Synthomer PLC - SYNT Final Results
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Synthomer plc
Preliminary Results for the year ended 31 December 2016

A consecutive year of substantial earnings growth and record results

FULL YEAR HIGHLIGHTS *Underlying performance [1]*	**2016**	**2015**	**Increase / (decrease) Reported**	**Constant Currency[2]**
	£m	£m	%	%
Revenue	1,045.7	870.1	20.2	10.8
Volumes (ktes)	1,324.9	1,215.9	9.0	
Europe and North America (ENA)	*93.3*	*73.3*	27.3	16.4
Asia and ROW (ARW)	*48.7*	*40.5*	20.2	11.1
Unallocated	*(11.8)*	*(10.9)*	(8.3)	(6.4)
Operating Profit	130.2	102.9	26.5	15.4
Profit before Tax	122.2	95.3	28.2	16.4
EPS (p)	28.3	21.5	31.6	
DPS (p) - ordinary	11.3	8.6	31.4	
IFRS Profit before Tax	136.7	72.5		
IFRS EPS	32.5	17.8		

1 - Underlying performance excludes Special Items. Comments on Underlying performance and a detailed analysis of the Special Items are set out in notes 1 and 2 respectively.
2 - Constant currency sales 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.

Full year performance highlights:

- Consecutive year of record profits with Underlying PBT up 28.2% to £122.2m
  - Strong organic performance in Europe & North America segment with improved margins and stable volumes
  - Asia & Rest of World segment ahead of expectations; good performance in Nitrile latex
- IFRS profit before tax increased 88.6% to £136.7m reflecting profits on the Malaysian land sales (£33.2m) and the disposal of South African business (£4.7m)
- Research and Development delivering results, with products launched in the last five years now representing 20% total sales (2015: 18%)
- Underlying earnings per share up 31.6% at 28.3p per share
- Final dividend of 7.8p (2015: 5.4p) resulting in a total dividend for the year of 11.3p (2015: 8.6p), in line with dividend policy
- PAC acquisition completed; significantly strengthens access to new products, customers and markets in performance adhesives and coatings. Integration on track to deliver synergies of $12m in next two years
- Acquisition of Perstorp Oxo Belgium AB ('Perstorp Belgium') for enterprise value of €78m announced today

Commenting on the results, Neil Johnson, Chairman, said:
"2016 has been another strong year for Synthomer reflecting our strategy to grow the core business and invest in our platform for future growth. Both the Europe & North America and Asia & Rest of World segments delivered organic growth and our first bolt-on acquisition, PAC, made a strong contribution in the second half of the year. We also benefitted from favourable currency translation as a result of the weakening in Sterling.

Looking ahead, we expect to continue to see resilient trading in Europe, although the raw material and macroeconomic environments remain volatile. Whilst we envisage our Asian Nitrile business will be further impacted by the introduction of the additional industry capacity in 2016, this will be partially offset by a full year of PAC and 10 months of Perstorp Belgium included in the 2017 results. Despite these uncertainties and challenges, the Board's expectations remain unchanged from the trading update on 20 January and we remain confident in delivering long term growth in profitability and shareholder value."

IFRS Information	2016			2015		
	Underlying performance	**Special Items**	**IFRS**	**Underlying performance**	**Special Items**	**IFRS**
	£m	£m	£m	£m	£m	£m
Revenue	1,045.7	-	1,045.7	870.1	-	870.1
Europe and North America (ENA)	93.3	(17.9)	75.4	73.3	(23.4)	49.9
Asia and ROW (ARW)	48.7	32.6	81.3	40.5	1.0	41.5
Unallocated	(11.8)	(0.2)	(12.0)	(10.9)	(0.2)	(11.1)
Operating profit (including share of JV's)	130.2	14.5	144.7	102.9	(22.6)	80.3
Finance costs	(8.0)	-	(8.0)	(7.6)	(0.2)	(7.8)
Profit/loss before taxation	122.2	14.5	136.7	95.3	(22.8)	72.5
EPS (p)	28.3	4.2	32.5	21.5	(3.7)	17.8
DPS (p)			11.3			8.6

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 2. The Board's view is that Underlying performance provides additional clarity for the Group's investors and so it is the primary focus of the Group's narrative reporting. Where appropriate, IFRS performance inclusive of Special Items is also described. References to 'unit margin' and 'margin' are used in the commentary on Underlying performance. Unit margin (or margin) is calculated on selling price less variable raw material and logistics costs.

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
Stephen Bennett, Chief Financial Officer	Tel: 01279 436211
Charles Armitstead, Teneo Blue Rubicon	Tel: 020 3603 5220

The Company will host a meeting for analysts and investors at 09.00 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

A consecutive year of substantial earnings growth and record results

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

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

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

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

PAC acquisition highly complementary to Synthomer's existing business

In line with our growth strategy, we successfully acquired PAC on 30 June 2016 for $221m, representing a headline multiple of 7.5 times EBITDA. The bolt-on acquisition significantly strengthens Synthomer's position in the performance adhesives and coatings market, offering access to new products, customers and markets. PAC is also highly complementary to Synthomer's existing business both geographically and in the product markets in which it operates. The integration process is firmly on track to deliver synergies of $12m in the next 2 years.

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

Continued investment to support organic growth

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

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

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

Our People
The number of employees grew by approximately 700 during 2016 when we welcomed PAC employees to Synthomer. We now have approximately 2,700 employees in the Group, spread across 25 manufacturing sites and offices. The culture and values of employees at Synthomer including respect, integrity and trust, are closely aligned with our new PAC employees, which has helped to ensure a smooth integration process.

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

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

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

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

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

Outlook
At this early stage of the year, we still expect to see resilient trading in Europe, although the raw material and macroeconomic environments remain volatile. Whilst we also expect our Asian Nitrile business to be further impacted by the introduction of the additional industry capacity in 2016, this will be partially offset by a full year of PAC and 10 months of Perstorp Belgium included in the Group's results.

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

Neil Johnson
Chairman
6 March 2017

Chief Executive Officer's Review

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

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

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

Continued focus on innovation
The Group made further progress in the year on new product sales, a key measure of our capacity to innovate and bring new value enhancing products to the market and our customers. In 2016, sales of new products launched in the last 5 years was 20%, an increase on the prior year 18%, and meeting our stated target of 20% for the first time since the metric was introduced in 2013. Although this is an important milestone for our business, as outlined at our Capital Markets Day in December, we fully intend to continue to focus on our innovation pipeline to maintain the momentum seen over the last few years.

PAC has enhanced Synthomer's platform for future growth
The acquisition of PAC for $221m on 30 June represented a milestone for our new team, and reinforced a key part of our strategy for growth. The acquisition brought 7 new sites, 760 employees and was bought on an EBITDA multiple of 7.5 times pre synergies and 5.5 times post synergies. Furthermore, PAC has brought us our first manufacturing site in the US, and extended our product range to include powder coatings and redispersible powders.

Safety, health and environment
The Group sets high standards in relation to safety, health and environment which are rigorously assured through a multi-tiered approach under the governance and supervision of our Group SHE team, and reported on at each executive team and Board meetings. Significant investment has been made during 2016 to further enhance the Group's performance, instilling the importance of compliance with the safety standards set, and individual employee responsibility. The Group SHE team introduced the SHE Principles and "10 Golden Rules" targeting the safety of our employees and our plants and sites, across existing and newly acquired PAC sites, with employees certifying that they had read and were committed to the principles. Our key performance measures highlight the step change in performance delivered in the current year, and in particular the significant reduction in the reportable injuries to our employees and contractors.

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

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

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

In optimising the existing operations, we have:

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

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

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

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

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

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

Outlook

At this early stage of the year, we still expect to see resilient trading in Europe, although the raw material and macroeconomic environments remain volatile. Whilst we also expect our Asian Nitrile business to be further impacted by the introduction of the additional industry capacity in 2016, this will be partially offset by a full year of PAC and 10 months of Perstorp Belgium included in the Group's results.

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

Calum MacLean
Chief Executive Officer
6 March 2017

Segmental review

Europe and North America (ENA)

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

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

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

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

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

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

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

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

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

The $221m PAC acquisition, predominantly an ENA business with 6 of the 7 sites located in Europe and America, completed on 30 June 2016. The business has traded in line with expectations and contributed £6.9m operating profit to the segment results. The acquisition secured our leading position as the No. 1 latex and dispersions producer in Europe, focusing on innovative eco-friendly water-based products in the fastest growing markets. It has also expanded our product range with redispersible powders and powder coatings.

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

Asia and Rest of World (ARW)

	2016	2015	Increase / (decrease) Reported	Constant Currency
			%	%
Volumes (ktes)	388.2	395.2	(1.8)	
Revenue (£m)	299.6	288.0	4.0	(3.1)
EBITDA	60.4	50.3	20.1	11.1
Operating profit - Underlying performance (£m)	48.7	40.5	20.2	11.1
Operating profit - IFRS (£m)	81.3	41.5	95.9	

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

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

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

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

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

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

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

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

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

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

The Asian Dispersions business, which predominantly serves the construction and coatings markets, had another strong year with volumes rising by 11% and stable margins, underpinned by production of 7 local grades following the Styrene Butadiene latex project completed in 2015.

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

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

Chief Financial Officer's Review

Overview

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

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

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

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

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

The reasons for the use of these APMs and the reconciliation to the IFRS measures has been expanded in notes 1, 2 and 6.

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

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

The following should be noted:
- The underlying improvement in the ENA legacy segment of £5.1m (7.0%) reflects growth in the overall margin being achieved by the business. This growth is primarily down to improved unit margins.
- Synthomer ARW had good growth in the Dispersions business in APAC and China. This together with tight cost control in a more challenging Nitrile latex market delivered a 12.3% increase in the Underlying operating profit of the legacy business.
- Underlying unallocated corporate costs increased by £0.7m reflecting the full year effect of the investment made in 2015 in the strengthening of the management team and the investment in the London Head Office.
- The weakness of Sterling, especially after the Brexit vote, caused a substantial increase in the Group's reported profit. For the European businesses, the rate used for translating profit has moved from £1:€1.3830 to £1:€1.2180 with a resulting uplift in the 2016 ENA profit of £8.0m. Similarly the strengthening of the Malaysian Ringgit against Sterling from £1:MYR6.0020 to £1:MYR5.5620 is the main driver for the £3.7m currency uplift in the ARW profit.

Special Items

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

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

Finance costs & profit before taxation

	2016			2015		
	Underlying performance £m	Special Items £m	IFRS £m	Underlying performance £m	Special Items £m	IFRS £m
Operating profit (including share of	130.2	14.5	144.7	102.9	(22.6)	80.3

JV's)						
Finance costs	(8.0)	-	(8.0)	(7.6)	(0.2)	(7.8)
Profit/loss before taxation	122.2	14.5	136.7	95.3	(22.8)	72.5
Increase in profit/loss before tax %	28.2		88.6			

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

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

Taxation

	2016			2015		
	Underlying performance	Special Items	IFRS	Underlying performance	Special Items	IFRS
Taxation (charge) / credit £m	(24.5)	9.1	(15.4)	(21.0)	11.6	(9.4)
Effective tax rate %	20.0	(62.8)	11.3	22.0	(51.8)	13.0

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

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

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

Non-controlling interests

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

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

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

Earnings per share

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

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

Cash performance

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

The Group's primary focus is on managing net borrowings, as set out on page 23, rather than on cash. The following summarises the movement in underlying net borrowings and is in the format used by management:

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

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

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

Financing and liquidity

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

	2016	**2015**
	£m	£m
Committed facilities	370.0	224.9
Drawn at 31 December	203.9	89.9
Headroom	166.1	135.0

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

	2016	**2015**
	£m	£m
Net borrowings	150.3	77.4
EBITDA	160.1	125.0
Net borrowings / EBITDA	0.9	0.6

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

Pensions

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

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

The following should be noted:

- Whilst the UK pension cost has remained static, the charge for the overseas pension schemes has increased. This is mainly due to the additional employees associated with the acquisition of the PAC business
- The most significant factor in the £47.5m increase in the post retirement obligations is the actuarial loss suffered by the UK scheme. This loss of £47.2m reflects the reduction in the discount rate assumption to be applied under IFRS which reduced from 3.8% to 2.7%.

Acquisition and disposal accounting

The accounting for the acquisition of the PAC business and for the disposal of the South African business is shown in the notes 8 and 9 respectively. For the acquisition, the assets and liabilities have been included at fair value with the balance of consideration shown as goodwill. KPMG LLP were engaged to advise on the fair value of the Property, Plant and Equipment (PPE). Overall their conclusion was that the total fair value of the PPE was in line with the carrying values although there were some differences in asset categories which have been adjusted accordingly. KPMG LLP also performed a valuation of the intangibles, of which the only one of significant value was the customer relationships. Accordingly, on acquisition the Group recognised goodwill and acquired intangibles in relation to the PAC business of £53.9m and £22.0m respectively.

Post balance sheet event

Today we have announced another bolt-on acquisition, Perstorp Belgium, for a total enterprise value of €78m. This will be funded from the Group's existing financial resources. The financial information in relation to the acquisition is set out in note 10 to this preliminary report.

Stephen Bennett
Chief Financial Officer
6 March 2017

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 Underlying performance audited £m	2016 Special Items audited £m	2016 IFRS audited £m	2015 Underlying performance audited £m	2015 Special Items audited £m	2015 IFRS audited £m
Continuing operations							
Revenue		1,045.7	-	1,045.7	870.1	-	870.1
Company and subsidiaries before Special Items		128.2	-	128.2	99.1	-	99.1
Restructuring and site closure		-	(5.2)	(5.2)	-	(5.4)	(5.4)
Sale of business		-	4.7	4.7	-	-	-
Sale of land		-	33.2	33.2	-	6.5	6.5
Acquisition costs		-	8.8	8.8	-	-	-
Amortisation of acquired intangibles		-	(27.0)	(27.0)	-	(23.7)	(23.7)
Company and subsidiaries		128.2	14.5	142.7	99.1	(22.6)	76.5
Share of joint ventures		2.0	-	2.0	3.8	-	3.8
Operating profit/(loss)	2	130.2	14.5	144.7	102.9	(22.6)	80.3
Interest payable		(4.2)	-	(4.2)	(3.8)	-	(3.8)
Interest receivable		0.7	-	0.7	0.5	-	0.5
		(3.5)	-	(3.5)	(3.3)	-	(3.3)
IAS19 interest charge		(4.5)	-	(4.5)	(4.3)	-	(4.3)
Fair value adjustment		-	-	-	-	(0.2)	(0.2)
Finance costs	4	(8.0)	-	(8.0)	(7.6)	(0.2)	(7.8)
Profit/(loss) before taxation		122.2	14.5	136.7	95.3	(22.8)	72.5
Taxation		(24.5)	9.1	(15.4)	(21.0)	11.6	(9.4)
Profit/(loss) for the year		97.7	23.6	121.3	74.3	(11.2)	63.1
Profit attributable to non-controlling interests		1.5	9.4	10.9	1.2	1.5	2.7
Profit/(loss) attributable to equity holders of the parent		96.2	14.2	110.4	73.1	(12.7)	60.4
		97.7	23.6	121.3	74.3	(11.2)	63.1
Earnings/(loss) per share							
Basic		28.3p	4.2p	32.5p	21.5p	(3.7)p	17.8p
Diluted		28.1p	4.2p	32.3p	21.3p	(3.7)p	17.6p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016

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

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
At 1 January 2016	34.0	230.5	0.9	(48.3)	32.3	249.4
Profit for the year	-	-	-	-	110.4	110.4
Actuarial losses	-	-	-	-	(49.1)	(49.1)
Exchange difference on translation of foreign operations	-	-	-	47.0	-	47.0

Exchange differences recycled on sale of business	-	-	-	3.3	-	3.3
Loss on a hedge of a net investment taken to equity	-	-	-	(6.4)	-	(6.4)
Tax relating to components of other comprehensive income	-	-	-	-	0.9	0.9
Total comprehensive (expense)/ income for the year	-	-	-	43.9	62.2	106.1
Dividends paid to shareholders	-	-	-	-	(30.3)	(30.3)
Dividends paid to non-controlling interests	-	-	-	-	-	-
Share-based payments	-	-	-	-	1.0	1.0
At 31 December 2016	34.0	230.5	0.9	(4.4)	65.2	326.2

	Non-controlling interests	**Total equity**
	audited	audited
	£m	£m
At 1 January 2016	9.1	258.5
Profit for the year	10.9	121.3
Actuarial losses	-	(49.1)
Exchange difference on translation of foreign operations	1.2	48.2
Exchange differences recycled on sale of business	-	3.3
Loss on a hedge of a net investment taken to equity	-	(6.4)
Tax relating to components of other comprehensive income	-	0.9
Total comprehensive (expense)/ income for the year	12.1	118.2
Dividends paid to shareholders	-	(30.3)
Dividends paid to non-controlling interests	(3.2)	(3.2)
Share-based payments	-	1.0
At 31 December 2016	18.0	344.2

	Share capital	**Share premium**	**Capital redemption reserve**	**Hedging and translation reserve**	**Retained earnings**	**Total**
	audited	audited	audited	audited	audited	audited
	£m	£m	£m	£m	£m	£m
At 1 January 2015	34.0	230.5	0.9	(23.2)	24.1	266.3
Profit for the year	-	-	-	-	60.4	60.4
Actuarial gains	-	-	-	-	1.6	1.6
Exchange difference on translation of foreign operations	-	-	-	(35.7)	-	(35.7)
Exchange differences recycled on sale of business	-	-	-	-	-	-
Gains on a hedge of a net investment taken to equity	-	-	-	10.6	-	10.6
Tax relating to components of other comprehensive income	-	-	-	-	(0.7)	(0.7)
Total comprehensive (expense)/ income for the year	-	-	-	(25.1)	61.3	36.2
Dividends paid to shareholders	-	-	-	-	(53.7)	(53.7)
Dividends paid to non-controlling interests	-	-	-	-	-	-
Share-based payments	-	-	-	-	0.6	0.6
At 31 December 2015	34.0	230.5	0.9	(48.3)	32.3	249.4

	Non-controlling interests	**Total equity**
	audited	audited
	£m	£m
At 1 January 2015	10.8	277.1
Profit for the year	2.7	63.1
Actuarial gains	-	1.6
Exchange difference on translation of foreign operations	(1.4)	(37.1)
Exchange differences recycled on sale of business	-	-
Gains on a hedge of a net investment taken to equity	-	10.6
Tax relating to components of other comprehensive income	-	(0.7)
Total comprehensive (expense)/ income for the year	1.3	37.5
Dividends paid to shareholders	-	(53.7)
Dividends paid to non-controlling interests	(3.0)	(3.0)
Share-based payments	-	0.6

At 31 December 2015	9.1	258.5

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016

	2016	2015
	audited	audited
	£m	£m
Non-current assets		
Goodwill	301.4	222.4
Acquired intangible assets	54.2	50.9
Other intangible assets	0.2	0.3
Property, plant and equipment	293.3	186.4
Deferred tax assets	19.4	15.4
Investment in joint ventures	9.0	8.0
Total non-current assets	677.5	483.4
Current assets		
Inventories	104.3	63.6
Trade and other receivables	195.7	122.9
Cash and cash equivalents	117.4	50.9
Derivatives at fair value	-	2.9
Total current assets	417.4	240.3
Asset classified as held for sale	0.7	1.0
Total assets	1,095.6	724.7
Current liabilities		
Borrowings	(65.4)	(57.3)
Trade and other payables	(213.5)	(124.7)
Current tax liability	(39.0)	(30.6)
Provisions for other liabilities and charges	(3.0)	(3.2)
Total current liabilities	(320.9)	(215.8)
Non-current liabilities		
Borrowings	(202.3)	(73.7)
Trade and other payables	(2.7)	-
Deferred tax liability	(33.1)	(30.0)
Post retirement benefit obligations	(186.7)	(139.2)
Provisions for other liabilities and charges	(5.7)	(7.5)
Total non-current liabilities	(430.5)	(250.4)
Net assets	344.2	258.5
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	(4.4)	(48.3)
Retained earnings	65.2	32.3
Equity attributable to equity holders of the parent	326.2	249.4
Non-controlling interests	18.0	9.1
Total equity	344.2	258.5

The financial statements were approved by the Board of Directors and authorised for issue on 6 March 2017.

ANALYSIS OF NET BORROWINGS

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

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	2016		2015	
	audited	audited	audited	audited
	£m	£m	£m	£m
Operating				
Cash generated from operations		157.0		115.6
Interest received	0.7		0.5	
Interest paid	(4.0)		(3.9)	
Net interest paid		(3.3)		(3.4)
UK corporation tax paid	-		-	
Overseas corporate tax paid	(17.1)		(15.4)	
Total tax paid		(17.1)		(15.4)
Net cash inflow from operating activities		136.6		96.8
Investing				
Dividends received from joint ventures		2.1		3.6
Purchase of property, plant and equipment	(45.6)		(22.8)	
Sale of property, plant and equipment	34.4		6.8	
Net capital expenditure		(11.2)		(16.0)

Purchase of business		(165.8)		-
Sale of business		12.8		-
Net cash outflow from investing activities		(162.1)		(12.4)
Financing				
Equity dividends paid		(30.3)		(53.7)
Dividends paid to non-controlling interests		(3.2)		(3.0)
Settlement of equity-settled share-based payments		(0.4)		-
Repayment of borrowings		(82.7)		(48.5)
Proceeds of borrowings		186.0		-
Net cash inflow/(outflow) from financing activities		69.4		(105.2)
Increase/(decrease) in cash, cash equivalents and bank overdrafts during the year		43.9		(20.8)
Cash, cash equivalents and bank overdrafts at 1 January		8.5		24.9
Cash (outflows)/inflows				
Cash and cash equivalents	63.8		(44.5)	
Bank overdrafts	(19.9)		23.7	
		43.9		(20.8)
Exchange and other movements		(0.4)		4.4
Cash, cash equivalents and bank overdrafts at 31 December		52.0		8.5

RECONCILIATION OF NET CASH FLOW FROM OPERATING ACTIVITIES TO MOVEMENT IN NET BORROWINGS FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	audited £m	audited £m
Net cash inflow from operating activities	136.6	96.8
Add back: dividends received from joint ventures	2.1	3.6
Less: net capital expenditure	(11.2)	(16.0)
Less: net purchase of business	(153.0)	-
	(25.5)	84.4
Ordinary dividends paid	(30.3)	(53.7)
Dividends paid to non-controlling interests	(3.2)	(3.0)
Settlement of equity-settled share-based payments	(0.4)	-
Exchange movements	(13.5)	7.0
(Increase)/decrease in net borrowings (underlying performance)	(72.9)	34.7

1 Underlying segmental performance

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 at GDP.

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

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

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

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 one-off items and those that do not relate to the Group's ongoing businesses. To provide additional clarity on the ongoing trading performance of the Group's businesses, the management uses "Underlying performance" as an alternative performance measure to plan for, control and asses 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 2 and has been consistently applied since the Group adopted IFRS in 2005. These Special Items are either irregular and therefore including them in the assessment of a segment's performance would lead to a distortion of trends or are technical adjustments which ensure the Group's financial statements are in compliance with IFRS but do not reflect the operating performance of the segment in the year or both. An example of the latter is the amortisation of acquired intangibles, which principally relates to acquired customer relationships. The Group incurs costs, which are recognised as an expense in the income statement, maintaining these customer relationships. The Group considers that the exclusion of the amortisation charge on acquired intangibles from Underlying performance avoids the potential double counting of such costs and therefore excludes it as a Special Item from Underlying performance.

Reconciliation of underlying performance to IFRS	**2016**				**2015**			
	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
Revenue (£m)								
Underlying performance and IFRS	746.1	299.6		1,045.7	582.1	288.0		870.1
Operating profit/(loss) (£m) - including share of joint ventures								
Underlying performance	93.3	48.7	(11.8)	130.2	73.3	40.5	(10.9)	102.9
Special Items								
Restructuring & site closure - cash costs	(4.7)	(0.3)	(0.2)	(5.2)	(4.8)	(0.4)	(0.2)	(5.4)
Profit on sale of South African Business	-	4.7	-	4.7	-	-	-	-
Sale of Malaysian land	-	33.2	-	33.2	-	6.5	-	6.5
Acquisition costs	8.3	0.5	-	8.8	-	-	-	-
Amortisation of acquired intangibles	(21.5)	(5.5)	-	(27.0)	(18.6)	(5.1)	-	(23.7)
	(17.9)	32.6	(0.2)	14.5	(23.4)	1.0	(0.2)	(22.6)
IFRS	75.4	81.3	(12.0)	144.7	49.9	41.5	(11.1)	80.3

Of the Asia and rest of World operating profit of £81.3m (2015: £41.5m), £2.0m (2015: £3.8m) is the Group's share of joint ventures.

2 Special Items

The Special Items disclosed are made up as follows:

	Note	2016 audited £m	2015 audited £m
Continuing operations			
Operating profit/(loss)			
Restructuring and site closure		(5.2)	(5.4)
Profit on sale of South African business	9	4.7	-
Sale of land in Malaysia		33.2	6.5
Acquisition costs of the PAC business	8	8.8	-
Amortisation of acquired intangibles		(27.0)	(23.7)
Operating profit/(loss)		14.5	(22.6)
Finance costs			
Fair value adjustment	4	-	(0.2)
Profit/(loss) before taxation from continuing operations		14.5	(22.8)
Taxation		9.1	11.6
Profit/(loss) for the year from continuing operations		23.6	(11.2)

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

Substantial tranches of Malaysian land sales, where contracts had been exchanged in prior years, were completed in 2016 producing a significant profit.

The transaction costs associated with the purchase of the PAC business were £4.3m. This has been offset in the amount included in the above table by the gain of £13.1m on the foreign exchange contracts taken out as a hedge against the US dollar purchase consideration.

The amortisation of intangibles has increased during the year, partly due to exchange movements and partly due to the intangibles acquired as part of the PAC transaction.

The sale of the South African business and the purchase of the PAC business are discussed in notes 9 and 8 respectively.

3 Revenue by destination

	2016 audited £m	2015 audited £m
Western Europe	533.6	431.4
Eastern Europe	63.8	49.0
North America	57.4	37.0
Asia	324.4	297.6
Africa and Middle East	51.9	52.2

Rest of World	14.6	2.9
	1,045.7	870.1

4 Finance costs

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

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

5 Reconciliation of operating profit to cash generated from operations

	2016 audited £m	2015 audited £m
Operating profit - continuing operations	144.7	80.3
Less: share of profits of joint ventures	(2.0)	(3.8)
	142.7	76.5
Adjustments for:		
Depreciation	29.7	21.8
Amortisation	0.2	0.3
Amortisation (Special Items)	27.0	23.7
Restructuring and site closure (Special Items)	5.2	5.4
Share-based payments	2.0	0.6
Profit on sale of land (Special Items)	(33.2)	(6.5)
Acquisition costs	(8.8)	-
Profit on sale of business	(4.7)	-
Cash impact of restructuring and site closure	(5.5)	(5.4)
Cash impact of FX relating to purchase of business	13.1	-
Cash impact of acquisition costs	(4.0)	-
IAS 19 interest charge	(4.5)	(4.3)
Pension funding in excess of IAS 19 charge	(12.4)	(6.3)
(Increase) / decrease in inventories	(13.3)	7.1
(Increase) / decrease in trade and other receivables	(13.5)	4.9
Increase / (decrease) in trade and other payables	37.0	(2.2)
Cash generated from operations	157.0	115.6
Reconciliation of movement in working capital		
(Increase) / decrease in inventories	(13.3)	7.1
(Increase) / decrease in trade and other receivables	(13.5)	4.9
Increase / (decrease) in trade and other payables	37.0	(2.2)
Movement in working capital (underlying)	10.2	9.8

6 EBITDA

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

Reconciliation of EBITDA to IFRS	2016				2015			
	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	111.2	60.4	(11.5)	160.1	85.5	50.3	(10.8)	125.0
Depreciation and amortisation	(17.9)	(11.7)	(0.3)	(29.9)	(12.2)	(9.8)	(0.1)	(22.1)
Operating profit - underlying	93.3	48.7	(11.8)	130.2	73.3	40.5	(10.9)	102.9
Special Items	(17.9)	32.6	(0.2)	14.5	(23.4)	1.0	(0.2)	(22.6)
Operating profit - IFRS	75.4	81.3	(12.0)	144.7	49.9	41.5	(11.1)	80.3

7 Dividends

	2016		2015	
	Pence per share audited	£m	Pence per share audited	£m

Interim dividend	3.5	11.9	3.2	10.9
Proposed final dividend	7.8	26.5	5.4	18.4
	11.3	38.4	8.6	29.3

8 Purchase of business

The Group acquired the Performance and Adhesive Coatings business of Hexion Inc. on 30 June 2016 for a total consideration of £165.1m.

The Consideration paid in respect of this acquisition and the fair value of Net Assets acquired is summarised as follows:

Net assets acquired	**Europe & North America**	**Asia & Rest of World**	**Total**
	audited	audited	audited
	£m	£m	£m
Intangible assets	22.0	-	22.0
Property, plant and equipment	61.4	6.2	67.6
Inventories	21.0	1.9	22.9
Trade and other receivables	43.8	3.2	47.0
Cash and cash equivalents	1.8	0.9	2.7
Trade and other payables	(36.3)	(2.9)	(39.2)
Current tax liability	(0.3)	-	(0.3)
Current borrowing - Bank overdrafts	-	(3.4)	(3.4)
Deferred tax liability	(3.7)	(0.7)	(4.4)
Post retirement benefit obligations	(3.6)	(0.1)	(3.7)
Fair value of net assets acquired	106.1	5.1	111.2
Goodwill arising on acquisition	50.3	3.6	53.9
Total consideration	156.4	8.7	165.1
Satisfied by			
Cash consideration	156.4	8.7	165.1
Cash flow			
Cash consideration	156.4	8.7	165.1
Net (cash) / overdraft acquired	(1.8)	2.5	0.7
Net cash outflow arising on acquisition	154.6	11.2	165.8

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

The goodwill arising on the acquisition of the PAC business represents the premium the Group paid to acquire companies which complement the existing business and create significant opportunities for cross-selling and other synergies.

Acquisition costs expensed in 12 months to 31 December 2016	**Europe & North America**	**Asia & Rest of World**	**Total**
	audited	audited	audited
	£m	£m	£m
Gain on FX contracts used to fix Sterling value of US dollar consideration	(12.4)	(0.7)	(13.1)
Other costs	4.1	0.2	4.3
	(8.3)	(0.5)	(8.8)

In the period from acquisition to 31 December 2016 the PAC business contributed the following to the Group's results:

	Europe & North America	**Asia & Rest of World**	**Total**
	audited	audited	audited
	£m	£m	£m
Revenue of:	122.0	7.8	129.8
Operating profit of:	6.9	(0.5)	6.4

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

	Europe & North America	**Asia & Rest of World**	**Total**
	audited	audited	audited
	£m	£m	£m
Revenue of:	244.8	15.8	260.6
Operating profit of:	20.4	(0.7)	19.7

9 Sale of business

The Group disposed of the following interest in its South African business consisting of a sub-holding company, Revertex (South Africa) (Pty) Ltd, its trading subsidiary, Synthomer (Pty) Ltd and its 50% joint venture, Arkem (Pty) Ltd:

Company name	Date of sale	Purchaser	Division	Sale type
Revertex (South Africa) (Pty) Ltd	11 August 2016	Third party trade	Asia and Rest of World	Share

Arkem (Pty) Ltd	11 August 2016	Third party trade	Asia and Rest of World	Share
Synthomer (Pty) Ltd	11 August 2016	Third party trade	Asia and Rest of World	Share

The consolidated net assets of the companies at the date of disposal were as follows:

	£m
Property, plant and equipment	1.8
Inventories	2.6
Trade receivables	3.6
Net cash	0.4
Deferred tax liability	(0.2)
Current tax liability	(0.1)
Trade payables	(2.9)
Net assets disposed of	5.2
Total consideration (net of disposal costs)	16.6
Less net assets disposed off	(5.2)
Loss on forward exchange contract used to fix Sterling amount of proceeds	(3.4)
Profit on sale of business before recycling of foreign exchange from hedging and translation reserve	8.0
Recycling of foreign exchange from Hedging and translation Reserve	(3.3)
Profit on disposal	4.7
Total consideration satisfied by:	
Cash (net of disposal costs)	16.6
Loss on forward exchange contract used to fix sterling amount of proceeds	(3.4)
	13.2
Cash flow:	
Cash consideration	13.2
Cash disposed	(0.4)
Net cash inflow arising on disposal	12.8

In the period from 1 January 2016 to the date of disposal, the South African business contributed the following to the Group's results:

	£m
Revenue of:	10.8
Operating profit of:	1.1

10 Post balance sheet event

The Group acquired 100% of the issued share capital of Perstorp Oxo Belgium AB, a specialties chemical company, on 5 March 2017 for a total consideration of £66.1m.

The provisional values of the net assets acquired were as follows:

	Book and Provisional Fair Value
	£m
Net assets acquired	
Intangible assets	0.7
Property, plant and equipment	3.9
Deferred tax assets	0.8
Inventories	5.0
Trade and other receivables	5.1
Cash and cash equivalents	2.0
Trade and other payables	(3.6)
Current tax liability	-
Deferred tax liabilities	(1.9)
Post retirement benefit obligations	(2.4)
Provisional fair value of net assets acquired	9.6
Goodwill arising on acquisition	56.5
Total consideration	66.1
Satisfied by	
Cash consideration	66.1
Cash flow	
Cash consideration	66.1
Cash acquired	(2.0)
Net cash flow arising on acquisition	64.1

International Financial Reporting Standard 3 "Business Combinations" (revised 2008) requires the assets acquired to be initially recorded at Fair Value at the date of acquisition. As such, Fair Value adjustments are provisional and will be finalised within twelve months of the acquisition date. Any resulting changes in the fair values may have an impact on the depreciation from the date of acquisition and would be recorded in the financial statements.

Neither a preliminary assessment of intangible assets nor the Property, Plant and Equipment (PPE) valuation had been completed at the date of these financial statements. When the final valuation work is concluded, a substantial increase in PPE and intangible assets values, and a corresponding substantial reduction in goodwill, is anticipated.

The acquisition of Perstorp Oxo Belgium AB was completed on 5 March 2017. The acquired business has therefore not contributed to the results of the Group for the year ended 31 December 2016. Sufficient information is not currently available to disclose the contribution to the Group if the acquisition had been made on 1 January 2016.

11 Cash and cash equivalents

In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32.

Following this additional guidance, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts. Comparatives at 31 December 2015 have been revised, increasing overdrafts and increasing cash balances by £31.0m. At 31 December 2014 the comparative revision would have been to increase overdrafts and increase cash in hand by £42.2m. As this may be considered a change in accounting policy the group and Company should present a third balance sheet to capture the opening position at 1 January 2015. However having reviewed the guidance management has opted instead to present the impact of cash pooling in this note only, on the basis of materiality, as there is no impact on net assets.

12 Further information

The financial information set out above does not constitute the Company's financial statements for the years ended 31 December 2016 or 2015, but is derived from those statements. Financial statements for 2015 have been delivered to the Registrar of Companies and those for 2016 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 computed in accordance with International Financial Reporting Standards (IFRS), this announcement itself does not contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS, a copy of which will be posted to shareholders, on 27 March 2017.

The financial statements were approved by the Board of Directors on 6 March 2017.

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 2015 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 interim dividend of 3.5p per share was paid on 4 November 2016. The Directors recommend a final ordinary dividend of 7.8p per share payable on 6 July 2017 to those shareholders registered at the close of business on 9 June 2017.

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 (2015: 339.8 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 amendment and restatement in March 2016 of the Group's main credit facility put in place in July 2014 and which involved the putting in place of an extended commitment of £370 million under the multicurrency revolving facilities agreement until July 2019. After making enquiries and taking account of reasonably possible changes in trading performance, the Directors are satisfied that, at the time of approving the financial statements, it is appropriate to adopt the going concern basis in preparing the financial statements of both the Group and the parent Company.

13 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.
Special Items	The following are disclosed separately as Special Items in order to provide a clearer indication of the Group's underlying performance: • Amortisation of acquired intangible assets; • Impairment of non-current assets; • Costs of business combinations as defined by IFRS 3 and related debt issue costs; • Re-structuring and site closure costs; • Fair value adjustment - mark to market adjustments in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied; • Items of income and expense that are considered material, either by their size and/or nature; • Tax impact of above items; and • Settlement of prior period tax issues.
Underlying performance	Underlying performance represents the statutory performance of the Group under IFRS, excluding Special Items.
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.
Ktes	Kilotonne or 1,000 tonnes (metric)

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