Leading innovation in aqueous polymers

Synthomer plc Annual Report 2013

synthomer

Innovation, Excellence, Growth

Synthomer is a specialty chemical company and one of the world's leading producers of aqueous polymers.

Using our innovative technology, we produce sophisticated formulations for thousands of customers in a diversity of industries, from coatings and construction to healthcare and automotive.

We help our customers to create market-leading products, ranging from adhesives and sealants to medical gloves, carpets and paints, which are used every day all around the globe.

We have built a strong platform for growth through our leading market positions in Europe and expansion into emerging markets which is underpinned by our exposure to global mega-trends including an increasing demand for environmentally friendly technology.

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6.0p
Dividend per share

20.7p
Earnings per share*

£90.1m
Profit before taxation*

£1,054.9m
Total sales*

+9%
Change in dividend per share

£133.6m
Net debt*

* Based on underlying performance.

Financial highlights

As reported	Underlying performance[a] 2013 £m	Underlying performance[a] 2012 restated £m	IFRS 2013 £m	IFRS 2012 restated £m
Continuing operations				
Total sales [b]	**1,054.9**	1,111.8	**1,054.9**	1,111.8
EBITDA (note 5)	**124.0**	129.6	**124.0**	129.6
Operating profit	**104.8**	111.2	**75.0**	77.1
Profit before taxation	**90.1**	94.6	**59.1**	58.8
Earnings per share	**20.7p**	20.9p	**14.2p**	15.6p
Dividends per share (note 10)	**6.0p**	5.5p	**6.0p**	5.5p
Net borrowings [c]	**133.6**	155.8	**138.5**	141.5

(a) Underlying performance excludes special items as shown in the consolidated income statement. This is primarily amortisation of acquired intangibles of £28.4 million (2012 £27.4 million).
(b) Total sales includes Group revenue and share of joint venture revenue.
(c) See page 58.

Commercial highlights

- £90.1 million underlying PBT.
- New 70,000 tonne nitrile latex capacity expansion completed in Pasir Gudang, Malaysia.
- A number of successful product launches achieved during the year, including SBR/bio-polymer hybrids.
- Commissioned new dispersions capacity at Stallingborough, UK and closed Batley, UK facility.

Chairman's statement

Overview

The Group experienced another challenging year in 2013. The economic environment in Europe continued to impact our trading performance, leading to a modest decline in earnings for the year. While this is a disappointment after several years of continuous improvement, the Board believes the overall result demonstrates the Group's resilience in the context of the economic conditions. The underlying performance reflects the benefits of Synthomer's transition over the last 5 years into a major player in specialty aqueous polymers.

Full year performance

Underlying Group sales declined 5.1% to £1,054.9 million (2012 £1,111.8 million) with Group volumes slightly up, despite a 2.5% decline in Europe due to the effect of the challenging trading environment.

Underlying Group operating profit for the year was £104.8 million (2012 £111.2 million), a 5.8% decline on 2012. This was due principally to operating profit in our European & North American (ENA) business being 10% down on the prior year at £89.8 million, where, for the first time in 6 years we saw our average cash margins decline. Encouragingly, Asia and ROW business (ARW) profits rose by 21% to £23.1 million, as the market conditions we experienced in our nitrile business in 2012 recovered ahead of our initial expectations.

Underlying Group profit before tax was £90.1 million (2012 £94.6 million), a decline of 4.8%, whilst earnings per share at 20.7p (2012 20.9p) was down by 1.0%. After deducting special items IFRS profit before tax was £59.1 million (2012 £58.8 million).

Strategy

Our strategy remains unchanged, focusing on delivering growth through geographic expansion in emerging markets, where mega-trends such as population growth, urbanisation and increasing wealth are driving demand for our products across the region. In these high-growth regions, we are able to leverage the leading technologies, R&D and manufacturing capabilities which we have developed in European markets to give us a strong competitive advantage. We have worked hard to optimise our business in Europe since the PolymerLatex acquisition and ongoing cost management remains a key focus of the Group, particularly in the current economic environment.

Given the economic situation in Europe, we are taking some self-help actions in our European business. We have set in progress a programme to reduce costs by €10 million. This programme will have a cash cost of some €15 million, of which €5 million will be capital expenditure.

Despite the weaker trading conditions in Europe, our business remains highly cash generative, allowing us to continue to invest in emerging market opportunities. During the year we commissioned our new 70,000 tonne nitrile latex capacity expansion in Pasir Gudang, Malaysia and also established SBR manufacturing capability on the site. We expanded our Middle East facilities, and will further expand them during 2014, along with bringing new capacity in Vietnam on stream.

Additionally, we continue to look for further investment opportunities to expand our footprint in Asia.

Balance sheet

Net debt, at £133.6 million, was £22.2 million lower than the start of the year. This represents a net borrowing to EBITDA ratio of 1.1, which the Board considers to be a prudent leverage position.

Dividend

The Board has recommended an increased final dividend of 3.6p per share, making a total dividend for the year of 6.0p. The full year dividend of 6.0p represents an increase of 9.1% over the previous year, and a dividend cover of 3.5 times, on track with the Board's commitment to reduce dividend cover to three times by 2015.

Safety, health and environment

The Group is committed to the continuous improvement of its performance in respect of safety, health and the environment. I am pleased that almost all of the metrics that we measure in this area showed good improvement over the prior year.

People

The Group has achieved a great deal in recent years with its transformation to a focused specialty aqueous polymers business. None of this could have been achieved without the hard work and dedication of the Group's employees and I thank all of them for their support and hard work during this period.

Board composition

I am delighted that Brendan Connolly joined the Board as an Independent Non-executive Director on 20 January 2014. Brendan was, until June 2013, 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 Intertek, Brendan spent more than 25 years of his career with Schlumberger in senior international roles over three continents.

Outlook

Whilst European macroeconomic indicators have started to show some more positive trends, we still see limited evidence of a sustained improvement in trading conditions in Europe. We have seen some signs of modest demand improvement in our European Construction & Coatings, Functional Polymers and Performance Polymers

> **“Our strategy remains unchanged, focusing on delivering growth through geographic expansion in emerging markets... we are able to leverage the leading technologies, R&D and manufacturing capabilities which we have developed in European markets to give us a strong competitive advantage.”**
>
> **Neil Johnson**
> Chairman

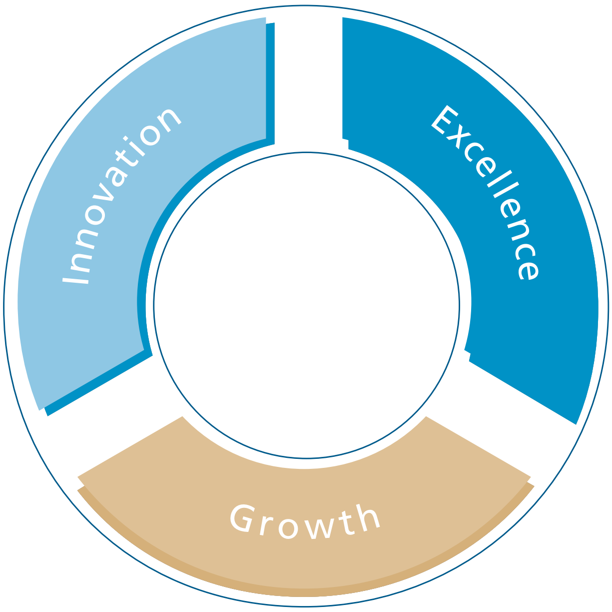
segments in recent months. However, we have entered 2014 with unit cash margins across the ENA business slightly below the 2013 average, and weakening of the Euro through the second half of 2013 will create a year-on-year drag.

We expect some further improvement in Asia as the supply demand position in Nitrile tightens and Synthomer continues to benefit from additional capacity and investment.

The Board remains confident that Synthomer is well placed for the future despite the European trading conditions.

Neil Johnson
Chairman
27 February 2014

Our strategy – how we create value



Investing in knowledge and innovation

- Drive growth and efficiency through new products and processes
- Expand product development pipeline
- Develop 'environmentally sustainable' products and processes

Actions in 2013

- Production of environmentally friendly paper latex grade and extension into other applications under development
- Further new nitrile latex grades launched and in development
- Product launches in emerging markets such as chopped strand glass fibre mats polyester composites
- Increasing rate of patent filings

Strong market positions

- Demonstrates technical and commercial strength
- High customer intimacy and knowledge of their processes
- Aligns Synthomer and market needs
- Underpinned by supply chain excellence

Positions in 2013

- No. 1 SBR Latex producer in Europe
- No. 2 Aqueous Polymer producer in Europe
- No. 1 Global Nitrile latex producer
- No. 1 Dispersions producer in Malaysia
- No. 1 Dispersions producer Saudi Arabia

Leverage European capability to drive emerging market growth

- Centres of 'excellence' in Europe in innovation, supply chain and systems to provide a strong base to grow the rest of the business
- Re-invest European 'know-how', market profile and cash flow to drive overall growth rate
- Extend emerging market footprint, product range and capacity

Actions in 2013

- Additional 70,000 tonnes of Latex capacity available in Malaysia
- Multiple dispersion product launches across emerging markets
- Completed first phase expansion of capacity increase in Middle East and initiated the second phase to provide 100,000 tonnes of capacity in 2014

Our business model

Innovation and knowledge

- Sell a unique formulation, not a chemical
- Highly experienced and expert personnel
- Customer intimacy, collaboration and alignment driving innovation
- Manufacturing process, intellectual property
- Fast and commercially focused R&D capabilities

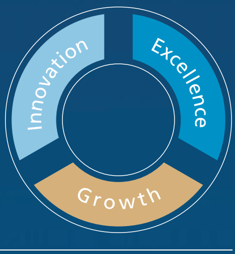
Growth

- High exposure to global mega-trends
- Formulations in applications all around us
- Over 4,000 customers across the world
- Broad product range
- European engine room and centre of excellence generating cash for investment and growth in emerging markets
- Emerging market exposure 37% of 2013 sales
- Expand global footprint to further leverage Group capability and technology
- Local production sites: high water content of aqueous polymers excludes ‘out of region’ competitors

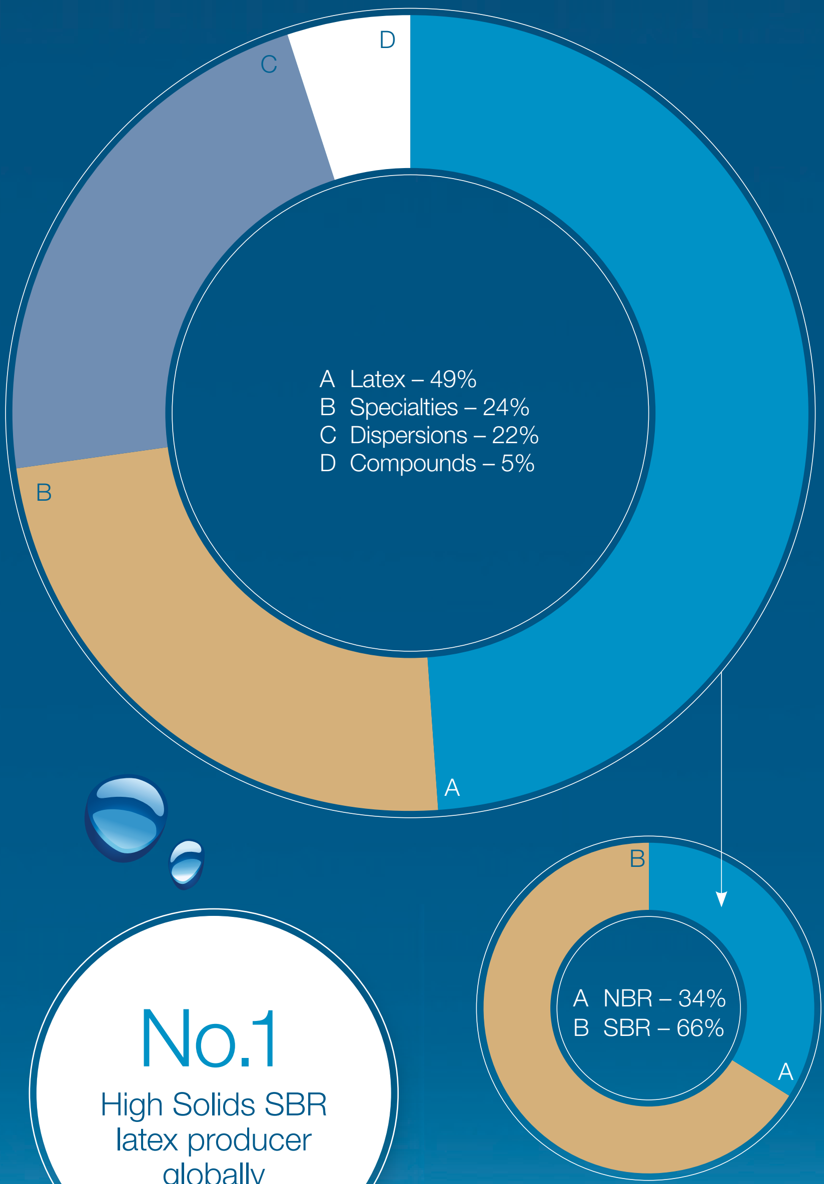
Excellence

- Highly cost effective flexible production capabilities
- World class people
- Flexible logistics operations
- Commercial model

Our products



Sales by product



Synthetic latex

Consists of three principal product families; Styrene Butadiene Latex (SBR) manufactured in Germany and Italy, Nitrile Butadiene Latex (NBR) manufactured in Italy and Malaysia and High Solids Styrene Butadiene Latex (HSSBR) produced in Germany (HSSBR is shown in Specialties in the chart).

Dispersions

Consists of primarily Vinyl and Acrylic based emulsion polymers used in a wide range of applications including in the coating, construction, adhesives and textile industries. These products are manufactured at our facilities in Germany, Italy, UK, South Africa, Middle East, Malaysia and Vietnam.

Compounds

These products are specially formulated at our plants in the UK, Netherlands and Egypt using SBR latex, HSSBR latex, Natural Rubber latex and a wide range of other functional materials.

Specialties

Comprise a number of specialty polymers, mainly non aqueous including, Polyvinyl Alcohol, Liquid Polybutadiene, High Solid SBR Latex and Chloroprene. Specialties also includes inorganic products based on Copper, Tin and Iodine from the Group's one remaining non-Polymer business.

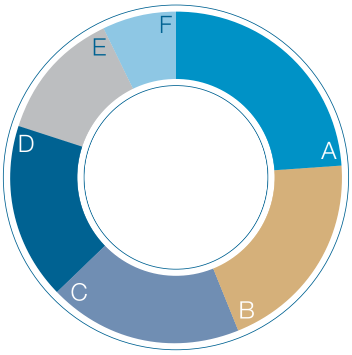
No.1
High Solids SBR latex producer globally

No.1
NBR latex producer globally

No.1
SBR latex producer in Europe

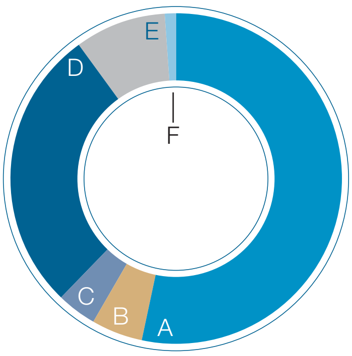
Our market focus

Sales by market



A Construction & Coatings – 24%
B Health & Protection – 20%
C Carpet, Compounds & Foam – 19%
D Paper – 17%
E Functional Polymers – 13%
F Performance Polymers – 7%

Sales by destination



A Western Europe – 54%
B Eastern Europe – 5%
C North America – 4%
D Asia – 28%
E Africa & Middle East – 8%
F Rest of World – 1%

Health & Protection

Medical, clean room and industrial gloves, medical devices (e.g. catheters), condoms and other dipped latex goods.

Paper

Coated paper and paperboard, fine-coated paper, lightweight coated paper, food packaging and other specialty paper grades.

Construction & Coatings

Construction

Cement and mortar modification, bitumen modification, concrete repair systems and plasticisers, bonding aids, primers, flooring and construction adhesives, liquid applied membranes, flexible roof coatings, sealants and primers.

Coatings

Acrylic and Vinyl Acetate copolymers for walls (interior & exterior), gloss/semi-gloss emulsion paints, plasters/textured finishes, flexible wall coatings, wood paints and stains, anti-corrosion paints, industrial coatings and water-based fillers.

Carpet, Compounds & Foam

Binding and backing of tufted and other carpets, foam backed carpets, automotive and artificial grass. Foams for mattresses, pillows and shoes.

Functional Polymers

Non-woven fabrics, insulation, textile coatings, printing, gaskets, masking tapes, specialty non-graphic papers, abrasives, tyre cord, pressure sensitive adhesives, packaging and wood adhesives.

Performance Polymers

Lithene® – for various automotive applications in electrical insulation and sound damping. Alcotex – Polyvinyl alcohol used as a stabilising material in the PVC polymerisation process. Polyvinyl Acetate – for solvent adhesives, Polyester resins and composites. Inorganic (non-Polymer) Specialties – for catalysts, flame retardants and other niche applications.

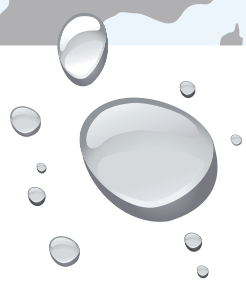
37%
of total sales to emerging markets

No.1
Acrylic and vinylic dispersion producer in the Middle East

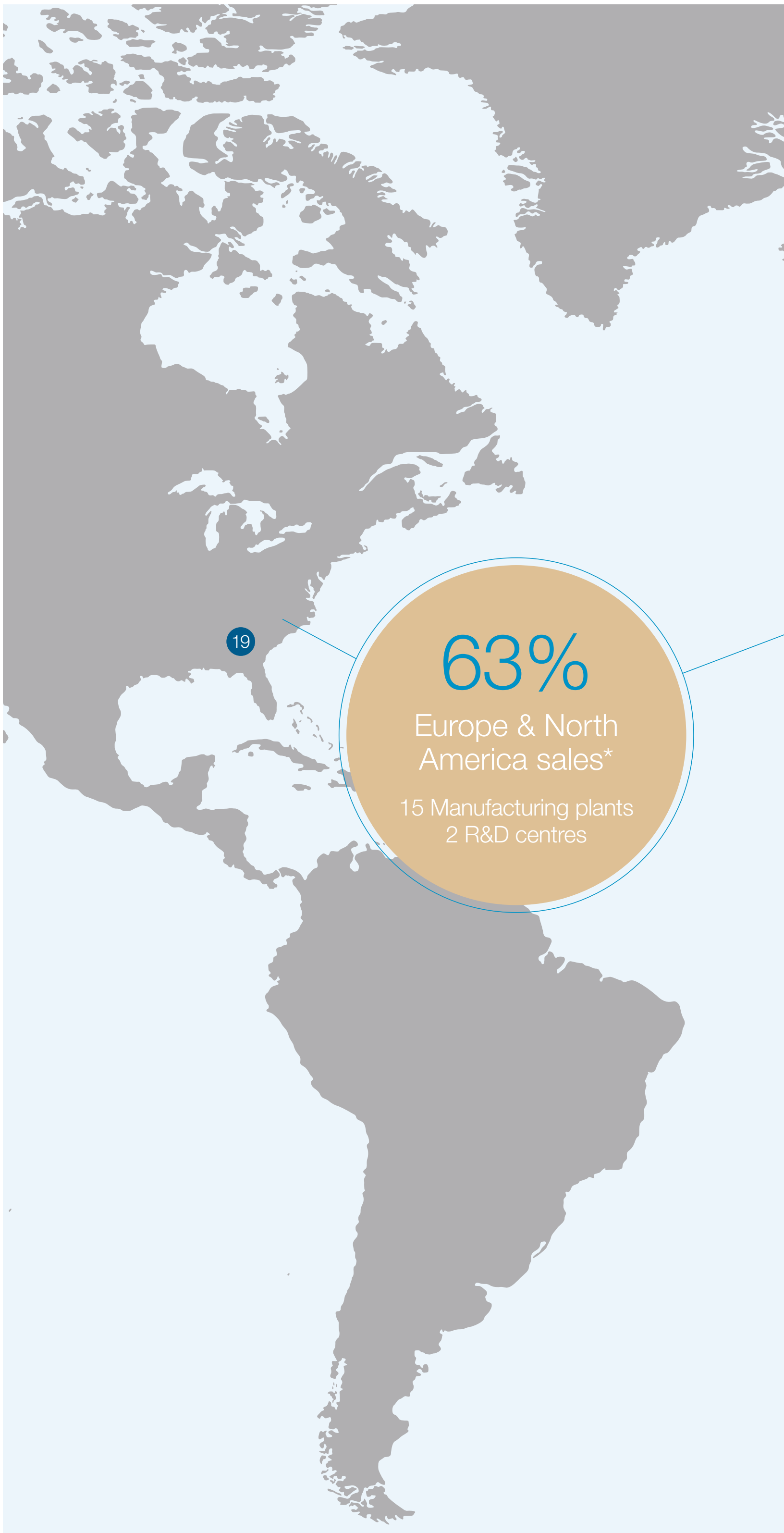
No.1
PVOH for PVC Global producer

Our locations – global focus

Europe



Rest of World



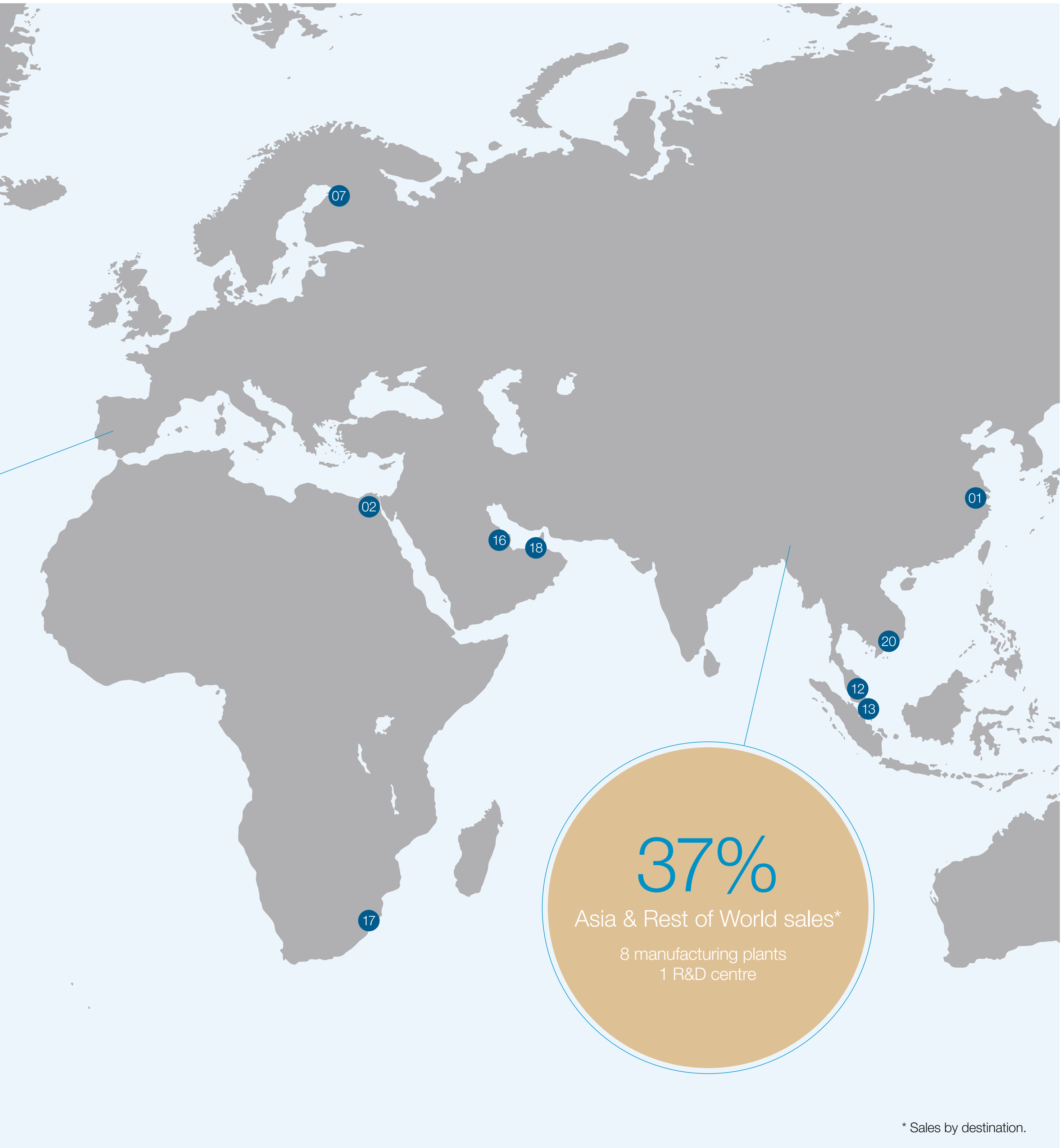
Locations

China	01	Shanghai Synthomer Chemical Co Ltd, Guangzhou & Shanghai	Sales office
Egypt	02	Synthomer SAE, 10th of Ramadan City	Sales office, Manufacturing site
England	03	Synthomer (UK) Ltd, Harlow	Manufacturing site, Sales office, R&D centre
	03	Synthomer plc, Harlow	Head office
	04	Synthomer (UK) Ltd, Ossett	Manufacturing site
	05	Synthomer (UK) Ltd, Stallingborough	Manufacturing site
	06	William Blythe Ltd, Accrington	Manufacturing site, Sales office
Finland	07	Eka Synthomer Oy, Oulu	Manufacturing site, Sales office
Germany	08	Synthomer GmbH, Langelsheim	Manufacturing site
	09	Synthomer Deutschland GmbH, Marl	Manufacturing site, Sales office, R&D centre
	10	Synthomer Deutschland GmbH, Worms	Manufacturing site
Italy	11	Synthomer Srl, Filago	Manufacturing site, Sales office
Malaysia	12	Revertex (Malaysia) Sdn Bhd &	Manufacturing site
		Synthomer Sdn Bhd, Kluang & Kuala Lumpur	Manufacturing site, Sales office, R&D centre
	13	Synthomer Sdn Bhd &	Manufacturing site
		Quality Polymer Sdn Bhd, Pasir Gudang	Manufacturing site
Netherlands	14	Synthomer BV, Hasselt	Manufacturing site
	15	Synthomer BV, Oss	Manufacturing site, Sales office
Saudi Arabia	16	Synthomer Middle East Company, Dammam	Manufacturing site, Sales office
South Africa	17	Synthomer (Pty) Ltd, Durban	Manufacturing site, Sales office
UAE	18	Synthomer FZE, Dubai	Sales office
USA	19	Synthomer LLC, Atlanta	Sales office
Vietnam	20	Synthomer Vietnam Co Ltd, Ho Chi Minh City	Manufacturing site

Key Manufacturing site* Sales office R&D centre Head office

* Several sites have more than one manufacturing plant.

Our manufacturing plants in Europe are well located to supply our customers, with a strong presence in Germany, the industrial heartland of Europe. In Asia we have manufacturing in Malaysia and Vietnam, and growing sales and technical services activities in China, and we also have long established positions in the Middle East and South Africa.



* Sales by destination.

Our people

At Synthomer, we are continually working to develop our position as a key industrial partner as we drive for operational excellence. Our staff are fundamental to the success of our strategic objectives and are at the forefront of striving for excellence and innovation across all areas of our business. The R&D facilities in Harlow, UK; Marl, Germany and Kluang, Malaysia together with local specialist teams for technical sales and marketing continue to develop new products which help Synthomer's customers separate themselves from their competitors. We also have a significant proportion of employees located in our numerous operations in emerging markets where they can best serve [illegible]quirements.

2,097
Total Group employees

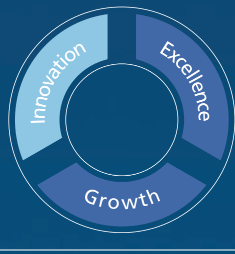
235
Employees working in innovation

43%
Employees in emerging markets

Diversity

	Total	Male	Female
Board	**8**	8	0
Senior management	**21**	18	3
Employees	**2,097**	1,707	390

Innovation



Developing greener products

The trend to make products more sustainable by using renewable raw materials is irreversible and applies to almost all industrial markets, no matter how mature they are. Synthomer has developed a new range of SBR/bio-polymer hybrids that not only provide improved environmental aspects, but also give the opportunity of optimising the cost-performance balance in the use of the emulsion products. The technology is applicable to a wide range of application areas and, working with suppliers of bio-polymers and our customers, we have an active R&D programme looking at the commercial exploitation of the new materials.

During 2013, the first two new products using this technology have been launched for use in the paper market. The grades in the Litex PX range have been developed as pre-coat and top coat binder systems for coated paper and board applications. These products demonstrate excellent stability and runnability on high speed paper coating lines, whilst maintaining print performance of the final paper.

Investment in our Oulu, Finland facility has been completed to allow the consistent and efficient production of the bio-polymer hybrids, with full production starting in October 2013. The second phase of investment is now underway in our Marl, Germany facility to allow the transfer of technology for the production of the emulsions in the second half of 2014 for both the paper market and other applications segments.

Chief Executive Officer's report

Overview

2013 was a challenging year for the Group, with underlying Group operating profit of £104.8 million, 5.8% below prior year.

The general economic situation in Europe, with lower demand led to a lower ENA operating profit. As we entered 2014 the operating environment in Europe remained challenging. Encouragingly, we saw recovery in our Asian Nitrile business come through ahead of our expectations in 2013, and overall operating profit in Asia and ROW was ahead.

Net of interest, and a reduced tax rate, earnings were down slightly on 2012.

This was the first year that underlying earnings have declined since 2006, when we started the process of transforming the Company into a focused specialty aqueous polymers business. Whilst this was disappointing, we continued to make good overall progress during the year in improving the capability of the business to deliver future growth and maintain a tight control on costs.

The acquisition of PolymerLatex three years ago was an important part of the transformation of the Group into a focused specialty aqueous polymer group. We have now effectively completed the work on delivering the integration synergies from the acquisition with the closure of the Batley site in the UK.

During the year we further strengthened the Group's Executive Management team with the recruitment of new regional VP's for both Asia and Europe.

I believe we are well placed for the future, focused on aqueous polymers, with a stronger management team and enhanced capability in the areas of product development and process know-how, combined with a more modern and cost effective asset base and state-of-the-art R&D facilities.

We saw clear evidence that our rate of innovation is improving, with a number of patent filings during the year. The new product launches from 2012, including new Lithene® Ultra, grew well during 2013. We also launched two new nitrile grades during the year. Looking forward, the quality of our innovation pipeline is encouraging, and we believe we are well set for future growth. We expect several new product launches during the coming year across our business, including new products in nitrile latex.

New products launched in the last 5 years contributed over 12% of 2013 Group revenues. We are confident of being able to improve this percentage, and have a mid-term target of sales from new products, defined as products launched in the preceding 5 years, increasing to a level where they contribute 20% of annual group revenues.

On the investment front, we commissioned two new nitrile latex lines in Malaysia at the beginning of 2013. Our Dispersion expansion in Stallingborough, to allow the closure of Batley, was completed. In paper, we completed the investment in bio-polymer hybrid latex in Finland, and commenced investment in Germany for the same and similar products. We continued to invest in many smaller projects to improve the overall capability of our plants to drive our commercial and cost effectiveness in servicing our customer base. We will be expanding our Vietnamese and Saudi Arabian dispersions capacity during 2014, and are currently developing plans to further expand our nitrile latex capacity in Asia.

Raw material price volatility was relatively low during the year, compared to recent years, albeit with a modest decline over the year. This modest decline in input prices has lowered working capital requirements slightly and helped in the reduction of net debt to £133.6 million.

Divisional performance

We manage the Group as two businesses: 'Europe & North America' (ENA) and 'Asia & Rest of World' (ARW). The reported results are on an 'origination basis', meaning the business sales and operating profits are reported based on where the product is manufactured; ENA accounted for 71% of Group sales and ARW for 29% of Group sales. We export many specialty products from Europe to Asia. Looking at sales on a destination basis, ENA comprises 63% of Group sales with ARW accounting for 37%. Within the two businesses, we approach the market through six strategic business unit segments, "Paper", "Carpet, Compounds and Foam" (CCF), "Construction and Coatings" (CC), "Functional Polymers" (FP), "Performance Polymers" (PP) and "Health and Protection" (HP) – which includes our Asian nitrile Latex business.

Europe & North America (ENA)

Operating profit in our ENA business was down by 10.4%, with aggregate volumes 2.5% lower.

The economic situation in Europe continued to impact demand, particularly in our Construction related segments, which was most pronounced early in the year, when poor weather resulted in soft demand in what is normally a seasonally strong period. We have also seen a reduction in average unit cash margins.

This margin impact has been most pronounced in our Paper and CCF segments, whilst declines in CC, PP and FP were very modest.

Volumes for the year were lower across the construction related segments of CC, PP, FP and CCF. Despite the overall decline in the European paper market, we saw some volume improvement in our Paper segment, increasing our share overall, albeit on generally lower unit cash margins.

> **"We are well placed for the future, focused on aqueous polymers, with a stronger management team and enhanced capability in the areas of product development and process know-how, combined with a more modern and cost effective asset base and state-of-the-art R&D facilities."**
>
> **Adrian Whitfield**
> Chief Executive Officer

After reporting ENA volumes down 5.1% in the first half of the year, demand generally remained soft in the second half of the year, as the difficult economic conditions in Europe continued to affect performance. Overall volumes in the second half of the year were similar to prior year with the volume declines in the construction related segments predominantly occurring in the first half of the year.

There were multiple product launches in ENA during the year. Two new bio-polymer hybrid products were launched to the coated paper market, based on our new technology platform to optimise performance and cost. A new Lithene® Ultra grade was introduced to the market in a niche encapsulation area, which was enabled by our improved low VOC capability. Market introductions for High-Solids SBR have been made for the US asphalt market and for foam applications that meet the specific demands in China. A number of other products are in the initial commercialisation phase, for example, in wood coatings, pressure sensitive adhesives and flooring adhesive segments, where we expect to see full market launch next year.

ENA is our platform for cash generation to drive future global growth. We have worked hard since the PolymerLatex acquisition to create an optimised business in Europe, with the closure of three plants, and the delivery of substantial cost reductions, which have positioned us well to deal with the economic situation. However, ongoing cost management remains a key focus of the Group, and we have launched a programme comprising a broad range of further improvements which will help support performance during 2014 and 2015. The programme will reduce costs in the business by €10 million per annum by the end of 2015. Critical elements in delivering this will be increased process and energy efficiency, productivity improvements and optimised systems across all functions. We anticipate cash cost of circa €15 million for the implementation of this programme, of which €5 million will be capex.

Asia & Rest of World (ARW)

Operating profit in our ARW segment was higher by 20.9% on 8.2% higher volumes.

Since we reported on the turbulence in the nitrile market half way through 2012, the business, having stabilised in the second half of 2012, developed ahead of our expectations during 2013. We expect to see supply demand tighten during 2014, with a further improvement in profitability.

The non-nitrile business has seen good demand. As we exited the year, we experienced a slight deterioration in the competitive environment in South-east Asia as a competitor prepared to bring new Dispersion capacity in Malaysia on line to service the region.

Overall, we continue to see good prospects for the non-nitrile business in Asia. Expansion in the region is a core part of our strategy, and we will bring on further capacity in Middle East and Vietnam in 2014. We also continue to pursue opportunities for growth in the region through acquisition.

A further key part of the Group's strategy is to add value through our technology and know-how by deploying it into Asia and other emerging markets. We had several new product launches in the region in 2013. We have launched a new product range for chopped strand glass fibre mat applications, where our knowledge of textile binders has been effectively used in a new application area. Our new nitrile grade for examination gloves was launched to the market, which offered a significant improvement in film strength to support the market trend of lower glove weights. This was combined with a versatile performance on the glove dipping line, giving our customers process and formulation flexibility. Market acceptance was extremely positive and by the end of the year, the new grade was the biggest selling product in the Synthomer range. Further development work to extend the product line is ongoing.

Adrian Whitfield
Chief Executive Officer
27 February 2014

Europe & North America (ENA)

Underlying – as reported*

Sales (£m)

2013	744.8
2012	796.9

Operating profit (£m)

2013	89.8
2012	100.2

Volumes (ktes)

2013	805.5
2012	825.9

Asia & Rest of World (ARW)

Underlying – as reported*

Sales (£m)

2013	310.1
2012	314.9

Operating profit (£m)

2013	23.1
2012	19.1

Volumes (ktes)

2013	376.2
2012	347.7

* Underlying performance excludes special items as shown on the consolidated income statement.

Excellence

Operating efficiently

Synthomer was one of the first companies to sign the UK Chemical Industries Association's sustainable development principles. As part of this commitment we strive to improve our environmental performance year on year.

To help the Company achieve this objective a comprehensive performance monitoring structure has been in place for over 10 years and resulted in a steady improvement of our environmental performance. To continue this trend and reduce specific energy consumption (consumption per ton) Synthomer has begun implementing a comprehensive energy management system (EMS).

Since 2011, Synthomer has undertaken a scheme to establish EMS to meet the ISO50001 standard at a number of its European sites. As a result, our site in Langelsheim, Germany acquired the ISO50001 accreditation in 2012. This success has led the way for our three production sites, labs and offices in Marl to work towards achieving the standard.

The Marl site began work on achieving the ISO50001 accreditation in 2012, implementing a number of projects designed to improve efficiency. One of the key projects involved the installation and optimisation of a new stripper for the purification of SBR latex as a key part of the energy savings.

The new stripping process is much more efficient and allows significant savings in steam and electrical energy (e.g. to run pumps). The steam consumption of the plant using the new stripper has reduced by over 23%. This has resulted in annual savings of 16,000 MWh, enough energy to heat 800 terraced houses for an entire year.

This initiative is one of many which focus on improving operational efficiency and have a positive impact on Synthomer's operational and financial performance.

800

A new stripping process results in energy savings equivalent to the annual consumption of 800 houses

Financial review

Income statement

Sales, operating profit and profit before tax – underlying performance

Total sales decreased by 5.1% to £1,054.9 million (2012 £1,111.8 million) with Group operating profit also 5.8% lower at £104.8 million (2012 £111.2 million). This was due to the difficult trading conditions that persisted in Europe throughout the year. As a result, profit before tax also declined by 4.8% to £90.1 million.

Tax and EPS – underlying performance

The Group's underlying tax rate of 20% (2012 22%) remains low, reflecting the benefits of pioneer status (extended tax holiday) on our nitrile business in Malaysia, and a zero rate in the UK. The Group does not expect to pay tax in the UK for the foreseeable future due to brought forward losses and deficit contributions to the UK pension scheme, which are tax deductible.

Profit attributable to minority interests was £1.8 million (2012 £1.8 million).

As a result, overall, the underlying earnings per share for 2013 was 20.7p, compared to 20.9p per share for 2012, a slight decrease of 1%.

Special items and IFRS

The Group reports its financial results according to International Financial Reporting Standards (IFRS). However, to provide a clearer indication of the Group's underlying performance, a number of special items are split out and shown in a separate column of the consolidated income statement due to their one-off or non-economic nature, and are excluded from the comments on underlying performance above and throughout the Chief Executive's review of business performance. Special items comprise:

- Restructuring costs associated with delivering the synergy targets for the PolymerLatex acquisition of £1.4 million (2012 £6.7 million of which £6.0 million were cash costs and £0.7 million non-cash costs). These are the final costs associated with the integration programme.
- Various cross-currency and interest rate swaps for hedging purposes, which involve maturities of up to three years. IFRS requires that where the strict requirements of IAS 39 are not met, changes in the market value should be recognised annually in the income statement. However, such financial instruments are maintained by the Group for the length of the contract and over their lifetime have a fair value of nil. Hence the notional annual adjustment, a loss of £1.2 million (2012 loss £1.7 million) is segregated from the underlying performance.
- Amortisation of intangibles of £28.4 million (comprising £26.7 million in the Company and subsidiaries and £1.7 million in share of joint ventures). IFRS acquisition accounting requires an explicit number to be placed on certain intangibles and amortised through the consolidated income statement, with the balance of the excess of the purchase price over the physical assets being carried as goodwill, which is subject to annual impairment testing.

  The amortisation expense arising from this has been treated as a special item and will continue to be so until the associated intangible assets are fully amortised.

After deducting special items from underlying performance the IFRS profit before tax was £59.1 million (2012 £58.8 million) and earnings per share were 14.2p (2012 15.6p).

Restatement for adopting IAS 19 (revised)

The Group adopted IAS 19 (revised) from 1 January 2013 and has applied this retrospectively to comparator periods. The effect of adoption on the Group's profit in 2012 was to reduce both underlying and total reported profit after tax in 2012 by £3.5 million. In addition, £2.2 million of expenses relating to the expected return on plan assets and interest expense on the pension liability, previously reported within operating expenses have been classified to finance costs in 2012.

Dividend

The Board has proposed an increased final dividend of 3.6p which with the interim dividend of 2.4p, brings the total dividend for the year to 6.0p per share. This is 3.5 times covered (2012 3.8 times), and in line with the Board's commitment to reduce the dividend cover to three times by 2015.

Balance sheet

Goodwill increased to £241.1 million at the end of 2013 from £240.9 million at the end of 2012 due to foreign currency translation.

Acquired intangible assets which arose as a result of the PolymerLatex acquisition decreased to £109.5 million at 31 December 2013 from £135.6 million in the prior year. This movement reflects regular annual amortisation of £26.7 million reported in special items, and currency translation.

Property, plant and equipment increased to £203.1 million at 31 December 2013 compared to £199.6 million at 31 December 2012. Additions during the year comprised £34.9 million of capital expenditure.

The net deferred tax liability has decreased to £43.8 million from £50.9 million during the year.

Assets held for sale relate to approximately 1,600 acres of agricultural land in Malaysia which is currently used to operate a palm oil and natural rubber plantation. During the year the Board decided to dispose of this land and to cease the plantation operations. Land value at a cost of £1.1 million relating to 1,600 acres is included in assets held for sale as at 31 December 2013. As at 31 December 2013 the 70% owned Malaysian subsidiary Revertex (Malaysia) Sdn Bhd had through its wholly owned subsidiary Kind Action Sdn Bhd exchanged conditional contracts with 6 purchasers for the sale of approximately 700 acres of plantation land for a price of approximately £27 million.

Financial review
continued

Completion of the sales is conditional on obtaining approval from the Malaysian Estate Land Board and other local approvals as the land is being sold for re-development. It is anticipated that it will take up to 2 years for the approvals to be obtained. We are actively continuing to seek purchasers for the remaining 900 acres.

Pensions

In the main UK defined benefit pension scheme the majority of investments are in equities. All asset classes performed well over the course of 2013, with a total return on assets (excluding cash) of 12.4%. The yield on high-quality corporate bonds decreased slightly during the year, which increased liabilities. The Company made cash contributions to the fund in the year of £8 million, which was a prepayment of 2014 contributions. The overall effect of these changes was that there was a decrease in the deficit of the scheme, which stood at £60.3 million at the end of 2013 (2012 £69.5 million). Due to the prepayment, cash contributions in 2014 are expected to be of the order of £8 million.

The UK scheme was closed to future accrual during 2009 and there are no active members in the scheme.

Overseas net pension liabilities increased to £52.6 million (2012 £50.2 million). The non-UK schemes are primarily traditional German unfunded 'on balance sheet' arrangements.

Borrowings, cash flow and liquidity

The following cash flow is in the format used by management and it provides a clearer presentation of the movements in underlying net borrowings than the IFRS statement:

	2013 audited £m	2012 audited £m
Underlying operating profit (before joint ventures)	**99.9**	106.3
Movement in working capital*	**5.8**	(1.3)
Depreciation and amortisation (underlying)	**19.2**	18.4
Capital expenditure (net)	**(35.0)**	(38.1)
Interest paid (net)	**(9.3)**	(11.3)
Tax paid	**(17.4)**	(18.8)
Pension funding in excess of IAS 19 charge	**(8.7)**	(19.5)
Minority interest and joint venture cash flows	**3.8**	3.2
Free cash flow	**58.3**	38.9
Cash impact of restructuring	**(3.8)**	(11.4)
Acquisition costs	**–**	(0.4)
Dividends paid	**(19.4)**	(15.3)
Exchange/other	**(12.9)**	(3.3)
Movement in underlying borrowings	**22.2**	8.5
Closing underlying net borrowings	**133.6**	155.8

* 2012 Includes the release of collateral held against a guarantee that was treated as a working capital outflow in 2011. Exchange/other includes £6.2 million paid in settlement of long-term incentive schemes (2012 £6.8 million).

	2013 audited £m	2012 audited £m
EBITDA – management:		
Operating profit (inc joint venture's)	**104.8**	111.2
Depreciation – continuing	**19.2**	18.4
Total Management EBITDA	**124.0**	129.6

Underlying net borrowings reduced during the year to £133.6 million.

Group management EBITDA decreased slightly to £124.0 million, reflecting the lower operating profit.

Net capital expenditure decreased in 2013 to £35.0 million net. Gross expenditure of £39.1 million was reduced by proceeds received from the sale of a plot of land in Italy remaining from the Pharma business.

Pension funding in excess of IAS 19 charge of £8.7 million includes the £8 million pre-payment to the UK pension fund.

Underlying working capital inflow for the year was £5.8 million, and was favourably affected by generally lower input costs from raw materials.

Financing and liquidity

As at the end of 2013, the Group had the following drawn term funding in place:

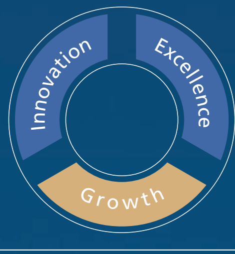
	£m
Euro denominated bank loan maturing March 2015	**148.5**
US private placements	**55.7**
Less: Associated currency hedges and costs	**(5.8)**
Total	**198.4**

This compares to a net borrowing position of £133.6 million. The Group had an undrawn £60 million revolving loan facility maturing March 2015, and a net cash position (cash and cash equivalents less short-term overdrafts) of £59 million.

Of the total US private placements £42.4 million ($70 million) is repayable on 2 September 2014 and is classified as repayable within one year. The remaining £13.3 million ($22 million) is due for repayment on 2 September 2016.

Underlying net borrowings to EBITDA, the Group's key leverage metric, was 1.1 at the end of 2013 (2012 1.2).

David Blackwood
Chief Financial Officer
27 February 2014



Emerging market growth

Synthomer has a long history of working with our customers to develop new products and dedicated formulations that meet the ever changing needs of the market.

Utilising a combination of our vinyl acetate emulsion polymerisation technology and extensive experience in textile binding applications we commissioned project 'Dreamliner' a new product line for chopped strand glass fibre mats (CSM).

The technology behind project 'Dreamliner' gave birth to our new Emultex 9500 series of waterborne plasticised vinyl acetate products that are used for the bonding of CSM. These products are designed to provide good mouldability and clarity in the processing stage whilst offering a low odour and yellowing effect on the finished product. The Emultex 9500 series have a number of key uses in the boat, automotive components, windmills and water tank markets.

Designed as a modular system, the new Emultex series allows customisation to adjust the handle of the material from soft to hard and gives a wide range of formulating options.

The initial range has been put into production at our Dammam site in Saudi Arabia and commercial supply has commenced to selected customers in the region and further target markets in India and China have been approached.

The Emultex 9500 product line will be supported through the expansion of our Dammam site, which will provide the opportunity to develop speciality dispersion products for manufacture in reactors previously used in producing high volume binders for the coatings market. These binders will now be produced by a new reactor on the site which will bring total Dammam production capacity up to 100,000 tons.

100,000 tons

Dammam capacity increased to 100,000 tons

Principal risks and uncertainties

Strategic risks	Strategy for mitigation
Conditions in the global economy, economic fluctuations in customer industries and volatility and cyclicality of the global chemicals and polymers markets may adversely affect the results of the Group.	The Group maintains a balanced portfolio of products serving a wide range of end markets around the globe. Business performance at geographical level and business unit is closely monitored and corrective actions are taken as necessary.
The markets in which the Group operates are highly competitive and the Group may lose market share to other producers of water-based polymers or to other products that can be substituted for the products of the Group.	The Group continues to invest in existing and new products and technologies through R&D. The Group continues to invest in new facilities to allow the Group to maintain its key market positions. As part of the Group's strategic planning process it identifies and converts acquisition targets to enhance market positions and provide new technologies.
The ability of the Group to compete is highly dependent on its ability to develop technological innovations, to introduce new products and to protect its intellectual property, trade secrets and know-how. Failure to do so could have an adverse affect on the Group.	The Group continues to invest in existing and new products and technologies through R&D. As part of the Group's strategic planning process it identifies and converts acquisition targets to enhance market positions and provide new technologies.
The failure of the Group to procure key raw materials may lead to production interruptions and volatility in the prices of such raw materials and energy prices may adversely affect the profitability of the Group and its working capital position.	Sourcing strategies are in place Group-wide to access multiple sources for key raw materials and the Group works closely with key suppliers to ensure availability. The Group looks to identify alternative raw materials where possible. The Group actively manages margins and recovers input cost increases from customers, where possible.

Operational risks	
The Group may be liable for damages based on product liability claims brought against its customers in end-use markets.	Technically qualified personnel and control systems are in place around the Group to ensure products meet quality requirements. All sites operate quality management systems. The Group has a Group-wide product liability insurance which provides £50 million of cover.

Operational risks continued	Strategy for mitigation
Compliance with extensive environmental, health and safety laws and regulations could require material expenditure, changes in the operations of the Group or site remediation. The manufacture, storage and transportation of chemicals is inherently dangerous and any incidents relating to the hazards which the Group faces may adversely affect its financial condition, results of operations and reputation.	Detailed safety, health and environmental (SHE) processes are documented in operating guidance which is updated and communicated to staff on a regular basis. Robust maintenance programmes are undertaken in order to ensure that our facilities meet up to Group and local legal requirements. The Group operates a central internal audit function dedicated to SHE issues and programmes for continuous improvement across all major SHE areas are in place Group-wide.
The ongoing success of the Group is dependent on attracting and retaining high quality senior management and staff who can effectively manage the Group's operations.	The Group offers competitive compensation packages with annual bonus and long-term incentive arrangements for key employees. Appropriate notice periods and non-compete clauses are used to mitigate short-term risk for key employees. The Group is also developing a succession plan for key positions.

Financial risks

As a significant proportion of the Group's turnover and assets are in currencies other than pounds sterling fluctuations in currency exchange rates may significantly impact the results of the operations of the Group and may significantly affect the comparability of financial results between financial periods.	The Group has a policy of hedging all significant foreign exchange transactional exposure at operating company level and also hold debt facilities in key currencies to offset fluctuations in overseas asset values.
The Group's balance sheet and cash flow or 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. In addition, interest rate fluctuations and increases in bank lending margins may increase the Group's costs of borrowing.	The Group closely monitors cash flow and working capital performance on a monthly basis and regularly reviews covenant compliance. The Group has a policy on leverage limits and has adequate headroom on a twelve month forecast basis through a range of facilities with varying expiry dates. Interest rate risk is managed through the use of interest rate hedging, as required.
The Group has funding risks relating to defined benefit pension schemes and any deterioration in the value of assets in which the pension scheme has invested as against the financial obligations to make payments to members of the schemes could have an adverse effect on the Group.	The UK scheme was closed to future accrual during 2009. The risks are mitigated by paying appropriate contributions into the funds and through balanced investment strategies which are designed to avoid a material impact to the fund assets.

Corporate social responsibility report

Commitment to safety, health and environmental (SHE) performance

The Board and the Group Executive Committee are fully committed to improving SHE performance and to the involvement of staff at all sites and at all levels in our SHE programmes. SHE performance is always a primary duty for management at all levels in the Group and all are aligned to our three long-term goals which are:

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.

The Group adopts the following SHE management practices with the aim of continuously improving SHE performance:

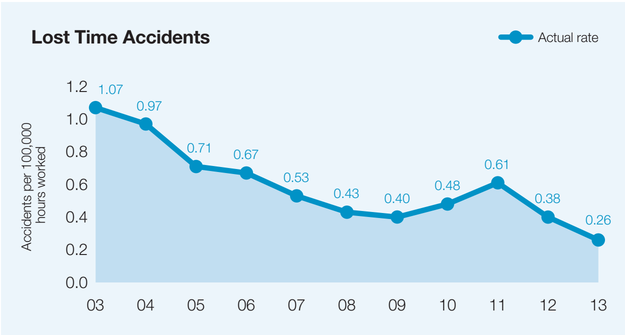
- SHE performance is discussed in all management meetings, as the first agenda item;
- Synthomer conduct regular, in-depth SHE audits of all sites to assess performance and identify opportunities for improvement;
- The Group Accident and Incident Management System (AIMS) is used to collect and analyse data on all accidents, incidents and "near misses" on our sites;
- Sites implement the Group's SHE Management System (SHEMS) or implement an equivalent system which works to the same or higher standards;
- Sites provide training for staff to ensure that they understand Group and site systems, both in SHE and more generally;
- Key measures (leading and lagging indicators) of SHE performance are collected monthly or quarterly as appropriate and reported to the Group Executive and to the Board;
- Key leading performance indicators, covering items such as inspections and engineering performance, are collected and reported to senior management to assess both equipment and management performance;
- Senior managers have SHE targets as part of their annual objectives. These SHE targets are cascaded to give all employees supporting objectives, either on an individual or a site basis; and
- Central SHE staff regularly visit sites to carry out training and development of key staff, to ensure all sites are aware of their legal obligations and current good practice, and to monitor and guide current SHE performance.

For more information relating to the Group's activities in relation to corporate social responsibility please see www.synthomer.com.

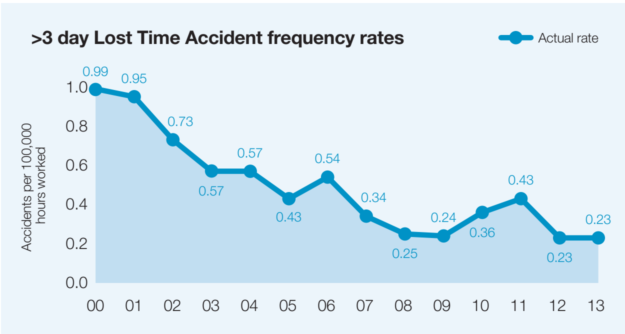
Health, safety and accident performance

Lost Time Accidents

During the year the number of all Lost Time Accidents (LTAs: accidents involving one or more complete days away from work) fell by a third to a new low for the Group. This excellent performance was exemplified by Eka Synthomer in Finland who have now achieved 12 years without a lost time accident.



The Group's performance on 'over 3-day' accidents was the same as it was in 2012 with 12 such accidents and a consequent frequency rate of 0.23 per 100,000 hours worked. In common with many other chemical companies, we have started to collect data on a wider range of accidents, essentially all those involving more than first aid treatment. Our frequency rate for this type of accident is similar to, or better than, those reported by similar chemical companies and shows a falling trend.



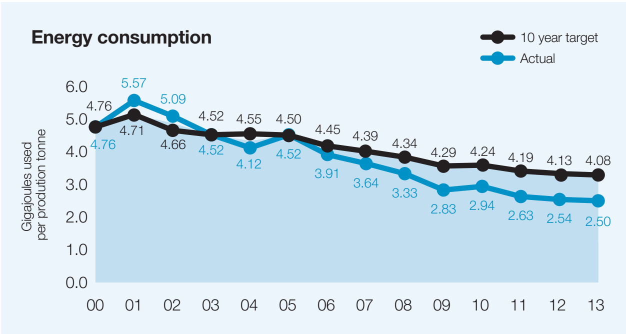
Environmental performance

Since 2000 we have reported significant reductions, year-on-year, in our global warming burden: emissions per tonne reduced by a third between 2000 and 2006, and calculated on the same basis have reduced by a further 25% since then. With the introduction of mandatory Greenhouse Gas (GHG) reporting, we have re-examined the calculation our emissions to comply with the most recent guidance, which should give a better reflection of the actual effects of the Company's

operations. We have also identified previously unreported releases of refrigerant gases which though small in volume have a large global warming impact. These changes have the effect of increasing our reported releases so it is good to report that 2012 and 2013 have seen the lowest global warming burden per tonne of production in the Group's history. Even on the new basis, releases have reduced by well over 40% since 2000.

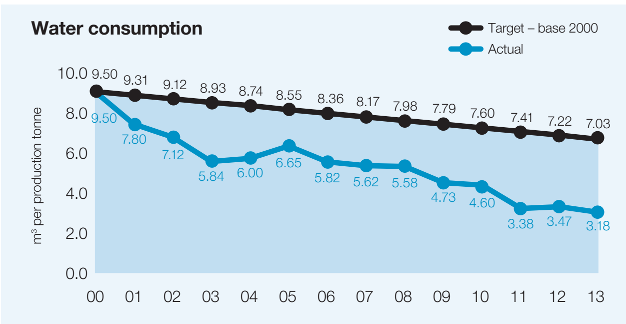
Energy

Overall, specific energy consumption across the Synthomer Group fell by 1.8% compared with 2012, and was 5.1% lower than in 2011. The long-term trend shows the Group used less than half the energy per tonne that was used in 2001. Consumption in 2013 was 39% better than the extrapolated 2013 target, calculated using 2000 as the base line and applying the Chemical Industry Association (CIAs) Sustainable Development (SD) targets which the Group signed up to in 2005.



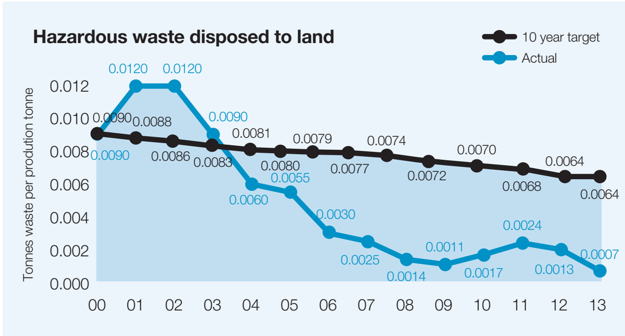
Water use

Synthomer Group companies used nearly 300,000 m³ less water in 2013 than in 2012 and reduced their water usage by 8.3% on a per production tonne basis. This excellent performance more than reversed the slight increase seen in 2012 and means that water consumption per tonne of the Group is less than half of the figure seen as recently as 2005 and roundly a third of what it was in 2000.



Waste disposal

Hazardous waste sent to landfill reduced by almost 50% in 2013 compared to 2012. The quantity of waste going to landfill per tonne of production is less than 10% of the amount sent in 2000 and less than 30% of that sent as recently as 2011.



Greenhouse gas emissions

The Company has reported environmental KPIs in the format recommended by DEFRA which since 2008, have included Greenhouse Gas (GHG) emissions. The overall format for quantitative data has been retained and includes DEFRA's other recommended KPIs, reporting trends on a 3-year rolling basis. It has been revised to comply with DEFRA's 2013 guidance. Internal data collection has also been revised for financial year 2013 to give improved compliance with the revised guidance.

Reporting parameters

The 2013 financial year reporting includes all manufacturing operations but does not cover all office locations where these are not co-located with manufacturing. These locations will have no material effect on the Group's overall GHG emissions, being estimated at less than 0.1% of the Group total.

All known emissions from manufacturing process have been included, including energy directly used and the indirect energy costs of heating, cooling and other site services where these are provided by a third party. They include estimates for the effects of the release of Volatile Organic Compounds (VOCs) and refrigerant gases. The only known emissions which have not been included are direct emissions of CO_2 from on-site waste treatment; this has not currently been quantified.

The Group have 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 source for all emissions factors (CO_2e) is DEFRA: May 2013.

Corporate social responsibility report
continued

Calculation methodologies

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

Electricity has been converted to CO_2e on a country by country basis, using the conversion factors given by DEFRA for 2013 and previous years. (It should be noted that these generally refer to actual country performance 2 years earlier than the quoted date, ie 2013 factors relate to 2011 performance.)

Synthomer's Stallingborough site takes all its electricity on an exclusive contract from an adjacent waste incinerator. This electricity is certified as "Green" by the UK government but no credit has been taken for this.

VOCs have been aggregated on a Group basis and converted to CO_2e 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 2011-2013. The releases for each individual gas has been aggregated in each year to give a Group release and then converted to CO_2e using the equivalence factors given by DEFRA for each gas.

Performance in 2013

The inclusion of refrigerant gases and the calculation of CO_2e for electricity on a country by country basis have had a significant impact on the Group's calculated Greenhouse Gas emissions. Two unforeseen releases of refrigerant – due to equipment failure – have shown that these releases are more significant than previously estimated. They add some 7% to the Group's total Global Warming burden in 2013. Known and estimated usage in 2011 and 2012 add 3% & 6% to the Group's GHG releases in those years.

Achieving a significant reduction in the actual losses from our operations will be an urgent target in 2014.

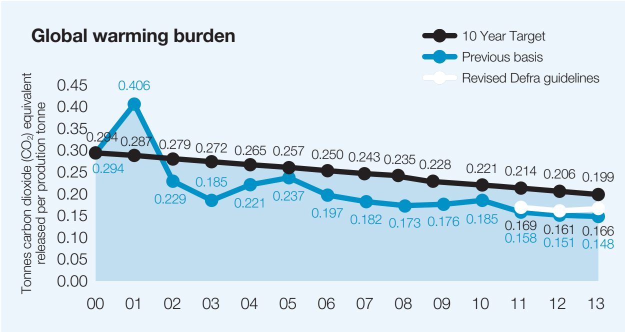
The Group hoped to achieve significant reductions in VOC releases in 2013. Unfortunately, commissioning problems with the BD recovery system at Kluang mean that the hoped reductions there were not realised in 2013. Work continued throughout the year to bring the plant on-line and the unit was operating at the year end. A new boiler which will burn residual VOC from the Kluang NBR plant with full heat recovery was installed late in 2013 and is currently commissioning. Better measurement of releases from the Kluang NBR plant showed a reduction of some 350 tonnes compared to the estimates for previous years.

In Harlow, a new cryogenic VOC recovery unit came on-line towards the year end but too late to have any significant effect on the VOC releases from the site in 2013. Releases from the Harlow site increased broadly in line with production. Taken together with the releases, known and estimated, from other Synthomer plant, the Group reduced its releases of VOCs in 2013 by 250 tonnes.

Despite a 1.8% improvement in energy efficiency in 2013, changing to using country specific figures for the CO_2 equivalent for electricity has a very marked effect on the Group's performance. In each year from 2011-2013 there is an increase in GHG emissions due to the higher CO_2e for electricity generation in countries such as South Africa and Saudi Arabia.

This effect is particularly strong in 2013 as Malaysia's CO_2e increased to ~65% above the UK. Due to the 2 year delay in figures this actually refers to Malaysia's CO_2e performance in 2011. In that year there was a shortage of the natural gas which normally generates ~60% of Malaysia's electricity due to problems in their off-shore gas fields. Well over half of the country's electricity came from burning coal, with consequently much higher CO_2 emissions. This change increased the Group's CO_2 releases by 11%.

Despite these adverse effects the overall picture of the Group's performance remains good. The last 3 years are the best in the Group's history with emissions per tonne lower than they have ever been.



Environment KPIs

The tables present environmental KPIs for 2011–13, with a coverage and format in line with DEFRA's guidance, as updated in 2013 to comply with the reporting required under the Companies Act 2006 (Strategic report and Report of the Directors') Regulations 2013.

Energy consumption[1]	**2013**	2012	2011	% change 2011–2013	% change 2012–2013
GJ	**3,284,931**	3,284,233	3,144,349	4.47%	0.02%
Gas	**678,053**	681,636	793,671		
Light oil	**30,643**	28,568	25,884		
Heavy oil	**4,778**	2,964	57,166		
Steam	**719,593**	770,207	657,120		
Electricity (primary basis)	**1,847,052**	1,796,093	1,604,767		
GJ/tonne production	**2.499**	2.544	2.633	(5.09%)	(1.76%)

Emissions to Air[2]					
Carbon Dioxide (CO_2) equivalent from energy[3]					
Tonnes	**185,860**	175,935	170,720	8.87%	5.64%
Tonnes CO_2 equivalent/tonne production	**0.141**	0.136	0.143	(1.09%)	3.76%
Sulphur Dioxide (SO_2)					
Tonnes	**26.1**	21.1	22.0	18.96%	23.76%
Kilos SO_2/tonne production	**0.0199**	0.0164	0.0184	8.08%	21.56%
Nitrous Oxides (NOx)[4]					
Tonnes	**38.47**	69.99	61.80	(37.74%)	(45.03%)
Kilos NOx/tonne production	**0.0293**	0.0542	0.0517	(43.44%)	(46.01%)
Volatile Organic Compounds (VOC)					
Tonnes	**1,550**	1,800	2,278	(31.93%)	(13.88%)
Kilos VOC/tonne production	**1.179**	1.394	1.907	(38.16%)	(15.41%)
Refrigerant releases (HCFC and others)[5]					
Kilogrammes	**4,459**	3,731	1,820	145.00%	19.51%
Tonnes CO_2 equivalent	**15,231**	12,646	6,340		
Kilos Refrigerant/tonne production	**0.0034**	0.0029	0.0015	122.59%	17.39%
Total Carbon Dioxide (CO_2) equivalent releases[6]					
Tonnes	**218,145**	208,384	202,115	7.93%	4.68%
Tonnes CO_2 equivalent/tonne production	**0.166**	0.161	0.169	(1.94%)	2.82%

Notes
1 Data relates to site usage of all fuels, excluding transport.
2 Emissions to air have been calculated from the usage of all fuels, excluding transport fuel. They therefore include both direct emissions and indirect emissions related to bought-in electricity, steam, compressed air, cooling water etc., with the exception of transmission and distribution losses for electricity (These losses are in Scope 3, this report is for Scope 1 & 2).
3 CO_2 equivalent emissions include contributions from CH_4 and N_2O associated with combustion.
4 NOx emissions are predominantly those from combustion processes. The CO_2 equivalent Global Warming Potential contribution from these releases is already included in the CO_2 from energy figure above.
5 Data on refrigerant gas losses has been collected for 2013 and has been collected for 2011 and 2012 wherever possible. Where site data is not available for 2011 & 2012, losses have been assumed to be the same as in 2013. Annual losses of refrigerant have been converted to the CO_2 equivalent figures using the substance by substance figures published by DEFRA, based on the materials consumed within the Group.
6 The total CO_2e figure is the total of the CO_2 equivalent from energy + the VOC contribution (assuming an average factor of 11 kg CO_2e per kg VOC) + the refrigerant contribution.
7 Percentage changes are calculated from the base data and may differ slightly from changes calculated from the data in the tables because of rounding.

Directors and advisers

Executive Directors

A M Whitfield[2] – Chief Executive Officer

Joined the Group and was appointed to the Board in March 2006. He assumed the role of Chief Executive in August 2006. Prior to appointment he was Chief Executive of the plastics division of D S Smith Plc. Age 52.

D C Blackwood – Chief Financial Officer

Joined the Group and was appointed to the Board in October 2007. Prior to appointment he was Group Treasurer of Imperial Chemical Industries PLC. Age 54.

Non-executive Directors

N A Johnson[2,3] – Chairman

Joined the Board in September 2011 and was appointed Chairman in May 2012. He is Chairman of Motability Operations Group plc and e2v technologies plc and the senior independent non-executive Director of the Business Growth Fund. Age 64.

The Hon. A G Catto[1]

Joined the Board in 1981. He 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. Age 61.

J Chen

Joined the Board in October 2012. He is a corporate Vice President of Alcoa Inc and a board member of China Zhong Nan University. Age 61.

B W D Connolly[3]

Joined the Board on 20 January 2014. Until June 2013 he 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). He is a non-executive Director of Cape plc. Age 57.

Dr J J C Jansz[1,3]

Joined the Board in April 2012. Until July 2010 he was Head, Technology Business, and a member of the management team of LyondellBasell. He is founder and managing Director of Expertise Beyond Borders BV, an independent technology management consultancy. Age 57.

Dato' Lee Hau Hian

Joined the Board in 1993 and stood down in 2000 to become an Alternate Director. He rejoined the Board in 2002. He is a Director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd. Age 60.

J K Maiden[1,2,3] – Senior Independent Director

Joined the Board in August 2007. He is Group Finance Director of National Express Group PLC and a Fellow of the Chartered Institute of Management Accountants. Age 52.

1. Member of Audit Committee.
2. Member of Nomination Committee.
3. Member of Remuneration Committee.

Registered office

Synthomer plc
Temple Fields Harlow
Essex
CM20 2BH
Registered number 98381

Company secretary

Richard Atkinson

Bankers

Barclays Bank PLC
Commerzbank AG
HSBC Bank plc

Joint stockbrokers

Barclays Capital and Canaccord Genuity Limited

Registrars

Computershare Investor Services PLC
Lochside House
7 Lochside Avenue
Edinburgh Park
Edinburgh
EH12 9DJ

Independent auditors

PricewaterhouseCoopers LLP
Chartered accountants and statutory auditor
St Albans, UK

Solicitors

Herbert Smith Freehills LLP
Pinsent Masons LLP
Squire Sanders (UK) LLP

Corporate governance

Report from the Chairman

Dear Shareholder
Corporate governance was a primary focus for your Board throughout 2013 as a result of the requirement to comply with and report on the new Directors' Remuneration Report regulations and the September 2012 UK Corporate Governance Code for the first time in this annual report. A project was initiated in the first quarter of the year to meet the requirements for reporting on Directors' remuneration and a full report on the work undertaken by the Remuneration Committee in this regard is given in the Remuneration Committee Report.

The Nomination Committee was tasked with the process of identifying candidates for filling the independent non-executive Director position left vacant by the departure of Ishbel Macpherson in May 2013. I was very pleased to announce the appointment of Brendan Connolly at the start of 2014 who has agreed to take over from me as Chairman of the Remuneration Committee next month.

The Audit Committee expanded the scope of its remit in 2013 and will return to full compliance with the composition requirements of the Code from March 2014.

Your Board continues to review and develop its governance policies and processes and to seek to report to shareholders in a meaningful and clear manner. I am pleased to present our full statements on compliance and application of the Code in 2013 in the rest of this report which I hope you find informative.

Neil Johnson
Chairman

Statement of compliance
The Company considers that it has complied throughout the financial year ended 31 December 2013 with the provisions set out in the Code except in relation to the composition of the Board and its Committees in that:

- the Board lacked one independent non-executive Director in order to be balanced;
- the Audit and Remuneration Committees each comprised two independent non-executive Directors instead of three;
- the Nomination Committee was not composed of a majority of independent non-executive Directors.

Further details on these matters and how they have been addressed are set out in this report.

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 2013, comprised two executive Directors and seven non-executive Directors until the 2013 Annual General Meeting after which the number of non-executive Directors reduced to six. The roles of Chairman and Chief Executive Officer are clearly divided between Mr Johnson who heads the Board in his capacity as non-executive Chairman and Mr A M Whitfield 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.

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, setting policies in the areas of safety, health and the environment, recruitment and employment, risk management and treasury and, subject to materiality thresholds, decisions on the raising of capital, financial commitments, capital expenditure, acquisitions and disposals and the prosecution, defence and settlement of litigation.

During 2013 the Board held eight scheduled meetings to review current and projected performance and to determine strategic issues 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 prepared by the Chief Executive Officer. The Board has established Audit, Nomination and Remuneration committees which are discussed below.

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 2013 the Board held a meeting in Marl, Germany and in Filago, Italy at the offices of its businesses. In conjunction with those Board meetings presentations were given by local senior management and the Directors were given the opportunity to visit the Group's plants.

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 Operating Officer, the Chief Counsel and Company Secretary, the Vice President – Human Resources, the Vice President – Europe, Middle East & Africa, the Vice President – South-east

Corporate governance
continued

Asia, the Vice President – Finance and the Vice President – Operational Excellence & Engineering) 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 trading summary and commentary from the Chief Financial Officer and an update report from the Chief Executive Officer.

Board membership and balance

The Chairman, Chief Executive Officer and Senior Independent Director are identified on page 24. The Chairmen and members of the Audit, Nomination and Remuneration Committees are identified below. The Board considers Mr J K Maiden, Dr J J C Jansz, Mr J Chen and Mr B W D Connolly are independent in accordance with the provisions of the Code.

For some seven months of 2013 the Company was not in compliance with the requirement of Code provision B.1.2 for half the Board, excluding the Chairman, to comprise independent non-executive Directors. Following completion of a recruitment exercise in 2013 which culminated with the appointment of Mr B W D Connolly in January 2014 the Board has returned to compliance with this requirement.

The Board held a total of eight meetings in 2013. In addition the Chairman held one separate meeting with the non-executive Directors without the executive Directors being present to appraise the performance of the executive management. The non-executive Directors also met once without the Chairman to appraise his performance.

The table below shows the number of meetings of the Board, Audit, Remuneration and Nomination 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 views on agenda items are canvassed in advance of the meeting and incorporated into the discussions.

Number of meetings held	Board*	Audit	Remuneration	Nomination
	8	4	4	1
Number of meetings attended				
D C Blackwood	8/8	N/A	N/A	N/A
A G Catto	8/8	4/4	N/A	N/A
N A Johnson	8/8	N/A	4/4	1/1
Lee Hau Hian	8/8	N/A	N/A	N/A
J K Maiden	8/8	4/4	4/4	1/1
A M Whitfield	7/8	N/A	N/A	0/1
J J C Jansz	8/8	4/4	4/4	N/A
I J S Macpherson[1]	1/5	N/A	N/A	N/A
J Chen	7/8	N/A	N/A	N/A

* Two meetings were held to deal exclusively with remuneration matters.
1 Retired on 16 May 2013.

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 and seminars offered by external advisers.

Performance evaluation

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 in August 2013 at a meeting of the non-executive Directors chaired by the Chairman;
- a meeting of the non-executive Directors (in the absence of the Chairman) chaired by the Senior Independent Director was held in September 2013 to evaluate the performance of the Chairman, taking into account the views of the executive Directors; and
- the Board and its Committees carry out an annual self-assessment of performance led by the Chairman and the Chairman of each committee respectively. The results of assessment questionnaires completed by those Chairmen were reviewed by the relevant committees and the Board and were shared with and discussed by the Board as a whole at its meeting in November 2013.

The Board has not introduced an externally facilitated Board evaluation process during 2013 but continues to keep the benefits of doing so under review.

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

Board committees

The Board has formally established Nomination, Audit, and Remuneration 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.

Audit Committee Chairman's statement

Dear Shareholder

During 2013 the Committee's work focused on implementation of the changes to narrative reporting and the corporate governance environment which applied to the Group with effect from the start of the year, in addition to our normal support of the Group's internal control and external audit work.

At the request of the Board, the Committee has extended its remit to include a review of the content of the annual report and accounts in order to advise the Board on its statement required by Section C.1.1. of the UK Corporate Governance Code (described below). The Committee has also reviewed how it reports to the Board and to shareholders on the discharge of its responsibilities and continues to seek to enhance reporting to both.

Following the external audit tender process undertaken in 2012 which resulted in the appointment of PricewaterhouseCoopers LLP in July that year the Committee has monitored the effectiveness of the audit process and is pleased to recommend their re-appointment at the 2014 annual general meeting.

The second year of our three year work plan relating to co-sourced internal audit services was successfully completed in 2013. The result was that all the Group's operating companies have now been visited by KPMG (UK) LLP, the co-sourced internal auditor, or received visits from the Company's Head of internal Audit and senior members of the head office finance team to review controls, and in the case of larger operating companies they have received both visits.

The Committee's work during the course of the year also involved discharging its other responsibilities for those matters delegated to it by the Board under its remit and which is reported on in the following section of this report.

Alex Catto served on the Committee during the year on an interim basis and will be replaced by Brendan Connolly in March 2014. I would like to thank Alex for his work and welcome Brendan to the Committee.

Jez Maiden
Audit Committee Chairman

Audit Committee membership since 1 January 2013:

Jez Maiden	Chairman
Just Jansz	
Alex Catto	from 6 March 2013
Ishbel Macpherson	until 7 February 2013

The role of the Audit Committee

Throughout 2013 the Audit Committee was chaired by Mr J K Maiden and comprised at least two independent non-executive Directors together with one non-independent non-executive Director. Following the appointment of Mr B W D Connolly to the Committee with effect from March 2014, the Committee will revert to comprising three independent non-executive Directors. Mr Maiden is considered by the Board to have 'recent and relevant financial experience' for the purposes of Provision C.3.1 of the Code due to his current financial role outside the Group.

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 reviewing significant financial reporting judgements contained in them;
- reviewing the Group's internal financial controls and the Group's internal control and risk management systems;
- monitoring and reviewing the effectiveness of the Group's internal audit function;
- making recommendations to the Board regarding the selection and appointment of the external auditor and approving their remuneration and terms of engagement;
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process; and
- developing and implementing policy on the engagement of the external auditor to supply non-audit services.

The Board has during the year extended the Committee's remit such that the Committee now also:

- advises the Board, in connection with its obligation under Section C.1.1 of the Code, on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the performance of the Group, along with its business model and strategy;
- ensures that the external audit services contract is put out to tender at least once every ten years; and
- reports on the significant issues that it considered in relation to the financial statements and how these were addressed.

Corporate governance
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The Chief Financial Officer and senior members of his department attend meetings of the Committee as part of the review of the Group's interim and annual financial statements prior to their submission to the Board and as part of the internal audit process. The Committee meets periodically with the Company's auditor without management present to discuss the adequacy of the Group's financial management, internal controls and information systems and to review the terms of the auditor's engagement, effectiveness, independence and objectivity.

Activities during the year

The Committee met formally four times during 2013 and carried out the following main activities in addition to the items mentioned in the Chairman's overview:

- Reviewed the financial statements in the 2012 annual report and the 2013 interim statement;
- Reviewed the scope and effectiveness of the external audit;
- Reviewed the Group's Risk Register;
- Monitored the effectiveness of internal controls and risk management;
- 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;
- Received a report on the Group's tax provisions and restructuring;
- 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;
- Reviewed the Group's internal audit plan; and
- Received detailed reports and presentations from KPMG, the co-sourced internal auditors, and the reviews undertaken by senior members of head office finance team. Reviewed reports relating to the implementation of recommendations from internal audit visits to enable the Committee to assess the improvements in the Group's controls and reporting and where further actions are required. Considered and approved the plan for 2014 internal audit reviews which will complete the initial three year cycle under which all Group companies will be visited by KPMG and senior members of Group finance during the cycle.

In addition the Chairman of the Committee had regular dialogue with the external auditor during the course of the year.

Auditor objectivity and independence

With regard to seeking to ensure the independence and objectivity of the auditor, the Audit Committee's policy, which was reviewed and revised during the year, is to ensure that the auditor's integrity is not compromised, by restricting their involvement in the provision of non-audit services where a conflict of interest, real or perceived, may exist. The policy splits the approval of non-audit work into three categories:

- services which are prohibited
- services which are pre-approved subject to limits
- services which require specific approval on a case-by-case basis.

Prohibited services include:

- maintaining or preparing accounting records and financial statements;
- the design and implementation of financial information systems or financial controls;
- secondments to the Group;
- recruitment and remuneration related services for key management positions;
- appraisal, valuation and actuarial services;
- tax services which require interpretation of tax law or reliance on accounting treatments;
- legal services unrelated to the audit.

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. Prior to appointment in July 2012 PricewaterhouseCoopers LLP were providing and have continued to provide personal tax advice to the Chief Executive Officer and expatriate tax services to the Group's senior managers who are required to work outside their home country. The Committee do not consider that the provision of these services creates any conflict of interest as they are of a minor nature and are provided by individuals and teams who are not involved in the audit and accordingly have approved their continuation.

Details of audit and non-audit fees paid to the auditor in 2013 are set out in note 6 on page 71. Non-audit fees principally relate to tax compliance and tax advisory services and due diligence work in relation to potential acquisitions.

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 together with the Committee's meetings with the external auditors. 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.

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 seeks support from the external auditors to assess them.

The main issues reviewed in the year ended 31 December 2013 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.

- Defined benefit pension accounting:

  The Group operates a number of defined benefit schemes which have significant liabilities as outlined in Note 25 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.

Nomination Committee

Nomination Committee membership since 1 January 2013:

Neil Johnson	Chairman
Jez Maiden	
Adrian Whitfield	

The Committee is responsible for: the regular review of the structure, size and composition 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.

Since 17 May 2012 the Nomination Committee has not complied with the composition requirements of Code Provision B.2.1 in that a majority of its members are not independent non-executive Directors. The Board considers that the current composition of the Nomination Committee provides it with the flexibility and speed of decision making that is necessary in connection with the interview process required for making nominations to fill Board vacancies. Accordingly the Board does not currently intend to make any changes to the composition of this Committee. The Committee led the process for nominating Mr B W D Connolly for appointment as an independent non-executive Director. This process involved a thorough review of a range of candidates put forward by an independent recruitment consultancy, Heidrick & Struggles (with which the Company has no other connection) which conducted an extensive search process. The diversity (including gender) of the Board was taken into account by the Committee when making this nomination.

The Committee also reviewed senior management succession planning within the Group during the course of the year.

The Nomination Committee held one formal meeting during 2013 and a number of informal meetings and telephone calls as well as several interviews in connection with the nomination process referred to above.

The Board adopted a policy on diversity in March 2013. 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. A copy of the policy is available at www.synthomer.com. Further details on the Company's approach to diversity is contained within the Strategic report.

Corporate governance
continued

Remuneration Committee
All matters relating to the Remuneration Committee and remuneration are covered in the Remuneration report, set out on pages 32 to 48.

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.

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

The Chief Executive Officer reports on shareholder relations at each Board meeting. Communications with shareholders relating to corporate governance matters are conducted by the Chairman with the assistance of the Chairmen of the Audit, Nomination and Remuneration 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 Chairmen of the Remuneration, Audit and Nomination Committees are available to answer questions.

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

Accountability
An explanation of the Directors' responsibility for preparing the financial statements, their report that the business is a going concern, a responsibility statement and their statement as to disclosure of information to the auditor are set out on pages 50 and 51 respectively. Statements by the auditor about its reporting responsibilities are set out on pages 52 to 55 and 95 to 96 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.

Internal control
The Board of Directors has ultimate responsibility for the Group's system of internal control and sets appropriate policies to ensure that the Code requirements on internal control are met. The system of internal control deployed within the Group is designed to reduce the risks of failure to meet business objectives, but these risks cannot be eliminated. The internal control system adopted can therefore only provide reasonable, not absolute, assurance about meeting such business objectives or against material mis-statement or loss.

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.

An ongoing process for identifying, evaluating and managing significant business risks faced by the Group has been in place since 2000. This has since been built upon so as to embed further the process into the businesses and to enhance the usefulness of the relevant processes and information, and has been operated throughout 2013 and up to the date of approval of the annual report and accounts, and accords with the Turnbull Guidance.

The system is applied across the Group on a functional and regional basis and a 'bottom up' risk profile is created by evaluating the information at an operational and Group level. Individual senior managers within Synthomer's businesses identify and assess key risks associated within their area of responsibility based on formal management information and interaction with colleagues, customers, suppliers and other parties.

The individual submissions are consolidated, reviewed and agreed by the Executive Committee. A business risk report is prepared that is closely linked to business strategy and takes account of key internal and external factors. Risks are prioritised using a common risk matrix, which forms the basis of a single corporate risk report that is reviewed and discussed by the Audit Committee.

The individual business risk reports are formally reviewed every six months, out of which a revised report is submitted which identifies changes in the risk environment.

The process was last reviewed by the Synthomer Board of Directors in February 2014. The nature of the risks identified as a result of this process during the year primarily relate to matters of an operational and financial nature and the most significant of those which faced the Group in 2013 are reviewed in the Strategic report.

Risks associated with safety, health and the environment are, by the nature of the Group's business, always of the utmost concern and the corporate social responsibility report on pages 20 to 23 reviews the Group's performance in this connection in 2013.

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 (including in relation to the financial reporting process and the process for preparing consolidated accounts) include the following:

- a review of the external audit work plan;
- 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;
- a quarterly review of safety, health and environmental performance;
- discussion with management of the actions taken on any possible problem areas for the business identified by Board members or in the audit report;
- consideration of a consolidated risk management report setting out the main conclusions from the internal control process; and
- a biannual report from the internal audit function.

In addition, the Board:

- receives copies of the minutes from all Audit Committee meetings;
- considers the role of the Group insurance programme;
- receives regular written and oral reports from management on all aspects of production, operations, financial and risk management matters; and
- in compliance with Provision C.2.1 of the Combined Code the Board regularly reviews and approves the effectiveness of the Group's system of internal controls.

The Board confirms that a review of the effectiveness of the Company's risk management and internal control systems was carried out in 2013.

Environmental matters

The maintenance of high standards of environmental (together with health and safety) protection is central to the Company'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 Corporate social responsibility report statement on pages 20 to 23 includes a report on the initiatives the Company 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 regional 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.

The Company is a member of the FTSE4Good Index.

Directors' remuneration report

Remuneration Committee Chairman's statement

Dear Shareholder

I am pleased to present the Company's Directors' Remuneration Report for the financial year ending 31 December 2013.

During the year we undertook a comprehensive review of our executive Director pay arrangements. We have concluded that the key principles and parameters of our remuneration policy do not need to change. The key elements of pay are:

- A competitive base salary.
- A short-term cash based incentive.
- A long-term share based incentive.

As part of the review we undertook a full benchmarking review of executive Director remuneration. The conclusions were that base salaries and other fixed pay elements are broadly competitive.

The incentive structure was reviewed in the context of supporting Synthomer's strategy to build a strong platform for long-term profitable growth. The key changes we have made to our policy are as follows:

- Addition of strategic measures under the annual bonus and the performance share plan.
- A modest increase to PSP award opportunity.
- A recognition that EPS targets under the PSP should be stretching, but must also calibrate with the expectations for the business.

We undertook extensive shareholder consultation on our proposals. The Committee was very pleased with the constructive dialogue and responses from its shareholders to the new policy.

Out-turns for 2014

For 2014 base salaries have been increased by 2.5% which is lower than the average across the all-employee population.

Under the annual bonus plan, the threshold level of PBT performance was not met and no annual bonuses have been paid.

Directors' Remuneration Report

This is the first report presented in the new format as prescribed by the new reporting regulations. Accordingly our Directors' Remuneration Policy will be subject to a binding vote and our Annual Report on Remuneration will be subject to an advisory vote. We hope we will have the support of our shareholders for both reports.

Remuneration Committee

I am delighted to report that Brendan Connolly, who joined your Board and the Committee in January 2014, has agreed to take over the Chair of the Committee next month. I would like to thank the members of the Committee for their work and support during my chairmanship.

Neil Johnson
Chairman

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 risk assessment when assessing performance.

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

Base salary	Pension and benefits	Annual bonus	Performance Share Plan
		At least 70% – Profit before tax Up to 30% – Strategic and operational objectives	At least 40% – Relative TSR At least 40% – EPS growth Up to 20% – Strategic measures

Directors' Remuneration Policy

The following sections set out our Directors' Remuneration Policy (the "Policy"). This Policy will be put forward for shareholder approval at the 2014 AGM in accordance with section 439A of the Companies Act 2006. This Policy is effective from the 2014 AGM on 1 May 2014.

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payment) notwithstanding that they are not in line with the policy set out below where the terms of the payment were agreed (i) before the policy came into effect or (ii) 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 were "agreed" at the time the award is granted.

Directors' remuneration report
continued

Policy table

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	Supports the recruitment and retention of executive Directors. Reflects the individual's skills, experience, performance and role within the Company.	Salary levels are generally reviewed annually by the Committee. When reviewing salary levels the Committee takes into account: • the individual's skills, experience and performance; • the size and scope of the individual's responsibilities; • pay and conditions elsewhere in the Group; • pay at companies of similar size; and • the complexity and international scope of the Group. For 2014, executive Director salaries are: • A M Whitfield: £512,500 • D C Blackwood: £320,441	There is no overall maximum for salary opportunity or increases. Salary increases will normally be in-line with the increases awarded to other employees within the Group. Larger increases may be made under certain circumstances, including, but not limited to: • an increase in the scope and/or responsibility of the individual's role; • the development of the individual within the role; • alignment to market levels; and • corporate events such as a significant acquisition or Group restructuring which impact the scope of role.	None, although individual and Company performance are factors taken into account when considering salary increases.
Benefits	Provided to support the retention and recruitment of executive Directors.	Benefits to executive Directors may include private health insurance, life insurance and a 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. Where executive Directors are required to relocate or complete an international assignment, the Remuneration Committee may offer additional benefits or vary benefits according to local practice.	There is no overall maximum for benefits. The cost of insurance benefits may vary from year-to-year depending on the individual circumstances. The level of any relocation benefits, allowances and expenses will depend on the specific circumstances.	None

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	Incentivises the delivery of financial, strategic and operational objectives selected to support our business strategy within the year.	Performance targets will be determined by the Committee at the beginning of the performance period. The Committee will assess performance against these targets following the end of the performance period. The Committee may adjust awards upward or downward to reflect the overall performance of the Company or the individual.	100% of salary.	At least 70% of awards are subject to adjusted profit before tax (or other relevant financial measure) targets. Up to 30% of awards are subject to strategic and operational measures, including personal objectives. The award for threshold performance is normally 20% of maximum.
2011 Performance Share Plan Approved by shareholders at the 2011 EGM.	Incentivises executive Directors to deliver sustained performance and sustainable returns for shareholders over the longer term.	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. 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. Awards may give rise to dividend equivalents. The Committee may clawback 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. All vested awards (net of tax if applicable) must be retained by executive Directors until share ownership guidelines are met.	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. Annual awards to executive Directors are: • A M Whitfield: 125% of salary. • D C Blackwood: 110% of salary. Under the plan rules approved by shareholders there is the ability to make additional awards in exceptional circumstances. Additional awards may be made in the case of a transformative Company event. Any such awards would be subject to additional shareholding guidelines or holding periods to be determined by the Committee. Any additional award would be subject to the overall plan limit of 300% of salary.	• At least 40% based on relative TSR performance • At least 40% based on EPS growth targets • Up to 20% based on performance measures linked to the delivery of the business strategy • No single measure will constitute more than 50% of an annual award A maximum of 25% of each element will vest for threshold performance. The Committee may amend the final vesting level under the TSR element if it does not consider it to be reflective of the underlying performance of the Group. Any additional awards made in exceptional circumstances will be subject to performance conditions and vesting schedules as determined by the Committee at the time of award.

Directors' remuneration report
continued

Policy table continued

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Pension	Provide a competitive level of retirement benefits to support both retention and recruitment of executive Directors.	Executive Directors are eligible to participate in the Group personal pension plan. Executive Directors may receive payments as a cash allowance which they may use either in conjunction with that plan and/or to enable them to make their own arrangements.	Maximum of 25% of base salary.	None
Legacy plans and awards 2002 Performance Share Plan – awards of nil cost options were made prior to 29 June 2011 and all awards under it will have fully vested or lapsed prior to the effective date of this Policy. Awards were made subject to TSR performance conditions. 2011 Performance Share Plan – awards of nil cost options were made in 2012 and 2013 and remain unvested. These awards are subject to TSR and EPS performance conditions. An exceptional award was made in 2011 under the 2011 plan. This award was subject to an EPS performance condition and will lapse in full prior to the effective date of the policy.				
Shareholding guidelines	The Company operates shareholding guidelines for executive Directors. The current guidelines are detailed in the annual report on Remuneration (page 42).			

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 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.

The 2011 Performance Share Plan shall be operated in accordance with the rules of the plan as approved by shareholders. In accordance with the plan rules:

- The performance condition may be replaced or varied if an event occurs which causes the Committee reasonably to consider that it would be appropriate to amend the performance condition, in which case the Committee can vary or replace the performance condition provided that the amended performance condition is in its opinion, fair, reasonable and not materially less difficult than the original condition when set.
- The Committee may determine that awards will be settled in cash.
- The Committee may make adjustments to awards in the event of a variation of share capital, a demerger, rights issue, special dividend or other similar events.

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 Remuneration Committee to effectively reward performance against the key elements of our strategy.

The bonus targets are set by the Remuneration 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.

- 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.

Non-executive Director fees

Non-executive Director fees	The Board reviews non-executive Director fees periodically. 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. 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 Remuneration Committee review Chairman fees periodically. 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-executives, 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.

Directors' remuneration report
continued

- 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 400% of salary, consistent with the maximums in the policy table above.
- The Committee may extend leaving arrangements to include a payment in lieu of notice to cover benefits as well as base salary for the outstanding period.

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
A M Whitfield	22 November 2005
D C Blackwood	12 September 2007

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 executive Directors are also entitled to 25 working days' holiday plus public holidays per holiday 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 3 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 Performance Evaluation section of the Corporate Governance report on page 26.

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 Directors' employment, the Committee may make a payment in lieu of notice based on the base salary for the outstanding period. 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 may include benefits (including pension) for the payment in respect of the outstanding period. The following principles shall apply when determining payments for loss of office for current and new executive directors. Notwithstanding the provisions of the executive directors service contracts, the Committee may structure compensation payments in such a way as it deems appropriate (for example, considering making phased payments and/or requiring the executive director to mitigate his loss) taking into account the circumstances of departure including performance and bearing in mind any potential consequences.

- If employment is terminated by the Company the departing executive Directors may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. In addition, the Committee retains discretion to settle any claims by or on behalf of the executive Director in return for making an appropriate payment and contributing to legal fees incurred by the executive Director in connection with termination of employment where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice. These arrangements will be used sparingly and only entered into where the Committee believes it is in the best interests of the Company and its shareholders to do so.
- While there is no entitlement to a bonus when a Director leaves employment or serves notice before 31 March following the year end (except in the case of death or retirement), 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.
- The treatment of outstanding share awards is governed by the relevant share plan rules. The following table summarises the leaver provisions of the 2011 Performance Share Plan 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'
2011 Performance Share Plan	• Death • Injury, ill-health or disability • Transfer of employing company or business outside Group • Retirement with agreement of the Committee • Redundancy • Any other reason as determined by the Committee	• Awards will normally vest on a time-apportioned basis and subject to the achievement of performance conditions at the relevant vesting date. The Committee may dis-apply or modify the time pro-rating of unvested awards. • The vesting date for such awards will normally be the original vesting date, although the Committee may determine that awards can vest upon the later of cessation of employment or the assessment of any performance condition relating to such cessation. • Awards in the form of options that vest early due to cessation of employment may be exercisable until the earlier of (i) 12 months from the date of vesting, and (ii) the normal expiry of the exercise period. Following this date unexercised awards will lapse. • If the participant ceases employment after the normal vesting date, options may be exercisable until the earlier of 12 months from the date of cessation, or the normal expiry of the exercise period. Following this date unexercised awards will lapse. • In the event of death following cessation of employment all unvested awards shall vest on the date of death on a time-apportioned basis and subject to the achievement of performance conditions.	Unvested awards normally lapse in full (unless otherwise determined by the Committee).

Directors' remuneration report
continued

Vested shares under the 2002 Performance Share Plan are exercisable before the sooner of ten years from the date of grant of the original award or twelve months from the date of cessation of employment.

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.

On change of control or in the event of a demerger, special dividend or other similar event treatment will be in accordance with the rules of the 2011 Performance Share Plan.

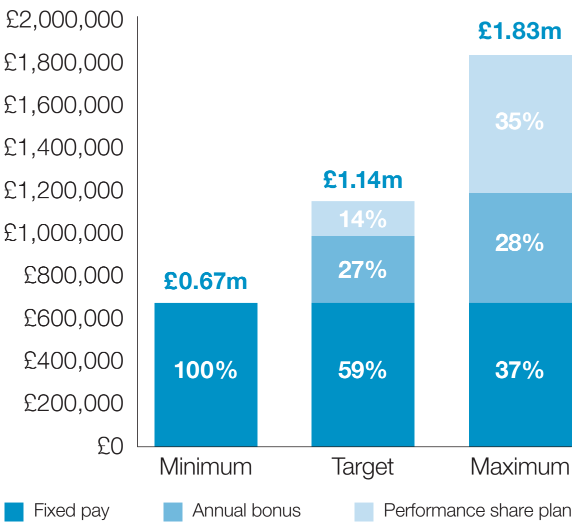
In the event of a change of control of the Company, unvested awards may vest subject to achievement of the performance conditions and time pro-rating. In such circumstances the Committee may elect to dis-apply or modify the time pro-rating of unvested awards. In the event of an internal reorganisation the Committee may determine that unvested 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 awards to vest, subject to time pro-rating (unless dis-applied) and achievement of the performance conditions.

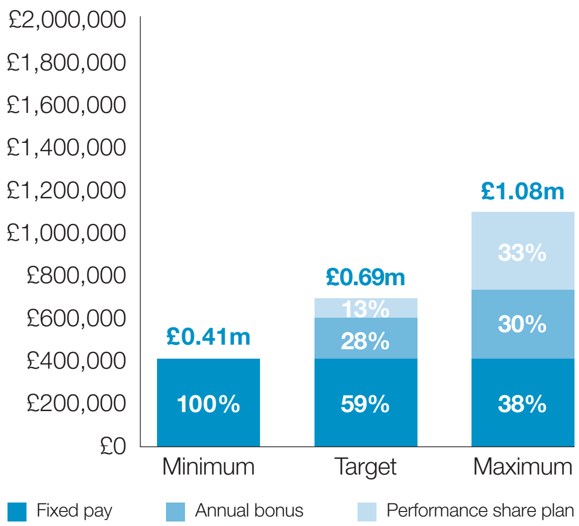
Illustrations of application of remuneration policy

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 2014 and Performance Share Plan awards to be made in 2014.

A M Whitfield



D C Blackwood



	Component	Minimum	Target	Maximum
Fixed	Base salary		Base salary for 2014	
	Pension		Value of cash supplement for 2014	
	Benefits		Taxable value of annual benefits provided in 2013	
Variable	Annual bonus	0% of salary	60% of salary	100% of salary
	2011 Performance Share Plan[1]	0% vesting	25% vesting	100% vesting

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 2014. 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 remuneration policy for executive Directors.

Consideration of shareholder views

The Committee undertook a comprehensive review of the remuneration policy during 2013. 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 remuneration policy.

Annual Report on Remuneration

Operation of the Executive Director Remuneration Policy for 2014

During 2013 the Committee undertook a comprehensive review of executive remuneration. This review was on a 'clean sheet' basis, with the aim of developing a long-term remuneration policy that supports Synthomer's strategy and which will remain in place for at least three years (see Policy Report, pages 33 to 41). The key changes we have made to our policy are as follows:

- Addition of strategic measures under the annual bonus and the performance share plan (PSP).
- A modest increase to PSP award opportunity. This reflects a market review of total remuneration opportunity, against the background of the performance demonstrated by our highly experienced management team, and the increased size and scale of the Group.
- A recognition that EPS targets under the PSP should be stretching, but must also calibrate with the expectations for the business.

The specific remuneration arrangements for 2014 are described below:

Base salary	Salary increases of 2.5%, effective 1 January 2014. 2014 salaries: • A W Whitfield: £512,500 • D C Blackwood: £320,441
Pension and benefits	No changes. Executives receive a cash allowance in lieu of pension contributions, a fully expensed car and private health insurance. 2014 cash allowances in lieu of pension contributions: • A W Whitfield: 25% of salary • D C Blackwood: 20% of salary
Annual bonus	For 2014, performance under the annual bonus will be measured on the following basis: • 80% subject to performance against underlying profit before tax targets • 20% subject to performance measures against key strategic and operational objectives. • Targets and objectives are considered by the Board to be commercially sensitive. However, the Committee will provide information on targets and objectives retrospectively. 2014 maximum award opportunity: • A W Whitfield: 100% of salary • D C Blackwood: 100% of salary

Directors' remuneration report
continued

Operation of the Executive Director Remuneration Policy for 2014 continued

Performance share plan	For awards made in 2014, performance will be measured as follows: • 40% based on relative TSR performance versus FTSE 250 excluding investment trusts and financial services companies: – 25% of this element will vest for median performance – 100% vesting for upper quartile performance. – Vesting on a straight line basis between these points. • 40% based on underlying EPS growth: – 25% of this element will vest for EPS growth of 4.5% per annum, – 100% vesting for EPS growth of 10% per annum. – Vesting on a straight line basis between these points. – This target range was set following consideration of the long-term strategy and the outlook for the markets in which we operate. • 20% based on performance against three equally weighted measures directly linked to the delivery of the business strategy: – Proportion of sales from new products, measured over the 5 years to the end of the performance period – incentivising greater innovation through new product development. – Growth in Asia EBIT – incentivising growing the scale and profitability of operations in emerging markets. – Cumulative Europe EBITDA – incentivising the delivery of stable cash flows from our more mature European business to fund this international growth. – For each of these measures, 25% will vest for threshold performance. – The targets for these measures, and the level of performance achieved, will be disclosed following the end of the performance period. 2014 maximum award opportunity: • A W Whitfield: 125% of salary • D C Blackwood: 110% of salary
Shareholding guidelines	Executives are required to build unfettered interests in shares of at least 100% of salary. The Committee will keep the level under review.

Single figure of remuneration for Executive Directors

	Year	Base salary £	Benefits[1] £	Annual bonus £	Long-term incentives[2] £	Pension £	Total £
Executive Directors							
A M Whitfield	**2013**	**500,000**	**32,457**	**0**	**265,812**	**125,000**	**923,269**
	2012	472,500	31,790	127,575	734,279	120,461	1,486,605
D C Blackwood	**2013**	**312,625**	**26,275**	**0**	**159,503**	**62,525**	**560,928**
	2012	305,000	24,765	82,350	474,381	61,000	947,496

1 This is the total taxable value of benefits received by each Director during 2013. The table below provides details of the main component of the relevant benefits paid to executive Directors.

	Car expenses
A M Whitfield	£31,733
D C Blackwood	£25,551

2 For 2013 the long-term incentives are the value (i) of the award granted under the 2002 PSP and made in 2011 which is due to vest in April 2014 and (ii) of the award granted under the 2011 PSP and also made in 2011 which is due to vest in June 2014 both based on the average share price for the three month period ending 31 December 2013. For 2012 the long-term incentives are the value of the award granted under the 2002 PSP and made in 2010 which vested on 11 March 2013 based on the share price at the date of vesting. Further information about the level of vesting is provided in this report.

Additional information for single figure remuneration

Base salary

The base salary for senior executives is reviewed with effect from 1 January each year. The Committee reviewed the positioning of executive Director base salaries in late 2013 in the context of the prevailing economic circumstances and taking into account pay and employment conditions elsewhere in the Group. The base salary levels effective 1 January 2014 are set out below.

	2013 base salary	**2014 base salary**	% change
A M Whitfield	£500,000	**£512,500**	2.5%
D C Blackwood	£312,625	**£320,441**	2.5%

Annual bonus

2013 award

For 2013 the Company operated a cash bonus plan for the executive Directors related to the achievement of profit before tax targets. The entry level profit target under the plan of £95 million was not achieved and therefore no bonus payments were made.

2002 Performance Share Plan

2011 award included in single figure of remuneration for 2013

The awards made in April 2011 under the 2002 PSP were subject to absolute shareholder return and relative shareholder return conditions as follows:

(a) Absolute total shareholder return condition

Increase in Company TSR above RPI over 3 year period ended 31 December 2013	Percentage of award that vests	Performance achieved
15.76% or more	50%	RPI + 32.3% giving 50% vesting
9.27%	25%	
More than 9.27% but no more than 15.76%	Straight line vesting on a pro rata basis between 25% and 50%	
Less than 9.27%	Nil	

(b) Relative total shareholder return condition

Company TSR performance over 3 year period ended 31 December 2013	Percentage of award that vests	Performance achieved
Company TSR in the upper quartile of the TSR of companies in the FTSE 250 Index	50%	Company TSR below FTSE 250 Total Return Index giving nil vesting
Company TSR between FTSE 250 Total Return Index and upper quartile TSR of FTSE 250 Index	Straight line vesting on a pro rata basis between 5% and 50%	
Company TSR equal to FTSE 250 Total Return Index	5%	
Company TSR below FTSE 250 Total Return Index	Nil	

The 2011 awards which will vest in April 2014 are as follows:

	No. of shares in award	No. of shares that lapse	No. of shares that vest	Exercise period
A M Whitfield	222,551	111,275	111,276	Until
D C Blackwood	133,531	66,765	66,766	April 2021

Governance

Directors' remuneration report
continued

2011 Performance Share Plan

2011 award in single figure of remuneration for 2013

The awards made in June 2011 under the 2011 PSP were an exceptional grant of awards to reward attainment of truly exceptional business performance following the acquisition of PolymerLatex in March 2011 and were subject to an absolute earnings per share performance condition as follows:

EPS for the 2013 financial year	Percentage of an award that vests	Performance achieved
30.3 pence or more	100%	EPS of 20.7 pence giving nil vesting
Between 27.3 pence and 30.3 pence	On a straight-line basis between 0% and 100%	
Less than 27.3 pence	0%	

The 2011 awards will lapse in June 2014 as follows:

	No. of shares in award	No. of shares that lapse	No. of shares that vest
A M Whitfield	206,422	206,422	0
D C Blackwood	123,853	123,853	0

2013 award

The awards made in April 2013 were as follows:

	Scheme	Basis of award	Number of shares	Face value	Percentage vesting at threshold performance	Performance period end date
A M Whitfield	2011 PSP – nil cost options	100% of salary	266,808	£500,000	25%	31/12/2015
D C Blackwood	2011 PSP – nil cost options	100% of salary	166,822	£312,625	25%	31/12/2015

The face value of the awards is calculated using the share price at the date of grant (being 24 April 2013), which was 187.4 pence per share.

The awards made in April 2013 under the 2011 PSP were 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 3 year period ending 31 December 2014	EPS for the 2015 financial year	Percentage of award that will vest
Upper quartile	29.3 pence or more	50%
Between median and upper quartile	Between 25.5 pence and 29.3 pence	On a straight line basis between 12.5% and 50%
Median	25.5 pence	12.5%
Below median	Less than 25.5 pence	0%

Pension entitlements

Both executive Directors receive a cash allowance in lieu of pension contributions. The Chief Executive previously participated in the Group personal pension plan. No additional benefit is receivable in the event of a Director retiring early.

	Cash allowance (% of salary)
A M Whitfield	25%
D C Blackwood	20%

Single figure of remuneration for non-executive Directors

Non-executive Directors		Base fee	Committee membership fee	Committee chair fee	Total
N A Johnson	**2013**	**140,000**	**–**	**–**	**140,000**
	2012	106,100	–	–	106,100
The Hon. A G Catto	**2013**	**40,000**	**4,167**	**–**	**44,167**
	2012	40,000	–	–	40,000
J Chen	**2013**	**40,000**	**–**	**–**	**40,000**
	2012	9,432	–	–	9,432
Dr J Jansz	**2013**	**40,000**	**5,000**	**–**	**45,000**
	2012	29,840	3,730	–	33,570
Dato' Lee Hau Hian	**2013**	**40,000**	**–**	**–**	**40,000**
	2012	40,000	–	–	40,000
J K Maiden	**2013**	**40,000**	**5,000**	**5,000**	**50,000**
	2012	40,000	5,000	5,000	50,000
I J S Macpherson[1]	**2013**	**15,067**	**1,883**	**1,883**	**18,833**
	2012	24,933	3,117	3,117	31,167

1 Resigned on 16 May 2013.

The non-executive Director and Chairman's fees were reviewed in January 2014. Non-executive Director fees were left unchanged from 2013 except that it was determined that an additional fee of £5,000 would be introduced for the non-executive Director undertaking the role of the Senior Independent Director with effect from 1 January 2014. The Chairman's fee was increased from £140,000 to £160,000 with effect from same date.

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

	Interests in Company shares 31 December 2013	Vested unexercised performance related options 31 December 2013[1]	Total unfettered interests in shares and vested options 31 December 2013	Unvested performance related options 31 December 2013[2,3]	Share options exercised during 2013	Share ownership requirements (% of salary)	Interests in shares at 31 December 2013 (% of salary)[4]
A M Whitfield	**14,000**	**406,394**	**420,394**	**902,203**	**629,261**	**100%**	**>100%**
D C Blackwood	**17,500**	**237,151**	**254,651**	**557,451**	**1,108,291**	**100%**	**>100%**
The Hon A G Catto	**1,746,955**						
	7,741,950*						
Dato' Lee Hau Hian	**44,763**						
N A Johnson	**100,000**						
J K Maiden	**2,523**						
Dr J J C Jansz	**10,000**						
J Chen	**–**						
I J S Macpherson	**N/A**						

* Non beneficial interest

1 The vested unexercised performance related options comprise the awards made under the 2002 PSP in 2009 and 2010. These awards will remain exercisable until 2019 and 2020 respectively.

2 This includes unvested nil-cost options relating to the 2011 PSP award which will vest in April 2014. For A M Whitfield this is a nil-cost option over 111,276 shares. For D C Blackwood this is a nil-cost option over 66,766 shares. An equal number of options for each executive Director will lapse.

3 Unvested performance related options comprise the awards made under the 2011 PSP in 2011, 2012 and 2013. Details of the performance conditions attaching to the 2011 and 2013 awards are set out on pages 35 and 36 respectively.

The performance conditions attaching to the 2012 awards 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 3 year period ending 31 December 2014	EPS for the 2014 Financial Year	Percentage of award that will vest
Upper quartile	32 pence or more	50%
Between median and upper quartile	Between 28 pence and 32 pence	On a straight line basis between 12.5% and 50%
Median	28 pence	12.5%
Below median	Less than 28 pence	0%

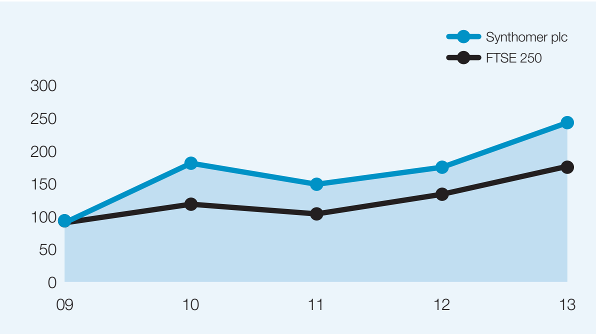
Directors' remuneration report
continued

4 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. The Committee will keep the guideline level of share interest under review.

Payments to past Directors
No payments were made to past Directors during the year.

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

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



The graph 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**
CEO total single figure of remuneration (£000)	786	1,484	3,934	1,487	**923**
Bonus (% of maximum awarded)	80%	80%	100%	27%	**0%**
LTI (% of maximum vesting)	0%	100%	100%	100%	**50%**

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 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 360 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
A M Whitfield	5.8	2	0
Total employee pay, benefits and bonuses	1.4	5.2	0

Relative importance of spend on pay

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

	2013 £m	2012 £m	% change
Dividends	**19.4**	15.3	26.8
Total employee remuneration	**68.7**	64.0	7.3

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

Emoluments	2013 £000	2012 £000
The total amounts for Directors' remuneration and other benefits were:		
Emoluments	**1,249**	1,435

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.

Mr A M Whitfield is a non-executive Director of the Chemical Industries Association Limited and assumed the role of President on 1 July 2013 and does not receive any remuneration for either position.

Remuneration Committee

Remuneration Committee membership since 1 January 2013:

Neil Johnson	Chairman (from 7 February 2013)
Jez Maiden	
Just Jansz	
Ishbel Macpherson	until 7 February 2013 and Chairman until that date

Brendan Connolly joined the Committee on 23 January 2014 and will become Chairman of the Committee on 1 March 2014 at which time Neil Johnson will step down.

The Committee's composition was non compliant with the requirements of Code Provision D.2 for most of 2013 as it was comprised of only two Independent non-executive Directors and the Company chairman was also chairman of the Committee. This composition was adopted as an interim measure due to the Board not having available to it the resources to staff a fully compliant Remuneration Committee and in the circumstances it was considered most appropriate for the chairman to lead the processes required to meet the new Director remuneration reporting regulations.

Attendance at Committee meetings is set out on page 26.

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.

Directors' remuneration report
continued

Advisers

The Chief Executive Officer, Chief Financial Officer and Company Secretary 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 New Bridge Street (a trading name of Aon Hewitt Limited) for the three months to 31 March 2013. Following a review, from April 2013 the Committee appointed Deloitte LLP as the Committee's independent remuneration advisors.

During the year, New Bridge Street provided advice on market data that materially assisted the committee. The fees paid to New Bridge Street in respect of this work in 2013 totalled £1,000. Aon Hewitt Limited is part of Aon Group as is Aon Limited which provides insurance broking services to the Group. The Committee was satisfied that this did not compromise the independence of the advice received from New Bridge Street.

During the year, Deloitte provided advice on new reporting regulations, market data 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 £93,850 for advice in 2013. 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.

Both New Bridge Street and Deloitte are founding members of the Remuneration Consultants Group, and adhere to its code of conduct. In each case the firms were 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 over the last 3 years.

	Votes for		Votes against		Votes withheld
Member	Number	% of vote	Number	% of vote	Number
2013 Directors' Remuneration Report	142,635,459	69	64,414,560	31	52,978,664
2012 Directors' Remuneration Report	237,328,379	97	7,514,128	3	6,746,102
2011 Directors' Remuneration Report	231,668,058	95	13,155,928	5	143,288

Voting outcome

Following the 2013 AGM the Chairman spoke with a number of institutional shareholders in relation to the key concerns. The points raised included the exercise of discretion to award an annual bonus for exceeding synergy targets, and the 5.8% increase to the CEO's salary.

Shortly before the AGM, the Committee had appointed Deloitte LLP to assist in a comprehensive review of the executive Director arrangements. The Committee considered shareholders' concerns as part of this review.

The proposals were developed on a 'clean sheet' basis taking into account the following perspectives:

- The strategy of the business, and ensuring that incentives and performance measures supported that strategy.
- Best practice and corporate governance developments.
- Market review against companies of similar size and complexity.

The Committee chairman consulted extensively with shareholders following the review before finalising the proposals. It was appreciated that there were a range of views from shareholders on various matters. However, the Committee was pleased with the dialogue and level of support received during this process.

A number of shareholders raised the question of increasing shareholding guidelines. The Committee is currently satisfied that the current shareholding guidelines are entirely consistent with practice in comparable FTSE 250 companies. The Committee will keep this area under review.

By order of the Board
R Atkinson
Company secretary
27 February 2014

Report of the Directors
for the year ended 31 December 2013

The Directors submit their annual report and the audited consolidated financial statements for the year ended 31 December 2013.

Strategic report
The Strategic report (which includes the principal activities in the course of the year and the principal risks and uncertainties) for the Company can be found on pages 4 to 23.

Results and dividends
The profit attributable to shareholders for the year was £48.3 million. The interim dividend of 2.4 pence per share was paid on 7 November 2013. The Directors recommend a final dividend of 3.6 pence per share payable on 4 July 2014 to those shareholders registered at the close of business on 6 June 2014. A dividend reinvestment plan is available to shareholders and this alternative will continue to be offered until further notice.

Financial instruments
Details of the Group's use of financial instruments and its financial risk management objectives and policies, and of its exposure to price, credit, liquidity and cash flow risk in relation to such instruments, are contained in note 22 to the financial statements.

Directors
The present membership of the Board is shown on page 24 all of whom served throughout the year apart from Mr B W D Connolly who joined on 20 January 2014. 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 Whitfield and Mr Blackwood who each have a service contract which contains a twelve month notice period. Details of Directors' emoluments and the interests of each Director in the share capital of the Company are shown in the Directors' remuneration report on pages 32 to 48.

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
Details of the Company's share capital are contained in note 26 to the financial statements. During 2013 no shares were issued or repurchased. A total of 195,730 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 remuneration report as at 14 February 2014, the Company had been notified under Section 5 of the Disclosure and Transparency Rules of the UK Listing Authority of the following significant holdings of voting rights in its ordinary shares:

	Ordinary shares (number)	Percentage of ordinary shares in issue	Nature of holding
Kuala Lumpur Kepong Berhad Group	66,111,401	19.45	Direct interest
Standard Life Investments Limited	44,162,410	12.99	Direct and indirect interest
UBS Global Asset Management	17,029,199	5.01	Direct and indirect interest
Old Mutual plc	17,238,190	5.07	Direct interest and qualifying financial instruments

Report of the Directors
for the year ended 31 December 2013 continued

Employment policies
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.

Authority to purchase own shares
The Company has a general authority, which expires at the conclusion of the 2014 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 2013 Annual General Meeting. A resolution will be tabled at the 2014 Annual General Meeting to renew this authority.

Employee involvement
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. The Group is engaged in an ongoing project to improve its communication procedures. An annual management conference is held to bring senior managers together to share ideas and develop policy and 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.

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.

Statement as to disclosure of information to auditor
Each Director of the Company confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware and that he has taken all the steps that he ought to have taken as a Director in order to make himself 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 52 to 55 and 95 to 96.

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

Corporate governance
The Corporate governance report is set out on pages 25 to 31 and forms part of the report of the Directors.

Going concern
The Directors have acknowledged the latest guidance on going concern and in reaching their conclusions have taken into account factors including:

- the Group's euro denominated £150 million term loan facility and £60 million multicurrency revolving credit facility which terminate on 31 March 2015; and
- the second repayment under the 2004 series private placement notes of US$70 million due in September 2014.

Further discussion on liquidity and financing is provided in the Strategic report.

After making enquiries and taking account of reasonably possible changes in trading performance, the Directors have concluded that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

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

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

Annual General Meeting
The Annual General Meeting will be held at 11.00 am on 1 May 2014 at Manor of Groves Hotel, High Wych, Sawbridgeworth, Hertfordshire CM21 0JU.

By order of the Board
R Atkinson
Company secretary
27 February 2014

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 management 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

A M Whitfield
Chief Executive Officer

D C Blackwood
Chief Financial Officer

Independent auditor's report
to the members of Synthomer plc

Report on the Group financial statements

Our opinion

In our opinion the Group financial statements, defined below:

- give a true and fair view of the state of the Group's affairs as at 31 December 2013 and of the Group's 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The Group financial statements (the "financial statements"), which are prepared by Synthomer plc, comprise:

- the Consolidated balance sheet and Analysis of net borrowings as at 31 December 2013;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated statement of changes in equity and Consolidated cash flow statement 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 their preparation comprises applicable law and IFRSs as adopted by the European Union.

What an audit of financial statements involves

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

In addition, we read all the financial and non-financial information in the Annual Report for the financial year 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.

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £4.1 million, which represents 4.5% of underlying profit (being profit before tax adjusted for special items). We used underlying profit for our materiality judgement because it is the principal measure used by the Directors in the Annual Report to discuss the Group's financial performance.

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

Overview of the scope of our audit

The Group has business operations worldwide, principally in Europe and Asia, the largest being Germany, Malaysia and the UK. The Group financial statements are a consolidation of reporting units, being holding companies, intermediate holding companies and operations based in thirteen countries comprised of nineteen trading companies.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC operating under our instruction. Where the 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 Group engagement team visited operations in Germany and the UK as part of the audit.

In determining our scope we considered the nature, location and size of the Group's operations at each component and any significant issues reported by local statutory audit teams around the Group.

Based on this scoping, our Group audit focused on six reporting units which were all subject to audits of their complete financial information and included Germany, Malaysia and the UK. Together with various head office companies, which were also subject to audits of their complete financial information, this accounted for 78% of the Group's revenue, 79% of the Group's operating profit and 83% of the Group's underlying profit before tax.

Areas of particular audit focus

In preparing the financial statements, the Directors made a number of subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We primarily focused 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.

In our audit, we tested and examined information, using sampling and other auditing techniques, to the extent we considered necessary to provide a reasonable basis for us to draw conclusions. We obtained audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

We considered the following areas to be those that required particular focus in the current year. This is not a complete list of all risks or areas of focus identified by our audit. We discussed these areas of focus with the Audit Committee. Their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 29.

Area of focus	How the scope of our audit addressed the area of focus
Provisions for uncertain taxation positions We focused on this area because the Group has a number of significant taxation provisions, which by their nature require an element of judgement to determine an appropriate level to record them at.	We requested and read the latest correspondence between the Group and the overseas tax authorities. We discussed the potential tax exposure with senior Group management and the basis for their positions with the Group's in-house tax specialists. We utilised our experience of similar challenges elsewhere to independently assess the evidence for these provisions.
Defined benefit pension accounting We focused on this area because the Group has significant defined benefit pension schemes in the UK and Germany, with a material net pension liability recorded on the Group balance sheet. The net liability is based on a number of assumptions and is highly sensitive to small changes in these.	We evaluated the reasonableness of the assumptions used for the valuation of the UK and German pension schemes, focusing on the key financial and non-financial assumptions where a small movement in the assumption could lead to a significant movement in the net pension liability. The key assumptions were the discount rate and mortality assumptions which are disclosed in note 25 of the Group financial statements. We compared these assumptions to our expected range for similar schemes as at the year end.

Independent auditor's report
to the members of Synthomer plc continued

Area of focus	How the scope of our audit addressed the area of focus
Fraud in revenue recognition ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results or expectations.	We focused on whether the revenue recognised corresponded to sales transactions that took place in the period. To address this we tested a sample of revenue transactions in the year to supporting documentation. We also used data analysis techniques to identify any unusual transactions relating to revenue, and tested these. In addition we tested manual journal entries posted to revenue accounts, obtaining supporting evidence to determine that the journal was appropriate.
Risk of management override of internal controls ISAs (UK & Ireland) require us to consider the risk associated with management override of controls.	We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and assessed the results of the Group's internal audit reviews that took place in the year. We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud with a particular focus on centrally held provisions and accruals. We also evaluated controls in place over the approval and processing of manual journals, testing manual journals that we considered to be higher risk in nature and obtaining supporting evidence to determine that these journals were appropriate.

Going concern
Under the Listing Rules we are required to review the Directors' statement, set out on page 51, in relation to going concern. We have nothing to report having performed our review.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to prepare the Group's financial statements using the going concern basis of accounting. 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 it 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.

Opinion on matters prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Other matters on which we are required to report by exception
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 have not been made, and under the Listing Rules we are required to review certain elements of the report to shareholders by the Board on Directors' remuneration. We have no exceptions to report arising from these responsibilities.

Corporate Governance Statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code ('the Code'). We have nothing to report having performed our review.

On page 51 of the Annual Report, as required by the Code Provision C.1.1, the Directors state 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 performance, business model and strategy. On page 29, as required by C.3.8 of the Code, the Audit Committee has set out the significant issues that it considered in relation to the financial statements, and how they were addressed. Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- the statement given by the Directors is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit; or
- the section of the Annual Report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have no exceptions to report arising from this responsibility.

Other information in the Annual Report

Under 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 Group acquired in the course of performing our audit; or
- is otherwise misleading.

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 Directors' Responsibilities Statement set out on page 51, the Directors are responsible for the preparation of the Group 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 Group 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 Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matter

We have reported separately on the parent company financial statements of Synthomer plc for the year ended 31 December 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
27 February 2014

Consolidated income statement
for the year ended 31 December 2013

	Note	2013 Underlying performance £m	2013 Special items £m	2013 IFRS £m	2012 (restated) Underlying performance £m	2012 (restated) Special items £m	2012 (restated) IFRS £m
Continuing operations							
Group revenue	4,5	**992.7**	**–**	**992.7**	1,053.0	–	1,053.0
Share of joint ventures' revenue	4,5	**62.2**	**–**	**62.2**	58.8	–	58.8
Total sales		**1,054.9**	**–**	**1,054.9**	1,111.8	–	1,111.8
Group revenue		**992.7**	**–**	**992.7**	1,053.0	–	1,053.0
Company and subsidiaries before special items		**99.9**	**–**	**99.9**	106.3	–	106.3
Restructuring and site closure	3	**–**	**(1.4)**	**(1.4)**	–	(6.7)	(6.7)
Amortisation of acquired intangibles	3	**–**	**(26.7)**	**(26.7)**	–	(25.8)	(25.8)
Company and subsidiaries		**99.9**	**(28.1)**	**71.8**	106.3	(32.5)	73.8
Share of joint ventures	4,5	**4.9**	**(1.7)**	**3.2**	4.9	(1.6)	3.3
Operating profit/(loss)	5	**104.8**	**(29.8)**	**75.0**	111.2	(34.1)	77.1
Interest payable	7	**(10.5)**	**–**	**(10.5)**	(11.6)	–	(11.6)
Interest receivable	7	**0.9**	**–**	**0.9**	0.7	–	0.7
		(9.6)	**–**	**(9.6)**	(10.9)	–	(10.9)
IAS 19 interest charge		**(5.1)**	**–**	**(5.1)**	(5.7)	–	(5.7)
Fair value adjustment	3,7	**–**	**(1.2)**	**(1.2)**	–	(1.7)	(1.7)
Finance costs		**(14.7)**	**(1.2)**	**(15.9)**	(16.6)	(1.7)	(18.3)
Profit/(loss) before taxation		**90.1**	**(31.0)**	**59.1**	94.6	(35.8)	58.8
Taxation	8	**(18.0)**	**8.5**	**(9.5)**	(21.7)	17.3	(4.4)
Profit/(loss) for the year		**72.1**	**(22.5)**	**49.6**	72.9	(18.5)	54.4
Profit attributable to minority interests		**1.8**	**(0.5)**	**1.3**	1.8	(0.5)	1.3
Profit/(loss) attributable to equity holders of the parent		**70.3**	**(22.0)**	**48.3**	71.1	(18.0)	53.1
		72.1	**(22.5)**	**49.6**	72.9	(18.5)	54.4
Earnings/(loss) per share							
– Basic	11	**20.7p**	**(6.5)p**	**14.2p**	20.9p	(5.3)p	15.6p
– Diluted	11	**20.5p**	**(6.4)p**	**14.1p**	20.6p	(5.2)p	15.4p

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

Consolidated statement of comprehensive income
for the year ended 31 December 2013

	2013			2012 (restated)		
	Equity holders of the parent £m	Minority interests £m	Total £m	Equity holders of the parent £m	Minority interests £m	Total £m
Profit for the year	48.3	1.3	49.6	53.1	1.3	54.4
Actuarial gains and losses	4.4	–	4.4	(16.5)	–	(16.5)
Tax relating to components of other comprehensive income (see note 8)	–	–	–	1.9	–	1.9
Total items that will not be reclassified to profit or loss	4.4	–	4.4	(14.6)	–	(14.6)
Gains on cash flow hedges arising during the year	2.3	–	2.3	0.5	–	0.5
Exchange differences on translation of foreign operations	(11.5)	(1.0)	(12.5)	(7.9)	(0.2)	(8.1)
Gains on a hedge of a net investment taken to equity	(3.6)	–	(3.6)	0.1	–	0.1
Total items that may be reclassified subsequently to profit or loss	(12.8)	(1.0)	(13.8)	(7.3)	(0.2)	(7.5)
Other comprehensive expense for the year	(8.4)	(1.0)	(9.4)	(21.9)	(0.2)	(22.1)
Total comprehensive income for the year	39.9	0.3	40.2	31.2	1.1	32.3

Consolidated statement of changes in equity
for the year ended 31 December 2013

	Share capital £m	Share premium £m	Capital redemption reserve £m	Own shares £m	Hedging and translation reserve £m	Cash flow hedging reserve £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1 January 2013	34.0	230.5	0.9	–	(4.9)	(2.3)	16.7	274.9	11.7	286.6
Profit for the year	–	–	–	–	–	–	48.3	48.3	1.3	49.6
Actuarial gains and losses	–	–	–	–	–	–	4.4	4.4	–	4.4
Gains on cash flow hedges arising during the year	–	–	–	–	–	2.3	–	2.3	–	2.3
Exchanges differences on translation of foreign operations	–	–	–	–	(11.5)	–	–	(11.5)	(1.0)	(12.5)
Gains on a hedge of a net investment taken to equity	–	–	–	–	(3.6)	–	–	(3.6)	–	(3.6)
Tax relating to components of other comprehensive income (see note 8)	–	–	–	–	–	–	–	–	–	–
Total comprehensive (expense)/income for the year	–	–	–	–	(15.1)	2.3	52.7	39.9	0.3	40.2
Dividends paid	–	–	–	–	–	–	(19.4)	(19.4)	–	(19.4)
Share-based payments	–	–	–	–	–	–	(4.9)	(4.9)	–	(4.9)
At 31 December 2013	34.0	230.5	0.9	–	(20.0)	–	45.1	290.5	12.0	302.5
At 1 January 2012 (restated)	34.0	230.5	0.9	–	2.9	(2.8)	(1.0)	264.5	10.6	275.1
Profit for the year	–	–	–	–	–	–	53.1	53.1	1.3	54.4
Actuarial gains and losses	–	–	–	–	–	–	(16.5)	(16.5)	–	(16.5)
Gains on cash flow hedges arising during the year	–	–	–	–	–	0.5	–	0.5	–	0.5
Exchanges differences on translation of foreign operations	–	–	–	–	(7.9)	–	–	(7.9)	(0.2)	(8.1)
Gains on a hedge of a net investment taken to equity	–	–	–	–	0.1	–	–	0.1	–	0.1
Tax relating to components of other comprehensive income (see note 8)	–	–	–	–	–	–	1.9	1.9	–	1.9
Total comprehensive (expense)/income for the year	–	–	–	–	(7.8)	0.5	38.5	31.2	1.1	32.3
Dividends paid	–	–	–	–	–	–	(15.3)	(15.3)	–	(15.3)
Share-based payments	–	–	–	–	–	–	(5.5)	(5.5)	–	(5.5)
At 31 December 2012	34.0	230.5	0.9	–	(4.9)	(2.3)	16.7	274.9	11.7	286.6

Consolidated balance sheet
31 December 2013

	Note	2013 £m	2012 £m
Non-current assets			
Goodwill	13	**241.1**	240.9
Acquired intangible assets	14	**109.5**	135.6
Other intangible assets	15	**0.5**	0.6
Property, plant and equipment	16	**203.1**	199.6
Financial asset	17	**–**	5.6
Deferred tax assets	9	**9.9**	10.2
Investment in joint ventures	18	**13.0**	13.9
Total non-current assets		**577.1**	606.4
Current assets			
Inventories	19	**79.4**	78.1
Trade and other receivables	20	**133.3**	139.0
Financial asset	17	**5.8**	–
Cash and cash equivalents	21	**59.0**	53.7
Derivatives at fair value	22	**6.4**	8.7
Total current assets		**283.9**	279.5
Assets classified as held for sale	23	**1.1**	–
Current liabilities			
Borrowings	21	**(42.4)**	(0.4)
Trade and other payables	24	**(161.0)**	(184.8)
Current tax liability	8	**(38.6)**	(38.8)
Derivatives at fair value	22	**–**	(4.3)
Total current liabilities		**(242.0)**	(228.3)
Non-current liabilities			
Borrowings	21	**(160.9)**	(200.4)
Deferred tax liability	9	**(43.8)**	(50.9)
Post retirement benefit obligations	25	**(112.9)**	(119.7)
Total non-current liabilities		**(317.6)**	(371.0)
Net assets		**302.5**	286.6
Equity			
Called up share capital	26	**34.0**	34.0
Share premium		**230.5**	230.5
Capital redemption reserve		**0.9**	0.9
Hedging and translation reserve		**(20.0)**	(4.9)
Cash flow hedging reserve		**–**	(2.3)
Retained earnings		**45.1**	16.7
Equity attributable to equity holders of the parent		**290.5**	274.9
Minority interests		**12.0**	11.7
Total equity		**302.5**	286.6

The financial statements on pages 56 to 94 were approved by the Board of Directors and authorised for issue on 27 February 2014. They are signed on its behalf by:

A M Whitfield **D C Blackwood** Directors

Analysis of net borrowings

	Note	2013 £m	2012 £m
Cash and cash equivalents	21	**59.0**	53.7
Current borrowings	21	**(42.4)**	(0.4)
Financial asset	17	**5.8**	5.6
Non-current borrowings	21	**(160.9)**	(200.4)
Net borrowings		**(138.5)**	(141.5)
Special item: deduct fair value adjustment	21	**4.9**	6.1
Special item: add non-recourse factoring	21	**–**	(20.4)
Net borrowings (underlying performance)		**(133.6)**	(155.8)

Consolidated cash flow statement
for the year ended 31 December 2013

	Note	2013 £m	2013 £m	2012 £m	2012 £m
Operating					
Cash generated from operations	27		**92.5**		92.5
Interest received		**0.9**		0.7	
Interest paid		**(10.2)**		(12.0)	
Net interest paid			**(9.3)**		(11.3)
UK corporation tax paid		**–**		–	
Overseas corporate tax paid		**(17.4)**		(18.8)	
Total tax paid			**(17.4)**		(18.8)
Net cash inflow from operating activities			**65.8**		62.4
Investing					
Dividends received from joint ventures	18		**3.8**		3.2
Purchase of property, plant and equipment		**(39.1)**		(39.2)	
Sale of property, plant and equipment		**4.1**		1.1	
Net capital expenditure			**(35.0)**		(38.1)
Net cash outflow from investing activities			**(31.2)**		(34.9)
Financing					
Equity dividends paid	10		**(19.4)**		(15.3)
Settlement of equity-settled share based payments			**(6.2)**		(6.8)
Decrease in borrowings	28		**–**		(36.9)
Net cash outflow from financing activities			**(25.6)**		(59.0)
Increase/(decrease) in cash, cash equivalents and bank overdrafts during the year			**9.0**		(31.5)
Cash, cash equivalents and bank overdrafts at 1 January	28		**53.3**		85.9
Cash inflows/(outflows)					
Cash and cash equivalents	28	**8.6**		(31.1)	
Bank overdrafts	28	**0.4**		(0.4)	
			9.0		(31.5)
Exchange and other movements	28		**(3.3)**		(1.1)
Cash, cash equivalents and bank overdrafts at 31 December	28		**59.0**		53.3

Group financial statements

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

	Note	2013 £m	2012 £m
Net cash inflow from operating activities		**65.8**	62.4
Add back: reduction in factored invoices		**20.4**	0.6
Add back: dividends received from joint ventures	18	**3.8**	3.2
Less: net capital expenditure and financial investment		**(35.0)**	(38.1)
		55.0	28.1
Equity dividends paid	10	**(19.4)**	(15.3)
Settlement of equity-settled share based payments		**(6.2)**	(6.8)
Exchange movements		**(7.2)**	2.5
Movement in net borrowings (underlying performance)		**22.2**	8.5

Notes to the consolidated financial statements
31 December 2013

1 General information
Synthomer plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 24.

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
The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a material impact on the Group:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to Group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

IAS 19, 'Employee benefits' was revised in June 2011. The changes on the Group's accounting policies has been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). See note 33 for the impact on the financial statements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

New standards and interpretations not yet adopted
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 12, 'Disclosures of interests in other entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The adoption of this standard will have no impact on the primary statements. The only significant impact will be an increase in the disclosure relating to the investment in joint ventures.

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), IFRIC Interpretations 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. As discussed in the Report of the Directors on page 50, the financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below.

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 has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority'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 jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually at the operating segment level. Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed.

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 jointly controlled entity, 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;
- 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 circumstance 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.

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

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 and environmental licensing costs 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 as follows:

Software	– between 3 and 5 years

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

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

No research or development costs met the criteria for required 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 and land grants in Malaysia, which are 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

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.

2 Significant accounting policies continued

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.

Derivative financial instruments

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

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 22.

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss 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, restricted cash balances which become fully liquid within three months or less and other short-term highly liquid investments with original maturities of three months or less.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the 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.

Notes to the consolidated financial statements
continued

2 Significant accounting policies continued

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 taxes 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, together with adjustments for unrecognised past-service costs. 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 warranty costs are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Group's liability.

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 of goods are recognised when goods are delivered and title has passed, where delivery is defined in accordance with Incoterms 2000.

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.

Definitions

Total sales

Total sales represent the total of revenue from the Company, its subsidiaries, and its share of the revenue of joint ventures.

Operating profit

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

EBITDA

EBITDA is calculated as operating profit before depreciation, amortisation and special items (as defined below).

Special items

The following are disclosed separately 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;
- 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;

- Amounts advanced in respect of invoices sold under non-recourse factoring arrangements;
- Other non-recurring and non-operating items;
- Tax impact of the above items; and
- Settlement of prior period tax issues.

Underlying performance
Underlying performance represents the statutory performance of the Group under IFRS, excluding special items.

Net borrowings
Net borrowings represents 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.

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.

Going concern
The assessment that the financial statements should be prepared on a going concern basis requires the Directors to make a judgement that, after taking account of reasonably possible changes in trading performance, the Group has adequate resources to continue in operational existence for the foreseeable future.

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.

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 13 for more details.

Post retirement benefit obligations
Included in the actuaries' calculation of the post retirement benefit obligations are a number of assumptions. These are shown in detail in note 25.

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:

		2013 £m	2012 £m
Continuing operations			
Operating profit/(loss)			
Restructuring and site closure	– cash costs	**(1.4)**	(6.0)
	– non-cash costs	**–**	(0.7)
Amortisation of acquired intangibles (see note 14)	– subsidiaries	**(26.7)**	(25.8)
	– share of joint ventures	**(1.7)**	(1.6)
		(29.8)	(34.1)
Finance costs			
Fair value adjustment (see note 7)		**(1.2)**	(1.7)
Loss before taxation from continuing operations		**(31.0)**	(35.8)
Taxation (see note 8)		**8.5**	17.3
Loss for the year from continuing operations		**(22.5)**	(18.5)

The restructuring and site closure costs charged to the consolidated income statement above are in respect of post acquisition activities to integrate the former PolymerLatex business with that of the existing Group. 'Cash costs' represent those charges which have or will be defrayed in the form of cash settlements to third parties. As disclosed in note 27, at 31 December 2013 **£3.8 million** (2012 £11.4 million) of these costs have been physically paid to third parties. 'Non-cash costs' represent charges for the write off of specific fixed assets and stocks held on sites which are being closed as part of the integration exercise.

4 Segmental analysis

Substantially all revenues earned by the Group are from the sale of polymer products derived from petrochemical monomers.

No single customer accounts for more than 10% of the Group's revenues. No information is provided at the divisional level to the Executive Committee, the chief operating decision maker, concerning interest revenues, interest expense, depreciation or amortisation, income taxes or other material non-cash items.

2013	Total sales Underlying performance £m	Total sales Special items £m	Total sales IFRS £m	Operating profit Underlying performance £m	Operating profit Special items £m	Operating profit IFRS £m
Analysis by activity						
Continuing activity						
Europe & North America						
Subsidiaries	710.3	–	710.3	88.2	(21.9)	66.3
Share of joint ventures	34.5	–	34.5	1.6	(1.7)	(0.1)
	744.8	–	744.8	89.8	(23.6)	66.2
Asia & Rest of World						
Subsidiaries	282.4	–	282.4	19.8	(6.2)	13.6
Share of joint ventures	27.7	–	27.7	3.3	–	3.3
	310.1	–	310.1	23.1	(6.2)	16.9
Total sales	1,054.9	–	1,054.9			
Divisional operating profit				112.9	(29.8)	83.1
Unallocated corporate expenses				(8.1)	–	(8.1)
Operating profit/(loss)				104.8	(29.8)	75.0
Total share of joint ventures						
Europe & North America	34.5	–	34.5	1.6	(1.7)	(0.1)
Asia & Rest of World	27.7	–	27.7	3.3	–	3.3
	62.2	–	62.2	4.9	(1.7)	3.2

2012 (restated)	Total sales Underlying performance £m	Total sales Special items £m	Total sales IFRS £m	Operating profit Underlying performance £m	Operating profit Special items £m	Operating profit IFRS £m
Analysis by activity						
Continuing activity						
Europe & North America						
Subsidiaries	763.8	–	763.8	98.4	(26.0)	72.4
Share of joint ventures	33.1	–	33.1	1.8	(1.6)	0.2
	796.9	–	796.9	100.2	(27.6)	72.6
Asia & Rest of World						
Subsidiaries	289.2	–	289.2	16.0	(6.5)	9.5
Share of joint ventures	25.7	–	25.7	3.1	–	3.1
	314.9	–	314.9	19.1	(6.5)	12.6
Total sales	1,111.8	–	1,111.8			
Divisional operating profit				119.3	(34.1)	85.2
Unallocated corporate expenses				(8.1)	–	(8.1)
Operating profit				111.2	(34.1)	77.1
Total share of joint ventures						
Europe & North America	33.1	–	33.1	1.8	(1.6)	0.2
Asia & Rest of World	25.7	–	25.7	3.1	–	3.1
	58.8	–	58.8	4.9	(1.6)	3.3

4 Segmental analysis continued
Special items

2013	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m
Restructuring & site closure – cash costs	**(1.4)**	**–**	**–**	**(1.4)**
Restructuring & site closure – non-cash costs	**–**	**–**	**–**	**–**
Amortisation of acquired intangibles	**(20.5)**	**(6.2)**	**–**	**(26.7)**
Share of joint ventures special items	**(1.7)**	**–**	**–**	**(1.7)**
	(23.6)	**(6.2)**	**–**	**(29.8)**

2012	Europe & North America £m	Asia & Rest of World £m	Unallocated corporate expenses £m	Total £m
Restructuring & site closure – cash costs	(5.7)	(0.3)	–	(6.0)
Restructuring & site closure – non-cash costs	(0.7)	–	–	(0.7)
Amortisation of acquired intangibles	(19.6)	(6.2)	–	(25.8)
Share of joint ventures special items	(1.6)	–	–	(1.6)
	(27.6)	(6.5)	–	(34.1)

2013	Total assets £m	Total liabilities £m	Capital expenditure £m	Depreciation and amortisation £m
Analysis by activity				
Continuing activity				
Subsidiaries				
Europe & North America	231.0	(87.6)	15.1	11.0
Asia & Rest of World	181.4	(56.3)	19.9	8.2
	412.4	(143.9)	35.0	19.2
Unallocated assets and liabilities	11.4	(17.1)	–	–
	423.8	(161.0)	35.0	19.2
Share of joint ventures (see note 18)	25.7	(12.7)		
Goodwill (see note 13)	241.1	–		
Acquired intangibles and related deferred tax	109.5	(33.3)		
Current and deferred taxation	–	(39.2)		
Post retirement benefit obligations	–	(112.9)		
Net borrowings (see note 21)	–	(138.5)		
	800.1	(497.6)		
Net assets		302.5		

The above table has been enhanced by the inclusion of taxation and post retirement benefit obligations as separate line items. The prior year comparatives below have been similarly represented to ensure consistency.

2012 (restated)	Total assets £m	Total liabilities £m	Capital expenditure £m	Depreciation and amortisation £m
Analysis by activity				
Continuing activity				
Subsidiaries				
Europe & North America	230.6	(109.6)	13.3	10.1
Asia & Rest of World	177.0	(57.2)	27.0	8.2
	407.6	(166.8)	40.3	18.3
Unallocated assets and liabilities	18.4	(22.3)	0.2	0.1
	426.0	(189.1)	40.5	18.4
Share of joint ventures (see note 18)	27.2	(13.3)		
Goodwill (see note 13)	240.9	–		
Acquired intangibles and related deferred tax	135.6	(41.1)		
Current and deferred taxation	–	(38.4)		
Post retirement benefit obligations	–	(119.7)		
Net borrowings (see note 21)	–	(141.5)		
	829.7	(543.1)		
Net assets		286.6		

Analysis of total sales by destination

	2013 £m	2012 £m
Western Europe	**574.6**	607.1
Eastern Europe	**50.0**	48.0
North America	**38.2**	45.5
Asia	**290.7**	309.6
Africa and Middle East	**96.0**	96.0
Rest of World	**5.4**	5.6
	1,054.9	1,111.8

Inter-segmental sales

In addition to the amounts included above, inter-segmental sales of **£19.2 million** (2012 £11.9 million) were made as set out below. These sales were eliminated on consolidation.

2013	**Europe & North America £m**	**Asia & Rest of World £m**	**Total £m**
Europe & North America	**–**	**11.7**	**11.7**
Asia & Rest of World	**7.5**	**–**	**7.5**
Total	**7.5**	**11.7**	**19.2**

2012	Europe & North America £m	Asia & Rest of World £m	Total £m
Europe & North America	–	7.9	7.9
Asia & Rest of World	4.0	–	4.0
Total	4.0	7.9	11.9

Notes to the consolidated financial statements
continued

5 Operating profit

	2013 £m	2012 (restated) £m
Group revenue	**992.7**	1,053.0
Share of joint ventures revenue	**62.2**	58.8
Total sales	**1,054.9**	1,111.8
Group revenue	**992.7**	1,053.0
Cost of sales	**(819.3)**	(869.1)
Gross profit	**173.4**	183.9
Sales and marketing costs	**(23.3)**	(22.8)
Administrative expenses	**(31.0)**	(36.4)
Share of joint ventures	**4.9**	4.9
EBITDA	**124.0**	129.6
Depreciation and amortisation	**(19.2)**	(18.4)
Operating profit – underlying performance	**104.8**	111.2
Special items	**(29.8)**	(34.1)
Operating profit – IFRS	**75.0**	77.1

The breakdown of operating profit has been revised to provide a clearer indication of performance. The table below provides further details of the restatements made in relation to the 2012 figures.

	As originally reported £m	Amount reclassified £m	IAS 19 restatement (see note 33) £m	Restated £m
Group revenue	1,053.0	–	–	1,053.0
Cost of sales	(851.7)	(17.4)	–	(869.1)
Gross profit	201.3	(17.4)	–	183.9
Distribution costs	(52.0)	52.0	–	–
Sales and marketing costs	–	(22.8)	–	(22.8)
Administrative expenses	(45.2)	6.6	2.2	(36.4)
Share of joint ventures	3.3	1.6	–	4.9
Depreciation and amortisation	–	(18.4)	–	(18.4)
Special items	(32.5)	(1.6)	–	(34.1)
Operating profit – IFRS	74.9	0.0	2.2	77.1

	2013 £m	2012 £m
Operating profit is stated after charging the following:		
Amortisation: acquired intangibles (see note 14)	**26.7**	25.8
Amortisation: other intangibles (see note 15)	**0.2**	0.3
Depreciation (see note 16)	**19.0**	18.1
Hire of plant and equipment	**3.4**	2.5
Other lease rentals	**3.0**	3.0
Research and development expenditure (see below)	**13.5**	13.3

The definition of research and development expenditure has been amended to include technical services.

As a result, the 2012 comparative has increased from £8.0 million to £13.3 million.

6 Auditors' remuneration

	2013 £000	2012 £000
Fees payable to the Company's auditor for:		
audit of the Company's annual accounts and the consolidated accounts	**87**	87
Fees payable to the Company's auditor and their associates for other services to the Group:		
audit of the Company's subsidiaries	**374**	392
Total audit fees	**461**	479
Audit related assurance services	**5**	2
Tax compliance services	**147**	36
Other taxation advisory services	**64**	11
Other services	**156**	15
Total non-audit fees	**372**	64

The other services provided by the Group auditor in the current year related mainly to due diligence on potential acquisitions. Other taxation advisory services relate to advice on employment tax and other sundry projects.

Details of the Company's policy on the use of the 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 27 to 29. No services were provided pursuant to contingent fee arrangements.

7 Finance costs

	2013 £m	2012 (restated) £m
Interest payable on bank loans and overdrafts	**8.4**	8.8
Interest payable on other loans	**2.1**	2.8
	10.5	11.6
Less: interest receivable	**(0.9)**	(0.7)
	9.6	10.9
IAS 19 interest charge	**5.1**	5.7
Net interest payable	**14.7**	16.6
Fair value adjustment	**1.2**	1.7
Total finance costs	**15.9**	18.3

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.

8 Taxation

	2013 £m	2012 (restated) £m
Continuing operations		
Current tax		
UK corporation tax	**–**	0.1
Overseas taxation	**17.2**	21.9
	17.2	22.0
Deferred tax		
Origination and reversal of temporary differences	**0.8**	(0.3)
	18.0	21.7
Special items		
Current tax:		
Restructuring and site closure costs	**(0.4)**	(1.6)
Deferred tax:		
Recognition of UK deferred tax asset	**–**	(7.1)
Amortisation of acquired intangibles	**(8.1)**	(8.6)
	(8.5)	(17.3)
Total tax on profit before taxation	**9.5**	4.4

Notes to the consolidated financial statements
continued

8 Taxation continued

UK corporation tax is calculated at **23.25%** (2012 24.5%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

As a result of the provisions of Finance Act 2012 to reduce the UK corporation tax rate from 24% to 23% from 1 April 2013 the applicable rate of corporation tax for the year is 23.25%. Finance Act 2013 introduced further changes to the main rate of corporation tax, which was reduced from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. UK deferred tax balances have therefore been re-measured to reflect the rate at which they are expected to reverse.

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.

	2013 £m	2012 (restated) £m
Profit before taxation – continuing operations	**59.1**	58.8
Tax on profit before taxation (continuing operations) at standard UK corporation tax rate of **23.25%** (2012 24.5%)	**13.7**	14.4
Effects of:		
Expenses not deductible for tax purposes	**2.6**	2.6
Tax incentives and items not subject to tax	**(4.7)**	(4.4)
Higher tax rates on overseas earnings	**1.4**	0.8
Other deferred tax asset not recognised less amounts now recognised	**(4.5)**	(8.6)
Adjustments to tax charge in respect of prior periods	**0.2**	(0.4)
Effect of change of rate on deferred tax	**0.8**	–
Tax charge for year	**9.5**	4.4

Tax charges to other comprehensive income

	2013 £m	2012 (restated) £m
Deferred tax credit in respect of actuarial losses	**–**	(1.9)

Current tax liabilities

	2013 £m	2012 (restated) £m
Current tax liabilities	**(38.6)**	(38.8)

9 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 the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

The movements in deferred tax assets and liabilities (prior to offset) are shown below.

Deferred tax liabilities

2013	Accelerated tax depreciation £m	Acquired intangibles £m	Other £m	Total £m
At 1 January	(10.7)	(41.1)	0.9	(50.9)
(Charged)/credited to income statement	(0.1)	8.2	(0.5)	7.6
Exchange adjustment	(0.1)	(0.4)	–	(0.5)
At 31 December	(10.9)	(33.3)	0.4	(43.8)

Deferred tax assets

2013	Pensions £m
At 1 January	**10.2**
Credited to income statement	**(0.3)**
At 31 December	**9.9**

Deferred tax asset not recognised

Deferred tax assets are not recognised when it is not 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:

	2013 £m	2012 £m
UK pension liability	**5.5**	8.8
Tax losses	**9.2**	10.7
Accelerated capital allowances	**2.0**	2.8
Other timing differences	**(0.3)**	0.3
	16.4	22.6

10 Ordinary dividends

	2013 Pence per share	2012 Pence per share	**2013 £m**	2012 £m
Interim dividend	**2.4**	2.2	**8.1**	7.5
Proposed final dividend	**3.6**	3.3	**12.2**	11.2

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.

11 Earnings per share

Number of Shares

	2013 Number '000	2012 Number '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**339,549**	339,549
Effect of dilutive potential ordinary shares:		
Share options	**4,010**	5,527
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**343,559**	345,076

Earnings per Share

	2013			2012 (restated)		
	Underlying performance £m	**Special items £m**	**IFRS £m**	Underlying performance £m	Special items £m	IFRS £m
From Continuing operations						
Earnings (Profit attributable to equity holders of the parent)	**70.3**	**(22.0)**	**48.3**	71.1	(18.0)	53.1
Basic earnings per share	**20.7p**	**(6.5)p**	**14.2p**	20.9p	(5.3)p	15.6p
Diluted earnings per share	**20.5p**	**(6.4)p**	**14.1p**	20.6p	(5.2)p	15.4p

12 Employees

	2013 Number	2012 Number
The average monthly number of employees during the year by activity was:		
Continuing activity		
Europe & North America	**1,168**	1,151
Asia & Rest of World	**842**	817
Holding companies	**20**	23
	2,030	1,991
Share of joint ventures	**67**	63
	2,097	2,054

The share of joint ventures is calculated by applying the Group's effective interest to the average number of employees for each joint venture.

	2013 £m	2012 (restated) £m
The aggregate remuneration of all Group employees comprised:		
Wages and salaries	**68.7**	64.0
Social security costs	**9.3**	9.5
Pension costs	**11.0**	11.8
Share based payments	**0.8**	1.1
	89.8	86.4

Directors' emoluments are disclosed in the Remuneration Report on pages 32 to 48.

13 Goodwill

	2013 £m	2012 £m
Cost		
At 1 January	**350.8**	354.6
Exchange adjustments	**0.2**	(3.8)
At 31 December	**351.0**	350.8
Accumulated impairment losses		
At 1 January and at 31 December	**109.9**	109.9
Net book value		
At 31 December	**241.1**	240.9

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 2012 £m	Exchange adjustments £m	Net book value at 31 December 2012 £m	**Exchange adjustments £m**	**Net book value at 31 December 2013 £m**
Europe & North America	211.3	(3.0)	208.3	**3.1**	**211.4**
Asia & Rest of World	33.4	(0.8)	32.6	**(2.9)**	**29.7**
Total	244.7	(3.8)	240.9	**0.2**	**241.1**

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%** (2012 11%) and **12%** (2012 12%) have been used in the above calculations for Europe & North America and Asia & Rest of World respectively.

The profit used in the cash flows for the first year is derived from management forecasts; for years 2 to 10 a growth rate is applied. The profit for year 10 is then assumed to apply without further growth into perpetuity. Growth rates of between **2%** (2012 2%) and **5%** (2012 5%) have been used for Europe & North America and Asia & Rest of World respectively, representing management's best estimate of each CGU's circumstances, and these do not exceed the long-term growth rates for the markets concerned.

There is no reasonable possible change in key assumptions that would lead to an impairment.

Of the net book value of goodwill at 31 December 2013, **£70.5 million** (2012 £70.5 million) is located in the UK.

14 Acquired intangible assets

	Customer relationships £m	Technology £m	Total £m
Cost			
At 1 January 2013	176.6	2.9	179.5
Exchange adjustments	(0.3)	0.1	(0.2)
At 31 December 2013	**176.3**	**3.0**	**179.3**
Accumulated amortisation and impairment			
At 1 January 2013	43.4	0.5	43.9
Exchange adjustments	(0.8)	–	(0.8)
Amortisation charge for the year	26.4	0.3	26.7
At 31 December 2013	**69.0**	**0.8**	**69.8**
Net book value			
At 31 December 2013	**107.3**	**2.2**	**109.5**

	Customer relationships £m	Technology £m	Total £m
Cost			
At 1 January 2012			
Recognised on acquisition	181.0	2.9	183.9
Exchange adjustments	(4.4)	–	(4.4)
At 31 December 2012	176.6	2.9	179.5
Accumulated amortisation and impairment			
At 1 January 2012	18.3	0.2	18.5
Amortisation charge for the year	25.5	0.3	25.8
Exchange adjustments	(0.4)	–	(0.4)
At 31 December 2012	43.4	0.5	43.9
Net book value			
At 31 December 2012	133.2	2.4	135.6

15 Other intangible assets

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.

	Software £m
Cost	
At 1 January 2013	6.0
Exchange adjustments	(0.1)
Additions	0.1
At 31 December 2013	**6.0**
Accumulated amortisation and impairment	
At 1 January 2013	5.4
Exchange adjustments	(0.1)
Amortisation charge for the year	0.2
At 31 December 2013	**5.5**
Net book value	
At 31 December 2013	**0.5**

	Software £m
Cost	
At 1 January 2012	6.0
Exchange adjustments	(0.1)
Additions	0.1
At 31 December 2012	6.0
Accumulated amortisation and impairment	
At 1 January 2012	5.1
Exchange adjustments	–
Amortisation charge for the year	0.3
At 31 December 2012	5.4
Net book value	
At 31 December 2012	0.6

16 Property, plant and equipment

	Land and buildings				
		Leaseholds			
	Freeholds £m	Long £m	Short £m	Plant and equipment £m	Total £m
Cost					
A 1 January 2013	43.4	5.3	17.0	376.9	442.6
Exchange adjustments	–	–	(1.5)	(10.4)	(11.9)
Additions	0.7	–	3.4	30.8	34.9
Transferred to Assets classified as held for sale	(1.1)	–	–	–	(1.1)
Disposals	(3.7)	(0.1)	–	(3.6)	(7.4)
At 31 December 2013	**39.3**	**5.2**	**18.9**	**393.7**	**457.1**
Accumulated depreciation and impairment					
At 1 January 2013	16.3	2.7	1.7	222.3	243.0
Exchange adjustments	(0.1)	–	(0.2)	(4.1)	(4.4)
Depreciation charge for the year	1.9	0.1	0.5	16.5	19.0
Disposals	–	–	–	(3.6)	(3.6)
At 31 December 2013	**18.1**	**2.8**	**2.0**	**231.1**	**254.0**
Net book value					
At 31 December 2013	**21.2**	**2.4**	**16.9**	**162.6**	**203.1**

	Land and buildings				
		Leaseholds			
	Freeholds £m	Long £m	Short £m	Plant and equipment £m	Total £m
Cost					
At 1 January 2012	50.0	5.3	17.5	351.3	424.1
Exchange adjustments	(0.9)	–	(0.5)	(6.4)	(7.8)
Additions	0.3	–	–	40.0	40.3
Disposals	(6.0)	–	–	(8.0)	(14.0)
At 31 December 2012	43.4	5.3	17.0	376.9	442.6
Accumulated depreciation and impairment					
At 1 January 2012	19.3	2.6	1.2	217.4	240.5
Exchange adjustments	–	–	–	(3.1)	(3.1)
Depreciation charge for the year	1.9	0.1	0.5	15.6	18.1
Assets written down pending closure of business	0.3	–	–	0.2	0.5
Disposals	(5.2)	–	–	(7.8)	(13.0)
At 31 December 2012	16.3	2.7	1.7	222.3	243.0
Net book value					
At 31 December 2012	27.1	2.6	15.3	154.6	199.6

Freehold land amounting to **£3.7 million** (2012 £3.7 million) has not been depreciated.

Notes to the consolidated financial statements
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17 Financial asset
The Group disposed of its Pharma Chemicals business on 30 November 2011. Part of the consideration agreed with the buyer, totalling $10.0 million, was in the form of a deferred payment to the Group which will be made by the buyer on or before 30 September 2014. In the event that the buyer is unable to fulfil his obligation, this deferred consideration is secured by an irrevocable bank guarantee held in favour of Synthomer plc by HSBC Bank plc.

In view of the security held, the Directors consider this deferred consideration virtually certain to be received and have therefore included it in these financial statements as a Financial Asset, and within the Group's definition of Net Borrowings.

The amount of **£5.8 million** (2012 £5.6 million) represents the agreed amount of $10.0 million discounted at the rate of 5% per annum from 30 September 2014 to date of completion, plus an appropriate amount unwound on this discounting in the period up to 31 December 2013.

18 Investment in joint ventures

	2013 £m	**2013 £m**	2012 £m	2012 £m
At 1 January				
Share of non-current assets		**8.2**		10.2
Share of current assets		**19.0**		15.4
Share of current liabilities		**(13.3)**		(10.0)
Share of non-current liabilities		**–**		(1.3)
		13.9		14.3
Share of income	**62.2**		58.8	
Share of expenses (including special items)	**(58.8)**		(55.3)	
	3.4		3.5	
Tax	**(0.2)**		(0.2)	
	3.2		3.3	
Dividends paid during the year	**(3.8)**		(3.2)	
Exchange adjustments	**(0.3)**		(0.5)	
Share of loss after dividends	**(0.9)**		(0.4)	
At 31 December				
Share of non-current assets		**7.0**		8.2
Share of current assets		**18.7**		19.0
Share of current liabilities		**(12.7)**		(13.3)
Share of non-current liabilities		**–**		–
		13.0		13.9

A list of principal subsidiary undertakings and joint ventures is given on page 105.

19 Inventories

	2013 £m	2012 £m
Raw materials and consumables	**30.2**	30.6
Finished goods	**49.2**	47.5
	79.4	78.1

The value of stock written off during the year was **£0.1 million** (2012 £0.8 million).

The cost of inventory recognised as an expense and included in cost of sales amounted to **£763.7 million** (2012 £819.0 million).

There is no material difference between the balance sheet value of inventories and their replacement cost.

The nature of the chemical reaction necessary to produce finished goods from raw materials is such that 'work in progress' is not a material part of the Group's inventory at any given point of time.

20 Trade and other receivables

	2013 £m	2012 £m
Trade receivables	**122.4**	120.0
Amounts owed by joint ventures	**0.6**	0.6
Other receivables	**8.9**	16.7
Prepayments and accrued income	**1.4**	1.7
	133.3	139.0

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.

Ageing of trade receivables

	2013 £m	2012 £m
Not yet due	**97.6**	98.7
0 – 60 days overdue	**26.3**	20.3
61 – 120 days overdue	**1.2**	2.8
Over 120 days due	**2.5**	3.4
	127.6	125.2
Less: provision for impairment	**(5.2)**	(5.2)
	122.4	120.0

Provision for impairment of receivables

	2013 £m	2012 £m
At 1 January	**5.2**	4.4
Exchange adjustments	**0.1**	0.3
(Credit)/charge for the year	**(0.2)**	1.0
Amounts written off as uncollectible	**0.1**	(0.5)
At 31 December	**5.2**	5.2

The provision is predominantly against overdue trade receivables.

Notes to the consolidated financial statements
continued

21 Cash and borrowings

	2013 £m	2012 £m
Current borrowings		
Bank loans		
Bank loans and overdrafts	–	0.4
$70.0 million 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014*	42.4	–
	42.4	0.4

	2013 £m	2012 £m
Non-current borrowings		
Bank loans		
Unsecured £150.0 million multicurrency term loan facility expiring 2015	148.5	145.4
Other loans		
$70.0 million 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014*	–	43.3
$22.0 million 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016*	13.3	13.6
	161.8	202.3
Less: capitalised costs	(0.9)	(1.9)
	160.9	200.4

* In aggregate £55.7 million, associated with which is the currency impact of derivatives of £4.9 million, net £50.8 million.

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.

At 31 December 2013, the Group had available **£60.0 million** (2012 £60.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The Directors calculate the carrying value of the Group's borrowings as follows:

Analysis of borrowings at carrying value by currency

	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
31 December 2013					
Bank overdrafts	–	–	–	–	–
Bank loans	–	–	148.5	–	148.5
Loan notes	–	55.7	–	–	55.7
Capitalised costs	(0.9)	–	–	–	(0.9)
	(0.9)	55.7	148.5	–	203.3
Cash and cash equivalents					(59.0)
Financial asset – see note 17					(5.8)
Net borrowings					138.5
Deduct: special item fair value adjustment					(4.9)
Add: special item non-recourse factoring					–
Net borrowings (underlying performance)					133.6

	Sterling £m	US dollar £m	Euro £m	Other £m	Total £m
31 December 2012					
Bank overdrafts	0.4	–	–	–	0.4
Bank loans	–	–	145.4	–	145.4
Loan notes	–	56.9	–	–	56.9
Capitalised costs	(1.9)	–	–	–	(1.9)
	(1.5)	56.9	145.4	–	200.8
Cash and cash equivalents					(53.7)
Financial asset – see note 17					(5.6)
Net borrowings					141.5
Deduct: special item fair value adjustment					(6.1)
Add: special item non-recourse factoring					20.4
Net borrowings (underlying performance)					155.8

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, 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 prior to the adoption of IFRS.

Cash and cash equivalents are deposited with financial institutions with a credit rating of A or higher.

22 Financial instruments

The Group's treasury function 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.

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 disclosed in note 21, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. It is management's intention to maintain the underlying net borrowings to EBITDA metric to between one and two times:

	2013	2012
Net borrowings – Underlying performance (£m)	**133.6**	155.8
EBITDA (£m – see note 5)	**124.0**	129.6
Underlying net borrowings : EBITDA	**1.1**	1.2

Notes to the consolidated financial statements
continued

22 Financial instruments continued

	2013		2012	
	Loans and receivables £m	Fair value through profit or loss £m	Loans and receivables £m	Fair value through profit or loss £m
Financial assets				
Trade and other receivables excluding prepayments	131.9	–	137.3	–
Cash and cash equivalents	59.0	–	53.7	–
Financial asset	5.8	–	5.6	–
Derivatives at fair value	–	6.4	–	8.7
	196.7	6.4	196.6	8.7

	Amortised cost £m	Derivative instruments in designated hedge accounting £m	Amortised cost £m	Derivative instruments in designated hedge accounting £m
Financial liabilities				
Loan notes	55.7	–	56.9	–
Bank loans and overdrafts	148.5	–	143.9	–
Derivatives at fair value	–	–	–	4.3
Trade and other payables excluding accruals	134.9	–	145.1	–
	339.1	–	345.9	4.3

Set out below is a comparison by category of book values and fair values of the Group's financial assets and liabilities.

	Carrying values at 31 December		Fair values at 31 December	
	2013 £m	2012 £m	2013 £m	2012 £m
Fair value of financial assets				
Trade and other receivables excluding prepayments	131.9	137.3	131.9	137.3
Cash and cash equivalents	59.0	53.7	59.0	53.7
Financial asset	5.8	5.6	5.8	5.6
Derivatives at fair value	6.4	8.7	6.4	8.7
	203.1	205.3	203.1	205.3
Fair value of financial liabilities				
Loan notes	55.7	56.9	57.2	59.6
Bank loans and overdrafts	148.5	143.9	148.5	143.5
Derivatives at fair value	–	4.3	–	4.3
Trade and other payables excluding accruals	134.9	145.1	134.9	145.1
	339.1	350.2	340.6	352.5

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.

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 euros. 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 (2012 none).

Impact on income statement

Changes in the fair value of derivative contracts amounting to **£1.2 million** have been debited to the income statement in the year (2012 debit of £1.7 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.

The Group has designated a number of Interest Rate Swap agreements, acquired as part of the acquisition of PolymerLatex Group, which in combination represent a floating to fixed interest rate swap on a principal euro amount of €156 million, as an effective hedge against the interest rate exposure associated with a substantial portion of the Group's euro denominated, floating rate, £150 million Term Loan. As such these contracts are now accounted for as Cash Flow Hedges as permitted by IAS 39. These contracts matured on 31 December 2013 and have not been renewed.

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 euro functional currency. These contracts, together with €177.8 million drawn on the multi currency term loan facility 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 2013 was:

	2013			2012		
	Floating rate borrowings £m	**Fixed rate borrowings £m**	**Total borrowings £m**	Floating rate borrowings £m	Fixed rate borrowings £m	Total borrowings £m
Sterling	**19.9**	**30.0**	**49.9**	19.3	30.0	49.3
Euro	**148.5**	**–**	**148.5**	17.9	127.5	145.4
US dollar	**–**	**–**	**–**	–	–	–
Other	**–**	**–**	**–**	–	–	–
	168.4	**30.0**	**198.4**	37.2	157.5	194.7
Cash and cash equivalents			**(59.0)**			(53.7)
Financial asset – see note 17			**(5.8)**			(5.6)
Add: special item non-recourse factoring			**–**			20.4
Net borrowings (underlying performance)			**133.6**			155.8

The effective interest rate for the year was **4.7%** (2012 4.7%).

Group financial statements

Notes to the consolidated financial statements
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22 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 and US dollar to sterling exchange rates, before the effect of tax.

	2013			2012		
	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%	**0.2**	**(0.3)**	**–**	0.2	0.6	–
Euro interest rate +/- 1.0%	**1.5**	**1.5**	**–**	0.4	0.4	1.2
US interest rate +/- 1.0%	**–**	**0.7**	**–**	–	1.3	–
Foreign currency sensitivity analysis						
Euro exchange rate -/+ 10%	**–**	**–**	**2.3**	0.4	0.4	3.3
US dollar exchange rate -/+ 10%	**–**	**0.4**	**–**	–	0.7	–

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 facilities:

A committed syndicated bank facility of £210 million comprising a £150 million Term Loan which was drawndown in euros on completion of the PolymerLatex acquisition, and a £60 million revolving credit facility which was undrawn at 31 December 2013.

Unsecured loan notes totalling approximately £51 million raised from the US private placement market in 2004. With maturity between 2014 and 2016, these loan notes provide the Group's long-term requirements. Please see note 21 for further details.

The following table details the remaining contractual maturity for non-derivative financial liabilities:

	2013					2012				
	Amount due					Amount due				
	within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	Total £m	within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	Total £m
Non-interest bearing										
Trade and other payables excluding accruals	**134.9**	**–**	**–**	**–**	**134.9**	145.1	–	–	–	145.1
Variable interest rate instruments										
Bank loans and overdrafts	**3.5**	**149.4**	**–**	**–**	**152.9**	3.9	3.4	146.2	–	153.5
Fixed interest rate instruments										
Loan notes	**45.7**	**0.8**	**14.1**	**–**	**60.6**	3.3	46.6	15.3	–	65.2
	184.1	**150.2**	**14.1**	**–**	**348.4**	152.3	50.0	161.5	–	363.8

The following table details the remaining contractual maturity for non-derivative financial assets:

	2013					2012				
	Amount due					Amount due				
	within one year £m	**between 1 and 2 years £m**	**between 2 and 5 years £m**	**after 5 years £m**	**Total £m**	within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	Total £m
Non-interest bearing										
Trade and other receivables excluding prepayments	**131.9**	**–**	**–**	**–**	**131.9**	137.3	–	–	–	137.3
Financial asset	**5.8**	**–**	**–**	**–**	**5.8**	–	5.6	–	–	5.6
Variable interest rate instruments										
Cash and cash equivalents	**59.0**	**–**	**–**	**–**	**59.0**	53.7	–	–	–	53.7
	196.7	**–**	**–**	**–**	**196.7**	191.0	5.6	–	–	196.6

The following table details the remaining contractual maturity for its derivative financial instruments:

	2013					2012				
	Amount due					Amount due				
	within one year £m	**between 1 and 2 years £m**	**between 2 and 5 years £m**	**after 5 years £m**	**Total £m**	within one year £m	between 1 and 2 years £m	between 2 and 5 years £m	after 5 years £m	Total £m
Interest rate swaps	**–**	**–**	**–**	**–**	**–**	(4.5)	–	–	–	(4.5)
Cross currency swaps	**(1.2)**	**(0.2)**	**(0.1)**	**–**	**(1.5)**	(1.4)	(1.0)	(0.3)	–	(2.7)
Foreign exchange forward contracts	**–**	**–**	**–**	**–**	**–**	(0.7)	–	–	–	(0.7)
	(1.2)	**(0.2)**	**(0.1)**	**–**	**(1.5)**	(6.6)	(1.0)	(0.3)	–	(7.9)

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.

23 Asset classified as held for sale

	2013 £m	2012 £m
Freehold land	**1.1**	–

The Group owns approximately 1,900 acres of agricultural land in Malaysia, on which is currently operated 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% minority interest.

The Directors decided during the year to dispose of this land, excluding the 300 acres immediately surrounding the manufacturing facilities, on the open market.

At 31 December 2013, contracts have been exchanged on 700 acres for a total consideration of approximately £27 million.

These disposals are subject to regulatory approval which may take up to 2 years.

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24 Trade and other payables

	2013 £m	2012 £m
Amount due within one year		
Trade creditors	**109.8**	121.9
Other creditors	**25.1**	23.2
Accruals	**26.1**	39.7
	161.0	184.8

Average trade creditor days in 2013 was **60** (2012 66). This figure represents trade creditor 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 approximates to their fair value.

25 Post retirement benefit obligations

Charge to income statement in respect of the Group's pension schemes:

	2013			2012 (restated)		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Defined benefit	**3.7**	**2.6**	**6.3**	4.1	2.6	6.7
Defined contribution	**1.3**	**3.4**	**4.7**	1.5	3.6	5.1
	5.0	**6.0**	**11.0**	5.6	6.2	11.8

Amounts recognised in the statement of comprehensive income

	2013			2012 (restated)		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Actuarial gains and losses	**4.4**	**0.0**	**4.4**	(10.9)	(5.6)	(16.5)

Amount included in the balance sheet arising from the Group's defined benefit scheme obligation

	2013			2012		
	UK £m	Overseas £m	Total £m	UK £m	Overseas £m	Total £m
Present value of funded defined benefit obligation	**(315.9)**	**(59.6)**	**(375.5)**	(301.5)	(56.8)	(358.3)
Fair value of scheme assets	**255.6**	**7.0**	**262.6**	232.0	6.6	238.6
Net liability arising from defined benefit obligation	**(60.3)**	**(52.6)**	**(112.9)**	(69.5)	(50.2)	(119.7)

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 2012 and updated to 31 December 2013 by a qualified actuary.

The Group has agreed that it will aim to eliminate the pension plan deficit over the next 8 years.

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 plans' bond holdings.
Longevity risk	The majority of the plans' obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plans' liabilities.

The risk relating to benefits to be paid to the dependents 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:

	2013	2012
Rate of increase in pensions in payment	**3.30%**	3.00%
Rate of increase in pensions in deferment	**2.30%**	2.00%
Discount rate	**4.55%**	4.60%
Inflation assumption	**3.30%**	3.00%

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:

	2013	2012
Retiring today:		
Males	**87.5**	87.4
Females	**89.9**	89.8
Retiring in 20 years:		
Males	**89.2**	89.1
Females	**91.9**	91.8

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 £45 million
Rate of mortality	Increase by 1 year	Increase by £9 million

The above senstivities 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.

Notes to the consolidated financial statements
continued

25 Post retirement benefit obligations continued

The movements in the defined benefit obligation over the year is as follows:

	2013			2012		
	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m
At 1 January	**(301.5)**	**232.0**	**(69.5)**	(272.1)	198.2	(73.9)
Current service cost	**(0.5)**	**–**	**(0.5)**	(0.5)	–	(0.5)
Interest (expense)/income	**(13.9)**	**10.7**	**(3.2)**	(13.1)	9.5	(3.6)
Amounts recognised in income in respect of defined benefit schemes	**(14.4)**	**10.7**	**(3.7)**	(13.6)	9.5	(4.1)
Remeasurement:						
Return on plan assets excluding amounts included in interest expense/(income)	**–**	**16.4**	**16.4**	–	16.7	16.7
(Gains)/losses from changes in financial assumptions	**(12.0)**	**–**	**(12.0)**	(27.6)	–	(27.6)
Amounts recognised in the statement of comprehensive income	**(12.0)**	**16.4**	**4.4**	(27.6)	16.7	(10.9)
Contributions:						
Employers	**0.5**	**8.0**	**8.5**	0.5	18.9	19.4
Payments from plans						
Benefit payments	**11.5**	**(11.5)**	**–**	11.3	(11.3)	–
At 31 December	**(315.9)**	**255.6**	**(60.3)**	(301.5)	232.0	(69.5)

Plan assets are comprised as follows:

	2013 £m	2012 £m
Equities	**120.5**	119.2
Bonds	**104.6**	80.8
Property	**22.2**	20.1
Cash	**8.3**	11.9
Total fair value of assets	**255.6**	232.0

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 **15.5 years** (2012 16.0 years).

Contributions from the sponsoring companies are expected to be £8.0 million in 2014.

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 **£51.3 million**, 2012 £47.7 million), 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 2013.

The largest of these schemes accounts for **£38.3 million** (2012 £37.8 million) of the deficit at 31 December 2013. The major assumption used in the actuarial valuation of this scheme are:

	2013	2012
Rate of increase in salaries	**3.00%**	3.00%
Rate of increase in pensions	**2.00%**	2.00%
Discount rate	**3.80%**	3.80%

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:

	2013	2012
Retiring today:		
Males	**86.0**	85.8
Females	**91.0**	90.8
Retiring in 20 years:		
Males	**89.3**	89.1
Females	**94.2**	94.1

The major assumption used in the valuation of the other overseas schemes do not differ significantly from the above.

The movements in the defined benefit obligation over the year is as follows:

	2013			2012		
	Present value of funded defined benefit obligation £m	**Fair value of scheme assets £m**	**Net liability arising from defined benefit obligation £m**	Present value of funded defined benefit obligation £m	Fair value of scheme assets £m	Net liability arising from defined benefit obligation £m
At 1 January	**(56.8)**	**6.6**	**(50.2)**	(50.0)	6.0	(44.0)
Current service cost	**(0.7)**	**–**	**(0.7)**	(0.5)	–	(0.5)
Interest (expense)/income	**(2.1)**	**0.2**	**(1.9)**	(2.2)	0.1	(2.1)
Amounts recognised in income in respect of defined benefit schemes	**(2.8)**	**0.2**	**(2.6)**	(2.7)	0.1	(2.6)
Remeasurement:						
Return on plan assets excluding amounts included in interest expense/(income)	**–**	**0.1**	**0.1**	–	0.6	0.6
(Gains)/losses from changes in financial assumptions	**(0.1)**	**–**	**(0.1)**	(6.2)	–	(6.2)
Amounts recognised in the statement of comprehensive income	**(0.1)**	**0.1**	**0.0**	(6.2)	0.6	(5.6)
Contributions less payments from plans	**1.5**	**–**	**1.5**	1.2	–	1.2
Exchange adjustments	**(1.4)**	**0.1**	**(1.3)**	0.9	(0.1)	0.8
At 31 December	**(59.6)**	**7.0**	**(52.6)**	(56.8)	6.6	(50.2)

Notes to the consolidated financial statements
continued

26 Share capital

	2013 £m	2012 £m
Issued and fully paid		
339,880,769 (2012 339,880,769) ordinary shares of 10 pence each	34.0	34.0

Ordinary shares carry no right to fixed income.

Share options

As at 31 December 2013 the following options were outstanding:

Executive share options	Number	Option price
Exercisable between 2013-2019	85,272	(a)
Exercisable between 2013-2020	751,933	(b)
Exercisable between 2014-2021	1,252,443	(c)
Exercisable between 2015-2022	833,499	(d)
Exercisable between 2016-2023	1,087,019	(e)

(a) options granted under the Performance Share Plan with a total exercise price of £1.
(b) options granted under the Performance Share Plan with a total exercise price of £11.
(c) options granted under the Performance Share Plan with a total exercise price of £0.
(d) options granted under the Performance Share Plan with a total exercise price of £0.
(e) options granted under the Performance Share Plan with a total exercise price of £0.

27 Reconciliation of operating profit to cash generated from operations

	2013 £m	2012 (restated) £m
Operating profit – continuing operations	75.0	77.1
Less: share of profits of joint ventures	(3.2)	(3.3)
	71.8	73.8
Adjustments for:		
Depreciation (underlying)	19.0	18.1
Amortisation (underlying)	0.2	0.3
Amortisation: special items	26.7	25.8
Restructuring and site closure – cash costs	1.4	6.0
– non-cash costs	–	0.7
Share-based payments	0.8	1.1
Profit on sale of fixed assets	(0.3)	(0.1)
Acquisition costs cash spent in the year	–	(0.4)
Cash impact of restructuring and site closure	(3.8)	(11.4)
IAS 19 interest charge	(5.1)	(5.7)
Pension funding in excess of IAS 19 charge	(3.6)	(13.8)
Increase in inventories	(3.3)	(5.9)
Decrease in trade and other receivables	3.4	4.8
Decrease in trade and other payables	(14.7)	(0.8)
Cash generated from operations	92.5	92.5

	2013 £m	2012 (restated) £m
Reconciliation of movement in working capital		
Increase in inventories	(3.3)	(5.9)
Decrease in trade and other receivables	3.4	4.8
Decrease in trade and other payables	(14.7)	(0.8)
Movement in working capital	(14.6)	(1.9)
Add back: reduction in factored invoices	20.4	0.6
Movement in working capital (underlying)	5.8	(1.3)

28 Analysis of changes in net borrowings

	1 January 2013 £m	Cash inflows/ (outflows) £m	Exchange and other movements £m	31 December 2013 £m
Cash and cash equivalents	53.7	8.6	(3.3)	**59.0**
Current borrowing – Bank overdrafts	(0.4)	0.4	–	**–**
	53.3	9.0	(3.3)	**59.0**
Financial asset	5.6	–	0.2	**5.8**
Current borrowings	–	(44.7)	2.3	**(42.4)**
Non-current borrowings	(200.4)	44.7	(5.2)	**(160.9)**
Net borrowings	(141.5)	9.0	(6.0)	**(138.5)**
Deduct: special item fair value adjustment	6.1	–	(1.2)	**4.9**
	(135.4)	9.0	(7.2)	**(133.6)**
Add: special item factoring	(20.4)	20.4	–	**–**
Net borrowings (underlying performance)	(155.8)	29.4	(7.2)	**(133.6)**

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 economic hedges.

29 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not included in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's financial statements where appropriate.

Key management compensation

	2013 £m	2012 £m
Short-term employee benefits	**3.2**	3.6
Post retirement benefit obligations	**0.4**	0.3
Share-based payments	**0.5**	1.5
	4.1	5.4

The key management figures given above include the Directors and members of the Executive Committee.

30 Commitments

	2013 £m	2012 £m
Capital expenditure authorised but not provided for in the financial statements		
Contracted	**6.9**	13.7

	2013 £m	2012 £m
Commitments under operating leases are as follows		
Payments under operating leases which fall due:		
Within 1 year	**3.3**	3.4
Between 2 and 5 years	**6.7**	7.4
After 5 years	**14.0**	16.6
	24.0	27.4

31 Contingent assets, contingent liabilities and guarantees

Guarantees of the parent company in respect of bank and other facilities of subsidiaries and joint ventures totalled **£5.5 million** (2012 £5.7 million).

Other guarantees and contingent liabilities of the Group amount to **£0.4 million** (2012 £0.3 million).

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.

Notes to the consolidated financial statements
continued

32 Share-based payments

Executive share option schemes

Details of the share option schemes available to senior management are included in the Remuneration Report on pages 32 to 48.

	Options 2013	**Weighted av. exercise price (£) 2013**	Options 2012	Weighted av. exercise price (£) 2012
Outstanding at 1 January	**5,527,087**	**–**	7,515,639	–
Granted during the period	**1,087,019**	**–**	866,456	–
Exercised during the period	**(2,570,983)**	**–**	(2,793,242)	–
Lapsed during the period	**(32,957)**	**–**	(61,766)	–
Outstanding at 31 December	**4,010,166**	**–**	5,527,087	–
Exercisable at 31 December	**374,181**		736,412	

For options outstanding as at 31 December 2013, the exercise price was £nil and the weighted average remaining contractual life was **4.6** years (2012 4.2 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 2013, the Trust held **331,502 ordinary shares** (2012 331,502) in the Company with a market value of **£0.8 million** (2012 £0.6 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.

33 Restatement on adoption of IAS 19 revised

IAS 19 (revised) "Employee benefits" was amended in June 2011 and is effective for financial years beginning on or after 1 January 2013. The Company has implemented IAS 19 (revised) in the year ended 31 December 2013. The specific impact of this on the income statement is a change in the calculation of the interest income on plan assets. This was previously based on the expected returns on the various asset types held within the investment portfolio. It is now calculated at the same rate used to calculate the interest expense on the pension liability, being a discount rate derived from corporate bonds. The difference between this calculated return and the actual return is reported as an actuarial gain/loss through reserves.

In addition, as part of the implementation of IAS 19 (revised) the Group has chosen to classify the interest expense on the net pension liability within finance costs. The expected return on plan assets and interest expense on the pension liability were previously reported as part of operating expenses.

The change in accounting policy has been applied retrospectively to the comparator periods.

There is no significant change to the net pension liability or to net assets as a result of the adoption of IAS 19 (revised). As a result no restatement of the balance sheet is required.

Restatement of prior full year period to 31 December 2012

The effect of adopting IAS 19 (revised) on the Group's profit is to reduce both underlying and total reported profit after tax by £3.5 million for the prior full-year ended 31 December 2012. In addition, £2.2 million of expenses relating to the expected return on plan assets and interest expense on the pension liability, previously reported within operating expenses have been reclassified to finance costs.

The full impact on the income statement is set out in the tables below:

Consolidated income statement

Year ended 31 December 2012	As originally reported £m	Change in accounting policy £m	Restated £m
Underlying basis			
Europe & North America	98.0	2.2	100.2
Asia & Rest of World	19.1	–	19.1
Unallocated corporate costs	(8.1)	–	(8.1)
Operating profit	109.0	2.2	111.2
Finance costs	(10.9)	(5.7)	(16.6)
Profit/(loss) before taxation	98.1	(3.5)	94.6
Taxation	(21.7)	–	(21.7)
Profit/(loss) for the year	76.4	(3.5)	72.9
Earnings per share – basic	22.0p	(1.1)p	20.9p
Earnings per share – diluted	21.6p	(1.0)p	20.6p

Year ended 31 December 2012	As originally reported £m	Change in accounting policy £m	Restated £m
IFRS			
Europe & North America	70.4	2.2	72.6
Asia & Rest of World	12.6	–	12.6
Unallocated corporate costs	(8.1)	–	(8.1)
Operating profit	74.9	2.2	77.1
Finance costs	(12.6)	(5.7)	(18.3)
Profit/(loss) before taxation	62.3	(3.5)	58.8
Taxation	(4.4)	–	(4.4)
Profit/(loss) for the year	57.9	(3.5)	54.4
Earnings per share – basic	16.7p	(1.1)p	15.6p
Earnings per share – diluted	16.4p	(1.0)p	15.4p

The impact on the statement of comprehensive income is as follows:

Consolidated statement of comprehensive income
Year ended 31 December 2012

	As originally reported £m	Change in accounting policy £m	Restated £m
Profit/(loss) for the year	57.9	(3.5)	54.4
Actuarial (losses)/gains	(20.0)	3.5	(16.5)
Gains on cash flow hedges arising during the year	0.5	–	0.5
Exchange differences on translation of foreign operations	(8.1)	–	(8.1)
Gains on a hedge of a net investment taken to equity	0.1	–	0.1
Tax relating to components of other comprehensive income	1.9	–	1.9
Other comprehensive (expense)/income for the year	(25.6)	3.5	(22.1)
Total comprehensive income for the year	32.3	–	32.3

Notes to the consolidated financial statements
continued

34 Share price information

The middle market value of the listed ordinary shares at 31 December 2013 was 254.5 pence. During the year, the market price ranged between 177.4 pence and 257.8 pence. The latest ordinary share price is available on the Financial Times Cityline service, telephone 09058 171690.

Independent auditor's report
to the members of Synthomer plc

Report on the Parent Company financial Statements

Our opinion
In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the Parent Company's affairs as at 31 December 2013;
- 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited
The Parent Company financial statements, which are prepared by Synthomer plc, comprise:

- the Parent Company balance sheet as at 31 December 2013;
- the notes to the Parent Company financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation comprises applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves
We conducted our audit in accordance with International Standards on Auditing (UK & Ireland) ("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.

In addition, we read all the financial and non-financial information in the Synthomer Annual Report (the 'Annual Report') to identify material inconsistencies with the audited Parent Company 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.

Opinions on matters prescribed by the Companies Act 2006
In our opinion:

- The information given in the Strategic report and the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.
- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other matters on which we are required to report by exception

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 Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

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

Other information in the Annual Report
Under 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 Parent Company 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
- is otherwise misleading.

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 Directors' Responsibilities Statement set out on page 51, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view.

Independent auditor's report
to the members of Synthomer plc continued

Our responsibility is to audit and express an opinion on the Parent Company 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 Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Matter

We have reported separately on the Group financial statements of Synthomer plc for the year ended 31 December 2013.

Andrew Latham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
27 February 2014

Company balance sheet
31 December 2013

	Note	2013 £m	2012 £m
Fixed assets			
Tangible fixed assets	5	**2.2**	2.6
Investments	6	**302.2**	289.2
		304.4	291.8
Current assets			
Debtors	7	**737.0**	767.0
Cash at bank and in hand		**15.6**	4.9
Derivatives at fair value		**6.4**	8.7
		759.0	780.6
Creditors – amounts falling due within one year			
Borrowings	8	**(57.1)**	(65.4)
Other creditors	10	**(135.8)**	(121.1)
		(192.9)	(186.5)
Net current assets		**566.1**	594.1
Total assets less current liabilities		**870.5**	885.9
Creditors – amounts falling due after more than one year			
Borrowings	8	**(160.8)**	(200.4)
Net assets		**709.7**	685.5
Capital and reserves			
Share capital	11	**34.0**	34.0
Share premium	12	**230.5**	230.5
Revaluation reserve	12	**0.8**	0.8
Capital redemption reserve	12	**0.9**	0.9
Profit and loss account	12	**443.5**	419.3
Shareholders funds		**709.7**	685.5
Analysis of net borrowings			
Cash at bank and in hand		**15.6**	4.9
Borrowings due in less than one year		**(57.1)**	(65.4)
Borrowings due after more than one year		**(160.8)**	(200.4)
Net borrowings		**(202.3)**	(260.9)
Deduct: special item		**4.9**	6.1
Net borrowings (underlying performance)	8	**(197.4)**	(254.8)

The financial statements of Synthomer plc (registered number 98381) on pages 97 to 104 were approved on 27 February 2014.

A M Whitfield
D C Blackwood
Directors

Notes to the Company financial statements
31 December 2013

1 Accounting policies
The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

The Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS1 "Cash Flow Statement". The cash flows of the Company are included in the Synthomer plc group financial statements.

Basis of accounting
The financial statements have been prepared on the going concern basis under the historical cost convention as modified by the revaluation of certain fixed assets, and comply with applicable UK accounting standards and the Companies Act 2006.

Foreign currencies
Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate.

Tangible fixed assets
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. 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. Except for freehold land, which is not depreciated, the cost or valuation of tangible fixed assets is depreciated on a straight-line basis over their expected useful lives 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

Revaluation of properties
Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the profit and loss account as a movement on reserves. On the disposal or recognition of a provision for impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

Investments
Fixed asset investments are shown at cost less provision for impairment.

Intercompany
Intercompany balances are shown gross unless a right of set off exists.

Borrowings
Borrowings are initially stated at the amount of the net proceeds after deduction of issue costs.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Financial instruments
Financial assets and financial liabilities (including derivative instruments) are recognised on the Company balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Trade debtors
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 profit and loss account 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 creditors
Trade creditors are not interest-bearing and are stated at their nominal value.

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 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 profit and loss account immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the profit and loss account 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 profit and loss account, 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 profit and loss account.

Net borrowings
Net borrowings represents 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.

Pension funding
In accordance with FRS17, the Company accounts for its contributions to the defined benefits scheme as if it were a defined contribution scheme because it is not possible to identify the Company's share of the assets and liabilities in the scheme on a consistent and reasonable basis.

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.

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

2 Auditors' remuneration
The audit fee of Synthomer plc amounted to **£4,000** (2012 £4,000).

3 Profit attributable to equity shareholders

UK GAAP basis*	**2013 £m**	2012 £m
Attributable to Synthomer Plc	**48.4**	300.0

As permitted by Section 408 of the Companies Act 2006 no profit and loss account is presented for Synthomer plc.

* The above has been calculated on a UK GAAP basis as this is consistent with the continued presentation of Synthomer plc's accounts under UK GAAP.

4 Ordinary dividends

	2013 Pence per share	2012 Pence per share	**2013 £m**	2012 £m
Interim dividend	**2.4**	2.2	**8.1**	7.5
Proposed final dividend	**3.6**	3.3	**12.4**	11.2

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.

Notes to the Company financial statements
continued

5 Tangible fixed assets

	Land and buildings			
	Freeholds £m	Long leaseholds £m	Plant and equipment £m	Total £m
Cost or valuation				
At 1 January 2013	2.8	0.1	1.8	4.7
Disposals	–	(0.1)	(1.8)	(1.9)
At 31 December 2013	**2.8**	**–**	**–**	**2.8**
At cost	–	–	–	–
At professional valuation in 1985	2.8	–	–	2.8
	2.8	–	–	2.8
Accumulated Depreciation				
At 1 January 2013	0.6	0.1	1.4	2.1
Eliminated on disposals	–	(0.1)	(1.4)	(1.5)
At 31 December 2013	**0.6**	**–**	**–**	**0.6**
Net book value				
At 31 December 2013	**2.2**	**–**	**–**	**2.2**
Net book value				
At 31 December 2012	2.2	–	0.4	2.6

Properties included at valuation would have been stated on a historical cost basis at cost of **£1.9 million** (2012 £1.9 million) and depreciation of **£0.5 million** (2012 £0.5 million).

Freehold land amounting to **£1.8 million** (2012 £1.8 million) has not been depreciated.

6 Investments

	Subsidiaries £m	Joint ventures £m	Other investments £m	Total £m
Cost				
At 1 January 2013	339.7	0.5	0.1	340.3
Additions	9.9	–	–	9.9
Disposals	(50.8)	–	–	(50.8)
Hedge adjustment (see below)	3.1	–	–	3.1
At 31 December 2013	**301.9**	**0.5**	**0.1**	**302.5**
Provisions				
At 1 January 2013	50.8	0.2	0.1	51.1
Released on disposals	(50.8)	–	–	(50.8)
At 31 December 2013	**–**	**0.2**	**0.1**	**0.3**
Net book value				
At 31 December 2013	**301.9**	**0.3**	**–**	**302.2**
Net book value				
At 31 December 2012	288.9	0.3	–	289.2

A list of principal subsidiary undertakings and joint ventures is given on page 105.

Additions for the year represent an additional investment in Ennismore Limited, a Company incorporated in Jersey. A total amount of €11.5 million (£9.9 million) was invested.

The Company has designated its euro denominated £150 million multi currency Term Loan Facility of €177.8 million (see note 8) as a FRS 26 fair value hedge against €177.8 million its investment in Ennismore Limited. Under FRS 26, the hedged portion of this investment is re-translated at the year end spot rate with the resulting gain or loss being taken to the profit and loss account, where it is fully offset by the exchange gain or loss resulting from the re-translation of the Term Loan Facility at the same date.

Disposals during the year represent previously impaired non-trading companies which have been disposed of as part of a restructuring exercise.

7 Debtors

	2013 £m	2012 £m
Amounts owed by subsidiaries	**736.9**	766.8
Other debtors	**0.1**	0.2
	737.0	767.0

8 Borrowings

	2013 £m	2012 £m
Current borrowings		
Bank loans		
Bank loans and overdrafts	**14.6**	65.4
Other loans		
$70.0 million 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014*	**42.5**	–
	57.1	65.4
Non-current borrowings		
Bank loans		
Unsecured £150.0 million multi-currency term loan facility expiring 2015	**148.5**	145.4
Other loans		
$70.0 million 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014*	**–**	43.3
$22.0 million 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016*	**13.3**	13.6
	161.8	202.3
Less: capitalised costs	**(1.0)**	(1.9)
	160.8	200.4

* In aggregate **£55.8 million** (2012 £56.9 million), associated with which is the currency impact of derivatives of **£4.9 million** (2012 £6.1 million), net **£50.9 million** (2012 £50.8 million).

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents.

At 31 December 2013, the Company had available **£60.0 million** (2012 £60.0 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

Notes to the Company financial statements
continued

8 Borrowings continued
Analysis of borrowings at carrying value by currency
The Directors calculate the carrying value of the Company's borrowings as follows:

	Sterling £m	US dollar £m	Euro £m	Total £m
31 December 2013				
Bank loans and overdrafts	7.8	–	155.3	163.1
Loan notes	–	55.8	–	55.8
Capitalised costs	(1.0)	–	–	(1.0)
	6.8	55.8	155.3	217.9
Cash and cash equivalents				(15.6)
Net borrowings				202.3
Deduct: special item*				(4.9)
Net borrowings (underlying performance)				197.4

	Sterling £m	US dollar £m	Euro £m	Total £m
31 December 2012				
Bank loans and overdrafts	26.2	1.4	183.2	210.8
Loan notes	–	56.9	–	56.9
Capitalised costs	(1.9)	–	–	(1.9)
	24.3	58.3	183.2	265.8
Cash and cash equivalents				(4.9)
Net borrowings				260.9
Deduct: special item*				(6.1)
Net borrowings (underlying performance)				254.8

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

* 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 under pre FRS 26 UK GAAP.

9 Financial instruments
The fair value of derivative financial instruments has been disclosed in the Company's balance sheet as:

	2013			2012		
	Loans and receivables £m	Fair value through Profit and Loss £m	Total carrying value £m	Loans and receivables £m	Fair value through Profit and Loss £m	Total carrying value £m
Fair value of financial assets						
Trade and other receivables excluding prepayments	737.0	–	737.0	767.0	–	767.0
Cash and cash equivalents	15.6	–	15.6	4.9	–	4.9
Derivatives at fair value	–	6.4	6.4	–	8.7	8.7
	752.6	6.4	759.0	771.9	8.7	780.6

	2013			2012		
	Loans and payables at amortised cost £m	**Fair value through Profit and Loss £m**	**Total carrying value £m**	Loans and payables at amortised cost £m	Fair value through Profit and Loss £m	Total carrying value £m
Fair value of financial liabilities						
Loan notes	**55.8**	**–**	**55.8**	56.9	–	56.9
Bank loans and overdrafts	**162.1**	**–**	**162.1**	208.9	–	208.9
Trade and other payables excluding accruals	**132.3**	**–**	**132.3**	115.0	–	115.0
	350.2	**–**	**350.2**	380.8	–	380.8

A fuller description of financial instruments is included in note 22 of the consolidated financial statements on page 81 to 85.

10 Other creditors

	2013 £m	2012 £m
Amount due within one year		
Trade creditors	**–**	0.6
Amounts owed to subsidiaries	**131.4**	113.5
Other taxation and social security	**–**	0.1
Other creditors	**0.9**	0.8
Accruals and deferred income	**3.5**	6.1
	135.8	121.1

11 Called up share capital

Details of the companies share capital and outstanding share options are shown at note 26 of the consolidated financial statements on page 90.

12 Share premium and reserves

	Share premium £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1 January 2013	230.5	0.8	0.9	419.3	651.5
Profit for the year	–	–	–	48.4	48.4
Dividends	–	–	–	(19.4)	(19.4)
Retained profit for the year	–	–	–	29.0	29.0
Share-based payments	–	–	–	(4.8)	(4.8)
At 31 December 2013	**230.5**	**0.8**	**0.9**	**443.5**	**675.7**

13 Related party transactions

There were no related party transactions during the year (2012 none), other than those in respect of key management compensation which are disclosed in note 29 of the consolidated financial statements on page 91.

14 Guarantees and other financial commitments

The Company has given guarantees amounting to **£5.5 million** (2012 £5.7 million) in respect of bank and other facilities of subsidiaries and joint ventures.

15 Pension commitments

The Group participates in a funded scheme with both a defined benefit and defined contribution section (the Yule Catto Group Retirement Benefit Scheme). The scheme's defined benefit section was closed to new members with effect from 31 December 1998 and with effect from 1 January 1999 a defined contribution section was introduced and is open to all eligible Group employees. During 2009 the Group announced that it intended to close the defined benefit scheme to future accrual. This process commenced in 2009 and was completed in September 2010.

The assets of the scheme are held separately from those of the companies concerned.

Notes to the Company financial statements
continued

15 Pension commitments continued

The pension charge for the year for the Company amounted to **£0.0 million** (2012 £14.1 million).

A valuation under FRS17 has not been performed at Group level and therefore the deficit calculated in accordance with IAS 19 of **£60.3 million** (2012 – £69.5 million) is disclosed as a permitted alternative.

For details of the IAS 19 valuation, assumptions and movement in the year, please refer to the UK pension scheme section of note 25 to the consolidated financial statements on page 86 to 89.

16 Share-based payments

For details of share-based payments please refer to note 32 to the consolidated financial statements on page 92.

Principal subsidiaries and joint ventures

Operating companies	Country of incorporation and operation	Group interest in equity %
Arkem (Pty) Ltd *Distributor of specialty chemicals and allied products*	South Africa	50#
Eka Synthomer Oy *Styrene-butadiene latex products*	Finland	50#
Quality Polymer Sdn Bhd *Acrylic and vinyl polymer dispersions*	Malaysia	70
Revertex (Malaysia) Sdn Bhd *Synthetic resin and emulsions, natural rubber latices and allied products*	Malaysia	70
Synthomer BV *Latex based compounds*	Netherlands	100
Synthomer (Pty) Ltd *Synthetic resin and emulsions and allied products*	South Africa	100
Synthomer Deutschland GmbH *Synthetic rubber latices and emulsions*	Germany	100
Synthomer GmbH *Synthetic rubber latices*	Germany	100
Synthomer (UK) Ltd *Synthetic emulsions, latex based compounds, polyvinyl alcohol/acetate and liquid polybutadine*	England	100
Synthomer Middle East Company *Acrylic and vinyl resin emulsions*	Saudi Arabia	49#
Synthomer SAE *Latex based compounds*	Egypt	88
Synthomer Sdn Bhd *Synthetic rubber latices*	Malaysia	100
Synthomer S.r.l *Synthetic rubber latices and acrylic polymer dispersions*	Italy	100
Synthomer Vietnam Co. Ltd *Acrylic and vinyl emulsions*	Vietnam	60
William Blythe Ltd *Inorganic chemicals*	England	100

Holding companies		
Synthomer Holdings Ltd	England	100*
Yule Catto Holdings GmbH	Germany	100
Yule Catto Nederland BV	Netherlands	100

Joint ventures.

* Shares held by Synthomer plc.

Other information

Five-year financial summary

Underlying performance (a) (f)		**2013 £m**	2012 (restated (g)) £m	2011 (restated (g)) £m	2010 (restated (g)) £m	2009 (restated (g)) £m
Total sales		**1,054.9**	1,111.8	1,116.8	582.9	466.9
EBITDA	(b)	**124.0**	129.6	117.2	61.3	54.7
Operating profit	(c)	**104.8**	111.2	98.4	51.0	44.5
Finance costs		**(14.7)**	(16.6)	(16.2)	(11.2)	(13.3)
Profit before taxation		**90.1**	94.6	82.2	39.8	31.3
Basic earnings per share		**20.7p**	20.9p	18.0p	13.3p	10.1p
Dividends per share		**6.0p**	5.5p	3.5p	2.6p	N/A
Dividend cover		**3.5**	3.8	5.1	5.1	N/A
Net borrowings	(d)	**(133.6)**	(155.8)	(164.3)	(63.4)	(88.0)
Capital expenditure	(e)	**39.1**	39.2	24.2	10.6	8.7

IFRS – continuing operations (f)		**2013 £m**	2012 (restated (g)) £m	2011 (restated (g)) £m	2010 (restated (g)) £m	2009 (restated (g)) £m
Total sales		**1,054.9**	1,111.8	1,116.8	588.5	478.1
EBITDA	(b)	**124.0**	129.6	117.2	61.3	54.7
Operating profit	(c)	**75.0**	77.1	56.3	60.0	46.5
Finance costs		**(15.9)**	(18.3)	(19.5)	(8.6)	(17.7)
Profit before taxation		**59.1**	58.8	36.8	51.4	28.9
Basic earnings per share	(f)	**14.2p**	15.6p	9.0p	19.5p	10.6p
Dividends per share		**6.0p**	5.5p	3.5p	2.6p	N/A
Dividend cover		**2.4**	2.8	2.6	7.5	N/A
Net borrowings	(d)	**(138.5)**	(141.5)	(156.1)	(76.0)	(97.6)
Capital expenditure	(e)	**39.1**	39.2	24.2	10.6	8.7

(a) As presented in the consolidated income statement on page 56.
(b) As defined in the accounting policies at note 2 and reconciled in note 5.
(c) As defined in note 2 to the financial statements on page 64.
(d) As defined in note 2 to the Financial Statements and reconciled in note 21.
(e) As shown with the consolidated cash flow statement.
(f) 2009 and 2010 figures exclude Pharma Chemicals segment.
(g) Restated for impact of IAS 19 revised.

Notes

Notes

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