 and 7.2.7 of the Disclosure Guidance and Transparency Rules sourcebook of the Financial Conduct Authority.

In addition, in light of the knowledge and understanding of the group and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the information referred to above in the Corporate Governance section. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- |   |                                  |
|---|----------------------------------|
| <ul style="list-style-type: none"> <li>• information in the Annual Report is:           <ul style="list-style-type: none"> <li>– materially inconsistent with the information in the audited financial statements; or</li> <li>– apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or</li> <li>– otherwise misleading.</li> </ul> </li> </ul>   | We have no exceptions to report. |
| <ul style="list-style-type: none"> <li>• the statement given by the directors on page 79, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the group's position and performance, business model and strategy is materially inconsistent with our knowledge of the group acquired in the course of performing our audit.</li> </ul> | We have no exceptions to report. |
| <ul style="list-style-type: none"> <li>• the section of the Annual Report on page 55, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.</li> </ul>   | We have no exceptions to report. |

**The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group**

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>• the directors' confirmation on page 51 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.</li> </ul>   | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none"> <li>• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li> </ul>   | We have nothing material to add or to draw attention to. |
| <ul style="list-style-type: none"> <li>• the directors' explanation on page 33 of the Annual Report, in accordance with provision C.2.2 of the Code, 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.</li> </ul> | We have nothing material to add or to draw attention to. |

Under the Listing Rules we are required to review the directors' statement that they have carried out a robust assessment of the principal risks facing the group and the directors' 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 Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

## GROUP FINANCIAL STATEMENTS

### Independent auditors' report plc continued to the members of Synthomer plc

#### Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

#### Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

#### Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the parent company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the Corporate Governance section relating to ten further provisions of the Code. We have nothing to report having performed our review.

#### RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

##### Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 79, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

##### What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

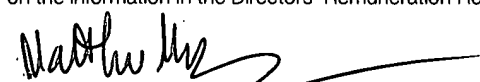
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Report of the Directors and Corporate Governance section, we consider whether those reports include the disclosures required by applicable legal requirements.

#### OTHER MATTER

We have reported separately on the parent company financial statements of Synthomer plc for the year ended 31 December 2016 and on the information in the Directors' Remuneration Report that is described as having been audited.



**MATTHEW MULLINS (SENIOR STATUTORY AUDITOR)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

6 March 2017

## Consolidated income statement for the year ended 31 December 2016

	Note	2016			2015		
		Underlying performance £m	Special items £m	IFRS £m	Underlying performance £m	Special items £m	IFRS £m
<b>Continuing operations</b>							
<b>Revenue</b>		<b>1,045.7</b>	<b>–</b>	<b>1,045.7</b>	870.1	<b>–</b>	870.1
Company and subsidiaries before special items		<b>128.2</b>	<b>–</b>	<b>128.2</b>	99.1	<b>–</b>	99.1
Restructuring and site closure	3	<b>–</b>	<b>(5.2)</b>	<b>(5.2)</b>	–	<b>(5.4)</b>	<b>(5.4)</b>
Sale of business	3	<b>–</b>	<b>4.7</b>	<b>4.7</b>	–	<b>–</b>	<b>–</b>
Sale of land	3	<b>–</b>	<b>33.2</b>	<b>33.2</b>	–	<b>6.5</b>	<b>6.5</b>
Acquisition costs	3	<b>–</b>	<b>8.8</b>	<b>8.8</b>	–	<b>–</b>	<b>–</b>
Amortisation of acquired intangibles	3	<b>–</b>	<b>(27.0)</b>	<b>(27.0)</b>	–	<b>(23.7)</b>	<b>(23.7)</b>
Company and subsidiaries		<b>128.2</b>	<b>14.5</b>	<b>142.7</b>	99.1	<b>(22.6)</b>	76.5
Share of joint ventures	19	<b>2.0</b>	<b>–</b>	<b>2.0</b>	3.8	<b>–</b>	3.8
<b>Operating profit/(loss)</b>	7	<b>130.2</b>	<b>14.5</b>	<b>144.7</b>	102.9	<b>(22.6)</b>	80.3
Interest payable	9	<b>(4.2)</b>	<b>–</b>	<b>(4.2)</b>	(3.8)	<b>–</b>	(3.8)
Interest receivable	9	<b>0.7</b>	<b>–</b>	<b>0.7</b>	0.5	<b>–</b>	0.5
		<b>(3.5)</b>	<b>–</b>	<b>(3.5)</b>	(3.3)	<b>–</b>	(3.3)
IAS 19 interest charge		<b>(4.5)</b>	<b>–</b>	<b>(4.5)</b>	(4.3)	<b>–</b>	(4.3)
Fair value adjustment	9	<b>–</b>	<b>–</b>	<b>–</b>	–	<b>(0.2)</b>	<b>(0.2)</b>
<b>Finance costs</b>		<b>(8.0)</b>	<b>–</b>	<b>(8.0)</b>	(7.6)	<b>(0.2)</b>	(7.8)
<b>Profit/(loss) before taxation</b>		<b>122.2</b>	<b>14.5</b>	<b>136.7</b>	95.3	<b>(22.8)</b>	72.5
Taxation	10	<b>(24.5)</b>	<b>9.1</b>	<b>(15.4)</b>	(21.0)	<b>11.6</b>	(9.4)
<b>Profit/(loss) for the year</b>		<b>97.7</b>	<b>23.6</b>	<b>121.3</b>	74.3	<b>(11.2)</b>	63.1
Profit/(loss) attributable to non-controlling interests		<b>1.5</b>	<b>9.4</b>	<b>10.9</b>	1.2	<b>1.5</b>	2.7
Profit/(loss) attributable to equity holders of the parent		<b>96.2</b>	<b>14.2</b>	<b>110.4</b>	73.1	<b>(12.7)</b>	60.4
		<b>97.7</b>	<b>23.6</b>	<b>121.3</b>	74.3	<b>(11.2)</b>	63.1
<b>Earnings/(loss) per share</b>							
– Basic	13	<b>28.3p</b>	<b>4.2p</b>	<b>32.5p</b>	21.5p	<b>(3.7)p</b>	17.8p
– Diluted	13	<b>28.1p</b>	<b>4.2p</b>	<b>32.3p</b>	21.3p	<b>(3.7)p</b>	17.6p

### Special Items

The special items are shown in more detail in note 3.

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

	Note	2016			2015		
		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		<b>110.4</b>	<b>10.9</b>	<b>121.3</b>	60.4	2.7	63.1
Actuarial gains and losses	26	<b>(49.1)</b>	<b>–</b>	<b>(49.1)</b>	1.6	<b>–</b>	1.6
Tax relating to components of other comprehensive income	10	<b>0.9</b>	<b>–</b>	<b>0.9</b>	(0.7)	<b>–</b>	(0.7)
<b>Total items that will not be reclassified to profit or loss</b>		<b>(48.2)</b>	<b>–</b>	<b>(48.2)</b>	0.9	<b>–</b>	0.9
Exchange differences on translation of foreign operations		<b>47.0</b>	<b>1.2</b>	<b>48.2</b>	(35.7)	<b>(1.4)</b>	(37.1)
Exchange differences recycled on sale of business	32	<b>3.3</b>	<b>–</b>	<b>3.3</b>	–	<b>–</b>	–
(Losses)/gains on a hedge of a net investment taken to equity		<b>(6.4)</b>	<b>–</b>	<b>(6.4)</b>	10.6	<b>–</b>	10.6
<b>Total items that may be reclassified subsequently to profit or loss</b>		<b>43.9</b>	<b>1.2</b>	<b>45.1</b>	(25.1)	<b>(1.4)</b>	(26.5)
<b>Other comprehensive expense for the year</b>		<b>(4.3)</b>	<b>1.2</b>	<b>(3.1)</b>	(24.2)	<b>(1.4)</b>	(25.6)
<b>Total comprehensive income for the year</b>		<b>106.1</b>	<b>12.1</b>	<b>118.2</b>	36.2	<b>1.3</b>	37.5

GROUP FINANCIAL STATEMENTS

**Consolidated statement of changes in equity**

for the year ended 31 December 2016

	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 2016		34.0	230.5	0.9	(48.3)	32.3	249.4	9.1	258.5
Profit for the year		-	-	-	-	110.4	110.4	10.9	121.3
Actuarial losses	26	-	-	-	-	(49.1)	(49.1)	-	(49.1)
Exchange differences on translation of foreign operations		-	-	-	47.0	-	47.0	1.2	48.2
Exchange differences recycled on sale of business	32	-	-	-	3.3	-	3.3	-	3.3
Loss on a hedge of a net investment taken to equity		-	-	-	(6.4)	-	(6.4)	-	(6.4)
Tax relating to components of other comprehensive income	10	-	-	-	-	0.9	0.9	-	0.9
<b>Total comprehensive (expense)/income for the year</b>		-	-	-	43.9	62.2	106.1	12.1	118.2
Dividends paid to shareholders	12	-	-	-	-	(30.3)	(30.3)	-	(30.3)
Dividends paid to non-controlling interests		-	-	-	-	-	-	(3.2)	(3.2)
Share-based payments		-	-	-	-	1.0	1.0	-	1.0
<b>At 31 December 2016</b>		<b>34.0</b>	<b>230.5</b>	<b>0.9</b>	<b>(4.4)</b>	<b>65.2</b>	<b>326.2</b>	<b>18.0</b>	<b>344.2</b>

	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 2015		34.0	230.5	0.9	(23.2)	24.1	266.3	10.8	277.1
Profit for the year		-	-	-	-	60.4	60.4	2.7	63.1
Actuarial gains	26	-	-	-	-	1.6	1.6	-	1.6
Exchange differences on translation of foreign operations		-	-	-	(35.7)	-	(35.7)	(1.4)	(37.1)
Exchange differences recycled on sale of business	32	-	-	-	-	-	-	-	-
Gains on a hedge of a net investment taken to equity		-	-	-	10.6	-	10.6	-	10.6
Tax relating to components of other comprehensive income	10	-	-	-	-	(0.7)	(0.7)	-	(0.7)
<b>Total comprehensive (expense)/income for the year</b>		-	-	-	(25.1)	61.3	36.2	1.3	37.5
Dividends paid to shareholders	12	-	-	-	-	(53.7)	(53.7)	-	(53.7)
Dividends paid to non-controlling interests		-	-	-	-	-	-	(3.0)	(3.0)
Share-based payments		-	-	-	-	0.6	0.6	-	0.6
<b>At 31 December 2015</b>		<b>34.0</b>	<b>230.5</b>	<b>0.9</b>	<b>(48.3)</b>	<b>32.3</b>	<b>249.4</b>	<b>9.1</b>	<b>258.5</b>

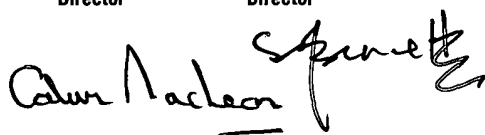
**Consolidated balance sheet**  
as at 31 December 2016

	Note	2016 £m	2015 £m
<b>Non-current assets</b>			
Goodwill	15	301.4	222.4
Acquired intangible assets	16	54.2	50.9
Other intangible assets	17	0.2	0.3
Property, plant and equipment	18	293.3	186.4
Deferred tax assets	11	19.4	15.4
Investment in joint ventures	19	9.0	8.0
<b>Total non-current assets</b>		<b>677.5</b>	<b>483.4</b>
<b>Current assets</b>			
Inventories	20	104.3	63.6
Trade and other receivables	21	195.7	122.9
Cash and cash equivalents	22	117.4	50.9
Derivatives at fair value	23	-	2.9
<b>Total current assets</b>		<b>417.4</b>	<b>240.3</b>
<b>Assets classified as held for sale</b>	24	<b>0.7</b>	<b>1.0</b>
<b>Total assets</b>		<b>1,095.6</b>	<b>724.7</b>
<b>Current liabilities</b>			
Borrowings	22	(65.4)	(57.3)
Trade and other payables	25	(213.5)	(124.7)
Current tax liability	10	(39.0)	(30.6)
Provisions for other liabilities and charges	27	(3.0)	(3.2)
<b>Total current liabilities</b>		<b>(320.9)</b>	<b>(215.8)</b>
<b>Non-current liabilities</b>			
Borrowings	22	(202.3)	(73.7)
Trade and other payables	25	(2.7)	-
Deferred tax liability	11	(33.1)	(30.0)
Post retirement benefit obligations	26	(186.7)	(139.2)
Provisions for other liabilities and charges	27	(5.7)	(7.5)
<b>Total non-current liabilities</b>		<b>(430.5)</b>	<b>(250.4)</b>
<b>Net assets</b>		<b>344.2</b>	<b>258.5</b>
<b>Equity</b>			
Called up share capital	28	34.0	34.0
Share premium		230.5	230.5
Capital redemption reserve		0.9	0.9
Hedging and translation reserve		(4.4)	(48.3)
Retained earnings		65.2	32.3
<b>Equity attributable to equity holders of the parent</b>		<b>326.2</b>	<b>249.4</b>
<b>Non-controlling interests</b>		<b>18.0</b>	<b>9.1</b>
<b>Total equity</b>		<b>344.2</b>	<b>258.5</b>

The financial statements on pages 85 to 127 were approved by the Board of Directors and authorised for issue on 6 March 2017. They are signed on its behalf by:

**C G MACLEAN**  
Director

**S G BENNETT**  
Director



**GROUP FINANCIAL STATEMENTS**  
**Analysis of net borrowings**

	Note	2016 £m	2015 £m
Cash and cash equivalents	22	117.4	50.9
Current borrowings	22	(65.4)	(57.3)
Non-current borrowings	22	(202.3)	(73.7)
<b>Net borrowings</b>		<b>(150.3)</b>	<b>(80.1)</b>
Special item: deduct fair value adjustment	22	-	2.7
<b>Net borrowings (underlying performance)</b>		<b>(150.3)</b>	<b>(77.4)</b>

## Consolidated cash flow statement

for the year ended 31 December 2016

	Note	2016		2015	
		£m	£m	£m	£m
<b>Operating</b>					
Cash generated from operations	29		157.0		115.6
Interest received		0.7		0.5	
Interest paid		(4.0)		(3.9)	
Net interest paid			(3.3)		(3.4)
UK corporation tax paid		-		-	
Overseas corporate tax paid		(17.1)		(15.4)	
Total tax paid			(17.1)		(15.4)
<b>Net cash inflow from operating activities</b>			<b>136.6</b>		<b>96.8</b>
<b>Investing</b>					
Dividends received from joint ventures	19		2.1		3.6
Purchase of property, plant and equipment	18	(45.6)		(22.8)	
Sale of property, plant and equipment		34.4		6.8	
Net capital expenditure			(11.2)		(16.0)
Purchase of businesses	31		(165.8)		-
Sale of businesses	32		12.8		-
<b>Net cash outflow from investing activities</b>			<b>(162.1)</b>		<b>(12.4)</b>
<b>Financing</b>					
Ordinary dividends paid	12		(30.3)		(53.7)
Dividends paid to non-controlling interests			(3.2)		(3.0)
Settlement of equity-settled share based payments			(0.4)		-
Repayment of borrowings	30		(82.7)		(48.5)
Proceeds of borrowings	30		186.0		-
<b>Net cash inflow/(outflow) from financing activities</b>			<b>69.4</b>		<b>(105.2)</b>
<b>Increase/(decrease) in cash, cash equivalents and bank overdrafts during the year</b>			<b>43.9</b>		<b>(20.8)</b>
<b>Cash, cash equivalents and bank overdrafts at 1 January</b>	30		<b>8.5</b>		<b>24.9</b>
Cash outflows					
Cash and cash equivalents	30	63.8		(44.5)	
Bank overdrafts	30	(19.9)		23.7	
			43.9		(20.8)
Exchange and other movements	30		(0.4)		4.4
<b>Cash, cash equivalents and bank overdrafts at 31 December</b>	30		<b>52.0</b>		<b>8.5</b>
<b>Reconciliation of net cash flow from operating activities to movement in net borrowings</b>					
	Note	2016	2015		
		£m	£m		
Net cash inflow from operating activities		136.6	96.8		
Add back: dividends received from joint ventures	19	2.1	3.6		
Less: net capital expenditure		(11.2)	(16.0)		
Less: net purchase of businesses		(153.0)	-		
		(25.5)	84.4		
Ordinary dividends paid	12	(30.3)	(53.7)		
Dividends paid to non-controlling interests		(3.2)	(3.0)		
Settlement of equity-settled share based payments		(0.4)	-		
Exchange movements	30	(13.5)	7.0		
<b>(Increase)/decrease in net borrowings (underlying performance)</b>	30	<b>(72.9)</b>	<b>34.7</b>		

## 1 GENERAL INFORMATION

Synthomer plc is a Company incorporated and domiciled in the United Kingdom under the Companies Act. The address of the registered office is given on inside back cover. The Company is listed on the London Stock Exchange.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

### New and amended standards adopted by the Group

No new standards have been adopted by the Group for the first time for the financial year beginning 1 January 2016.

### New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

#### IFRS 9 Financial Instruments

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Accordingly, the group has not yet determined to what extent this new standard will have an impact on the classification, measurement and derecognition of its financial assets or liabilities.

This standard is mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.

#### IFRS 15 Revenue from Contracts with Customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

This new standard is not expected to impact on the accounting of revenue in the Group, however increased disclosure requirements are expected. It is effective for accounting periods starting 1 January 2018.

This standard is mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.

#### IFRS 16 Leases

IFRS 16 was issued in January 2016. For lessees, it will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of £29.0m, see note 34. The group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

This standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRS Interpretations Committee and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments at fair value through the Income Statement. As discussed in the Report of the Directors on page 78, the financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below and have been consistently applied to all the years presented, unless otherwise stated.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

The results of joint ventures are accounted for using equity accounting.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination (see below) and the non-controlling interest's share of changes in equity since the date of combination.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or joint venture at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually at the cash generating unit level. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed.

Should the fair value of the identifiable assets exceed the cost of acquisition, a "Bargain purchase", the excess is credited to the income statement immediately on acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit.

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 IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

#### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held investment is re-measured to fair value at the acquisition date; any gains or losses from such re-measurement are recognised in the income statement.

#### Acquired intangible assets

Intangible assets acquired through acquisition are measured at their fair value and are amortised on a straight-line basis over their estimated useful lives, on the following bases:

Customer relationships	– between 5 and 8 years
Technology	– 10 years

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Customer relationships relate to existing relationships with customers based on a number of factors including trading history, contractual and non-contractual relationships and customer specific product formulations.

Where necessary the fair value at acquisition and estimated useful lives for these intangible assets are based on independent valuation reports.

### Other intangible assets

Software development resulting in development of a long-term intangible asset are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives of between 3-5 years.

An internally-generated intangible asset arising from the Group's product development is recognised only if all of the following conditions in IAS 38 are met:

- an asset is created that can be separately identified (such as software and new processes);
- it is technically feasible to complete the asset;
- management intends to complete the development;
- there is an ability to use or sell the asset once development has been completed;
- it is probable that the asset created will generate future economic benefits;
- adequate technical, financial and other resources to complete the development are available; and
- the development cost of the asset can be measured reliably.

No research or development costs met the criteria required for capitalisation under IAS 38 during the year. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

### Property, plant and equipment

Property, plant and equipment is stated at cost (original purchase price and the costs attributable to bringing the asset to its working condition for its intended use), net of accumulated depreciation and any provision for impairment. Except for freehold land, which is not depreciated, the cost of property, plant and equipment is depreciated on a straight-line basis over its expected useful life as follows:

Freehold buildings	– 50 years
Leasehold land and buildings	– the lesser of 50 years and the period of the lease
Plant and equipment	– between 3 and 10 years

### Joint ventures

Joint ventures are accounted for using the equity method. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income.

### 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.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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, but so 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 profit or loss.

### Operating leases

Operating lease payments are expensed on a straight-line basis to the income statement over the term of the relevant lease. Any benefits received as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

**Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

**Loans and receivables****Trade receivables**

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss where there is objective evidence that the asset is impaired.

All trade receivables that are factored by third parties are done so on a non-recourse basis. At the point of factoring, the Group forfeits the right to future cash flows from these receivables and those amounts are derecognised. The cost of factoring receivables is recognised as a finance cost in the period in which the receivable is factored.

**Amortised costs****Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Trade payables**

Trade payables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

**Impairment of financial assets**

At each balance sheet date, the Group reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

**Finance costs**

Finance costs of debt are recognised in the income statement over the term of such instruments at an effective interest rate on the carrying amount. Finance costs that are directly attributable to the construction of property, plant and equipment are capitalised as part of the cost of those assets in accordance with IAS 23.

**Foreign currencies**

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling-denominated assets and liabilities.

**Derivative financial instruments**

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives, as set out in note 23.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and foreign currency options.

**2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

**Hedge accounting**

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either cash flow hedges, or hedges of net investments in foreign operations.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

**Cash flow hedges**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

**Hedges of net investments in foreign operations**

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line of the income statement.

**Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks which become fully liquid within three months or less and other short-term highly liquid investments with original maturities of three months or less.

Cash and cash equivalents are stated net of bank overdrafts, where the group has a legal right of set off and includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less. In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cashpooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32. Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts. Comparatives at 31 December 2015 have been revised, increasing overdrafts and increasing cash balances by £31.0m. At 31 December 2014 the comparative revision would have been to increase overdrafts and increase cash and cash equivalents by £42.2m. As this may be considered a change in accounting policy, the group and Company should present a third balance sheet to capture the opening position at 1 January 2015. However having reviewed the guidance management has opted instead to present the impact of cash pooling in Note 22 on the basis of materiality as there is no impact on net assets.

**Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, *except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, *except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### **Retirement benefit costs**

The costs of defined benefit contributions to the Group's pension schemes and of augmenting existing pensions are charged to the consolidated income statement on a systematic basis over the expected period of benefits from employees' service.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

Actuarial gains on the defined benefit schemes are recognised in full in each period in which they occur. They are recognised outside of the consolidated income statement and are presented in the consolidated statement of comprehensive income.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

The UK defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds. For the German schemes, the assets are included within the assets of the respective companies, as permitted under local laws. The assets of the other overseas schemes are held separately from those of the Group.

#### **Provisions**

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

#### **Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales are recognised when products are delivered to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the purchaser, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the group has objective evidence that all criteria for acceptance have been satisfied.

#### **Share-based payments**

The Group has applied the requirements of IFRS 2 Share-based Payments.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period. The Group will on occasion, at its own discretion, settle the share-based payments in cash rather than equity.

#### **Definitions**

Operating profit

Operating profit represents profit from continuing activities before financing costs and taxation.

EBITDA

EBITDA is calculated as operating profit before depreciation, amortisation and Special Items (as defined on page 96).

## 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### Special Items

The following are disclosed separately in order to provide a clearer indication of the Group's underlying performance:

- Amortisation of acquired intangible assets;
- Impairment of non-current assets;
- Costs of business combinations as defined by IFRS 3 and related debt issue costs;
- Re-structuring and site closure costs;
- Fair value adjustment – mark to market adjustments in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied;
- Items of income and expense that are considered material, either by their size and/or nature;
- Tax impact of above items; and
- Settlement of prior period tax issues.

### Underlying performance

Underlying performance represents the performance of the Group under IFRS, excluding Special Items.

### Net cash/(borrowings)

Net cash/(borrowings) represents cash and cash equivalents less short and long term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting, non-recourse factoring arrangements, and the inclusion of financial assets.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Group has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### Recognition of deferred tax assets

The Group activities give rise to significant potential deferred tax assets, particularly in respect of the UK pension liability, tax losses and accelerated capital allowances. Determination of whether these assets should be recognised requires a high degree of management judgement and is dependent on management's ability to project future earnings from activities that may apply loss positions carried forward against future income taxes.

#### Valuation of goodwill and intangibles on acquisition

Acquired intangibles IFRS 3 (revised) "Business Combinations" requires that goodwill arising on the acquisition of subsidiaries is capitalised and included in intangible assets. IFRS 3 (revised) also requires the identification of other intangible assets at acquisition. The assumptions involved in valuing these intangible assets require the use of estimates and judgements, that may differ from the actual outcome. These estimates and judgements cover future growth rates, expected inflation rates and the discount rate used. Changing the assumptions selected by management could significantly affect the allocation of the purchase price paid between goodwill and other acquired intangibles.

#### Key sources of estimation uncertainty

The preparation of consolidated financial statements requires that management make estimates and assumptions that affect reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis taking the current and expected future market conditions into consideration.

#### Impairment/reversal of impairment

The Group has significant investments in property, plant and equipment, acquired intangibles and goodwill. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired requiring the book value to be written down to its recoverable amount. Impairments, excluding goodwill, are reversed if the conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement and may depend to a large extent on the selection of key assumptions about the future.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The growth rates used within the forecast future cash flows are developed with reference to external sources but are subject to estimation uncertainty.

See note 15 for further details.

#### Post retirement benefit obligations

Included in the actuaries' calculation of the post retirement benefit obligations are a number of assumptions. Any changes in these assumptions will impact the carrying value of the obligations. These are shown in detail in note 26.

#### Current tax liability and deferred tax

The Group annually incurs significant amounts of income taxes payable to various jurisdictions around the world, and it also recognises significant changes in deferred tax assets and deferred tax liabilities, all of which are based on management's interpretations of applicable laws, regulations and relevant court decisions. The quality of these estimates is highly dependent upon management's ability to properly apply what can be very complex sets of rules and to recognise changes in applicable rules.

### 3 SPECIAL ITEMS

The special items are made up as follows:

	Note	2016 £m	2015 £m
<b>Continuing operations</b>			
Restructuring and site closure		(5.2)	(5.4)
Profit on sale of South African Business	32	4.7	–
Sale of land in Malaysia	24	33.2	6.5
Acquisition costs of the PAC business	31	8.8	–
Amortisation of acquired intangibles	16	(27.0)	(23.7)
<b>Operating loss</b>		<b>14.5</b>	<b>(22.6)</b>
<b>Finance costs</b>			
Fair value adjustment	9	–	(0.2)
<b>Loss before taxation from continuing operations</b>		<b>14.5</b>	<b>(22.8)</b>
Taxation	10	9.1	11.6
<b>Loss for the year from continuing operations</b>		<b>23.6</b>	<b>(11.2)</b>

The restructuring costs relate to the post acquisition integration of the business. Further costs to complete the integration are expected in 2017. The 2015 spend related to the completion of the European cost reduction programme.

### 4 SEGMENTAL ANALYSIS

The Group's Executive Committee, chaired by the Chief Executive Officer, examines the Group's performance and has identified two reportable segments of its business:

#### Europe and North America (ENA)

These markets are well developed and are typically growing at GDP.

#### Asia and Rest of the World (ARW)

These markets are characterised by growing at rates generally above GDP coupled with an increased penetration of more sophisticated products into wider uses.

The Executive Committee primarily uses underlying operating profit, being operating profit before Special Items to assess the performance of the operating segments. No information is provided to the Committee at the segment level concerning interest income, interest expenses, income taxes or other material non-cash items. Note 5 sets out the underlying segmental performance.

No single customer accounts for more than 10% of the Group's revenues.

#### Analysis by activity – Revenue

	2016 £m	2015 £m
Europe & North America	746.1	582.1
Asia & Rest of the World	299.6	288.0
	<b>1,045.7</b>	<b>870.1</b>

## 4 SEGMENTAL ANALYSIS CONTINUED

## Analysis by activity – Operating Profit

	2016			2015		
	Subsidiaries £m	Share of joint ventures £m	Total £m	Subsidiaries £m	Share of joint ventures £m	Total £m
Europe & North America	75.4	–	75.4	49.9	–	49.9
Asia & Rest of the World	79.3	2.0	81.3	37.7	3.8	41.5
Reported segment operating profit	154.7	2.0	156.7	87.6	3.8	91.4
Unallocated corporate expenses	(12.0)	–	(12.0)	(11.1)	–	(11.1)
<b>Operating profit/(loss)</b>	<b>142.7</b>	<b>2.0</b>	<b>144.7</b>	<b>76.5</b>	<b>3.8</b>	<b>80.3</b>

## Analysis by activity

	Note	2016				
		Total assets £m	Total liabilities £m	Capital expenditure £m	Depreciation and amortisation £m	Amortisation acquired intangibles £m
Subsidiaries						
Europe & North America		380.2	(143.7)	24.8	17.9	21.5
Asia & Rest of the World		209.9	(67.4)	20.9	11.7	5.5
		590.1	(211.1)	45.7	29.6	27.0
Unallocated assets and liabilities						
		4.1	(13.8)	–	0.3	–
		594.2	(224.9)	45.7	29.9	27.0
Share of joint ventures	19	12.5	(3.5)			
Goodwill	15	301.4	–			
Acquired intangibles and related deferred tax	16	54.2	(12.8)			
Current and deferred taxation		19.4	(59.3)			
Post retirement benefit obligations	26	–	(186.7)			
Net borrowings	22	–	(150.3)			
		981.7	(637.5)			
<b>Net assets</b>			<b>344.2</b>			

	Note	2015				
		Total assets £m	Total liabilities £m	Capital expenditure £m	Depreciation and amortisation £m	Amortisation acquired intangibles £m
Subsidiaries						
Europe & North America		209.6	(74.0)	13.5	12.2	18.6
Asia & Rest of the World		159.4	(46.6)	7.6	9.8	5.1
		369.0	(120.6)	21.1	22.0	23.7
Unallocated assets and liabilities						
		8.2	(14.7)	1.1	0.1	–
		377.2	(135.3)	22.2	22.1	23.7
Share of joint ventures	19	11.6	(3.6)			
Goodwill	15	222.4	–			
Acquired intangibles and related deferred tax	16	50.9	(15.4)			
Current and deferred taxation		15.4	(45.4)			
Post retirement benefit obligations	26	–	(139.2)			
Net borrowings	22	–	(80.1)			
		677.5	(419.0)			
<b>Net assets</b>			<b>258.5</b>			

## Analysis of total sales by destination

	2016 £m	2015 £m
UK	54.8	59.3
Germany	158.4	134.2
Other Western Europe	320.4	237.9
Western Europe	533.6	431.4
Eastern Europe	63.8	49.0
North America	57.4	37.0
Malaysia	168.8	162.5
Other Asia	155.6	135.1
Africa and Middle East	51.9	52.2
Rest of the World	14.6	2.9
	<b>1,045.7</b>	<b>870.1</b>

**Inter-segmental sales**

In addition to the amounts included above, inter-segmental sales were made as set out below. These sales were eliminated on consolidation.

	2016			2015		
	Europe & North America £m	Asia & Rest of World £m	Total £m	Europe & North America £m	Asia & Rest of World £m	Total £m
Europe & North America	–	12.3	12.3	–	20.3	20.3
Asia & Rest of the World	0.6	–	0.6	1.2	–	1.2
Total	0.6	12.3	12.9	1.2	20.3	21.5

**5 UNDERLYING SEGMENTAL PERFORMANCE**

The IFRS profit measures show the performance of the Group as a whole and as such includes all sources of income and expenses, including both one-off items and those that do not relate to the Group's ongoing businesses. To provide increased clarity on the ongoing trading performance of the Group's businesses, the management uses "underlying performance" as an alternative performance measure to plan for, control and assess the performance of the segments. Underlying performance differs from the IFRS measures as it excludes special items.

The definition of Special Items is shown in note 2 and has been consistently applied since the Group adopted IFRS in 2005. These Special Items are either irregular and therefore including them in the assessment of a segment's performance would lead to a distortion of trends or are technical adjustments which ensure the Group's financial statements are in compliance with IFRS but do not reflect the operating performance of the segment in the year 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, 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.

## 5 UNDERLYING SEGMENTAL PERFORMANCE CONTINUED

## Reconciliation of Underlying performance to IFRS

	Note	2016				2015			
		Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m
<b>Revenue</b>									
<b>Underlying performance and IFRS</b>		<b>746.1</b>	<b>299.6</b>		<b>1,045.7</b>	582.1	288.0		870.1
<b>Operating profit/(loss) – including share of joint ventures</b>									
<b>Underlying performance</b>		<b>93.3</b>	<b>48.7</b>	<b>(11.8)</b>	<b>130.2</b>	73.3	40.5	(10.9)	102.9
Special Items									
Restructuring & site closure – cash costs		(4.7)	(0.3)	(0.2)	(5.2)	(4.8)	(0.4)	(0.2)	(5.4)
Profit on sale of South African Business	32	-	4.7	-	4.7	-	-	-	-
Sale of Malaysian land		-	33.2	-	33.2	-	6.5	-	6.5
Acquisition costs	31	8.3	0.5	-	8.8	-	-	-	-
Amortisation of acquired intangibles	16	(21.5)	(5.5)	-	(27.0)	(18.6)	(5.1)	-	(23.7)
		<b>(17.9)</b>	<b>32.6</b>	<b>(0.2)</b>	<b>14.5</b>	<b>(23.4)</b>	<b>1.0</b>	<b>(0.2)</b>	<b>(22.6)</b>
<b>IFRS</b>		<b>75.4</b>	<b>81.3</b>	<b>(12.0)</b>	<b>144.7</b>	49.9	41.5	(11.1)	80.3
<b>Finance costs</b>									
<b>Underlying performance</b>	9				<b>(8.0)</b>				(7.6)
Special items									
Fair value adjustment	9				-				(0.2)
<b>IFRS</b>	9				<b>(8.0)</b>				<b>(7.8)</b>
<b>Profit before taxation</b>									
<b>Underlying performance</b>					<b>122.2</b>				95.3
<b>IFRS</b>					<b>136.7</b>				72.5
<b>Taxation</b>									
<b>Underlying performance</b>					<b>(24.5)</b>				(21.0)
Special Items									
Historic issues	10				-				3.1
Disposal of Land	10				(1.1)				-
Purchase and sale of business	10				1.4				-
Restructuring and site closure costs	10				1.3				1.3
Amortisation of acquired intangibles	10				7.5				7.2
<b>IFRS</b>	10				<b>(15.4)</b>				<b>(9.4)</b>
<b>Profit for the year</b>									
<b>Underlying performance</b>					<b>97.7</b>				74.3
<b>IFRS</b>					<b>121.3</b>				63.1

	Note	2016				2015			
		Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m
<b>Profit attributable to non-controlling interests</b>									
Underlying performance					1.5				1.2
Special items									
Sale of Malaysian land					9.4				1.5
<b>IFRS</b>					<b>10.9</b>				<b>2.7</b>
<b>Profit attributable to equity holders of the parent</b>									
Underlying performance					96.2				73.1
<b>IFRS</b>					<b>110.4</b>				<b>60.4</b>
<b>Earnings per share (pence)</b>									
Underlying performance					28.3p				21.5p
Special items					4.2p				(3.7)p
<b>IFRS</b>	13				<b>32.5p</b>				<b>17.8p</b>

## 6 EBITDA

The Group uses EBITDA as an alternative performance measure as it provides an indication of the level of cash being generated by the business from its trading activities in the period by excluding the "non-cash" depreciation and amortisation charges. This is also the principal profit measure used for the financial covenants in the Group's debt facilities.

The definition of EBITDA is shown in note 2.

### Reconciliation of EBITDA to IFRS

	Note	2016				2015			
		Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m
<b>EBITDA</b>		<b>111.2</b>	<b>60.4</b>	<b>(11.5)</b>	<b>160.1</b>	85.5	50.3	(10.8)	125.0
Depreciation and amortisation	4	(17.9)	(11.7)	(0.3)	(29.9)	(12.2)	(9.8)	(0.1)	(22.1)
<b>Operating profit – underlying</b>	5	<b>93.3</b>	<b>48.7</b>	<b>(11.8)</b>	<b>130.2</b>	73.3	40.5	(10.9)	102.9
Special Items	5	(17.9)	32.6	(0.2)	14.5	(23.4)	1.0	(0.2)	(22.6)
<b>Operating profit – IFRS</b>	5	<b>75.4</b>	<b>81.3</b>	<b>(12.0)</b>	<b>144.7</b>	49.9	41.5	(11.1)	80.3

## 7 OPERATING PROFIT

	Note	2016 £m	2015 £m
Revenue		1,045.7	870.1
Cost of sales		(793.1)	(676.8)
Gross profit		252.6	193.3
Sales and marketing costs		(32.1)	(23.5)
Administrative expenses		(62.4)	(48.6)
Share of joint ventures	19	2.0	3.8
<b>EBITDA</b>		<b>160.1</b>	<b>125.0</b>
Depreciation and amortisation – underlying performance		(29.9)	(22.1)
<b>Operating profit – underlying performance</b>		<b>130.2</b>	<b>102.9</b>
Special items		14.5	(22.6)
<b>Operating profit – IFRS</b>		<b>144.7</b>	<b>80.3</b>

**GROUP FINANCIAL STATEMENTS**

**Notes to the consolidated financial statements** continued

31 December 2016

**7 OPERATING PROFIT CONTINUED**

	Note	2016 £m	2015 £m
Operating profit is stated after charging the following:			
Amortisation: acquired intangibles	16	27.0	23.7
Amortisation: other intangibles	17	0.2	0.3
Depreciation	18	29.7	21.8
Hire of plant and equipment		2.3	2.2
Other lease rentals		3.4	3.3
Research and development expenditure		15.0	12.0

**8 AUDITORS' REMUNERATION**

	2016 £'000	2015 £'000
Fees payable to the Company's auditor for:		
audit of the Company's annual financial statements and the consolidated annual financial statements	167	137
Fees payable to the Company's auditor and their associates for other services to the Group:		
audit of the Company's subsidiaries' annual financial statements	574	407
<b>Total audit fees</b>	<b>741</b>	<b>544</b>
Audit related assurance services	34	10
Tax compliance services	19	26
Other taxation advisory services	128	66
Other services	97	209
<b>Total non-audit fees</b>	<b>278</b>	<b>311</b>

Details of the Company's policy on the use of auditor for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee section of the Corporate Governance Report on page 54. No services were provided pursuant to contingent fee arrangements.

**9 FINANCE COSTS**

	2016 £m	2015 £m
Interest payable on bank loans and overdrafts	4.2	3.2
Interest payable on other loans	–	0.6
	4.2	3.8
Less: interest receivable	(0.7)	(0.5)
	3.5	3.3
IAS 19 interest charge	4.5	4.3
Net interest payable	8.0	7.6
Fair value adjustment	–	0.2
<b>Total finance costs</b>	<b>8.0</b>	<b>7.8</b>

The fair value adjustment is the mark to market adjustment in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied.

**10 TAXATION**

	2016 £m	2015 £m
<b>Current tax</b>		
UK corporation tax	-	-
Overseas taxation	25.0	18.5
	<b>25.0</b>	18.5
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(0.5)	2.5
	<b>24.5</b>	21.0
<b>Special Items</b>		
Current tax:		
Historic issues	-	(3.1)
Disposal of land	1.1	-
Purchase and sale of business	(1.4)	-
Restructuring and site closure costs	(1.3)	(1.3)
Deferred tax:		
Amortisation of acquired intangibles	(7.5)	(7.2)
	<b>(9.1)</b>	(11.6)
<b>Total tax on profit before taxation</b>	<b>15.4</b>	9.4

UK corporation tax is calculated at 20.0% (2015: 20.25%) 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.

	2016 £m	2015 £m
Profit before taxation – continuing operations	136.7	72.5
Tax on profit before taxation (continuing operations) at standard UK corporation tax rate of 20.0% (2015: 20.25%)	27.3	14.7
Effects of:		
Expenses not deductible for tax purposes	3.8	2.7
Tax incentives and items not subject to tax	(20.3)	(9.3)
Higher tax rates on overseas earnings	4.2	2.0
Other deferred tax asset not recognised less amounts now recognised	(0.4)	(1.4)
Adjustments to tax charge in respect of prior periods	1.5	0.1
Effect of change of rate on deferred tax	(0.7)	0.6
<b>Tax charge for year</b>	<b>15.4</b>	9.4
<b>Tax charges to other comprehensive income</b>		
	2016 £m	2015 £m
Deferred tax credit/(charge) in respect of actuarial gains/losses	0.9	(0.7)
<b>Current tax liabilities</b>		
	2016 £m	2015 £m
Current tax liabilities	(39.0)	(30.6)

The tax incentives and items not subject to tax mainly comprise profit on the sale of land in Malaysia, which is subject to a lower rate of tax, and profits from the nitrile latex business in Malaysia, which benefits from pioneer status.

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**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. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures, as no tax is expected to be payable on them in the foreseeable future.

The movements in deferred tax assets and liabilities are shown below.

**Deferred tax liabilities  
2016**

	Accelerated tax depreciation £m	Acquired intangibles £m	Other £m	Total £m
At 1 January	(13.8)	(15.4)	(0.8)	(30.0)
Purchase of business	(2.1)	(3.1)	-	(5.2)
Sale of business	0.2	-	-	0.2
(Charged)/credited to income statement	(0.9)	7.9	(0.6)	6.4
Exchange adjustment	(2.2)	(2.2)	(0.1)	(4.5)
<b>At 31 December</b>	<b>(18.8)</b>	<b>(12.8)</b>	<b>(1.5)</b>	<b>(33.1)</b>

**Deferred tax assets  
2016**

	Pension £m	Other £m	Total £m
At 1 January	14.1	1.3	15.4
Purchase of business	-	0.7	0.7
Credited to income statement	1.1	0.5	1.6
Credited to statement of comprehensive income	0.9	-	0.9
Exchange adjustment	0.8	-	0.8
<b>At 31 December</b>	<b>16.9</b>	<b>2.5</b>	<b>19.4</b>

**Deferred tax asset not recognised**

Deferred tax assets are recognised when it is probable that taxable profits will be available against which the deferred tax asset could be utilised.

The amounts of deferred tax not recognised at the balance sheet dates are as follows:

	2016 £m	2015 £m
Pension liability	16.0	10.1
Tax losses	7.0	8.6
Accelerated capital allowances	3.3	3.5
Other timing differences	1.2	0.1
	<b>27.5</b>	<b>22.3</b>

**12 ORDINARY DIVIDENDS**

	2016 Pence per share	2015 Pence per share	2016 £m	2015 £m
Interim dividend	3.5	3.2	11.9	10.9
Proposed final dividend	7.8	5.4	26.5	18.4
	<b>11.3</b>	<b>8.6</b>	<b>38.4</b>	<b>29.3</b>

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

<b>Dividends paid</b>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Interim dividend	<b>11.9</b>	10.9
Prior year final dividend	<b>18.4</b>	16.3
Prior year special dividend	<b>-</b>	26.5
	<b>30.3</b>	53.7

**13 EARNINGS PER SHARE**

<b>Number of Shares</b>	<b>2016</b>	<b>2015</b>
	<b>Number</b>	<b>Number</b>
	<b>000s</b>	<b>000s</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>339,854</b>	339,798
Effect of dilutive potential ordinary shares:		
Share options	<b>2,335</b>	2,615
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>342,189</b>	342,413

**Earnings per Share**

	<b>2016</b>	<b>2015</b>
<b>From Continuing operations</b>		
Earnings (Profit attributable to equity holders of the parent)	£m <b>110.4</b>	60.4
Basic earnings per share	p <b>32.5</b>	17.8
Diluted earnings per share	p <b>32.3</b>	17.6

**14 EMPLOYEES**

	<b>2016</b>	<b>2015</b>
	<b>Number</b>	<b>Number</b>
The average monthly number of employees during the year by segment was:		
Europe & North America	<b>1,566</b>	1,227
Asia & Rest of the World	<b>732</b>	749
Holding companies	<b>28</b>	19
	<b>2,326</b>	1,995

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
The aggregate remuneration of all Group employees comprised:		
Wages and salaries	<b>93.5</b>	76.2
Social security costs	<b>14.3</b>	9.4
Pension costs	<b>11.5</b>	10.2
Share based payments	<b>2.0</b>	0.6
	<b>121.3</b>	96.4

Directors' emoluments are disclosed in the Remuneration Report on pages 56 to 75.

**15 GOODWILL**

	Note	2016 £m	2015 £m
<b>Cost</b>			
At 1 January		332.3	342.7
Exchange adjustments		25.1	(10.4)
Purchase of business	31	53.9	–
At 31 December		411.3	332.3
<b>Accumulated impairment losses</b>			
At 1 January and at 31 December		109.9	109.9
<b>Net book value</b>			
At 31 December		301.4	222.4

The Group tests goodwill annually for impairment at the balance sheet date, or more frequently if there are indications that goodwill might be impaired.

Goodwill acquired in a business combination is allocated, at acquisition, to the Cash Generating Units (“CGUs”) that are expected to benefit from that business combination.

The allocation of the carrying value of goodwill is represented below.

	Net book value at 1 January 2015 £m	Exchange adjustments £m	Net book value at 31 December 2015 £m	Exchange adjustments £m	Purchase of business £m	Net book value at 31 December 2016 £m
Europe & North America	203.1	(6.3)	196.8	21.2	50.3	268.3
Asia & Rest of the World	29.7	(4.1)	25.6	3.9	3.6	33.1
<b>Total</b>	232.8	(10.4)	222.4	25.1	53.9	301.4

The recoverable amounts for CGUs are determined from value in use calculations, based upon discounted cash flows. The key assumptions for those discounted cash flow calculations are the discount rate, profitability and growth rate. The discount rate is based on the Group's weighted average cost of capital adjusted, where appropriate, for the risk premium attributable to the particular CGU's activities and geography of operation. Profitability and growth rates are based on past experience combined with management's expectations for future business performance, which is informed by a number of factors including economic growth, internal plans and competitor and customer activity.

Discount rates of 11% (2015: 11%) and 12% (2015: 12%) have been used in the above calculations for Europe & North America and Asia & Rest of the World respectively.

The profit used in the cash flows for the first year is derived from management forecasts; for years two to ten a growth rate is applied. The profit for year ten is then assumed to apply without further growth into perpetuity. Growth rates of 2% (2015: 2%) and 5% (2015: 5%) have been used for Europe & North America and Asia & Rest of the World respectively, representing management's best estimate of each CGU's circumstances, and these do not exceed the long term growth rates for the markets concerned.

There is no reasonably possible change in key assumptions that would lead to an impairment.

Of the net book value of goodwill at 31 December 2016, £70.5 million (2015: £70.5 million) is located in the UK.

**16 ACQUIRED INTANGIBLE ASSETS**

	Note	Customer Relationships £m	Technology £m	Total £m
<b>Cost</b>				
At 1 January 2016		156.7	2.6	159.3
Exchange adjustments		25.4	0.4	25.8
Purchase of business	31	22.0	–	22.0
<b>At 31 December 2016</b>		<b>204.1</b>	<b>3.0</b>	<b>207.1</b>
<b>Accumulated amortisation and impairment</b>				
At 1 January 2016		107.2	1.2	108.4
Exchange adjustments		17.3	0.2	17.5
Amortisation charge for the year		26.7	0.3	27.0
<b>At 31 December 2016</b>		<b>151.2</b>	<b>1.7</b>	<b>152.9</b>
Net book value				
<b>At 31 December 2016</b>		<b>52.9</b>	<b>1.3</b>	<b>54.2</b>
<b>Cost</b>				
At 1 January 2015		169.2	2.8	172.0
Exchange adjustments		(12.5)	(0.2)	(12.7)
At 31 December 2015		156.7	2.6	159.3
<b>Accumulated amortisation and impairment</b>				
At 1 January 2015		90.2	1.1	91.3
Exchange adjustments		(6.5)	(0.1)	(6.6)
Amortisation charge for the year		23.5	0.2	23.7
At 31 December 2015		107.2	1.2	108.4
Net book value				
At 31 December 2015		49.5	1.4	50.9
Analysis of net book value by segment:				
			2016 £m	2015 £m
Europe & North America			46.5	39.3
Asia & Rest of the World			7.7	11.6
			<b>54.2</b>	<b>50.9</b>

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**17 OTHER INTANGIBLE ASSETS**

	Software £m
<b>Cost</b>	
At 1 January 2016	1.9
Exchange adjustments	0.1
Additions	-
Disposals	(0.5)
<b>At 31 December 2016</b>	<b>1.5</b>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2016	1.6
Exchange adjustments	-
Amortisation charge for the year	0.2
Disposals	(0.5)
<b>At 31 December 2016</b>	<b>1.3</b>
Net book value	
<b>At 31 December 2016</b>	<b>0.2</b>
	Software £m
<b>Cost</b>	
At 1 January 2015	5.0
Exchange adjustments	(0.4)
Additions	0.1
Disposals	(2.8)
At 31 December 2015	1.9
<b>Accumulated amortisation and impairment</b>	
At 1 January 2015	4.5
Exchange adjustments	(0.4)
Amortisation charge for the year	0.3
Disposals	(2.8)
At 31 December 2015	1.6
Net book value	
At 31 December 2015	0.3

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

No development expenditure met the requirements to be recognised as an internally generated intangible asset, therefore all development costs in the period were expensed.



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**18 PROPERTY, PLANT AND EQUIPMENT CONTINUED**

Analysis of net book value by location:

	2016 £m	2015 £m
UK	35.8	32.7
Germany	65.2	50.9
Malaysia	110.2	88.1
Other	82.1	14.7
	<b>293.3</b>	186.4

Analysis of net book value by segment:

	2016 £m	2015 £m
Europe & North America	175.7	95.4
Asia & Rest of the World	117.6	91.0
	<b>293.3</b>	186.4

**19 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
		2016	2015		
Synthomer Middle East	Saudi Arabia	49%	49%	Manufacturer and sale of acrylic and vinyl resin emulsions	Asia & Rest of the World
Arkem (Pty) Ltd	South Africa	Sold on 11 August 2016 (See note 32)	50%	Distributor of speciality chemicals and allied products	Asia & Rest of the World
Super Sky Ltd	United Kingdom	50%	50%	Non-trading	Unallocated corporate expense

These joint ventures are accounted for using the equity method in these financial statements.

Summarised financial information in respect of the joint ventures is set out below. This information represents amounts in the joint ventures' financial statements adjusted for differences in accounting policies between the Group and the joint venture (and not the Group's share of those amounts).

**Summarised balance sheet (100%)**

	Synthomer Middle East		Other	
	2016 £m	2015 £m	2016 £m	2015 £m
Non-current assets	5.0	4.0	-	-
Cash and cash equivalents	4.0	2.4	-	0.2
Other current assets	15.6	14.9	0.8	1.8
Total current assets	19.6	17.3	0.8	2.0
Financial liabilities (excluding trade payables)	-	-	-	-
Other current liabilities	(7.1)	(7.0)	-	(0.1)
Total current liabilities	(7.1)	(7.0)	-	(0.1)
Net assets	17.5	14.3	0.8	1.9

Group share:	Synthomer Middle East		Other		Total	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Total assets	<b>12.1</b>	10.5	<b>0.4</b>	1.1	<b>12.5</b>	11.6
Total liabilities	<b>(3.5)</b>	(3.5)	–	(0.1)	<b>(3.5)</b>	(3.6)
Net assets (Group share)	<b>8.6</b>	7.0	<b>0.4</b>	1.0	<b>9.0</b>	8.0

**Summarised statement of comprehensive income (100%)**

	Synthomer Middle East		Other	
	2016 £m	2015 £m	2016 £m	2015 £m
Revenue	<b>38.7</b>	44.9	<b>1.6</b>	3.5
Operating profit from continuing operations	<b>3.9</b>	7.3	<b>0.2</b>	0.4
Interest	–	–	–	–
Taxation	–	–	–	(0.1)
Amortisation of intangibles	–	–	–	–
Profit from continuing operations	<b>3.9</b>	7.3	<b>0.2</b>	0.3
Exchange differences on translation	<b>3.2</b>	1.0	–	(0.3)
Total comprehensive income	<b>7.1</b>	8.3	<b>0.2</b>	–
Dividends paid	<b>(3.9)</b>	(7.3)	<b>(0.4)</b>	–
Movement in retained earnings	<b>3.2</b>	1.0	<b>(0.2)</b>	–
Profit for the year (Group share)	<b>1.9</b>	3.6	<b>0.1</b>	0.2
Exchange differences on translation (Group share)	<b>1.6</b>	0.5	–	(0.2)
Dividends paid (Group share)	<b>(1.9)</b>	(3.6)	<b>(0.2)</b>	–

The following table reconciles the summary information above to the carrying amount of the Group's interest in the joint ventures:

**Investment in joint venture**

	2016			2015		
	Synthomer Middle East £m	Other £m	Total £m	Synthomer Middle East £m	Other £m	Total £m
At 1 January	<b>7.0</b>	<b>1.0</b>	<b>8.0</b>	6.5	1.0	7.5
Profit from continuing operations	<b>1.9</b>	<b>0.1</b>	<b>2.0</b>	3.6	0.2	3.8
Exchange differences on translation	<b>1.6</b>	–	<b>1.6</b>	0.5	(0.2)	0.3
Disposal of business	–	<b>(0.5)</b>	<b>(0.5)</b>	–	–	–
Dividend paid	<b>(1.9)</b>	<b>(0.2)</b>	<b>(2.1)</b>	(3.6)	–	(3.6)
At 31 December	<b>8.6</b>	<b>0.4</b>	<b>9.0</b>	7.0	1.0	8.0

**20 INVENTORIES**

	2016 £m	2015 £m
Raw materials and consumables	<b>44.4</b>	27.2
Finished goods	<b>59.9</b>	36.4
	<b>104.3</b>	63.6
Stock written off during the year	–	0.2
Cost of inventory recognised as an expense and included in cost of sales	<b>665.2</b>	590.2

There is no material difference between the balance sheet value of inventories and their net realisable value.

The nature of the chemical reaction necessary to produce finished goods from raw materials is such that 'work in progress' is not a material part of the Group's inventory at any given point of time.

**21 TRADE AND OTHER RECEIVABLES**

	2016 £m	2015 £m
Trade receivables	176.4	112.0
Other receivables	17.4	10.2
Receivables excluding prepayments	193.8	122.2
Prepayments	1.9	0.7
	<b>195.7</b>	<b>122.9</b>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

**Credit risk**

Amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Before accepting a new customer, the Group uses appropriate procedures to assess the potential customer's credit quality in order to set a credit limit.

	2016 £m	2015 £m
Ageing of trade receivables		
Not yet due	147.5	95.0
0 – 60 days overdue	28.2	18.6
61 – 120 days overdue	2.5	1.0
Over 120 days due	2.3	1.9
	<b>180.5</b>	<b>116.5</b>
Less: provision for impairment	(4.1)	(4.5)
	<b>176.4</b>	<b>112.0</b>

	2016 £m	2015 £m
Provision for impairment of receivables		
At 1 January	4.5	4.8
Exchange adjustments	0.4	(0.6)
Sale of business	(0.2)	–
(Credit)/charge for the year	0.4	0.9
Amounts written (back)/off as uncollectible	(1.0)	(0.6)
At 31 December	<b>4.1</b>	<b>4.5</b>

The provision is against overdue trade receivables.

**22 CASH AND BORROWINGS**

	2016 £m	2015 £m
<b>Current borrowings</b>		
<b>Bank loans</b>		
Bank overdrafts	65.4	42.4
<b>Other loans</b>		
\$22.0 million 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016	–	14.9
	<b>65.4</b>	<b>57.3</b>
<b>Non-current borrowings</b>		
<b>Bank loans</b>		
Unsecured £210.0 million multi currency Revolving Credit Facility expiring 30 July 2019	–	75.0
Unsecured £370.0 million multi currency Revolving Credit Facility expiring 30 July 2019	203.9	–
	<b>203.9</b>	<b>75.0</b>
Less: capitalised costs	(1.6)	(1.3)
	<b>202.3</b>	<b>73.7</b>

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents or government bond rates appropriate to the country in which the borrowing is incurred.

The directors calculate the carrying value of the Group's borrowings as follows:

Analysis of borrowings at carrying value by currency	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
<b>31 December 2016</b>					
<b>Bank overdrafts</b>	<b>37.7</b>	<b>1.5</b>	<b>24.1</b>	<b>2.1</b>	<b>65.4</b>
<b>Bank loans</b>	<b>-</b>	<b>52.7</b>	<b>116.1</b>	<b>35.1</b>	<b>203.9</b>
<b>Capitalised costs</b>	<b>(1.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1.6)</b>
	<b>36.1</b>	<b>54.2</b>	<b>140.2</b>	<b>37.2</b>	<b>267.7</b>
<b>Cash and cash equivalents</b>					<b>(117.4)</b>
<b>Net borrowings</b>					<b>150.3</b>
<b>Deduct: Special Item fair value adjustment</b>					<b>-</b>
<b>Net borrowings (underlying performance)</b>					<b>150.3</b>
<b>31 December 2015</b>					
Bank overdrafts	42.2	-	-	0.2	42.4
Bank loans	75.0	-	-	-	75.0
Loan notes	-	14.9	-	-	14.9
Capitalised costs	(1.3)	-	-	-	(1.3)
	115.9	14.9	-	0.2	131.0
Cash and cash equivalents					(50.9)
Net borrowings					80.1
Deduct: Special Item fair value adjustment					(2.7)
Net borrowings (underlying performance)					77.4

The special item fair value adjustment represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate to the extent that these constituted effective hedges prior to the adoption of IFRS. These matured in September 2016 and therefore there is no adjustment at 31 December 2016.

Cash and cash equivalents are deposited with financial institutions with a credit rating of A or higher.

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32.

Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts. Comparatives at 31 December 2015 have been revised, increasing overdrafts and increasing cash balances by £31.0m. At 31 December 2014 the comparative revision would have been to increase overdrafts and increase cash and cash equivalents by £42.2m. As this may be considered a change in accounting policy the Group and Company should present a third balance sheet to capture the opening position at 1 January 2015. However having reviewed the guidance management has opted instead to present the impact of cash pooling in this note only, on the basis of materiality, as there is no impact on net assets.

#### Capital structure

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the cash and borrowings and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

Key Leverage KPI	Note	2016 £m	2015 £m
Net borrowings – Underlying performance		<b>150.3</b>	77.4
EBITDA	6	<b>160.1</b>	125.0
Underlying net borrowings: EBITDA		<b>0.9</b>	0.6

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23 FINANCIAL INSTRUMENTS

The Group operates procedures designed to reduce or eliminate financial risk and ensure that funds are available for current and future needs. The policies are approved by the Board and the use of financial instruments is strictly controlled.

	Note	2016		2015	
		Loans and receivables £m	Fair value through Profit or Loss £m	Loans and receivables £m	Fair value through Profit or Loss £m
<b>Financial assets</b>					
Trade and other receivables excluding prepayments	21	193.8	-	122.2	-
Cash and cash equivalents	22	117.4	-	50.9	-
Derivatives at fair value		-	-	-	2.9
		<b>311.2</b>	<b>-</b>	<b>173.1</b>	<b>2.9</b>

	Note	2016		2015	
		Amortised cost £m	Derivative instruments in designated hedge accounting £m	Amortised cost £m	Derivative instruments in designated hedge accounting £m
<b>Financial liabilities</b>					
Loan notes	22	-	-	14.9	-
Bank overdrafts	22	65.4	-	42.4	-
Bank loans	22	202.3	-	75.0	-
Trade and other payables	25	216.2	-	124.7	-
		<b>483.9</b>	<b>-</b>	<b>257.0</b>	<b>-</b>

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities.

	Note	Carrying values at 31 December		Fair values at 31 December	
		2016 £m	2015 £m	2016 £m	2015 £m
<b>Fair value of financial assets</b>					
Trade and other receivables excluding prepayments	21	193.8	122.2	193.8	122.2
Cash and cash equivalents	22	117.4	50.9	117.4	50.9
Derivatives at fair value		-	2.9	-	2.9
		<b>311.2</b>	<b>176.0</b>	<b>311.2</b>	<b>176.0</b>
<b>Fair value of financial liabilities</b>					
Loan notes	22	-	14.9	-	15.0
Bank overdrafts	22	65.4	42.4	65.4	42.4
Bank loans	22	202.3	75.0	202.3	75.0
Trade and other payables	25	216.2	124.7	216.2	124.7
		<b>483.9</b>	<b>257.0</b>	<b>483.9</b>	<b>257.1</b>

Fair values have been obtained from the relevant institutions where appropriate. Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flow at prevailing interest rates and by applying year end exchange rates. The carrying amount of short-term borrowings approximates to book value.

The fair value of the Group's financial instruments are measured using inputs other than quoted prices that are directly or indirectly observable, Level 2 as defined by IFRS 13.

The main risks arising from the Group's financial instruments are market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below, together with related disclosure required by IFRS.

**Market risk**

The Group's main exposure to market risk is in the form of interest rate risk and foreign currency risk. The policies adopted to address these risks are as follows:

**Interest rate risk**

The Group finances its operations through a mixture of retained profits, loan notes and bank borrowings. The Group borrows at both fixed and floating rates of interest and uses interest rate swaps to generate the desired interest profile in order to manage the Group's exposure to interest rate fluctuations.

**Foreign currency risk**

The Group uses currency borrowings, forward contracts and currency swaps to hedge overseas net assets, which are predominantly denominated in Euro, US dollar and Malaysian Ringgit. Profit translation exposures are not hedged.

The Group hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The Group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2015: none).

**Impact on income statement**

Changes in the fair value of derivative contracts amounting to £0.0 million have been debited to the income statement in the year (2015: debit of £0.2 million). These changes are shown separately as a special item in the consolidated income statement.

**Hedge accounting**

The Group has a number of cross currency swaps that are used to reduce the exposure to interest rate and currency risk.

These swaps are fully effective at eliminating the risks they address. The Group has reviewed the requirements necessary to permit the application of hedge accounting under IAS 39. It has concluded that the costs involved in meeting these requirements cannot be justified and therefore IAS 39 hedge accounting will not be applied.

Changes in the fair value of derivative financial instruments to which hedge accounting is not applied are recognised in the income statement as they arise.

In addition, the Group has taken out forward foreign exchange contracts to fix the sterling value of its net investments in certain foreign operations, which have a Malaysian Ringgit functional currency. These contracts have been accounted for as net investment hedges as permitted by IAS 39.

**Interest rate risk profile****Financial liabilities**

After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the Group as at 31 December 2016 was:

	2016			2015		
	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m
Sterling	36.1	–	36.1	118.3	10.0	128.3
Euro	140.2	–	140.2	–	–	–
US dollar	54.2	–	54.2	–	–	–
Other	37.2	–	37.2	–	–	–
	<b>267.7</b>	<b>–</b>	<b>267.7</b>	118.3	10.0	128.3
Cash and cash equivalents			<b>(117.4)</b>			<b>(50.9)</b>
Net borrowings (underlying performance)			<b>150.3</b>			<b>77.4</b>

The effective interest rate for the year was 2.1% (2015: 1.9%)

**23 FINANCIAL INSTRUMENTS CONTINUED**

## Sensitivity analysis

The following table illustrates the effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in UK and US interest rates and in Euro, US dollar and Malaysian Ringgit to sterling exchange rates, before the effect of tax.

	2016			2015		
	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%	0.4	0.4	-	0.9	0.8	-
Euro interest rate +/- 1.0%	1.4	1.4	-	-	-	-
US interest rate +/- 1.0%	0.5	0.5	-	-	0.1	-
Foreign currency sensitivity analysis						
Malaysian Ringgit exchange rate +/- 10%	-	-	-	-	-	1.6
Euro exchange rate +/- 10%	0.4	0.4	8.3	-	-	2.6
US dollar exchange rate +/- 10%	0.4	0.4	-	-	0.2	-

The interest rate sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

The foreign currency sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or borrower.

**Liquidity risk**

The objective of the Group is to meet financial commitments as and when they fall due. The Board closely monitors liquidity through monthly management accounts.

At the year end, Synthomer plc had the following principal committed facilities:

	2016			2015		
	Facility £m	Drawn at 31 December £m	Headroom £m	Facility £m	Drawn at 31 December £m	Headroom £m
\$22.0 million 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016	-	-	-	14.9	14.9	-
Unsecured £210.0 million multi currency Revolving Credit Facility expiring 30 July 2019	-	-	-	210.0	75.0	135.0
Unsecured £370.0 million multi currency Revolving Credit Facility expiring 30 July 2019	370.0	203.9	166.1	-	-	-
	<b>370.0</b>	<b>203.9</b>	<b>166.1</b>	<b>224.9</b>	<b>89.9</b>	<b>135.0</b>

The following table details the remaining contractual maturity for non-derivative financial assets:

	2016				Total £m	2015				Total £m
	Amount due					Amount due				
	within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m		within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	
Non-interest bearing										
Trade and other receivables excluding prepayments	193.8	-	-	-	193.8	122.2	-	-	-	122.2
Variable interest rate instruments										
Cash and cash equivalents	117.4	-	-	-	117.4	50.9	-	-	-	50.9
	<b>311.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>311.2</b>	<b>173.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>173.1</b>

The following table details the remaining contractual maturity for non-derivative financial liabilities:

	2016					2015				
	Amount due				Total £m	Amount due				Total £m
	within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m		within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	
Non-interest bearing										
Trade and other payables	213.5	2.7	-	-	216.2	124.7	-	-	-	124.7
Variable interest rate instruments										
Bank loans and overdrafts	65.4	-	202.3	-	267.7	32.1	1.1	76.8	-	110.0
Fixed interest rate instruments										
Loan notes	-	-	-	-	-	15.5	-	-	-	15.5
	<b>278.9</b>	<b>2.7</b>	<b>202.3</b>	<b>-</b>	<b>483.9</b>	<b>172.3</b>	<b>1.1</b>	<b>76.8</b>	<b>-</b>	<b>250.2</b>

The following table details the remaining contractual maturity for its derivative financial instruments:

	2016					2015				
	Amount due				Total £m	Amount due				Total £m
	within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m		within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	
Cross currency swaps	-	-	-	-	-	2.9	-	-	-	2.9
Foreign exchange forward contracts	-	-	-	-	-	(0.3)	-	-	-	(0.3)
	-	-	-	-	-	2.6	-	-	-	2.6

In accordance with IFRS 7, the above table shows undiscounted cash flows. In contrast IAS 39 requires these items to be carried in the balance sheet at fair value, which is based on discounted cash flows.

#### 24 ASSET CLASSIFIED AS HELD FOR SALE

	2016 £m	2015 £m
Freehold land located in		
Malaysia	0.3	1.0
UK	0.4	-
Freehold Land	<b>0.7</b>	<b>1.0</b>

The Group owns agricultural land in Malaysia, which is operated as a palm oil and natural rubber plantation. The land is owned by Kind Action Sdn Bhd, which is a wholly owned subsidiary of Revertex Malaysia Sdn Bhd, which has a 30% non-controlling interest. The directors decided in 2013 to dispose of this land, excluding the 300 acres immediately surrounding the manufacturing facilities, on the open market.

The status of the disposal programme was as follows:

At 31 December 2016, the status of the disposal program was as follows:

	2016		2015	
	Acres	Consideration £m	Acres	Consideration £m
Sale completed	1100	41.2	200	6.8
Contracts exchanged	-	-	900	30.3
To be sold	400	-	400	-
	<b>1500</b>	<b>41.2</b>	<b>1500</b>	<b>37.1</b>

The consideration is shown before deduction of disposal costs, taxation and the non-controlling interest share.

**24 ASSET CLASSIFIED AS HELD FOR SALE CONTINUED**

For the sales completed in the year, the profit on sale was derived as follows:

	2016	2015
No of acres sold	<b>900</b>	200
	<b>£m</b>	<b>£m</b>
Gross consideration	<b>34.4</b>	6.8
Less disposal costs	<b>(0.6)</b>	(0.1)
	<b>33.8</b>	6.7
Less cost of land	<b>(0.6)</b>	(0.2)
	<b>33.2</b>	6.5

These disposals are subject to regulatory approval which may take up to 2 years. The disposal is only recognised in the accounts and the profit taken when this process has been completed and the consideration received.

**UK**

15 acres of freehold land in Accrington, the site of a former plant, was sold on 27 January 2017 for a consideration of £1.8m and a profit on disposal of £1.4m.

**25 TRADE AND OTHER PAYABLES**

	2016	2015
	<b>£m</b>	<b>£m</b>
<b>Amount due within one year</b>		
Trade payables	<b>143.2</b>	77.5
Other payables	<b>28.5</b>	24.8
Accruals	<b>41.8</b>	22.4
	<b>213.5</b>	124.7
<b>Amount due after one year</b>		
Trade payables	<b>2.7</b>	-
Other payables	-	-
Accruals	-	-
	<b>2.7</b>	-

Average trade payable days in 2016 was **48** (2015: 50). This figure represents trade payable days for all trading operations within the Group, calculated as a weighted average based on cost of sales.

The directors consider that the carrying amount of trade payables, other payables and accruals approximates to their fair value.

**26 POST RETIREMENT BENEFIT OBLIGATIONS**

Charge/(credit) to income statement in respect of the Group's pension schemes:

	2016			2015		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Defined benefit	<b>3.0</b>	<b>(0.8)</b>	<b>2.2</b>	3.4	2.1	5.5
Defined contribution	<b>1.6</b>	<b>7.7</b>	<b>9.3</b>	1.6	3.1	4.7
	<b>4.6</b>	<b>6.9</b>	<b>11.5</b>	5.0	5.2	10.2

The 2016 overseas column includes two offsetting one-off items. Following a regulatory clarification by the authorities, employers in Germany are now required to provide for post retirement disability benefits in funded plans rather than in non-funded arrangements. The company has complied with this by transferring this benefit from its unfunded defined benefit plan to a multi-employer funded plan in which it participates. The latter, although a defined benefit arrangement, is accounted for on a defined contribution basis as discussed below. Although this transfer has no financial impact on the Group, IAS 19 results in a different accounting treatment for the transfer in the two plans.

- The transfer out of the unfunded plan is treated as a past service credit under defined benefit accounting and as such is included as a reduction of £3.9m in the overseas defined benefit charge above.
- The transfer in to the funded plan increases the liabilities of this scheme by the same amount. As this scheme is accounted on a defined contribution basis, this additional liability would not be reflected until additional contributions were made. However, an actuarial valuation of this scheme has been performed in the year, which concluded that additional contributions were required to address underfunding. As a result the overseas defined contribution amount above includes an additional charge of £3.6m.

**Amounts recognised in the statement of comprehensive income**

	2016			2015		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Actuarial gains and losses	<b>(47.2)</b>	<b>(1.9)</b>	<b>(49.1)</b>	(0.7)	2.3	1.6

**Amount included in the balance sheet arising from the Group's defined benefit scheme obligation**

	2016			2015		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Present value of defined benefit obligation	<b>(428.4)</b>	<b>(83.2)</b>	<b>(511.6)</b>	(356.5)	(69.3)	(425.8)
Fair value of scheme assets	<b>315.9</b>	<b>9.0</b>	<b>324.9</b>	279.4	7.2	286.6
Net liability arising from defined benefit obligation	<b>(112.5)</b>	<b>(74.2)</b>	<b>(186.7)</b>	(77.1)	(62.1)	(139.2)

**UK pension schemes**

The Group's UK defined benefit scheme was closed to future accrual in 2009. All pension benefits since that time are provided by way of a defined contribution scheme.

The assets of the schemes are held separately from those of the companies concerned.

**Defined benefit scheme**

The defined benefit scheme is administered by a separate fund that is legally separated from the Company.

The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension are responsible for the investment policy with regard to the assets of the fund.

A full actuarial valuation was carried out as at 6 April 2015 and updated to 31 December 2016 by a qualified actuary.

The Group is committed to a funding deficit recovery plan entered into following the 2015 valuation. This valuation indicated a shortfall, when measured against the scheme's technical provisions of £118.7m. This shortfall is expected to be eliminated in eight years following the valuation date. As a result the Group is committed to paying contributions for the period 6 April 2015 to 5 April 2023, increasing from £14.0m for the year commencing 6 April 2015 to £18.2m for the year commencing 6 April 2022

The scheme is exposed to a number of risks the most significant of which are detailed below:

Asset return risk	The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will increase the deficit. The scheme holds a significant proportion of equities which are expected to outperform corporate bonds on 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 plan's bond holdings.
Longevity risk	The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

The risk relating to benefits to be paid to the dependants of scheme members (widow and orphan benefits) is re-insured by an external insurance company.

The major assumptions used for the purposes of the actuarial valuations were as follows:

	2016	2015
Rate of increase in pensions in payment	<b>2.10%</b>	2.10%
Rate of increase in pensions in deferment	<b>2.20%</b>	2.00%
Discount rate	<b>2.70%</b>	3.80%
Inflation assumption	<b>3.20%</b>	3.00%

**26 POST 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:

	2016	2015
Retiring today:		
Males	87.6	87.6
Females	90.2	90.1
Retiring in 20 years:		
Males	89.5	89.4
Females	92.1	92.1

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate and mortality. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period assuming that all other assumptions are held constant:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 1%	Decrease/increase by £65m
Rate of mortality	Increase by 1 year	Increase by £14m

The above sensitivities are based on a change of assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may have some correlation. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the balance sheet.

The movements in the net liability arising from defined benefit obligation over the year is as follows:

	2016			2015		
	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m
<b>At 1 January</b>	<b>(356.5)</b>	<b>279.4</b>	<b>(77.1)</b>	(361.0)	277.2	(83.8)
Current service cost	(0.3)	–	(0.3)	(0.6)	–	(0.6)
Interest (expense)/income	(13.3)	10.6	(2.7)	(13.0)	10.2	(2.8)
<b>Amounts recognised in income in respect of defined benefit schemes</b>	<b>(13.6)</b>	<b>10.6</b>	<b>(3.0)</b>	(13.6)	10.2	(3.4)
Remeasurement:						
Return on plan assets excluding amounts included in interest expense/(income)	–	26.7	26.7	–	(5.7)	(5.7)
Gains/(losses) from changes in financial assumptions	(73.9)	–	(73.9)	5.0	–	5.0
<b>Amounts recognised in the statement of comprehensive income</b>	<b>(73.9)</b>	<b>26.7</b>	<b>(47.2)</b>	5.0	(5.7)	(0.7)
Contributions:						
Employers	0.3	14.5	14.8	0.6	10.2	10.8
Payments from plans						
Benefit payments	15.3	(15.3)	–	12.5	(12.5)	–
<b>At 31 December</b>	<b>(428.4)</b>	<b>315.9</b>	<b>(112.5)</b>	(356.5)	279.4	(77.1)

Plan assets are comprised as follows:

	2016 £m	2015 £m
Equities	146.7	127.3
Bonds	140.5	123.4
Property	27.4	26.3
Cash	1.3	2.4
<b>Total fair value of assets</b>	<b>315.9</b>	<b>279.4</b>

All investments in Equities, Bonds and Property are quoted.

The weighted average duration of the benefit obligation at the end of the reporting period is 16.5 years (2015: 15.6 years).

Contributions from the sponsoring companies are expected to be £15.4 million in 2017.

#### Overseas pension schemes

The Group operates a number of smaller overseas pension and post-retirement schemes. The assets of these schemes are held separately from those of the Group, with the exception of the unfunded German schemes (net liability £69.6m, 2015: £61.5m) where in line with common practice, the assets are held within the respective companies.

#### Defined benefit schemes

The aggregated pension disclosure below for the overseas defined benefit schemes has been compiled from a number of actuarial valuations at 31 December 2016.

The largest of these schemes accounts for £66.2m (2015: £59.0m) of the deficit at 31 December 2016. The major assumption used in the actuarial valuation of this scheme are:

	2016	2015
Rate of increase in salaries	3.00%	3.00%
Rate of increase in pensions	1.75%	2.00%
Discount rate	1.90%	2.35%

#### Mortality assumptions:

Investigations have been carried out within the past three years into the mortality experience of the Group's defined benefit scheme. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates.

The assumed life expectations on retirement at age 65 are:

	2016	2015
Retiring today:		
Males	84.1	84.0
Females	88.2	88.1
Retiring in 20 years:		
Males	86.8	86.6
Females	90.7	90.6

The major assumption used in the valuation of the other overseas schemes do not differ significantly from the above.

The movements in the net liability arising from defined benefit obligation over the year is as follows:

	2016			2015		
	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m
<b>At 1 January</b>	<b>(69.3)</b>	<b>7.2</b>	<b>(62.1)</b>	(74.6)	7.7	(66.9)
Current service cost	(0.9)	-	(0.9)	(0.6)	-	(0.6)
Past service credit	3.5	-	3.5	-	-	-
Interest (expense)/income	(2.0)	0.2	(1.8)	(1.6)	0.1	(1.5)
<b>Amounts recognised in the income statement in respect of defined benefit schemes</b>	<b>0.6</b>	<b>0.2</b>	<b>0.8</b>	(2.2)	0.1	(2.1)
Remeasurement:						
Return on plan assets excluding amounts included in interest expense/(income)	-	0.4	0.4	-	(0.2)	(0.2)
Gains/(losses) from changes in financial assumptions	(2.3)	-	(2.3)	2.5	-	2.5
<b>Amounts recognised in the statement of comprehensive income</b>	<b>(2.3)</b>	<b>0.4</b>	<b>(1.9)</b>	2.5	(0.2)	2.3
Contributions less payments from plans	1.9	-	1.9	1.4	-	1.4
Obligations of acquired entities	(3.7)	-	(3.7)	-	-	-
Exchange adjustments	(10.4)	1.2	(9.2)	3.6	(0.4)	3.2
<b>At 31 December</b>	<b>(83.2)</b>	<b>9.0</b>	<b>(74.2)</b>	(69.3)	7.2	(62.1)

**GROUP FINANCIAL STATEMENTS**

**Notes to the consolidated financial statements** continued

31 December 2016

**26 POST RETIREMENT BENEFIT OBLIGATIONS CONTINUED**

**Multi-employer schemes**

In addition to the overseas defined benefit schemes included in the above, the Group participates in the Degussa Pensionskasse in Germany, which is a multi-employer defined benefit pension scheme. Regular contributions are payable to the scheme by each participating employer for new benefits accruing. The assets of all participating employers are pooled, and contributions are calculated based on aggregated demographic experience, therefore sufficient information is not available to identify the Group's share of the assets on a consistent and reliable basis and the Group accounts for the scheme on a defined contribution basis. The Group expects to make regular contributions of £2.4m to the scheme in 2017.

To the extent that there is underfunding in the scheme, deficit contributions are payable. Based on the latest actuarial assessment of the scheme, deficit contributions across all participating employers are payable totalling €126m. Each participating employer's share has been determined according to the value of its future benefit accrual and it has been determined that the Group is liable for total deficit contributions of €4.6m in three installments payable in January 2017, 2018 and 2019. As a result an accrual of £3.6m has been included at 31 December 2016 representing the present value of these contributions.

**27 PROVISIONS FOR OTHER LIABILITIES AND CHARGES**

	Environmental restoration £m	Legal and customer claims £m	Fundamental restructuring £m	Liability arising on a business combination £m	Total £m
At 1 January 2016	1.5	3.6	5.0	0.6	10.7
Charged/(Credited) to the income statement	0.1	(0.5)	0.7	-	0.3
Utilised during the year	(0.1)	-	(2.0)	(0.2)	(2.3)
<b>At 31 December 2016</b>	<b>1.5</b>	<b>3.1</b>	<b>3.7</b>	<b>0.4</b>	<b>8.7</b>

**Analysis of Provisions**

	31 December 2016 £m	31 December 2015 £m
Non-current	5.7	7.5
Current	3.0	3.2
	<b>8.7</b>	<b>10.7</b>

**Analysis of charge/credit to the income statement**

	2016 £m	2015 £m
Underlying performance	(0.5)	0.2
Special items	0.8	4.3
	<b>0.3</b>	<b>4.5</b>

**Environmental restoration**

A provision is recognised for the costs to be incurred in the restoration of land which is no longer being used as a manufacturing site.

**Legal and customer claims**

This amount represents a provision for certain legal and customer claims brought against the Group. In the directors' opinion, after taking appropriate legal advice, the outcome of these claims will not give rise to any significant loss beyond the amounts provided at 31 December 2016.

**Restructuring**

The Group underwent a significant restructuring following the acquisition of PolymerLatex in 2011. A further restructuring exercise was commenced in 2014. The cost of these restructuring programmes is charged to special items in the income statement when permitted by the Group's accounting policy. The provision reflects the amount that has been charged but not yet spent.

**Liability arising on a business combination**

As part of the acquisition of PolymerLatex in 2011, the Group acquired a leasehold interest in an empty property. The provision reflects this onerous contract.

The provisions are expected to be fully utilised over the next five years.

**28 CALLED UP SHARE CAPITAL**

	2016 £m	2015 £m
<b>Issued and fully paid</b>		
<b>339,880,769</b> (2015: 339,880,769) ordinary shares of 10 pence each	<b>34.0</b>	<b>34.0</b>

Ordinary shares carry no right to fixed income.

**Share options(see note 36)**

The outstanding share options were all issued under the Executive share option scheme. These are discussed further in note 36 – Share Based Payments.

As at 31 December 2016 the following options were outstanding:

	Number
<b>Executive share options</b>	
Exercisable between 2016-2023	17,796
Exercisable between 2017-2024	605,244
Exercisable between 2018-2025	1,070,431
Exercisable between 2019-2026	641,428
	<b>2,334,899</b>

The total exercise price for all the above grants is £nil.

## 29 RECONCILIATION OF OPERATING PROFIT TO CASH GENERATED FROM OPERATIONS

	2016 £m	2015 £m
<b>Operating profit – continuing operations</b>	<b>144.7</b>	80.3
Less: share of profits of joint ventures	<b>(2.0)</b>	(3.8)
	<b>142.7</b>	76.5
Adjustments for:		
Depreciation	29.7	21.8
Amortisation	0.2	0.3
Amortisation – Special Items	27.0	23.7
Restructuring and site closure – Special Items	5.2	5.4
Share-based payments	2.0	0.6
Profit on sale of land – Special Items	<b>(33.2)</b>	(6.5)
Acquisition costs	<b>(8.8)</b>	–
Profit on sale of business	<b>(4.7)</b>	–
Cash impact of restructuring and site closure	<b>(5.5)</b>	(5.4)
Cash impact of FX relating to purchase of business	13.1	–
Cash impact of acquisition costs	<b>(4.0)</b>	–
IAS 19 interest charge	<b>(4.5)</b>	(4.3)
Pension funding in excess of IAS 19 charge	<b>(12.4)</b>	(6.3)
(Increase)/decrease in inventories	<b>(13.3)</b>	7.1
Increase/(decrease) in trade and other receivables	<b>(13.5)</b>	4.9
Increase/(decrease) in trade and other payables	37.0	(2.2)
Cash generated from operations	<b>157.0</b>	115.6

### Reconciliation of movement in working capital

(Increase)/decrease in inventories	<b>(13.3)</b>	7.1
Increase/(decrease) in trade and other receivables	<b>(13.5)</b>	4.9
Increase/(decrease) in trade and other payables	37.0	(2.2)
Movement in working capital	<b>10.2</b>	9.8

## 30 ANALYSIS OF CHANGES IN NET BORROWINGS

	1 January 2016 £m	Cash inflows/ (outflows) £m	Exchange movements £m	31 December 2016 £m
Cash and cash equivalents	50.9	63.8	2.7	117.4
Current borrowing – Bank overdrafts	<b>(42.4)</b>	<b>(19.9)</b>	<b>(3.1)</b>	<b>(65.4)</b>
	8.5	43.9	(0.4)	52.0
Current borrowings – Other	<b>(14.9)</b>	14.9	–	–
Non-current borrowings	<b>(73.7)</b>	<b>(118.2)</b>	<b>(10.4)</b>	<b>(202.3)</b>
Net borrowings	<b>(80.1)</b>	<b>(59.4)</b>	<b>(10.8)</b>	<b>(150.3)</b>
Deduct: special item fair value adjustment	2.7	–	<b>(2.7)</b>	–
Net borrowings (underlying performance)	<b>(77.4)</b>	<b>(59.4)</b>	<b>(13.5)</b>	<b>(150.3)</b>

The special item represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate to the extent that these constituted effective economic hedges.

**GROUP FINANCIAL STATEMENTS**

**Notes to the consolidated financial statements** continued

31 December 2016

**30 ANALYSIS OF CHANGES IN NET BORROWINGS CONTINUED**

	2016 £m	2015 £m
Repayment of borrowings	(82.7)	(48.5)
Proceeds of borrowings	186.0	–
	<b>103.3</b>	<b>(48.5)</b>

**31 PURCHASE OF BUSINESS**

The Group acquired the Performance and Adhesive Coatings business of Hexion Inc. on 30 June 2016 for a total consideration of £165.1m.

The Consideration paid in respect of this acquisition and the fair value of Net Assets acquired is summarised as follows:

	Europe & North America £m	Asia & Rest of the World £m	Total £m
<b>Net assets acquired</b>			
Intangible assets	22.0	–	22.0
Property, plant and equipment	61.4	6.2	67.6
Inventories	21.0	1.9	22.9
Trade and other receivables	43.8	3.2	47.0
Cash and cash equivalents	1.8	0.9	2.7
Trade and other payables	(36.3)	(2.9)	(39.2)
Current tax liability	(0.3)	–	(0.3)
Current borrowings – Bank overdrafts	–	(3.4)	(3.4)
Deferred tax liability	(3.7)	(0.7)	(4.4)
Post retirement benefit obligations	(3.6)	(0.1)	(3.7)
Fair value of net assets acquired	<b>106.1</b>	<b>5.1</b>	<b>111.2</b>
Goodwill arising on acquisition	<b>50.3</b>	<b>3.6</b>	<b>53.9</b>
Total consideration	<b>156.4</b>	<b>8.7</b>	<b>165.1</b>
Satisfied by			
Cash consideration	<b>156.4</b>	<b>8.7</b>	<b>165.1</b>
Cash flow			
Cash consideration	<b>156.4</b>	<b>8.7</b>	<b>165.1</b>
Net (cash)/ overdraft acquired	<b>(1.8)</b>	<b>2.5</b>	<b>0.7</b>
Net cash outflow arising on acquisition	<b>154.6</b>	<b>11.2</b>	<b>165.8</b>

The 'Fair Value Adjustments' to the value of assets acquired including Intangible assets, Property, plant and equipment, and Provisions are made in accordance with International Financial Reporting Standard 3 'Business Combinations' (revised 2008).

The goodwill arising on the acquisition of the PAC business represents the premium the Group paid to acquire companies which complement the existing business and create significant opportunities for cross-selling and other synergies.

Acquisition costs expensed in 12 months to 31 December 2016:

	£m	£m	£m
Gain on FX contracts used to fix sterling value of US dollar consideration	(12.4)	(0.7)	(13.1)
Other costs	4.1	0.2	4.3
	<b>(8.3)</b>	<b>(0.5)</b>	<b>(8.8)</b>

In the period from acquisition to 31 December 2016 the PAC business contributed the following to the Group's results:

	£m	£m	£m
Revenue of:	<b>122.0</b>	<b>7.8</b>	<b>129.8</b>
Operating profit of:	<b>6.9</b>	<b>(0.5)</b>	<b>6.4</b>

If the acquisition of the PAC business had been completed on the first day of the financial year, the following would have been included in the Group's result:

	£m	£m	£m
Revenue of:	<b>244.8</b>	<b>15.8</b>	<b>260.6</b>
Operating profit of:	<b>20.4</b>	<b>(0.7)</b>	<b>19.7</b>

### 32 SALE OF BUSINESS

The Group disposed of the following interest in its South African business consisting of a sub-holding company, Revertex (South Africa) (Pty) Ltd, its trading subsidiary, Synthomer (Pty) Ltd and its 50% joint venture, Arkem (Pty) Ltd:

Company name	Date of sale	Purchaser	Division	Sale type
Revertex (South Africa) (Pty) Ltd	11 August 2016	Third party trade	Asia and Rest of the World	Share
Arkem (Pty) Ltd	11 August 2016	Third party trade	Asia and Rest of the World	Share
Synthomer (Pty) Ltd	11 August 2016	Third party trade	Asia and Rest of the World	Share

The consolidated net assets of the companies at the date of disposal were as follows:

	£m
Property, plant and equipment	1.8
Inventories	2.6
Trade receivables	3.6
Net cash	0.4
Deferred tax liability	(0.2)
Current tax liability	(0.1)
Trade payables	(2.9)
Net assets disposed of	5.2
<b>Total consideration (net of disposal costs)</b>	<b>16.6</b>
Less net assets disposed of	(5.2)
Loss on forward exchange contract used to fix sterling amount of proceeds	(3.4)
Profit on sale of business before recycling of foreign exchange from hedging and translation reserve	8.0
Recycling of foreign exchange from hedging and translation reserve	(3.3)
Profit on disposal	4.7
<b>Total consideration satisfied by:</b>	
Cash (net of disposal costs)	16.6
Loss on forward exchange contract used to fix sterling amount of proceeds	(3.4)
	13.2
<b>Cash flow:</b>	
Cash consideration	13.2
Cash disposed	(0.4)
Net cash inflow arising on disposal	12.8

In the period from 1 January 2016 to the date of disposal, the South African business contributed the following to the Group's results:

	£m
Revenue of:	10.8
Operating profit of:	1.1

### 33 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's financial statements where appropriate.

The UK defined benefit scheme is a related party, see note 26.

Key management compensation	2016 £m	2015 £m
Short-term employee benefits	4.9	5.2
Post retirement benefit obligations	0.4	0.3
Share-based payments	1.0	0.6
	6.3	6.1

The key management figures given above include the directors and members of the Executive Committee.

**34 COMMITMENTS**

	2016 £m	2015 £m
<b>Capital expenditure authorised but not provided for in the financial statements</b>		
Contracted	16.7	3.9
<hr/>		
<b>Commitments under operating leases are as follows</b>		
Payments under operating leases which fall due:		
Within 1 year	3.1	3.2
Between 2 and 5 years	10.5	8.8
After 5 years	15.4	14.2
	<b>29.0</b>	<b>26.2</b>

Operating leases relates largely to property leases.

**35 CONTINGENT ASSETS, CONTINGENT LIABILITIES AND GUARANTEES**

Other guarantees and contingent liabilities of the Group amount to £0.0m (2015: £0.3m).

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.

**36 SHARE-BASED PAYMENTS****Executive share option schemes**

The Group's share option scheme is described in the Directors' Remuneration Report on pages 56 to 75. In addition to the two executive directors, it is available to other senior management. The movement in the options held under the scheme are defined as follows:

	Options 2016	Weighted av. exercise price (£) 2016	Options 2015	Weighted av. exercise price (£) 2016
Outstanding at 1 January	2,615,192	-	2,724,092	-
Granted during the year	641,428	-	1,182,275	-
Exercised during the year	(244,777)	-	-	-
Lapsed during the year	(676,944)	-	(1,291,175)	-
Outstanding at 31 December	2,334,899	-	2,615,192	-
Exercisable at 31 December	17,796	-	-	-

For options outstanding as at 31 December 2016, the exercise price was £nil and the weighted average remaining contractual life was 5.0 years (2015: 5.1 years).

**Yule Catto Employee Benefit Trust**

The Company established a trust, 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 2016, the Trust held 26,794 (2015: 82,425) ordinary shares in the Company with a market value of £0.1 million (2015: £0.3 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.

There were no exercises in 2016. In 2015, the weighted average share price at the date of exercise was £nil.

The weighted average fair value of the options at the measurement date granted during the year was £1.84 (2015: £1.36). The valuation was based on the following inputs and assumptions:

	2016	2015
Weighted average share price (£)	3.67	2.89
Option price (£)	-	-
Value of optionality	nil	nil
Vesting assumption	50%	47%

Given the option price is £nil, the only circumstance in which a vested option will not be exercised is if the current share price is £nil. There is some value associated with the timing of when the exercise would be made but this is considered to be minimal and therefore this has not been modelled.

The vesting assumption is the estimate at the measurement date of the percentage of the options that will ultimately vest and is based on management's assessment of the likelihood of achievement of the performance criteria.

### 37 SHARE PRICE INFORMATION

The middle market value of the listed ordinary shares at 31 December 2016 was 382.6 pence. During the year, the market price ranged between 275.1 pence and 386.8 pence. The latest ordinary share price is available on the Group's website [www.synthomer.com](http://www.synthomer.com).

### 38 POST BALANCE SHEET EVENT

The Group acquired 100% of the issued share capital of Perstorp Oxo Belgium AB, a specialities chemical company, on 5 March 2017 for a total consideration of £66.1m.

The provisional values of the net assets acquired were as follows:

	Provisional Fair Value
<b>Net assets acquired</b>	<b>£m</b>
Intangible assets	0.7
Property, plant and equipment	3.9
Deferred tax assets	0.8
Inventories	5.0
Trade and other receivables	5.1
Cash and cash equivalents	2.0
Trade and other payables	(3.6)
Current tax liability	-
Deferred tax liabilities	(1.9)
Post retirement benefit obligations	(2.4)
Provisional fair value of net assets acquired	9.6
Goodwill arising on acquisition	56.5
<b>Total consideration</b>	<b>66.1</b>
<b>Satisfied by</b>	
Cash consideration	66.1
<b>Cash flow</b>	
Cash consideration	66.1
Cash acquired	(2.0)
<b>Net cash outflow arising on acquisition</b>	<b>64.1</b>

International Financial Reporting Standard 3 "Business Combinations" (revised 2008) requires the assets acquired to be initially recorded at fair value at the date of acquisition. As such, the fair value adjustments are provisional and will be finalised within twelve months of the acquisition date. Any resulting changes in the fair values may have an impact on the depreciation from the date of acquisition and would be recorded in the financial statements.

Neither a preliminary assessment of intangible assets nor the Property, Plant and Equipment (PPE) valuation had been completed at the date of these financial statements. When the final valuation work is concluded, a substantial increase in PPE and intangible assets values, and a corresponding substantial reduction in goodwill, is anticipated.

The acquisition of Perstorp Oxo Belgium AB was completed on 5 March 2017. The acquired business has therefore not contributed to the results of the Group for the year ended 31 December 2016. Sufficient information is not currently available to disclose the contribution to the Group if the acquisition had been made on 1 January 2016.

## COMPANY FINANCIAL STATEMENTS

### Independent auditors' report

to the members of Synthomer plc

#### REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

##### Our opinion

In our opinion, Synthomer plc's parent company financial statements (the "financial statements"):

- give a true and fair view of the state of the parent company's affairs as at 31 December 2016;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

##### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Company Statement of Financial Position as at 31 December 2016;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

#### OTHER REQUIRED REPORTING

##### Consistency of other information and compliance with applicable requirements

Companies Act 2006 reporting

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the parent company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Report of the Directors. We have nothing to report in this respect.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the parent company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

##### Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

##### Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

**RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT****Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 79, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent 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.

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

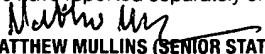
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report, Report of the Directors and Corporate Governance Statement, we consider whether those reports include the disclosures required by applicable legal requirements.

**OTHER MATTER**

We have reported separately on the group financial statements of Synthomer plc for the year ended 31 December 2016.

  
**MATTHEW MULLINS (SENIOR STATUTORY AUDITOR)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
6 March 2017

COMPANY FINANCIAL STATEMENTS

Statement of financial position – Synthomer plc

31 December 2016

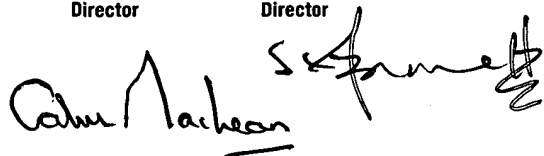
	Note	2016 £m	2015 £m
<b>Fixed assets</b>			
Property, plant and equipment	5	2.2	2.2
Investments in subsidiaries	6	285.2	282.3
		<b>287.4</b>	<b>284.5</b>
<b>Current assets</b>			
Trade and other receivables	7	741.9	664.3
Cash and cash equivalents		3.9	3.6
Derivatives at fair value	9	-	3.0
		<b>745.8</b>	<b>670.9</b>
<b>Creditors – amounts falling due within one year</b>			
Borrowings	8	(39.3)	(51.0)
Other creditors	10	(171.1)	(165.7)
		<b>(210.4)</b>	<b>(216.7)</b>
<b>Net current assets</b>			
		<b>535.4</b>	<b>454.2</b>
<b>Total assets less current liabilities</b>			
		<b>822.8</b>	<b>738.7</b>
<b>Creditors – amounts falling due after more than one year</b>			
Borrowings	8	(158.5)	(73.7)
<b>Net assets</b>			
		<b>664.3</b>	<b>665.0</b>
<b>Equity</b>			
Ordinary shares	11	34.0	34.0
Share premium		230.5	230.5
Revaluation reserve		0.8	0.8
Capital redemption reserve		0.9	0.9
Retained earnings		398.1	398.8
<b>Total shareholders funds</b>			
		<b>664.3</b>	<b>665.0</b>
<b>Analysis of net borrowings</b>			
Cash and cash equivalents		3.9	3.6
Borrowings due in less than one year		(39.3)	(51.0)
Borrowings due after more than one year		(158.5)	(73.7)
<b>Net borrowings</b>			
		<b>(193.9)</b>	<b>(121.1)</b>
Deduct: Special Item		-	2.8
<b>Net borrowings (underlying performance)</b>			
	8	<b>(193.9)</b>	<b>(118.3)</b>

The notes on pages 132 to 138 are an integral part of these financial statements.

The financial statements of Synthomer plc (registered number 98381) on pages 130 to 138 were authorised for issue by the Board of directors on 6 March 2017.

C G MACLEAN  
Director

S G BENNETT  
Director



## Statement of changes in equity

31 December 2016

	Share Capital £m	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
Balance as at 1 January 2015	34.0	230.5	0.8	0.9	435.8	702.0
Profit for the year	-	-	-	-	16.1	16.1
<b>Total comprehensive income for the year</b>	-	-	-	-	16.1	16.1
Dividends	-	-	-	-	(53.7)	(53.7)
Share based payments	-	-	-	-	0.6	0.6
<b>Total transactions with owners, recognised directly in equity</b>	-	-	-	-	(53.1)	(53.1)
Balance as at 31 December 2015	34.0	230.5	0.8	0.9	398.8	665.0
At 1 January 2016	<b>34.0</b>	<b>230.5</b>	<b>0.8</b>	<b>0.9</b>	<b>398.8</b>	<b>665.0</b>
Profit for the year	-	-	-	-	28.6	28.6
<b>Total comprehensive income for the year</b>	-	-	-	-	28.6	28.6
Dividends	-	-	-	-	(30.3)	(30.3)
Share based payments	-	-	-	-	1.0	1.0
Total transactions with owners, recognised directly in equity	-	-	-	-	(29.3)	(29.3)
<b>Balance as at 31 December 2016</b>	<b>34.0</b>	<b>230.5</b>	<b>0.8</b>	<b>0.9</b>	<b>398.1</b>	<b>664.3</b>

## 1 ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of accounting

The financial statements of Synthomer plc have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and derivative financial assets and financial liabilities measured at fair value through the income statement, and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The estimates and associated assumptions are based on industry experience and various other factors that are believed to be reasonable under the circumstances.

The directors have reviewed the estimates and assumptions used in the preparation of the financial statements. The directors do not believe that there is a significant risk which would lead to material adjustments to the carrying value of any assets and liabilities in the next financial year due to changes on estimates or assumptions.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- IAS 7, 'Statement of cashflows'
- The requirements in IAS24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- IFRS 7, 'Financial instruments: Disclosures'
- IFRS 13, Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and IAS 7 "Statement of cash flows" liabilities)
- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair IAS 7 "Statement of cash flows" value of goods or services received was determined)

### Going concern

The company meets its day-to-day working capital requirements through its cash reserves and borrowings. After making enquiries and taking account of reasonably possible changes in trading performance the Directors have concluded that the company should be able to operate within the level of its current cash reserves and borrowings and continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

### Foreign currencies

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Other operating income'.

### Property, plant and equipment

Properties are shown at professional valuation from 1985. All other plant and equipment are stated at cost. Cost includes the original purchase price of the asset plus the costs attributable to bringing the asset to its working condition for its intended use.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as Revaluation reserve in shareholders' funds. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against Revaluation reserve; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement, and depreciation based on the asset's original cost is transferred from 'Revaluation reserve' to 'Retained earnings'.

Except for freehold land, which is not depreciated, the cost or valuation of property, plant and equipment is depreciated on a straight-line basis over their expected useful lives as follows:

Freehold buildings – 50 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

**Investments in subsidiaries and joint ventures**

Investments in subsidiaries and joint ventures are shown at cost less provision for impairment.

**Intercompany**

Intercompany balances are shown gross unless a right of set off exists. Balances are valued at fair value at inception and are repayable on demand.

**Borrowings**

Borrowings are initially stated at the amount of the net proceeds after deduction of issue costs.

**Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

**Deferred taxation**

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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 taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

**Financial instruments**

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through the income statement, which are initially measured at fair value. Financial assets and financial liabilities (including derivative instruments) are recognised on the Company statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are only offset in the balance sheet when, and only when there exists a legally enforceable right to set off the recognised amounts and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Company transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Company, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

**Trade and other receivables**

Trade debtors do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

**Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Trade and other payables**

Trade creditors are not interest-bearing and are stated at their nominal value.

**1 ACCOUNTING POLICIES CONTINUED****Equity instruments**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Derivative financial instruments**

The Company enters into derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including cross currency interest rate swaps and forward foreign exchange contracts. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each statement of financial position date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the income statement depends on the nature of the hedge relationship. The Company designates certain derivatives as fair value hedges.

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives.

**Fair value hedge accounting**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Company only applies fair value hedge accounting for foreign currency exposure associated with the underlying hedged item. The gain or loss relating to the ineffective portion is also recognised in the income statement.

**Cash and cash equivalents**

Cash and cash equivalents includes cash held at banks and cash in hand.

**Borrowings**

Borrowings represents short-and long-term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting.

Fees paid on the establishment of loan facilities are capitalised as pre-payment for liquidity service and amortised over the term of the facility.

**Share capital**

Ordinary shares are classified as equity.

**Dividend distribution**

Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

**Financial guarantees**

The Company issues guarantees in respect of bank and other facilities of subsidiaries and joint ventures.

**2 AUDITORS' REMUNERATION**

The audit fee of Synthomer plc amounted to £10,000 (2015: £10,000).

**3 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS**

	2016 £m	2015 £m
Attributable to Synthomer Plc	<b>28.6</b>	16.1

As permitted by Section 408 of the Companies Act 2006 no profit and loss account is presented for Synthomer plc .

**4 ORDINARY DIVIDENDS**

	2016 Pence per share	2015 Pence per share	2016 £m	2015 £m
Interim dividend	<b>3.5</b>	3.2	<b>11.9</b>	10.9
Proposed final dividend	<b>7.8</b>	5.4	<b>26.5</b>	18.4

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

**5 PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings
	Freeholds £m
Cost or valuation	
At 1 January 2016	2.8
Disposals	-
<b>At 31 December 2016</b>	<b>2.8</b>
At cost	-
At professional valuation in 1985	2.8
	2.8
Accumulated Depreciation	
At 1 January 2016	0.6
Eliminated on disposals	-
<b>At 31 December 2016</b>	<b>0.6</b>
Net book value	
<b>At 31 December 2016</b>	<b>2.2</b>
Cost or valuation	
At 1 January 2015	2.8
Disposals	-
At 31 December 2015	2.8
At cost	-
At professional valuation in 1985	2.8
	2.8
Accumulated Depreciation	
At 1 January 2015	0.6
Eliminated on disposals	-
At 31 December 2015	0.6
Net book value	
At 31 December 2015	2.2

Properties included at valuation would have been stated on a historical cost basis at cost of £1.9m (2015: £1.9m) and depreciation of £0.5m (2015: £0.5m).

Freehold land amounting to £1.8m (2015: £1.8m) has not been depreciated.

**6 INVESTMENTS**

	Subsidiaries £m	Joint ventures £m	Total £m
<b>Cost</b>			
At 1 January 2016	282.0	0.5	282.5
Additions	-	-	-
Disposals	-	-	-
Hedge adjustment (see below)	2.9	-	2.9
<b>At 31 December 2016</b>	<b>284.9</b>	<b>0.5</b>	<b>285.4</b>
<b>Provisions</b>			
At 1 January 2016	-	0.2	0.2
Released on disposals	-	-	-
<b>At 31 December 2016</b>	<b>-</b>	<b>0.2</b>	<b>0.2</b>
<b>Net book value</b>			
<b>At 31 December 2016</b>	<b>284.9</b>	<b>0.3</b>	<b>285.2</b>
Net book value			
At 31 December 2015	282.0	0.3	282.3

Details of the principal Group companies are given on page 130 to 141.

During the year the Company designated up to €158.4m (2015: €nil) of its borrowings as an FRS 101 fair value hedge against the designated Euro portion of its investment in Ennismore Limited of up to €158.4m. The movement in the Euro borrowings is recorded in the profit and loss account along with the movement of the hedged investment.

Directors consider the value of investments to be supported by underlying assets.

**7 DEBTORS**

	2016 £m	2015 £m
Amounts owed by group undertakings	741.8	664.2
Other receivables	0.1	0.1
	<b>741.9</b>	<b>664.3</b>

Amounts owed by group undertakings are valued at fair value at inception.

**8 BORROWINGS**

	2016 £m	2015 £m
<b>Current borrowings</b>		
Bank loans		
Overdrafts	39.3	36.1
Other loans		
\$22.0m 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016*	-	14.9
	<b>39.3</b>	<b>51.0</b>
<b>Non-current borrowings</b>		
Bank loans		
Unsecured £210.0 million multi currency Revolving Credit Facility expiring 30 July 2019	-	75.0
Unsecured £370.0 million multi currency Revolving Credit Facility expiring 30 July 2019	160.1	-
	<b>160.1</b>	<b>75.0</b>
Less: capitalised costs	(1.6)	(1.3)
	<b>158.5</b>	<b>73.7</b>

## Note

\* In aggregate £nil (2015: £14.9m), associated with which is the currency impact of derivatives of £nil (2015: £2.8m), net £nil (2015: £12.1m).

Bank loans are denominated in Sterling, Euro and US Dollar (2015: Sterling) and bear interest based on LIBOR, EURIBOR and USD LIBOR (2015: LIBOR).

At 31 December 2016, the Company had available £166.1m (2015: £135.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

**Analysis of borrowings at carrying value by currency**

The directors calculate the carrying value of the Company's borrowings as follows:

	Sterling £m	US dollar £m	Euro £m	Total £m
<b>31 December 2016</b>				
Bank loans and overdrafts	20.3	53.6	125.5	199.4
Loan notes	-	-	-	-
Capitalised costs	(1.6)	-	-	(1.6)
	<b>18.7</b>	<b>53.6</b>	<b>125.5</b>	<b>197.8</b>
Cash and cash equivalents				(3.9)
Net borrowings				<b>193.9</b>
Deduct: special item*				-
Net borrowings (underlying performance)				<b>193.9</b>
<b>31 December 2015</b>				
Bank loans and overdrafts	96.7	3.7	10.7	111.1
Loan notes	-	14.9	-	14.9
Capitalised costs	(1.3)	-	-	(1.3)
	<b>95.4</b>	<b>18.6</b>	<b>10.7</b>	<b>124.7</b>
Cash and cash equivalents				(3.6)
Net borrowings				121.1
Deduct: special item*				(2.8)
Net borrowings (underlying performance)				<b>118.3</b>

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

## Note

\* The special item represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate, together with the transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges.

**9 FINANCIAL INSTRUMENTS**

The fair value of financial instruments has been disclosed in the Company's statement of financial position as:

	2016			2015		
	Loans and receivables £m	Fair value through Income Statement £m	Total carrying value £m	Loans and receivables £m	Fair value through Income Statement £m	Total carrying value £m
<b>Fair value of financial assets</b>						
Trade and other receivables excluding prepayments	741.9	-	741.9	664.3	-	664.3
Cash and cash equivalents	3.9	-	3.9	3.6	-	3.6
Derivatives at fair value	-	-	-	-	3.0	3.0
	<b>745.8</b>	<b>-</b>	<b>745.8</b>	<b>667.9</b>	<b>3.0</b>	<b>670.9</b>
<b>Fair value of financial liabilities</b>						
Loan notes	-	-	-	14.9	-	14.9
Bank loans and overdrafts	197.8	-	197.8	109.8	-	109.8
Trade and other payables	171.1	-	171.1	165.7	-	165.7
	<b>368.9</b>	<b>-</b>	<b>368.9</b>	<b>290.4</b>	<b>-</b>	<b>290.4</b>

A fuller description of financial instruments is included in note 23 of the consolidated financial statements on page 114.

**10 OTHER CREDITORS**

	2016 £m	2015 £m
<b>Amount due within one year</b>		
Amounts owed to group undertakings	169.3	163.5
Other creditors	0.7	1.3
Accruals and deferred income	1.1	0.9
	<b>171.1</b>	<b>165.7</b>

Amounts owed to group undertakings are valued at fair value at inception and are repayable on demand.

**11 CALLED UP SHARE CAPITAL**

Details of the Company's share capital and outstanding share options are shown in note 28 of the consolidated financial statements on page 122.

**12 RELATED PARTY TRANSACTIONS**

The Company has elected to take the allowable exemption in terms of FRS 101 to not disclose transactions with wholly-owned subsidiaries.

**13 GUARANTEES AND OTHER FINANCIAL COMMITMENTS**

The Company has given guarantees amounting to £31.4m (2015: £15.0m) in respect of bank and other facilities of subsidiaries and joint ventures.

**14 SHARE-BASED PAYMENTS**

For details of share-based payments please refer to note 36 to the consolidated financial statements on page 126.

**OTHER INFORMATION**

**Subsidiaries and joint ventures**

Company	Trading/ Non-Trading	Registered Address	Place of incorporation	Effective Group Interest In Equity %
Synthomer Holdings (Thailand) Limited	Non-Trading	No. 99/329 Soi Suanluang, Bangkho Sub-District, Jomthong District, Bangkok.	Thailand	100
Dimex Limited	Non-Trading	Yule.Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Ecatto Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Harlow Chemical Company Limited	Non-Trading	Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Synthomer Australia Pty Limited	Trading	C/o : Cosec Consulting Pty Ltd 58 Gipps Street, Collingwood VIC 3066	Australia	100
Hexion AS	Trading	Sokolov, Tovární 2093, Postal Code 356 01, Czech Republic	Czech Republic	100
Hexion Asua SL	Trading	Camino Sangroniz No 8 Sondika 48150 Vizcaya	Spain	100
Shanghai Synthomer Chemicals Co Limited (FICE)	Trading	China Technical Centre, Building 53-55, Lane 1000 Zhangheng Road, Zhangjiang High-tech Park, Pudong, Shanghai 201203, China	China	100
Hexion France SAS	Trading	704 rue Pierre et Marie Curie 60170 Ribécourt-Dreslincourt, France	France	100
Hexion S.r.l	Trading	Via Morozzo 27, 12040 Sant'Albano Stura CN Italy	Italy	100
Holliday Pigments Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
PAC Chemical (Shanghai) Co Limited (in the process of de-registration)	Trading	Room 326, 3rd Floor, Building No.3, No.500 Bingke Road, Shanghai Free Trade Zone, China	China	100
Desa Baiduri Sdn Bhd	Non-Trading (Letting of Properties)	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	70
Kind Action (M) Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	70
Polymerlatex Sdn Bhd	Trading	1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	100
Polymerlatex Ltd	Non-Trading	Central Road, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Quality Polymer Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	70
Revertex Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Revertex (Malaysia) Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	70
S.A. (300) Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Rexplas Sdn Bhd	Non-Trading (Dormant)	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	70

**OTHER INFORMATION**
**Subsidiaries and joint ventures continued**

Company	Trading/ Non-Trading	Registered Address	Place of Incorporation	Effective Group Interest in Equity %
Star Pharma Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Super Sky Limited	Non-Trading	Synthomer Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	50 <sup>1,3</sup>
Synthomer (UK) Limited	Trading	Temple Fields, Central Road, Harlow, Essex, CM20 2BH	United Kingdom	100
Synthomer 2016 Limited	Non-Trading	Synthomer Building, Temple Fields, Central Road, Harlow, Essex, United Kingdom, CM20 2BH	United Kingdom	100 <sup>3</sup>
Synthomer Sdn Bhd	Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	100
Synthomer BV	Trading	Ijsselstraat 41, 5347 KG Oss, The Netherlands	The Netherlands	100
Synthomer Deutschland GmbH	Trading	Werrastrasse 10 D-45768 Marl Germany	Germany	100
Synthomer Finland Oy	Trading	P.O.B 175 FI-90101 Oulu	Finland	100
Synthomer FZE	Trading	Dubai, U.A.E Dubai Airport Free Zone Authority	Dubai	100
Synthomer Holdings (CZE) s.r.o	Non-Trading	V Celnici 1031/4, Nové Město, 11000, Prague 1, Czech Republic	Prague, Czech Republic	100
Terra Simfoni Sdn Bhd	Non-Trading (Investment Holding)	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	100
Synthomer Holdings Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Synthomer Leuna GmbH	Trading	c/o Synthomer Deutschland GmbH Werrastraße 10 45768 Marl Germany	Berlin, Germany	100
Synthomer LLC	Trading	1201 Peachtree Street NE, Atlanta, Fulton, GA 30361, USA (CT Corporation)	USA	100
Synthomer Middle East Company Limited	Trading	PO Box 7544, Dammam 31472, Saudi Arabia	Saudi Arabia	49 <sup>1</sup>
Synthomer Overseas Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Synthomer Participacoes Ltda	Trading	Av. Casa Verde, 3100, sala 01, bairro Casa Verde, CEP-02520-300, São Paulo-SP, Brazil.	São Paulo, Brazil	100
Synthomer S.r.l	Trading	Via delle Industrie 9, - 24040 Filago (BG)	Italy	100
Synthomer SA	Non-Trading	1050 Brussels, Boondaalsesteenweg 6, B17, Begium	Belgium	100
Synthomer SAE	Trading	Industriel Zone 1-B, 10th of Ramadam City, Sharkiya, Egypt	Egypt	88
Hexion (Thailand) Limited	Trading	3195/6 Vibulthani Tower 1 1st Floor, Rama IV Road, Klongton Sub-District, Klongtoey District Bangkok 10110 Thailand	Thailand	100
Synthomer Trading Limited	Trading	45 Pall Mall, London, SW1Y 5JG	United Kingdom	100
Synthomer USA LLC	Trading	160 Greentree Dr. Suite 101 Dover DE, 19904 (Registered agent address)	Delaware, USA	100
Hexion Bangkok Limited	Trading	3195/6 Vibulthani Tower 1 1st Floor, Rama IV Road, Klongton Sub-District, Klongtoey District Bangkok 10110 Thailand	Thailand	100

Company	Trading/ Non-Trading	Registered Address	Place of incorporation	Effective Group interest in Equity %
Temple Fields 510	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields 512 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Temple Fields 514 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Temple Fields 515 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields 522 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Temple Fields 523 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Temple Fields 530 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields 534 Limited	Non-Trading	Yule Catto Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Temple Fields GmbH	Non-Trading	Innerstetal 2, 38685 Langelsheim, Germany	Germany	100
Temple Fields GmbH & Co Chemie oHG (formerly James Robinson GmbH & Co Chemie oHG)	Non-Trading	Innerstetal 2, 38685 Langelsheim, Germany	Germany	100
Temple Fields Verwaltungs GmbH (formerly James Robinson Verwaltungs GmbH)	Non-Trading	Innerstetal 2, 38685 Langelsheim, Germany	Germany	100
Synthomer Vietnam Co Ltd	Trading	No. 8 Road 6 (Lots No. 101, 109) Sang Than I Industrial Park, Di An District Binh Duong Province	Vietnam	60
William Blythe Limited	Trading	Synthomer Building, Temple Fields, Harlow, Essex, CM20 2BH	United Kingdom	100
Yule Catto Spain SL	Non-Trading	C/O Rambla de Catalunya no. 53, Atico, 08007 Barcelona, Spain	Spain	100
Yule Catto BV	Non-Trading	Ijsselstraat 41, 5347 KG Oss, The Netherlands	The Netherlands	100
Yule Catto France SA	Non-Trading	6 Place de la Madeline, 75008 Paris, France	France	100
Yule Catto Holdings GmbH	Non-Trading	Werrastrasse 10, 45768 Marl, Germany	Germany	100
Yule Catto Inc	Non-Trading	1201 Peachtree Street NE, Atlanta, Fulton, GA 30361, USA	USA	100
Yule Catto International SA	Non-Trading	6 Place de la Madeline, 75008 Paris, France	France	100
Yule Catto Nederland BV	Non-Trading	Ijsselstraat 41, 5347 KG Oss, The Netherlands	The Netherlands	100
Yule Catto Overseas	Non-Trading	Temple Fields, Central Road, Harlow, Essex, CM20 2BH	United Kingdom	100 <sup>3</sup>
Yule Catto Western Europe Limited	Non-Trading	Yule Catto Building, Temple Fields, Central Road, Harlow, Essex, CM20 2BH	United Kingdom	100
Ennismore Ltd	Non-Trading	44 Esplanade, St Helier, Jersey, JE4 9WG	Jersey	100 <sup>3</sup>
Fine Chemicals Sdn Bhd	Non-Trading	Bangunan Revertex, 1 1/2 Miles, Jalan Batu Pahat, 86000 Kluang, Johor Darul Takzim, Malaysia	Malaysia	70
UQUIFA Italia S.r.l	Non-Trading	Piazza Cavour 3, Milano, Italy	Italy	100

## Notes

1. Joint ventures.
2. Harlow Chemical Co Ltd was incorporated in UK but is resident in the Netherlands.
3. Shares directly held by Synthomer plc.

**OTHER INFORMATION**

**Five year financial summary** continued

Underlying performance (a)		2016 £m	2015 £m	2014 £m	2013 (restated (f)) £m	2012 (restated (f)) £m
Revenue		<b>1,045.7</b>	870.1	936.4	992.7	1,053.0
EBITDA	(b)	<b>160.1</b>	125.0	118.0	124.0	129.6
Operating profit	(c)	<b>130.2</b>	102.9	96.5	104.8	111.2
Finance costs		<b>(8.0)</b>	(7.6)	(10.5)	(14.7)	(16.2)
Profit before taxation		<b>122.2</b>	95.3	86.0	90.1	95.0
Basic earnings per share		<b>28.3p</b>	21.5p	19.5p	20.7p	20.9p
Dividends per share		<b>13.5p</b>	8.6p	7.8p	6.0p	5.5p
Dividend cover		<b>2.1</b>	2.5	2.5	3.5	3.8
Net borrowings	(d)	<b>(150.3)</b>	(77.4)	(112.1)	(133.6)	(155.8)
Capital expenditure	(e)	<b>43.0</b>	22.8	22.0	39.1	39.2

IFRS – continuing operations		2016 £m	2015 £m	2014 (restated (f)) £m	2013 (restated (f)) £m	2012 (restated (f)) £m
Revenue		<b>1,045.7</b>	870.1	936.4	992.7	1,053.0
EBITDA	(b)	<b>160.1</b>	125.0	118.0	124.0	129.6
Operating profit	(c)	<b>144.1</b>	80.3	65.1	75.0	77.1
Finance costs		<b>(8.0)</b>	(7.8)	(11.3)	(15.9)	(18.3)
Profit before taxation		<b>136.1</b>	72.5	53.8	59.1	58.8
Basic earnings per share		<b>30.2p</b>	17.8p	13.3p	14.2p	15.6p
Dividends per share		<b>13.5p</b>	8.6p	7.8p	6.0p	5.5p
Dividend cover		<b>2.2</b>	2.1	1.7	2.4	2.8
Net borrowings	(d)	<b>(150.3)</b>	(80.1)	(114.1)	(138.5)	(141.5)
Capital expenditure	(e)	<b>43.0</b>	22.8	22.0	39.1	39.2

Note

- (a) As presented in the consolidated income statement on page 85.  
 (b) As defined in the accounting policies at note 2 and reconciled in note 6.  
 (c) As defined in note 2 to the financial statements.  
 (d) As defined in note 2 to the financial statements and reconciled in note 22.  
 (e) As shown with the consolidated cash flow statement.  
 (f) Restated for impact of IAS19 revised.

**OTHER INFORMATION**  
**Glossary of terms**

AGM	Annual General Meeting
AIMS	Accident and Incident Management System
ARW	Asia and Rest of the World
C&C	Construction and Coatings
C&F	Carpet and Foam
CGU	Cash Generating Units
CH <sub>4</sub>	Methane
CIA	Chemical Industries Association
CO <sub>2</sub>	Carbon Dioxide
CO <sub>2e</sub>	Carbon Dioxide equivalent
Constant currency	Reflects current year results for existing business translated at the prior year's average exchange rates, and includes the impact of acquisitions.
CSR	Corporate Social Responsibility
Delta	Department of Environment, Food and Rural Affairs
EBITDA	EBITDA is calculated as operating profit before depreciation, amortisation and special items
EGM	Extraordinary General Meeting
ENA	Europe and North America
EPS	Earnings Per Share
ESG	Environmental, Social and Governance
FP	Functional Polymers
FRC	Financial Reporting Council
Free cash flow	Net cash flow from operating activities, after net interest paid and purchases and proceeds from sale of non-current assets and investments
FRS	Financial Reporting Standard
GHGs	Greenhouse Gases
GJ	Gigajoule
GWP	Global Warming Potential
H&P	Health and Protection
HR	Human Resources
HSSBR	High Solids Styrene Butadiene Rubber
IAS	International Accounting Standard
IFRS	International Financial Reporting Standards
ISA	International Standards of Auditing
KPIs	Key Performance Indicators
Ktes	Kilotonne or 1,000 tonnes (metric)
LTA	Lost Time Accident
M&A	Mergers and Acquisitions
MYR	Malaysian Ringgits
N <sub>2</sub> O	Nitrous Oxide
NBR	Nitrile Butadiene Rubber

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**Glossary of terms**

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Net borrowings	Net borrowings represent cash and cash equivalents together with short and long-term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting, non-recourse factoring arrangements, and the inclusion of financial assets
Net debt	Borrowings and other financial liabilities less cash and cash equivalents
NOx	Nitrogen Oxide
Operating profit	Operating profit represents profit from continuing activities before finance costs and taxation
PBT	Profit Before Tax
PSP	Performance Share Plan
PVC	Polyvinyl Chloride
R&D	Research and Development
SBR	Styrene Butadiene Rubber
SEC	Specific Energy Consumption
SHE	Safety, Health and Environment
SHEMS	Safety, Health and Environment Management System
The Code	The UK Corporate Governance Code
TSR	Total Shareholder Return
UK GAAP	UK Generally Accepted Accounting Practice
Underlying performance	Underlying performance represents the statutory performance of the Group under IFRS, excluding special items
VOCs	Volatile Organic Compounds

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## **OTHER INFORMATION**

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