Monday 4 March 2019

Synthomer plc
Preliminary Results for the year ended 31 December 2018

Delivering Growth in Speciality Chemicals

FULL YEAR HIGHLIGHTS	**2018**	**2017**	**Increase / (decrease)**	
Underlying performance [1]			**Reported**	**Constant Currency** [2]
	£m	£m	%	%
Revenue	1,618.9	1,480.2	9.4	7.8
Volumes (ktes)	1,517.6	1,443.8	5.1	
Europe and North America (ENA)	*111.2*	*117.1*	(5.0)	(5.8)
Asia and ROW (ARW)	*45.7*	*35.1*	30.2	25.6
Unallocated	*(14.8)*	*(13.2)*	12.1	12.1
Operating Profit	142.1	139.0	2.2	0.4
Profit before Tax	135.1	130.0	3.9	2.0
EPS (p)	32.8	30.7	6.8	
DPS (p) - ordinary	13.1	12.2	7.4	
IFRS performance				
Profit before Tax	120.3	86.4	39.2	
EPS (p)	29.4	21.8	34.9	

1 - Underlying performance excludes Special Items. Comments on Underlying performance and a detailed analysis of the Special Items are set out in note 1.
2 - Constant currency sales and profit: these reflect current year results translated at the prior year's average exchange rates, and include the impact of acquisitions.

Full year highlights:

- Revenue up 9.4% at £1.6bn
- Record Underlying profit before tax, up 3.9% at £135.1m reflecting benefits of geographic diversity and product differentiation
  - Asia & Rest of World operating profit 30% higher reflecting further improvement in Nitrile latex volumes and margins
  - Europe and North America operating profit 5% lower primarily reflecting USD transactional currency impact (£5.3m)
- The Group absorbed a total of £10.1m of USD currency transactional headwind
- IFRS profit before tax up 39.2% at £120.3m (2017: £86.4m)
- 90ktes Nitrile latex expansion delivered safely, on time and on budget.
- Return on R&D investment: new products represented 21% total sales volumes (2017: 20%)
- Higher Underlying earnings per share: + 6.8% at 32.8p (2017: 30.7p)
- Increased dividend per share: + 7.4% at 13.1p (2017: 12.2p) in line with dividend policy
- Good liquidity and low leverage allow for investment in organic and M&A growth: Net debt: EBITDA at 1.2x

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Commenting on the results, Neil Johnson, Chairman, said:
"I am pleased to report a year of good progress, highlighted by a fourth consecutive year of growth in Underlying profitability. Progress has been underpinned by capital investment in higher growth markets, a focus on innovation, and our disciplined M&A strategy, overcoming a challenging market environment.

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

IFRS Information	**2018**			**2017**		
	Underlying performance	**Special Items**	**IFRS**	**Underlying performance**	**Special Items**	**IFRS**
	£m	£m	£m	£m	£m	£m
Revenue	1,618.9	-	1,618.9	1,480.2	-	1,480.2
Europe and North America (ENA)	111.2	(19.4)	91.8	117.1	(39.6)	77.5
Asia and ROW (ARW)	45.7	9.2	54.9	35.1	(3.9)	31.2
Unallocated	(14.8)	(3.2)	(18.0)	(13.2)	(0.1)	(13.3)
Operating profit (including share of JV's)	142.1	(13.4)	128.7	139.0	(43.6)	95.4
Finance costs	(7.0)	(1.4)	(8.4)	(9.0)	-	(9.0)
Profit/(loss) before taxation	135.1	(14.8)	120.3	130.0	(43.6)	86.4
EPS (p)	32.8	(3.4)	29.4	30.7	(8.9)	21.8
DPS (p)			13.1			12.2

Underlying performance

As more fully described in note 1, the Group's management uses Underlying performance to plan for, control and assess the performance of the Group. Underlying performance differs from the statutory IFRS performance as it excludes the effect of Special Items, which are detailed in note 1. The Board's view is that Underlying performance provides additional clarity for the Group's investors and so it is the primary focus of the Group's narrative reporting. Where appropriate IFRS performance inclusive of Special Items is also described. References to 'unit margin' and 'margin' are used in the commentary on Underlying performance. Unit margin (or margin) is calculated as selling price less variable raw material and logistics costs.

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.

ENQUIRIES:

Calum MacLean, Chief Executive Officer	Tel: 01279 436211
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The Company will host a meeting for analysts and investors at 09.00 today at Canaccord Genuity (88 Wood Street, London EC2V 7QR). The presentation will be webcast on the Company's website www.synthomer.com.

Chairman's statement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dividend

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

Outlook

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

Neil Johnson
Chairman
4 March 2019

Chief Executive Officer's Review

Performance

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

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

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

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

Safety, health and environment

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

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

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

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

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

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

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

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

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

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

- Dispersions: 36ktes capacity of made-to-order speciality acrylic lines in Worms (Germany) in mid-2019
- Dispersions: 12ktes increase in acrylic capacity in Roebuck (USA) scheduled to be complete in mid-2019.
- SBR latex: Enhancement to our Marl (Germany) site to improve output levels to take advantage of opportunities in the foam market.

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

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

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

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

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

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

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

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

Outlook

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

Calum MacLean
Chief Executive Officer
4 March 2019

Segmental review

Europe and North America (ENA)

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

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

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

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

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

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

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

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

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

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

The capital expenditure included:

- 12ktes styrene acrylic expansion at Oulu (Finland), expanding the site's capability to supply the growing packaging and speciality paper markets. The expansion was commissioned during Q3 2018.
- 5ktes powder coating expansion at Sant'Albano (Italy) increasing site capacity by more than 20%. The expansion was commissioned during Q4 2018.
- 36ktes acrylic dispersions expansion at Worms (Germany), increasing the site's capacity in excess of 30%, and significantly enhancing its capability to produce made-to-order speciality acrylics. Commissioning due Q2 2019.
- 12ktes acrylic dispersions expansion at Roebuck (USA) increasing the site capacity by in excess of 20% through the installation of a new acrylic reactor train. Commissioning due Q2 2019.

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

Asia and Rest of World (ARW)

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

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

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

ARW volumes increased by 7.0% to 402.4ktes primarily as a result of record Nitrile latex volumes, partly reflecting the benefit from the newly commissioned Pasir Gudang (Malaysia) capacity brought on line in Q4 2018 and partly reflecting the weaker H1 2017 comparative, which was adversely impacted by raw material price volatility.

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

This capacity expansion, the largest single capital investment undertaken by the Group at £45m, was completed on time and on budget. From a safety perspective, this project represented 1.4 million safe hours worked. We have confirmed that we will introduce a further 60ktes as the next stage of the Pasir Gudang expansion. Work has begun on this expansion, building on pre-prepared infrastructure and civil engineering and is expected to complete in 2020.

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

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

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

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

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

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

Chief Financial Officer's Review

Overview

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

The key drivers behind the improvement in overall performance were:

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

Alternative performance measures

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

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

The Board's view is that Underlying performance provides additional clarity for the Group's investors and so it is the primary focus of the Group's narrative reporting. Further information and the reconciliation to the IFRS measures are included in notes 1 and 5.

Operating profit

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

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

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

The following should be noted:

- The reduction in ENA existing business operating profit of £9.4m primarily reflects the adverse impact of both the weaker USD reducing margins on products sold from Europe in USD (£5.3m) and falling raw material prices in Q4, resulting in weaker volumes as customers delayed Q4 orders in a falling price environment.

- The marked improvement in ARW existing business operating profit of £9.0m mainly reflects strong growth in Nitrile latex volumes and unit margins, more than offsetting the adverse impact of the weaker USD reducing margins on products priced in Malaysia in USD (£4.8m).
- Underlying unallocated corporate expenses increased by £1.6m reflecting the annualisation of costs related to the strengthening of the management team in the London Head Office in 2017.
- The continuing weakness of sterling during the year resulted in an increase in the Group's reported profit in sterling. For the European businesses, the rate used for translating profit moved from £1:€1.1430 in 2017 to £1:€1.1284 in 2018, with a resulting uplift in the 2018 ENA operating profit of £0.9m. For the Malaysian businesses the Malaysian Ringgit moved from £1:MYR5.5580 in 2017 to £1:MYR5.3661, with a resulting uplift in the ARW operating profit of £1.6m.

Special Items

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

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

- Restructuring and site closure relates to the natural rubber and polyester resins production lines in Kluang (Malaysia), which closed in Q4 2018, and an increase in the onerous lease and related provisions for the Ossett site due to a change in circumstance relating to the subletting of the site. In 2017, it primarily related to the rationalisation of the Ribécourt (France) site and the initial onerous lease provision for the Ossett site.
- Sale of business relates to the disposal of the Leuna (Germany) site and the disposal of 51% of our sales entities in Dubai.
- Sale of land in 2018 relates to the Group's profit on disposal of the final tranche of Malaysian land at Kluang. The profit on sale of land in 2017 related to a disposal of land in Hapton (UK).
- Amortisation of acquired intangibles decreased significantly during 2018 due to the full amortisation during the year of the PolymerLatex customer relationships acquired during 2011. The amortisation includes £1.4m in respect of intangibles relating to the acquisition of BASF Pischelsdorf (Austria) in 2018.
- Ahead of the Group refinancing during the year a process was undertaken to issue fixed rate unsecured senior notes. Despite a strong response from investors the Group decided not to complete the transaction due to unfavourable market conditions. The costs of this process are not reflective of Underlying performance.
- Following a UK High Court ruling during the year in relation to the equalisation of male and female Guaranteed Minimum Pensions (GMP) a pension plan amendment is deemed to have occurred. The actuarial estimate of this irregular cost was £2.8m.

Finance costs and profit before taxation

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

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

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

Taxation

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

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

- The effective tax rate on Underlying performance reduced in the year as a result of changes in the geographic mix of profits, prior year items and decreases in tax rates in certain jurisdictions.
- The effective tax rate for Special Items is principally driven by the deferred tax credit on the amortisation of acquired intangibles and the zero corporate tax rate on the profit on sale of Malaysian land.

Non-controlling interests

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

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

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

Earnings per share

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

As set out in note 9, the average number of shares in issue remains similar to last year at 340 million. The changes in Underlying and IFRS earnings per share shown in the table are therefore driven predominantly by the same factors that influence the change in profit before taxation and taxation described above.

Cash performance

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

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

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

The rise in net debt reflects:

- An increased investment in working capital partly reflecting higher raw material prices in the final quarter of 2018 relative to the comparative period and higher inventories as a result of reduced sales activity in the same period. Working capital remains at circa 10% of sales on a twelve month rolling basis.
- The capital expenditure in 2018 reflects the cash spend on the previously announced Nitrile latex capacity expansion in Pasir Gudang (Malaysia), the made-to-order speciality acrylic lines in Worms (Germany), the increase in acrylic capacity in Roebuck (USA), debottlenecking of Marl (Germany) for foam production and capacity expansion of Sant'Albano (Italy). Our spend on sustenance capital expenditure is £24m compared with £20m in 2017.
- The tax paid amount of £23.0m represents 17.0% of Underlying profit before tax and is broadly in line with the effective tax rate (2017: 20.1%). The reduction in tax paid is consistent with the change in geographic mix of profits, with proportionately more profits generated in Malaysia in 2018 relative to 2017.
- The amount shown as pension funding in excess of the IAS19 charge mainly reflects the UK defined benefit deficit recovery funding of £15.5m (2017: £14.7m). The rise in the deficit recovery payment in 2018 reflects the schedule of contributions agreed with the Trustees in 2016 as a part of the 2015 triennial pension scheme valuation which was based on the forecast increase in the pension payroll, allowing for retiring employees.
- Sale of property, plant and equipment primarily relates to the Group's Malaysian land sale proceeds in 2018, and the Hapton land sale in 2017.
- The outflow for purchase of business principally relates to the purchase of BASF Pischelsdorf (Austria) for £25.8m completed on 31 January 2018. The prior year outflow of £66.2m mainly relates to the acquisition of Speciality Additives (Belgium).

- The sale of business proceeds of £3.7m mainly relates to the proceeds from the disposal of 51% of the Dubai sales entities. The prior year proceeds of £7.6m is the amount received from the disposal of Synthomer Leuna (Germany).
- Substantial amounts of the Group's borrowings have been maintained in Euros as a natural hedge against the net asset base in this currency. With the devaluation of sterling referred to above, the translation at the year-end rates has resulted in an exchange loss recognised in reserves and therefore a higher borrowings amount (offset by an increase in the Euro net asset base).

Financing and liquidity

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

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

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

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

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

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

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

Pensions

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

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

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

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

Acquisition and disposal accounting

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

Stephen Bennett
Chief Financial Officer
4 March 2019

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 Underlying performance audited £m	2018 Special Items audited £m	2018 IFRS audited £m	2017 Underlying performance audited £m	2017 Special Items audited £m	2017 IFRS audited £m
Continuing operations							
Revenue	2	1,618.9	-	1,618.9	1,480.2	-	1,480.2
Company and subsidiaries before Special Items		141.7	-	141.7	138.0	-	138.0
Restructuring and site closure		-	(12.2)	(12.2)	-	(11.6)	(11.6)
Sale of business		-	3.8	3.8	-	-	-
Sale of land		-	16.4	16.4	-	1.3	1.3
Acquisition costs		-	(0.5)	(0.5)	-	(2.3)	(2.3)
Amortisation of acquired intangibles		-	(16.4)	(16.4)	-	(31.0)	(31.0)
Aborted bond costs		-	(1.7)	(1.7)	-	-	-
UK Guaranteed Minimum Pension Equalisation		-	(2.8)	(2.8)	-	-	-
Company and subsidiaries		141.7	(13.4)	128.3	138.0	(43.6)	94.4
Share of joint ventures		0.4	-	0.4	1.0	-	1.0
Operating profit/(loss)		142.1	(13.4)	128.7	139.0	(43.6)	95.4
Interest payable		(4.9)	-	(4.9)	(5.7)	-	(5.7)
Interest receivable		1.1	-	1.1	1.0	-	1.0
Fair value of unhedged interest derivatives		-	(1.4)	(1.4)	-	-	-
		(3.8)	(1.4)	(5.2)	(4.7)	-	(4.7)
IAS19 interest charge		(3.2)	-	(3.2)	(4.3)	-	(4.3)
Finance costs	3	(7.0)	(1.4)	(8.4)	(9.0)	-	(9.0)
Profit/(loss) before taxation		135.1	(14.8)	120.3	130.0	(43.6)	86.4
Taxation		(23.0)	6.0	(17.0)	(24.7)	13.1	(11.6)
Profit/(loss) for the year		112.1	(8.8)	103.3	105.3	(30.5)	74.8
Profit attributable to non-controlling interests		0.5	3.0	3.5	0.8	-	0.8
Profit/(loss) attributable to equity holders of the parent		111.6	(11.8)	99.8	104.5	(30.5)	74.0
		112.1	(8.8)	103.3	105.3	(30.5)	74.8
Earnings/(loss) per share							
Basic		32.8p	(3.4)p	29.4p	30.7p	(8.9)p	21.8p
Diluted		32.7p	(3.5)p	29.2p	30.5p	(8.9)p	21.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018			2017		
	Equity holders of the parent	**Non-controlling interests**	**Total**	**Equity holders of the parent**	**Non-controlling interests**	**Total**
	audited	audited	audited	audited	audited	audited
	£m	£m	£m	£m	£m	£m
Profit for the year	99.8	3.5	103.3	74.0	0.8	74.8
Actuarial gains	15.5	-	15.5	23.6	-	23.6
Tax relating to components of other comprehensive income	(2.3)	-	(2.3)	2.3	-	2.3
Total items that will not be reclassified to profit or loss	13.2	-	13.2	25.9	-	25.9
Exchange differences on translation of foreign operations	16.9	0.8	17.7	9.2	-	9.2
Exchange differences recycled on sale of business	(0.4)	-	(0.4)	-	-	-
Fair value of hedged interest derivatives	(3.9)	-	(3.9)	-	-	-
Losses on a hedge of a net investment taken to equity	(3.2)	-	(3.2)	(7.8)	-	(7.8)
Total items that may be reclassified subsequently to profit or loss	9.4	0.8	10.2	1.4	-	1.4
Other comprehensive income for the year	22.6	0.8	23.4	27.3	-	27.3
Total comprehensive income for the year	122.4	4.3	126.7	101.3	0.8	102.1

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital audited £m	Share premium audited £m	Capital redemption reserve audited £m	Hedging and translation reserve audited £m	Retained earnings audited £m	Total audited £m	Non-controlling interests audited £m	Total equity audited £m
At 1 January 2018	34.0	230.5	0.9	(3.0)	125.5	387.9	18.3	406.2
Profit for the year	-	-	-	-	99.8	99.8	3.5	103.3
Actuarial gains	-	-	-	-	15.5	15.5	-	15.5
Exchange difference on translation of foreign operations	-	-	-	16.9	-	16.9	0.8	17.7
Exchange differences recycled on sale of business	-	-	-	(0.4)	-	(0.4)	-	(0.4)
Fair value of hedged interest derivatives	-	-	-	(3.9)	-	(3.9)	-	(3.9)
Loss on a hedge of a net investment taken to equity	-	-	-	(3.2)	-	(3.2)	-	(3.2)
Tax relating to components of other comprehensive income	-	-	-	-	(2.3)	(2.3)	-	(2.3)
Total comprehensive income for the year	-	-	-	9.4	113.0	122.4	4.3	126.7
Dividends paid to shareholders	-	-	-	-	(42.5)	(42.5)	-	(42.5)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(1.5)	(1.5)
Share-based payments	-	-	-	-	(3.9)	(3.9)	-	(3.9)
At 31 December 2018	34.0	230.5	0.9	6.4	192.1	463.9	21.1	485.0

	Share capital audited £m	Share premium audited £m	Capital redemption reserve audited £m	Hedging and translation reserve audited £m	Retained earnings audited £m	Total audited £m	Non-controlling interests audited £m	Total equity audited £m
At 1 January 2017	34.0	230.5	0.9	(4.4)	65.2	326.2	18.0	344.2
Profit for the year	-	-	-	-	74.0	74.0	0.8	74.8
Actuarial gains	-	-	-	-	23.6	23.6	-	23.6
Exchange difference on translation of foreign operations	-	-	-	9.2	-	9.2	-	9.2
Loss on a hedge of a net investment taken to equity	-	-	-	(7.8)	-	(7.8)	-	(7.8)
Tax relating to components of other comprehensive income	-	-	-	-	2.3	2.3	-	2.3
Total comprehensive income for the year	-	-	-	1.4	99.9	101.3	0.8	102.1
Dividends paid to shareholders	-	-	-	-	(39.1)	(39.1)	-	(39.1)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(0.5)	(0.5)
Share-based payments	-	-	-	-	(0.5)	(0.5)	-	(0.5)
At 31 December 2017	34.0	230.5	0.9	(3.0)	125.5	387.9	18.3	406.2

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2018

	2018	2017
	audited	audited
	£m	£m
Non-current assets		
Goodwill	336.5	329.1
Acquired intangible assets	69.1	66.2
Other intangible assets	5.1	1.9
Property, plant and equipment	370.0	322.1
Deferred tax assets	23.4	23.3
Investment in joint ventures	8.6	7.5
Total non-current assets	812.7	750.1
Current assets		
Inventories	141.9	125.1
Trade and other receivables	232.9	229.1
Cash and cash equivalents	96.9	89.6
Total current assets	471.7	443.8
Assets classified as held for sale	-	6.8
Total assets	1,284.4	1,200.7
Current liabilities		
Borrowings	(70.1)	(73.1)
Trade and other payables	(263.2)	(279.3)
Current tax liability	(38.3)	(40.2)
Provisions for other liabilities and charges	(9.4)	(2.4)
Derivatives at fair value	(5.3)	-
Total current liabilities	(386.3)	(395.0)
Non-current liabilities		
Borrowings	(240.8)	(197.0)
Trade and other payables	(0.7)	(2.3)
Deferred tax liability	(34.3)	(35.4)
Post retirement benefit obligations	(132.5)	(157.2)
Provisions for other liabilities and charges	(4.8)	(7.6)
Total non-current liabilities	(413.1)	(399.5)
Net assets	485.0	406.2
Equity		
Called up share capital	34.0	34.0
Share premium	230.5	230.5
Capital redemption reserve	0.9	0.9
Hedging and translation reserve	6.4	(3.0)
Retained earnings	192.1	125.5
Equity attributable to equity holders of the parent	463.9	387.9
Non-controlling interests	21.1	18.3
Total equity	485.0	406.2

The financial statements were approved by the Board of Directors and authorised for issue on 4 March 2019.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	2018		2017	
	audited	audited	audited	audited
	£m	£m	£m	£m
Operating				
Cash generated from operations		124.9		162.6
Interest received	1.1		1.0	
Interest paid	(5.6)		(5.8)	
Net interest paid		(4.5)		(4.8)
UK corporation tax paid	-		-	
Overseas corporate tax paid	(23.0)		(26.1)	
Total tax paid		(23.0)		(26.1)
Net cash inflow from operating activities		97.4		131.7
Investing				
Dividends received from joint ventures		1.1		2.0
Purchase of property, plant and equipment	(75.7)		(60.3)	
Sale of property, plant and equipment	17.5		2.2	
Net capital expenditure		(58.2)		(58.1)
Purchase of business		(25.8)		(64.1)
Proceeds from sale of business		3.7		7.6
Net cash outflow from investing activities		(79.2)		(112.6)
Financing				
Ordinary dividends paid		(42.5)		(39.1)
Dividends paid to non-controlling interests		(1.5)		(0.5)
Settlement of equity-settled share-based payments		(5.4)		(3.1)
Repayment of borrowings		(63.5)		(102.0)
Proceeds of borrowings		103.9		136.3
Net cash outflow from financing activities		(9.0)		(8.4)
Increase in cash, cash equivalents and bank overdrafts during the year		9.2		10.7
Cash, cash equivalents and bank overdrafts at 1 January		65.4		52.0
Cash (outflows)/inflows				
Cash and cash equivalents	5.6		(28.5)	
Bank overdrafts	3.6		39.2	
		9.2		10.7
Exchange and other movements		1.6		2.7
Cash, cash equivalents and bank overdrafts at 31 December		76.2		65.4

RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO MOVEMENT IN NET BORROWINGS FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	audited	audited
	£m	£m
Net cash inflow from operating activities	97.4	131.7
Add back: dividends received from joint ventures	1.1	2.0
Less: net capital expenditure	(58.2)	(58.1)
Less: net purchase of business	(22.1)	(56.5)
	18.2	19.1
Ordinary dividends paid	(42.5)	(39.1)
Dividends paid to non-controlling interests	(1.5)	(0.5)
Settlement of equity-settled share-based payments	(5.4)	(3.1)
Exchange movements	(2.3)	(6.6)
Increase in net borrowings	(33.5)	(30.2)

1 Underlying segmental performance and Special Items

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

Europe & North America
These markets are well developed and are typically growing in line with GDP.

Asia & Rest of World
These markets are characterised by growth rates generally above GDP coupled with an increased penetration of more sophisticated products into wider uses.

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

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

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

Special Items
The definition of Special Items is shown in note 10 and has been consistently applied. Special Items are either irregular, and therefore including them in the assessment of a segment's performance would lead to a distortion of trends, or are technical adjustments which ensure the Group's financial statements are in compliance with IFRS but do not reflect the operating performance of the segment in the year, or both. An example of the latter is the amortisation of acquired intangibles which principally relates to acquired customer relationships. The Group incurs costs, which are recognised as an expense in the income statement, in maintaining these customer relationships. The Group considers that the exclusion of the amortisation charge on acquired intangibles from Underlying performance avoids the potential double counting of such costs and therefore excludes it as a Special Item from Underlying performance.

A segmental analysis of Underlying performance and Special Items is shown below.

Reconciliation of Underlying performance to IFRS	2018				2017			
	Europe & North America	Asia & Rest of World	Unallocated corporate expenses	Total	Europe & North America	Asia & Rest of World	Unallocated corporate expenses	Total
	audited	audited	audited	audited	audited	audited	audited	audited
	£m	£m	£m	£m	£m	£m	£m	£m
Revenue								
Underlying performance and IFRS	1,228.4	390.5		1,618.9	1,134.9	345.3		1,480.2
Operating profit/(loss) (£m) - including share of joint ventures								
Underlying performance	111.2	45.7	(14.8)	142.1	117.1	35.1	(13.2)	139.0
Special Items								
Restructuring & site closure	(6.0)	(6.2)	-	(12.2)	(11.3)	(0.2)	(0.1)	(11.6)
Sale of business	1.0	2.8	-	3.8	-	-	-	-
Sale of land	-	16.4		16.4	1.3	-	-	1.3
Acquisition costs	(0.5)	-	-	(0.5)	(2.3)	-	-	(2.3)
Amortisation of acquired intangibles	(12.6)	(3.8)	-	(16.4)	(27.3)	(3.7)	-	(31.0)
Aborted bond costs	-	-	(1.7)	(1.7)	-	-	-	-
UK Guaranteed Minimum Pension equalisation	(1.3)	-	(1.5)	(2.8)	-	-	-	-
	(19.4)	9.2	(3.2)	(13.4)	(39.6)	(3.9)	(0.1)	(43.6)
IFRS	91.8	54.9	(18.0)	128.7	77.5	31.2	(13.3)	95.4

Of the Asia and Rest of World IFRS operating profit of £54.9m (2017: £31.2m), £0.4m (2017: £1.0m) is the Group's share of joint ventures.

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

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

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

Acquisition costs were incurred in relation to the acquisition of BASF Pischelsdorf (2017: BASF Pischelsdorf and Speciality Additives) and for other potential acquisitions which will not occur or had not occurred before the balance sheet date.

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

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

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

2 Revenue by destination

	2018	2017
	audited	audited
	£m	£m
Western Europe	877.8	778.3
Eastern Europe	118.0	102.8
North America	92.4	94.9
Malaysia	260.1	195.3
Other Asia	195.2	228.8
Africa and Middle East	45.7	58.2
Rest of World	29.7	21.9
Total revenue	1,618.9	1,480.2

3 Finance costs

	2018	2017
	audited	audited
	£m	£m
Interest payable on bank loans and overdrafts	4.9	5.7
Less: interest receivable	(1.1)	(1.0)
	3.8	4.7
Pensions - IAS 19 interest charge	3.2	4.3
Net interest payable	7.0	9.0
Fair value of unhedged interest derivatives	1.4	-
Total finance costs	8.4	9.0

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

4 Reconciliation of operating profit to cash generated from operations

	2018	2017
	audited	audited
	£m	£m
Operating profit – continuing operations	128.7	95.4
Less: share of profits of joint ventures	(0.4)	(1.0)
	128.3	94.4
Adjustments for:		
Depreciation	37.8	36.4
Amortisation	1.1	0.8
Share-based payments	1.5	2.8
Restructuring and site closure - Special Items	12.2	11.6
Sale of business – Special Items	(3.8)	-
Sale of land - Special Items	(16.4)	(1.3)
Acquisition costs – Special Items	0.5	2.3
Amortisation of acquired intangibles - Special Items	16.4	31.0
Aborted bond costs – Special Items	1.7	-
GMP Equalisation – Special Items	2.8	-
Cash impact of restructuring and site closure	(3.3)	(6.0)
Cash impact of acquisition costs	(0.5)	(2.1)
Cash impact of aborted bond costs	(1.2)	-
IAS 19 interest charge	(3.2)	(4.3)
Pension funding in excess of IAS 19 interest charge	(13.8)	(12.5)
Movement in working capital	(35.2)	9.5
Cash generated from operations	124.9	162.6
Reconciliation of movement in working capital		
Increase in inventories	(13.5)	(13.3)
Increase in trade and other receivables	(5.6)	(24.0)
(Decrease)/increase in trade and other payables	(16.1)	46.8
Movement in working capital	(35.2)	9.5

5 EBITDA

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

Reconciliation of EBITDA to IFRS	**2018**				**2017**			
	Europe & North America	**Asia & Rest of World**	**Unallocated corporate expenses**	**Total**	**Europe & North America**	**Asia & Rest of World**	**Unallocated corporate expenses**	**Total**
	Audited	audited	audited	audited	audited	audited	audited	audited
	£m	£m	£m	£m	£m	£m	£m	£m
EBITDA	135.8	59.7	(14.5)	181.0	140.9	48.2	(12.9)	176.2
Depreciation and amortisation	(24.6)	(14.0)	(0.3)	(38.9)	(23.8)	(13.1)	(0.3)	(37.2)
Operating profit - Underlying	111.2	45.7	(14.8)	142.1	117.1	35.1	(13.2)	139.0
Special Items	(19.4)	9.2	(3.2)	(13.4)	(39.6)	(3.9)	(0.1)	(43.6)
Operating profit - IFRS	91.8	54.9	(18.0)	128.7	77.5	31.2	(13.3)	95.4

6 Ordinary dividends

	2018		2017	
	Pence per share audited	£m	Pence per share audited	£m
Interim ordinary dividend	4.0	13.6	3.7	12.6
Proposed ordinary final dividend	9.1	30.9	8.5	28.9
	13.1	44.5	12.2	41.5

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

7 Purchase of business

On 31 January 2018 the Group acquired the BASF Pischelsdorf Styrene Butadiene Rubber (SBR) business for a total consideration of £25.8m, to complement the Group's existing SBR markets and customers.

The consideration paid in respect of this acquisition and the fair value of net assets acquired is summarised as follows:

Net assets acquired

	audited £m
Intangible assets	17.6
Property, plant and equipment	5.4
Inventories	2.2
Post retirement benefit obligations	(0.6)
Fair value of net assets acquired	24.6
Goodwill arising on acquisition	1.2
Total consideration	25.8
Satisfied by	
Cash consideration	25.8

The 'Fair Value Adjustments' to the value of assets acquired including Intangible assets, Property, plant and equipment, and Post retirement benefit obligations are made in accordance with International Financial Reporting Standard 3 'Business Combinations' (revised 2008).

The goodwill arising on the acquisition of BASF Pischelsdorf represents the premium the Group paid to acquire a company which complements the existing business and creates significant opportunities for cross-selling and other synergies.

Acquisition costs expensed in 12 months to 31 December 2018	**Total**
	audited £m
Other costs	0.1
	0.1

In the period from acquisition to 31 December 2018 BASF Pischelsdorf contributed the following to the Group's results:

	Total
	audited
	£m
Revenue of:	42.7
Operating profit of:	2.6

If the acquisition of BASF Pischelsdorf had been completed on the first day of the financial year, the following would have been included in the Group's result:

	Total
	audited
	£m
Revenue of:	46.3
Operating profit of:	2.8

8 New segmental information

With effect from 1 January 2019, the Group has implemented a new organisation structure, comprising three operating segments. Going forward, the following global operating segments will replace the previous regional operating segments.

- Performance Elastomers
- Functional Solutions
- Industrial Specialities

The scope of unallocated corporate expenses remains unchanged.

2018 results under the new divisional structure are shown below:

	2018
	audited
	£m
Analysis by activity - Revenue:	
Performance Elastomers	704.5
Functional Solutions	680.1
Industrial Specialities	234.3
	1,618.9

Analysis by activity - Underlying operating profit:

	2018		
	Subsidiaries	Share of joint ventures	Total
	audited	audited	audited
	£m	£m	£m
Performance Elastomers	87.2	-	87.2
Functional Solutions	52.6	0.4	53.0
Industrial Specialities	16.7	-	16.7
Reported segment operating profit	156.5	0.4	156.9
Unallocated corporate expenses	(14.8)	-	(14.8)
Operating profit	141.7	0.4	142.1

9 Further information

The financial information set out above does not constitute the Company's financial statements for the years ended 31 December 2018 or 2017, but is derived from those statements. Financial statements for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's annual general meeting. The auditor has reported on those statements; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) Companies Act 2006 or equivalent preceding legislation. While the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (IFRS), this announcement itself does not contain sufficient information to comply with IFRS. The Company will publish full financial statements that comply with IFRS, a copy of which will be posted to shareholders, on 25 March 2019.

The financial statements were approved by the Board of Directors on 4 March 2019.

Other than in relation to IFRS15 (Revenue from contracts with customers) and IFRS9 (Financial Instruments) which were adopted in the year the accounting policies used to prepare these preliminary results are the same as those used in the preparation of the Group’s audited accounts for the year ended 31 December 2017 which have been delivered to the Registrar of Companies. Copies can be obtained by the public from the Company’s registered office Temple Fields, Harlow, Essex, CM20 2BH, or on the Company website www.synthomer.com.

The Group updated its accounting policies for the standards which became effective from 1 January 2018.

The revenue recognition policy is replaced with:
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business net of discounts, VAT and other sales-related taxes.
Revenue is recognised when performance obligations are met and control of the goods passes to the customer.

The trade receivables policy is replaced with:
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally short-term in nature and are therefore classified as current assets and their fair value recognised at the consideration due. The carrying value of trade receivables are considered to be the same as their fair values, due to their short-term nature. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement based on expected losses.

The interim dividend of 4.0p per share was paid on 6 November 2018. The Directors recommend a final ordinary dividend of 9.1p per share payable on 5 July 2019 to those shareholders registered at the close of business on 7 June 2019.

Earnings per ordinary share are based on the attributable profit for the period and the weighted average number of shares in issue during the period – 339.8 million (2017: 339.9 million).

Going concern

The Directors have acknowledged the latest guidance on going concern and in reaching their conclusions have taken into account factors which include the Group’s new €440m committed, unsecured four year revolving credit facility dated July 2018. After making enquiries and taking account of reasonably possible changes in trading performance, the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of both the Group and the parent Company.

10 Glossary of terms

EBITDA	EBITDA is calculated as operating profit before depreciation, amortisation and Special Items.
Operating profit	Operating profit represents profit from continuing activities before finance costs and taxation.
Capital Employed	Net assets excluding third party net debt.
ktes	Kilotonne or 1,000 tonnes (metric).
Net cash /(borrowings)	Net cash /(borrowings) represent cash and cash equivalents less short and long term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting, non-recourse factoring arrangements, and the inclusion of financial assets.
ROIC	Return on invested capital is calculated as Group Underlying operating profit as a percentage of Group capital employed.
Special Items	The following are disclosed separately as Special Items in order to provide a clearer indication of the Group's Underlying performance: • Re-structuring and site closure costs; • Sale of a business or significant asset; • Acquisition costs; • Amortisation of acquired intangible assets; • Impairment of non-current assets; • Fair value adjustment – mark to market adjustments in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied; • Items of income and expense that are considered material, either by their size and/or nature; • Tax impact of above items; and • Settlement of prior period tax issues.
Underlying performance	Underlying performance represents the statutory performance of the Group under IFRS, excluding Special Items.