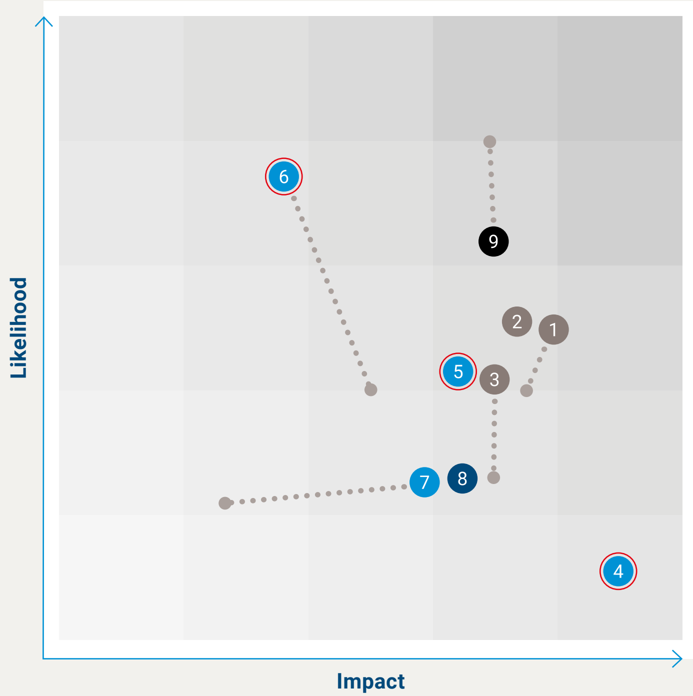
Managing risk

We continue to adapt our approach to risk to keep pace with our changing business and the broader environment we operate in.

Our new strategic focus and divisional structure have meant evolution across the business, including in the way we approach risk. At the end of 2022 we comprehensively refreshed our principal risks – and throughout 2023 have continued to adapt our risk management framework to protect our business while we pursue our strategic objectives.

This heatmap shows the relative positioning of our principal risks based on the three dimensions we use to assess our risks: the likelihood of the risk materialising, its potential impact, and its velocity – the time between the risk crystallising and the impact being felt. This is based on our residual (net) ratings of risks after we have considered any mitigating controls. Risks with a high velocity are shown here with a red outline. The heatmap also shows the movement of our principal risks compared with last year, which are illustrated with smaller light grey dots.

Find out more about our principal risks, our mitigation activities and the rationale for movements in principal risks on pages 48 to 55.



Principal risk	Change	Page
1 Delivery of our strategic initiatives	+	48
2 Demand uncertainty and competitive dynamics	><	49
3 Technology and innovation	+	50
4 Process safety	<>	51
5 Disruption in supply to our customers	<>	51
6 IT and cyber security	+	52
7 Energy price risk in Europe	+	53
8 Ethics and compliance	<>	54
9 Financial markets and balance sheet	–	55

Key

- Strategic risk
- Operational risk
- Compliance risk
- Financial risk
- Higher velocity
- + Increased
- <> No change
- – Reduced
- >< Merged

How we manage risk

We use leading risk management techniques to help us make good decisions about business opportunities while protecting our sites, systems, employees and other key stakeholders.

Our Board

The Board is responsible overall for ensuring that risk is effectively managed across the Group and for creating the framework for our risk management processes to operate effectively. The Board continues to set our risk culture, and the risk appetite it is prepared to accept to achieve the Group's objectives. The Board also receives reports from the Executive Risk Committee on our principal and emerging risks and has reviewed and endorsed their conclusions, confirming that robust assessments of the emerging and principal risks facing the Group have been carried out.

In 2023, as part of our governance process, we reviewed and updated our risk appetite statements for our refreshed principal risks, to make sure they reflect Synthomer's new strategic focus. We recognise that the chemical manufacturing industry is inherently dangerous and that our business faces many risks.

For principal risks, we consider the risk appetite under three categories: risk averse, risk neutral, and risk taking. For example, we put process safety in the risk averse category, because safety of our people and communities is non-negotiable, and therefore one of our core values. That means we are not willing to accept risks of this sort and that any process safety risks must be reduced as far as reasonably practical. In the more risk-taking category, for example, we put technology and innovation. These enable us to deliver our strategy, so we are more willing to accept higher volatility on returns in this area. Our updated risk appetite statements are embedded in our risk management framework.

Risk governance and oversight

Top-down
Risk assessment

Board of Directors

Sets the risk culture and risk appetite. Has overall responsibility for reviewing and approving our principal risks.

Audit Committee

Supports the Board to monitor risk exposure. Reviews principal and emerging risks and the effectiveness of risk management and internal control processes. Provides challenge to senior management where appropriate.

Executive Committee/Executive Risk Committee

Reports on principal and emerging risks to the Audit Committee and Board. Conducts top-down risk identification and review. Ensures risk management policy is implemented and embedded in the business and appropriate responses are taken to manage risks.

Bottom-up
Risk assessment

Divisional and functional

Divisional and functional risk owners

Responsible for risk identification, management and controls within their division or function. Identify and assess risks, determine and monitor risk responses, and ensure operating effectiveness of key controls and progress of actions to manage risk.

Risk and Assurance

Establishes the risk management framework

Provides guidance and challenge to divisional and functional risk owners

Aggregates risk information and helps management to identify principal risks

Audit Committee
On the Board's behalf, the Audit Committee reviews and assesses the effectiveness of the Group's risk management and internal control processes. The Audit Committee and Board continued their programme of risk reviews in 2023, conducting deep-dives into each of the Group's divisions, and reviews into specialist functional areas – including IT and cyber security, safety, health and environment (SHE), pensions, our Pathway business tranformation programme, technology and innovation, energy security, compliance and our ESG programme. The Audit Committee also reviewed summaries of the work done by the Internal Audit function, which operates a risk-based audit plan. Together, our risk management system, risk reviews and associated assurance work are designed to manage risk within our risk appetite, rather than to eliminate risk completely.

Executive Committee
The Executive Committee is responsible for identifying and managing our strategic, operational, compliance and financial risks using the risk management framework. It also makes sure our risk management policy is implemented and embedded in the business.

Executive Risk Committee
Our Executive Risk Committee (ERC), introduced in 2022 and chaired by the CFO, is responsible for:

- Conducting top-down risk assessments and reviews
- Maintaining an overview of the key risks identified across the Group
- Assessing and reporting on principal and emerging risks to the Audit Committee and Board.

Divisional and functional risk owners
We have a structured risk management framework that operates at division and Group function level. We use a standard methodology to quantify risk, with a risk assessment matrix to assess risks consistently. The risk matrix looks at three risk dimensions:

- The likelihood of the risk materialising
- Its potential impact
- Its velocity – the time between the risk crystallising and its impact being felt.

Three lines of defence

We operate a 'three lines of defence' assurance model.

Line 1
Our operational management and employees form our first line of defence, responsible for managing day-to-day risk in their own areas. They are guided by Group policies, procedures and control frameworks.

Line 2
Our second line of defence includes our Group Risk function, which develops and manages the risk management framework and engages with management to identify, agree and update risk information. This line also includes other compliance and assurance functions – for example, Group SHE, Regulatory Affairs, Compliance and ISO audits – which review how effective the mitigating actions and controls are.

Line 3
Our Internal Audit function provides our third line of defence. It provides independent assurance on internal controls. Our statutory auditors provide external assurance on the financial statements, while an external specialist provides assurance around ISO standards.

Our divisions and functions conduct their own bottom-up risk assessments and record them in a risk register using the Group's standard risk management methodology. They assess risks at both an inherent (gross) level and a residual (net) level, considering the mitigating controls that are in place. Risk owners also identify any additional activities that could mitigate the risk in line with our risk appetite, accepting that some level of risk-taking is necessary.

Assessing our principal risks

Risks affect us in many ways. The divisions and Group functions submit formal risk assessments twice a year. Management is also empowered and encouraged to manage and react to risks as part of normal day-to-day decision making. Together, these assessments and our three lines of defence (see below) mean we can establish effective controls to manage our risks.

Our key risks
We categorise our risks – and consider how effective our mitigating actions and controls are – in four areas:

- Strategic risks that could prevent us achieving our strategic objectives
- Operational risks that, if not successfully managed, would threaten our viability – these relate to our ability to operate a sustainable and safe business
- Compliance risks, where a breach of regulations or laws could lead to fines from regulators or to reputational harm, which may disproportionately affect our standing in the investor and wider community
- Financial risks relating to the Group's funding and financial position.

As part of our integrated risk management framework, the ERC continued its robust assessment of our principal risks and uncertainties this year. This work remains particularly relevant, given market conditions and the macroeconomic and geopolitical environment.

The ERC concluded that our key risk categories remain relevant and that the majority of our principal risks remain the same. However, given changes in demand in our various end markets during 2023, we have combined the risk called 'Demand uncertainty and competitive dynamics in the nitrile glove market' with the risk of 'Demand reduction'. Together, these now form a new principal risk called 'Demand uncertainty and competitive dynamics'. The Board reviewed and endorsed these conclusions.

We outline all our principal risks and uncertainties in detail on pages 48 to 55. Our Board and management feel these risks pose the greatest threats to our business and fall into categories that relate closely to our strategic objectives and business model. The risks listed are not in any priority order, nor are all the risks we face listed.

The nature of risk changes over time, with new risks emerging and the effect of others changing. Our risk management and assurance programme can only provide reasonable, not absolute, assurance that key risks are managed to an acceptable level. This is why we cannot provide absolute assurance against misstatement or loss.

Emerging risks

As well as known risks, we identify and analyse emerging risks – and the need to mitigate them – as part of our existing risk management processes. Emerging risks may affect us in the longer term, but we do not currently have sufficient information to understand and assess the likely scale, impact or velocity of the risk – or to define an appropriate risk response.

Through the ERC, Audit Committee and Board, we continue to embed a robust assessment of our emerging risks as part of our risk programme, to make sure they are appropriately considered and monitored and to evaluate the effect they would have, including on our principal risks. In some cases, emerging risks are superseded by other risks or stop being relevant as the environment we operate in changes.

Climate change

We have assessed climate change as an emerging risk. It continues to evolve, and it remains integral to our risk management processes. Having thoroughly reviewed climate-related risks and opportunities by analysing potential scenarios, and in line with our approach last year, we believe climate-related risk is best managed as a component of our other principal risks rather than as a standalone principal risk.

Integrating climate-related risks into our principal risks means we consider physical risks – primarily the potential impact of droughts, flooding, rises in sea level and extreme temperatures – and transitional risks – primarily the potential impacts of carbon taxes, market changes and environmental policy changes – on all aspects of our business operations. We recognise the ability of climate change to particularly affect the principal risks we face around:

- Delivery of our strategic initiatives
- Demand uncertainty and competitve dynamics
- Technology and innovation
- Disruption in supply to our customers
- Energy price risk in Europe
- Ethics and compliance.

In 2024 we will continue to develop our approach to climate-related risk reporting, to make sure our risk management framework supports our strategy and addresses all relevant statutory requirements – including those of the Financial Conduct Authority, which are aligned with the recommendations of the Task Force on Climate-related Financial Disclosures. We will also continue to monitor and comply with emerging regulatory requirements related to climate change, water, biodiversity, greenwashing and company reporting – which include the EU Corporate Sustainability Reporting Directive and IFRS Sustainability Disclosure Standards, and developments around the UK and EU Carbon Border Adjustment Mechanism.

If we fail to effectively respond to the risk of climate change, we may compromise our reputation and strategy for growth. This is why we monitor it closely and continue to evaluate whether it should be considered a principal risk in the future.

Other emerging risks

Other emerging risks currently being monitored include: the growing use of Artificial Intelligence and the opportunities and risks it might pose to Synthomer, such as in the area of novel chemical formulations; the impact of regulatory changes, including those relating to UK corporate governance and sustainability disclosures; and increased geopolitical uncertainty as a result of general election results and ongoing interstate conflicts, which may affect international trading activity, including as a result of changing sanctions or tariff policies.

Principal risks and uncertainties

Here we outline the most significant risks to our business. Other, lower-level risks could also affect the Group's performance, and these are actively managed through our risk management framework.

Strategic risks

For link to strategy key see page 3

Delivery of our strategic initiatives

Risk owners: Jan Chalmovsky, President, Strategy and M&A, **Alice Heezen**, Chief Human Resources Officer

Link to strategy

Movement: + Increased likelihood recognising the strong employment market and the current challenges within the sector to retain key talent

Description

In 2022, we developed a new strategy to reshape the Group (see Our strategy, page 3).

Delivering our strategy requires a wide range of activities across the Group, each of which involves a variety of risks which we monitor through our Risk Management Framework. This includes climate-related risk.

Currently, one of the most significant risks to delivering our strategy is retaining our people. If we are unable to attract, retain and develop the people and talent we need, we may find it difficult to deliver our strategy and transform the business. This is particularly relevant as talent markets are becoming increasingly challenging.

2023 response

- We have continued to review and allocate capital and talent to support our strategy.
- We have strengthened our Internal Communications function to take a more strategic approach to employee communications.
- So that all employees have the tools and support they need, we continue to deliver our global Employee Assistance Programme and to develop and implement training programmes on:
  - Resilience and well-being awareness
  - Inclusive leadership
  - Agenda and resource planning
  - Priority management and simplification.
- We have strengthened our focus on leadership capabilities and continued to equip our leaders with effective tools and techniques to maximise our change-management capability and provide continuity as we deliver our strategic initiatives.
- We have recruited a dedicated Vice President, ESG, to support delivery of our Vision 2030 targets.

2024 plans

- We will continue to deliver our portfolio strategy, finding suitable owners for our non-core businesses and so providing better future prospects for these businesses.
- We will continue to engage our people in the business challenges and journey ahead, aiming to create understanding and awareness of our strategy, and allay any concerns or misconceptions.
- Motivation and retention will stay high on our agenda, and we plan to focus on employee engagement, DE&I, talent management, reward and recognition, and leadership development (see People in focus, pages 38 to 40, and Directors' remuneration report, pages 98 to 100).
- Incorporating ESG into divisional business strategies and all Synthomer excellence programmes, and driving and capturing value from ESG through operational efficiencies and customer product innovation.

Strategic risks continued

Demand uncertainty and competitive dynamics

Risk owners: Divisional presidents

Link to strategy

Movement: <> No change, given this risk combines two risks from our 2022 report: ‘Demand uncertainty and competitive dynamics in the nitrile glove market’, and ‘Demand reduction’

Description

The performance of the markets we operate in is fundamental to our growth. We have seen challenging conditions over the past year as a result of global geopolitical and macroeconomic uncertainty. The resulting volatility has led to weaker overall demand in many of our end markets, exacerbated by increased global competition, particularly in base product markets.

These factors, coupled with our relatively short order books, make demand forecasting more uncertain, which could lead to downside and upside demand risk.

2023 response

- Across all divisions, we have:
  - Put more cost-improvement initiatives in place in our operations, including product/plant footprint assessments and energy improvements. For example, we closed a site in Texas, mothballed our NBR production site in Kluang, Malaysia, and exited the paper and carpet business in North America
  - Delivered innovation programmes focused on process and product improvements, leading to cost benefits for the Group and our customers
  - Focused our growth strategy on underserved customers and speciality products with higher added value
  - Engaged key account customers directly to better understand their ESG challenges and expectations, and in particular their ambitions for decarbonisation.
- In the AS division we have also:
  - Established a performance improvement programme to improve reliability and cost competitiveness.
- In HPPM we have also:
  - Collaborated with customers to make the NBR glove supply chain in Southeast Asia more competitive, with a key role for local innovation at our Asia Innovation Centre in Malaysia
  - Worked with customers, distributors and end-market users to improve visibility of demand across the glove value chain
  - In line with our medium-term outlook, evaluated the competitive dynamics of the global glove and NBR markets and the implications for our NBR manufacturing footprint. As a result, we decided to stop NBR production in Kluang and mothball the plant, and transfer production to other sites
  - Reduced headcount – mostly through natural attrition – to adjust to lower demand levels.

2024 plans

- Across all divisions, we will continue to develop our end-market and customer intelligence to identify the future sustainability requirements of products, influence our innovation and grow new market share.
- We will continue to execute our strategy, with a focus on organic growth, optimising cost and operational efficiency and disciplined investment – see Our strategy, page 3, and Divisional performance reviews, pages 22 to 27.

Strategic risks continued

Technology and innovation

Risk owner: Robin Harrison, Vice President, Innovation

Link to strategy

Movement: + Increased likelihood reflecting our competitors' increased focus on sustainability as a product differentiator

Description

Innovation is a critical enabler for our growth strategy. Alongside differentiated performance from our products, our customers and end users are looking for improvements in sustainability – like a low carbon footprint and circularity. These are also critical enablers for our raw material decarbonisation programme.

If we fail to effectively identify opportunities and execute innovation programmes, we could fail to realise growth opportunities and potentially lose market share.

When we innovate successfully, failure to protect our intellectual property could see us lose competitive advantage and value from our investments.

2023 response

- We integrated our innovation management systems with our financial reporting, forecasting and customer relationship management systems. This has helped to streamline how we commercialise products.
- We focused more on portfolio management to drive the strategic impact of our R&D programme – for example, we have significantly increased the number of sustainability-driven projects.
- Through our Innovation Excellence framework, we have increased our focus on skills development, on implementing advanced experimental design and modelling, and on artificial intelligence methods.
- We continued researching non-fossil fuel raw materials and developing more resource-efficient industrial processes. We completed our first successful pilot to scale up a new technology platform with a high composition of bio-based monomers.
- We actively monitored our innovations to make sure they are appropriately protected as patents or trade secrets.

2024 plans

- We will enhance our knowledge management systems and processes, and specifically focus on global data capture and management.
- We will begin customer prototype sampling of new polymers based on our bio-based monomers platform, to allow real-world technical evaluation of this chemistry before we launch in the market.
- We will extend our work to identify new technology platforms to enable significant decarbonisation of raw materials with a longer-term time horizon. We expect to start early-stage collaborative projects to evaluate their suitability in our end-market segments.
- We will revise our product sustainability scorecard to continue incorporating criteria for low-carbon and downstream customer benefits.

Operational risks

Process safety

Risk owner: John Hamnett, Group Global SHE & Engineering Lead

Link to strategy

Movement: <> No change

Description

The chemical manufacturing industry is inherently dangerous. It involves transporting, storing and processing hazardous chemicals, which leads to wide-ranging exposure to process safety risks.

Acquiring adhesive resins sites in 2022 saw our risk profile increase for two reasons: the high temperatures and pressures these units operate at, and core technology that is outside our previous expertise.

A significant process safety incident could affect the safety of our people and/or local communities. This could result in significant operational disruption, regulatory fines and/or reputational damage.

2023 response

- We completed 98% of our highest priority SHE improvement actions (red flags) in 2023.
- We extended our process hazard analysis studies to cover hot-oil utility facilities, following the fire in Filago, Italy, in 2022, and will complete the one final outstanding review in 2024.
- We updated and reissued our Black Book – our corporate memory, or lessons learnt – in 2023, so it now includes legacy incidents from our adhesive resins sites.
- We have extended our process safety networks to include AS sites.
- We implemented a Group-wide major accident hazard dashboard.

2024 plans

- We will continue to improve how we manage safety-critical equipment items.
- We will continue driving down instances of loss of containment.
- We will continue to focus on major accident hazards by developing 'bow-tie' diagrams and using these to verify that our layers of protection remain strong.
- We will start to review our procedures and training for safety-critical tasks.

Disruption in supply to our customers

Risk owners: Divisional presidents

Link to strategy

Movement: <> No change

Description

Security of energy, raw material supplies, logistics and plant availability and reliability, are critical to maintaining supplies to our customers.

These may be affected by external factors, such as market shortages, short- and/or long-term physical climate-related disruption (including weather events and natural disasters), pandemics, global macroeconomic and geopolitical events, or an internal event that affects plant availability, reliability or safe operations.

All these factors could lead to a disruption in supply to our customers, which may also have an adverse effect on our reputation – especially in light of our strategic commitment to operational and commercial excellence.

2023 response

- We have continued to address the risks associated with single-source raw materials through a risk-based approach and category-specific action plans, which are overseen by a monthly steering meeting.
- We have continued to evaluate and ensure each division has appropriate engineering resources to help sites manage their capital expenditure and asset integrity and reliability programmes.
- We have fully incorporated the acquired AS sites into our operational and commercial excellence initiatives. Our Manufacturing Excellence programme, as part of these initiatives, has been launched across these new sites to track productivity and efficiency improvements, and to improve plant reliability and continuity in our supply to customers.
- Using the World Resources Institute Aqueduct tools, we assessed the water-related risks of our manufacturing sites and identified three tier 1 sites at high/extremely high risk of water stress.

2024 plans

- As we continue to address risks of single-source raw materials, we will be undertaking a strategic review of how effectively our Procurement function sources raw materials.
- In our HPPM and CCS divisions, we will continue to look at optimising our footprint to make better, more efficient use of maintenance capital expenditures.
- Our AS division, through the performance improvement programme will continue work to substantially improve reliability around raw-material and supply-chain planning and delivery.
- We will implement the water risk improvement plans developed for our three at-risk tier 1 sites. These will incorporate a water stewardship approach and context-based water reduction targets.

Operational risks continued

IT and cyber security

Risk owner: Andy Axford, Group Vice President, Information Technology

Link to strategy

Movement: + Increased likelihood recognising the increasing prevalence of cyber attacks, but decreased impact given our robust counter measures

Description

An IT security breach or data-centre outage that has an adverse effect on our systems – including enterprise resource planning, SHE databases, communications and industrial control systems – may affect our ongoing operations. It may see us lose intellectual property or face regulatory fines, which might undermine our competitive position and cause reputational damage.

Additionally, any unforeseen changes or system faults that occur when major change programmes are implemented may disrupt our operations, potentially increase costs, and/or affect our ability to deliver customer requirements.

2023 response

- We continued to enhance our security defences, implementing the Group Cyber Security Plan, which included:
  - Weekly steering committee meetings to evaluate, investigate and address new threats and risks
  - Rolling out and testing for all business users alternative means of access during an incident response
  - Conducting a threat-hunting exercise with no meaningful issue identified
  - Implementing an anti-fraud email tool to authenticate email traffic, providing increased spam/threat protection
  - Continuing our evaluation of redundancy options for our Data Centre, and continuing to execute our cloud migration strategy.
- We continued to implement our Pathway business transformation programme and, in November 2023, successfully deployed our Pathway Wave 4 project using effective governance and proven readiness tools/processes.

2024 plans

- We will continue to deliver the Group Cyber Security Plan, with activities including:
  - Reviewing and investigating any new security issues and risks through weekly steering committee meetings
  - Simulating our planned incident response and continuing to test crisis response plans
  - Selecting and implementing SIEM (security incident and event management) and MDR (managed detection and response) systems and services
  - Implementing a network access control solution for device control.
- Using our effective governance approach, we will deploy Pathway Wave 5, which includes proven system and business readiness tools at key stages of the programme's lifecycle.

Operational risks continued

Energy price risk in Europe

Risk owner: Andrew Ward, Vice President, Group Procurement

Link to strategy

Movement: + Increased impact recognising global geopolitical instability and the effect this may have on energy prices

Description

Significant price rises could reduce the competitiveness of our European businesses because of increased production costs and our inability to pass on these costs to customers because of increased competition from other regions.

The war in Ukraine led to sanctions on Russian energy exports and a reduced gas pipeline supply to Europe in 2022. This led to higher and more volatile energy prices. This risk has now largely been alleviated by:

- Availability of liquefied natural gas (LNG) import, regasification and storage infrastructure
- Robust LNG supplies primarily from the USA
- Increased renewables and lower industrial gas demand.

However, general energy price risk resulting from global geopolitical instability remains, such as attacks in the Red Sea, and needs to be managed appropriately.

2023 response

- We continued to monitor the financial stability of energy suppliers, to identify potential exposure and take appropriate action.
- We increased monitoring and transparency of the resilience measures and plans for our site utility service providers.
- As the European energy market outlook stabilised, we increased our supply contract horizon to return to our long-term price risk management.
- We progressed power purchase agreement (PPA) projects for Europe and the USA to provide long-term renewable electric power supply, at a stable price, for most of our demand.
- We undertook business scenario planning for potentially long-term high energy prices in Europe.
- We continued to reduce demand through site-focused energy-efficiency and decarbonisation investments – for example, flexibility in fuel sources and scoping local direct PPA projects in solar and micro-wind, to reduce cost and business CO_2 emissions.

2024 plans

- We will continue to manage our supply contracts over the long term and have appropriate price risk management strategies aligned to our different businesses.
- We will continue to reduce our demand through site-focused energy-efficiency and decarbonisation investments – for example, pursuing opportunities for on-site solar at our site in Ribécourt, France.
- We will launch a market tender for a significant proportion of our renewable electricity demand in Europe, under a virtual PPA, to secure our renewable electricity demand over the long term. This will increase as we switch away from gas for our process-heating requirements.

Compliance risks

Ethics and compliance

Risk owner: Anant Prakash, Chief Counsel and Company Secretary

Link to strategy

Movement: <> No change

Description

If we fail to comply with relevant legislation and regulatory guidance, we may face significant financial penalties, loss of material assets, unquantifiable reputational damage and increased regulatory scrutiny. These issues may cause delays in business operations and adversely affect the Group's ability to pursue its strategy.

If we fail to proactively address sustainability, ethics and compliance goals, mandates and regulations, we may face future penalties, loss of competitiveness and reduced shareholder value.

2023 response

- We created more controls, including our Compliance function now approving and overseeing high-risk activities, such as:
  - Recording gifts and hospitality
  - Declaring conflicts of interest
  - Government interactions.
- We integrated our new due diligence process for onboarding and managing relevant in-scope third parties, following a successful soft launch in our CCS division.
- We reviewed and refreshed our Code of Conduct, for relaunch in early 2024, supported by standalone compliance policies and guidance, where relevant.
- We continued to deliver a compliance roadshow globally, to raise awareness, build on our compliance culture and promote our whistleblowing hotline.
- We designed a new, modern slavery e-learning module, ready for launch in early 2024, and delivered competition law workshops to higher-risk-exposed teams across the Group. We also worked to refresh our anti-bribery and corruption training module.
- We implemented stronger controls within our systems to prevent any transactions with sanctioned countries.
- We undertook a dedicated Corporate Criminal Offence risk assessment.
- Our Scope 1 and 2, and Scope 3 GHG reduction targets were approved by the Science Based Targets initiative.

2024 plans

- After launching the refreshed Code of Conduct, we will conduct a comprehensive roadshow across the Group to enhance awareness of expected behaviours and emphasise compliance risks across our operations.
- We will continue to make sure our new third-party onboarding processes are adopted across the Group, alongside starting our enhanced active monitoring procedures.
- We will undertake a rigorous modern slavery risk assessment in regions identified as higher risk for our operations; we will also launch our modern slavery e-learning module, supported by training workshops.
- We will continue preparing to comply with the Economic Crime and Corporate Transparency Act 2023, and any subsequent secondary legislation.
- We will continue to monitor and comply with emerging regulatory requirements related to climate change, water, biodiversity, greenwashing and company reporting, such as the EU Corporate Sustainability Reporting Directive (CSRD).

Financial risks

Financial markets and balance sheet

Risk owner: Lily Liu, Chief Financial Officer

Link to strategy

Movement: — Reduced impact recognising our reduced net debt position

Description

The financial markets are volatile given macroeconomic and geopolitical uncertainties and inflationary pressures, and this has driven a significant rise in interest rates in the Group's major markets.

Given the Group's current financial leverage, and the maturity profile of its financial liabilities, this financial market volatility could affect the quantum and/or cost of the Group's future refinancing activities.

2023 response

- In March 2023 we signed a new $480m revolving credit facility (RCF), and have continued to monitor market conditions closely to keep our other financing arrangements under review.
- In October 2023 we completed a £276m rights issue to help reduce the leverage on the balance sheet. As part of the package, we agreed with our lending banks to extend the date at which the RCF matures.
- We continued our portfolio management approach and explored opportunities to optimise the value of our assets, including divestments from the non-core portfolio.
- We continued to optimise cash performance to support the return to our target 1 to 2x leverage in the medium term.

2024 plans

- We will continue to monitor financial market conditions through our key-relationship banks and our debt advisers, and will assess the best time for us to refinance the €520m bond.
- We will continue driving our cash management actions, focusing on working capital management and cost.
- We will continue to manage our divestment projects in line with our strategy.
- We will continue to optimise cash performance to support the return to our target 1 to 2x leverage in the medium term.

Link to strategy see page 3

- Organic growth in attractive end markets
- Rigorous and consistent portfolio management to build focused, leading positions
- Operational and commercial excellence in how we run our business
- Differentiated steering in how we allocate capital and talent
- Diversity, equity and inclusion, and holistic people development
- Critical enabler

TCFD report

Climate change with its associated environmental and socioeconomic impacts presents both ongoing and potential future risks throughout our supply chains and operations, and for our customers and end markets. But, as a speciality chemicals business, it also brings opportunities for Synthomer.

We have been working on these risks and opportunities for many years. We remain committed to taking action and supporting policies aligned with the goals of the 2015 Paris Climate Agreement to limit the rise in global temperatures to well below 2°C above pre-industrial levels, and to pursue efforts to limit the temperature increase even further to 1.5°C.

In 2021 and 2022 we conducted our 'deep-dive' scenario analysis work into the potential risks and opportunities presented by three different scenarios – average global temperature rises of 1.5°C (RCP1.9/SSP1), 2°C (RCP2.6/SSP2) and 3°C (RCP8.5/SSP3) above pre-industrial levels.

The three scenarios addressed three time horizons (short term to 2025, medium term to 2030 and long term to 2050) and covered all three of our key chemistries (acrylic emulsions, synthetic elastomer emulsions and hydrocarbon resins) in our three main regions (Europe, Asia, USA) covering more than 50% of our products by volume.

Through our scenario analysis, we identified five primary responses to reduce the risks and take advantage of the opportunities related to climate change. These responses highlighted the need for us to take tangible action now, whichever climate scenario ultimately plays out. A summary of the priority responses and our actions to date is contained in the table below, supported by information throughout this Annual Report, and in the Climate action Insight paper and ESG Performance Summary published on our website at **Synthomer.com**

To date, our Scope 1 and 2 emissions are 41% less than our 2019 baseline, and our Scope 3 emissions 14%.

	TCFD recommendation	Our disclosure	Further information	
	Governance			
a	Describe the board's oversight of climate-related risks and opportunities	• The Board is responsible for the overall oversight of strategic risk management, including climate-related risks and opportunities. • The Board reviews our risk profile twice a year. The material is prepared by the Executive Risk Committee (ERC), which reports to the Audit Committee. • The Audit Committee ensures that the Board's risk management is effective. Climate-related risks are part of the agenda. • Any large capex, M&A and business plan proposals, including sustainability projects, are approved by the Board – climate change (and carbon tax) are considered as factors when assessing these plans. • The Board engages quarterly with the Vice President, ESG to review the risks and opportunities in relation to Synthomer's ability to drive strategic value through ESG (including climate change).	How we manage risk: page 45 to 47 Our governance framework: page 75 The Board's year: pages 63 to 68 Audit Committee report: pages 87 to 93	F
b	Describe management's role in assessing and managing climate-related risks and opportunities	• The ERC is chaired by the CFO and includes all members of the Executive Committee and key functional vice presidents (including VP, ESG). It meets twice-yearly to identify, assess and manage the risks and opportunities for Group strategy (including those related to climate change). • The Executive Sustainability Steering Committee is chaired by the CEO and includes all members of the Executive Committee and key functional vice presidents (including VP, ESG). It meets quarterly and its role includes ensuring that our plans for climate change are aligned across Synthomer, are properly resourced and coordinated, and that our climate-related metrics and targets are managed effectively. • An Executive Committee member has been assigned as sponsor for each Vision 2030 goal, including sustainable product targets, science-based Scope 1 and 2 targets, and Scope 3 targets. Each sponsor is responsible for ensuring we have the right plans in place to deliver within the 2030 timeframe. • The divisional presidents each undertake quarterly innovation portfolio assessments to assess and prioritise product development, including for lower-carbon products.	Sustainability in focus: pages 28 to 33 How we manage risk: pages 45 to 47 Innovation in focus: pages 36 to 37	F

TCFD recommendation	Our disclosure	Further information	
Strategy			
a Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	The following are the risks and opportunities identified by our deep-dive scenario analysis: • Risks **Transition risks** include potential carbon taxes related to our raw materials and own operations, as well as increasing energy costs. In addition, in the medium term, we also expect to see increasing market and environmental policy changes drive the need for a transition in our future product portfolio, requiring greater low-carbon product innovation. Failure to deliver Scope 1 and 2, and Scope 3 GHG emissions reduction by 2030 in line with our science-based target could give rise to reputational risk. **Physical risks** have not been experienced in the short term by our own operations. We have identified potential water-related risks at three of our tier 1 manufacturing sites. In the medium term, the pattern of increasing global average temperatures and the frequency of extreme weather events such as drought could affect our plants' ability to operate efficiently and could give rise to supplier disruption. • Opportunities **Growth in demand for products and services** that will service a low-carbon or circular economy in various markets and regions. In the short term, we have had increased positive engagement with key customers regarding the potential for low-carbon products. The enabling environment is still maturing, but in the medium term, we expect new business models, regulatory frameworks and end-market requirements to drive increased demand for such products and services. **Cost savings and market growth** through the early adoption of low-carbon technologies, for example using renewable energy or switching to renewable raw materials, although this depends on the speed at which such technologies or materials become cost effective and widely available. **Competitive advantage from our network of sites across the world.** Since we can service customers from a variety of manufacturing sites, our network makes us a more reliable supplier, meaning we are more resilient to physical operational risks. **Our strategic direction towards a more speciality portfolio** where sustainability benefits including lower carbon are integrated into our innovation pipeline and support the customer proposition.	How we manage risk: pages 45 to 47 Sustainability in focus: pages 28 to 33 Climate action insight paper at **Synthomer.com**	F
b Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	• In the short term (to 2025), around three quarters of any potential financial impact of the risks from climate change for our business will come from transitioning to a low-carbon, circular economy (mainly higher costs), with around a quarter coming from physical risks (more extreme weather events affecting our or our suppliers' operations) under a 1.5°C temperature rise scenario. • Under this scenario, we also see the greatest potential opportunity for growth in demand from our customers and their consumers, for those products that offer lower-carbon or circularity benefits. • Looking beyond 2025, our scenario analyses confirmed that transitioning to a low-carbon economy would remain our most significant potential climate-related financial risk; by 2030 and 2050 the relative weighting of transition risks compared to physical risks will become higher (approximately 90:10 vs approximately 75:25 in 2025). • Indirect emissions from our value chain (Scope 3) make up approximately 85% of our total carbon footprint, of which category 1 (purchased goods and services) accounts for more than 85%. Our transition planning is therefore focused on reducing our value-chain GHG emissions. • A new project started in 2024 to further incorporate climate change risks and opportunities into the business planning processes, with the objective of improving our forecasting of the potential financial impacts related to our net-zero transition plan. • In 2024 we will conduct further scenario analysis and financial analysis to fully address this recommendation.	Innovation in focus (Scope 3 case study): page 34 to 35 Sustainability in focus: pages 28 to 33	P

TCFD recommendation	Our disclosure	Further information
Strategy continued		
c Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	• The SBTi's Target Validation Team has determined our Scope 1 and 2 target ambition is in line with a 1.5°C trajectory, while our Scope 3 target ambition is in line with a <2°C trajectory. • We perform sensitivity analysis for our Scope 1 and 2, and Scope 3 GHG emissions taking account of each Division's strategic business plans to inform and assess the resilience of our business planning. • Our overall climate resilience is intrinsically linked to our ability to commercialise lower-carbon raw materials, manufacturing and products through our corporate strategy. • Through our scenario analysis we identified five primary strategic responses, whichever climate scenario ultimately plays out. The five responses have already been incorporated into Synthomer's strategic breakthrough objectives and our Vision 2030 goals. • Our five responses (in order of priority) and the work conducted in 2023 are: **1. Work with selected suppliers:** we have begun to engage suppliers of our key raw materials. Our immediate focus is to explore how to work with suppliers that can make the lowest-carbon monomers from existing feedstocks. This is where we have the potential to make the most immediate impact on our Scope 3 emissions. In the medium term, we are also working to identify and introduce alternative feedstocks, including those from bio-based or circular sources where they offer a lower-carbon solution, although we may have to consider trade-offs with other environmental factors, such as land use change. **2. Reduce our Scope 1 emissions:** we have already taken significant action by ending the use of coal in our manufacturing sites. In the short term, we are continuing to decarbonise our operations through process optimisation as part of our Manufacturing Excellence programme. In the medium term, we have active projects focused on electrification, heat pumps and solar power. And for the long term, we are involved in a feasibility project for the use of green hydrogen at one of our key European sites. **3. Reduce our Scope 2 emissions:** 80% of our purchased electricity already comes from renewable sources and we will continue to reduce and optimise electricity and heat consumption in the short term. From 2024, we are working to enter into or expand power purchase agreements linked to clean-energy generation. **4. Innovate to decarbonise our products:** we are continuing to create and respond to demand from our customers for more sustainable products. In 2023, we revised our product sustainability scorecard to support the further prioritisation of lower-carbon product development for commercialisation in the medium term. **5. Enhance our physical resilience:** using the World Resources Institute (WRI) Aqueduct tools, we have assessed the water-related risks at our own operations. We are now implementing improvement plans for the three sites identified as being at high risk to ensure business continuity and regulatory compliance.	CEO review: pages 8 to 10 Innovation in focus: pages 36 to 37 Sustainability in focus: pages 28 to 33 P

TCFD recommendation	Our disclosure	Further information	
Risk management			
a Describe the Company's processes for identifying and assessing climate-related risks	• In 2020 and 2021, we conducted deep-dive scenario analysis to identify our risks and opportunities. • We address climate-related risk identification and assessment continuously as an integrated part of our risk management activities. • Additionally, the sustainability materiality assessment (which includes stakeholder engagement) is a key necessity for our business continuity and selection of most material sustainability topics.	Sustainability in focus: pages 28 to 33 How we manage risk: pages 45 to 47 How the Board engages: pages 76 to 81	F
b Describe the Company's processes for managing climate-related risks	• We address the management of the actions to mitigate climate-related risk as an integrated part of our risk management activities and through the activities of the Executive Sustainability Steering Committee and Sustainability Development Team.	Sustainability in focus: pages 28 to 33 How we manage risk: pages 45 to 47	F
c Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the Company's overall risk management	• Climate-related risk management forms an integrated part of Synthomer's ongoing risk management work. Significant risks are addressed in alignment with the Enterprise Risk Management structure, where the Board of Directors oversees the effectiveness of risk management in Synthomer.	How we manage risk: pages 45 to 47	F
Metrics and targets			
a Disclose the metrics used by the Company to assess climate-related risks and opportunities in line with its strategy and risk management processes.	• We report on environmental targets and KPIs in our Annual Report and ESG Performance Summary. • Relevant climate metrics include energy consumption (by type), leading and lagging absolute GHG emissions (Scope 1 and 2, and Scope 3), GHG intensity (Scope 1 and 2, and Scope 3), % Scope 1 emissions operating under carbon tax regulations, % capex for climate-related projects, number of sites in areas of high water risk, volume of water use and consumption, % revenue from sites in areas of extremely high water risk, % new products with enhanced sustainability benefits, % procurement spend with a sustainability rating.	Sustainability in focus: pages 28 to 33 Our Vision 2030 progress: pages 41 to 43	F
b Disclose Scope 1, Scope 2, and, if appropriate, Scope 3, greenhouse gas (GHG) emissions, and the related risks.	• We report intensity and absolute GHG emissions on Scope 1, 2 and 3 in our Annual Report. • We report according to the Greenhouse Gas (GHG) Protocol and our data reporting is subject to a limited assurance statement by an independent auditor.	Sustainability in focus: pages 28 to 33 Environmental performance summary: pages 193 to 196	F
c Describe the targets used by the Company to manage climate-related risks and opportunities and performance against targets.	• We have set validated science-based targets for Scope 1 and 2, and Scope 3 GHG emissions. • Scope 1 and 2 targets are included in the Long-Term Incentive Performance Share Plan (PSP) – see page 107.	Sustainability in focus: pages 28 to 33	F

Consistency

F Fully consistent

P Partially consistent

Viability statement

In accordance with the requirements of the UK Corporate Governance Code, the Directors have assessed the viability of the Group over a five-year period to December 2028, being the period covered by the Group's approved strategic plan. This plan is updated annually, in a process led by the Executive Committee with input from the respective businesses and functions. It includes analysis of product and profit performance, cash flow, investment programmes and returns to shareholders. The plan is presented to the Board each year as a part of its annual strategic review.

The Directors consider this period to be an appropriate time horizon for the strategic plan, being the period over which the Group actively focuses on its long-term product development and capital expenditure investments. A period beyond December 2028 is considered by the Directors to be too long, given the uncertainties that exist beyond this time frame.

In making their assessment, the Directors have considered the diverse activities and product offering of the Group in terms of geographies, chemistry and end markets. The Directors have also considered the Group's current financial position, including the recently refinanced and future-committed financing facilities, which have been assumed to be refinanced at maturity as required.

A sensitivity analysis has been undertaken, focusing on the impact of the principal risks (see pages 48 to 55) over the five-year period, and the availability and likely effectiveness of mitigating actions. The risks have been assessed for their potential impact on the Group's business model, future trading and funding structure. The sensitivity analysis has considered a number of severe but plausible scenarios, linked to the risks considered to have the most significant financial impact. In all cases, the impact was considered on both liquidity and the borrowing covenant.

The scenarios included:

- Trading downturns as a result of increased competition or lack of demand
- Delayed restocking and economic recovery in end markets
- Failure to successfully commercialise new products and benefit from innovation, leading to lower sales volumes
- Price inflation for the Group's key raw materials and energy
- Failure to deliver on transformation programmes
- Significant foreign exchange rate appreciation against sterling.

Various mitigating actions have been identified so that, should any of these scenarios crystallise, the Group could take action quickly to significantly reduce costs and cash outflows, as demonstrated during the course of the COVID-19 pandemic in 2020. While this sensitivity analysis did not consider all the risks that the Group may face, the Directors consider that it is reasonable given the inherent uncertainty.

None of these scenarios individually, or when combined, threatens the Group or its ability to take appropriate mitigations to address them, and the combined impact of these scenarios has been evaluated as the most severe stress scenario.

Directors also considered the possible impact of climate change on future cash flows, in particular carbon pricing. In the event of global coordination of carbon pricing, the Directors consider it likely that the Group would be able to pass such costs on to our customers if material. The sensitivity analysis has therefore not been amended to include reduced profits from carbon pricing.

Based on the analysis, the Directors have a reasonable expectation that the Group will be able to continue to operate and meet its liabilities as they fall due over the five-year period of their assessment.

Section 172(1) statement and stakeholder engagement

We value our engagement with all our stakeholders, including our key stakeholders: customers, employees, communities, suppliers, investors, and governments and authorities. Our s.172 compliance statement, which is on pages 76 to 81, describes how the Directors have had regard to stakeholders' interests and other matters when discharging Directors' duties set out in Section 172 of the Companies Act 2006. It includes examples of how stakeholders' interests were considered during principal decisions taken as part of the year.

Non-financial and sustainability information statement

The table below summarises where key elements of our governance reporting (including non-financial matters as required by the Non-Financial Reporting Directive) can be found, some of which are integrated into other sections of our Annual Report. This year, we have also expanded our reporting on ESG matters through our Sustainability insights, available at Synthomer.com

Reporting requirement	Relevant policies and standards that govern our approach	Where to read more in this report	Where to read more on our website
Environmental matters	Code of Conduct Environmental Policy Water Management Policy Sustainable Procurement Policy and Strategy Task Force on Climate-related Financial Disclosures (TCFD)	Sustainability in focus, pages 28 to 33 People in focus, pages 38 to 40 Our Vision 2030 progress, pages 41 to 43 TCFD report, pages 56 to 59 How we manage risk: pages 44 to 47 The Board's year, pages 63 to 68	Environment insight paper Governance insight paper Group Policies
Employees	Our values Code of Conduct Health & Safety Policy	People in focus, pages 38 to 40 Our Vision 2030 progress, pages 41 to 43 How the Board engages (s.172 compliance), pages 76 to 81 The Board's year, pages 63 to 68	Social insight paper Governance insight paper Group Policies
Social matters	Responsible Care Guiding Principles Synthomer Cares	Our business model, page 2 People in focus, pages 38 to 40 Our Vision 2030 progress, pages 41 to 43	Social insight paper Group Policies
Respect for human rights	Code of Conduct Modern Slavery Act Statement Conflict Minerals Policy Statement Sustainable Procurement Policy and Strategy	Sustainability in focus, pages 28 to 33 People in focus, pages 38 to 40 Our Vision 2030 progress, pages 41 to 43	Social insight paper Governance insight paper Group Policies
Anti-corruption and anti-bribery	Code of Conduct Ethics Helpline Our values	People in focus, pages 38 to 40	Governance insight paper Group Policies
Our business model		Our business model, page 2 Our strategy, page 3	
Principal risks and uncertainties	Risk Management Framework	How we manage risk: pages 44 to 47	
Non-financial KPIs		Our key performance indicators, page 12 Our Vision 2030 progress, pages 41 to 43	ESG datapack