

SYNTHOMER (UK) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS YEAR ENDED 31 DECEMBER 2018



STRATEGIC REPORT

Review of the business

Synthomer (UK) Limited's ('the Company') principal activities during the year were the manufacture and sale of synthetic resin dispersions, polyvinyl alcohol, polyvinyl acetate and synthetic rubber latex compounds.

Effective from 1 January 2018 the Company entered into a contract manufacturing and distribution arrangement with its sister company Synthomer Trading Ltd (UK) in line with Synthomer plc Group's ("the Group") other European manufacturing and distribution entities. Synthomer Trading Ltd is the Group's principal company performing the key risk control functions for the European businesses.

The company is incorporated and domiciled in the UK. The address of its registered office is Central Road, Temple fields, Harlow, Essex, CM20 2BH.

The Operating Profit of the Company for the year before amortisation of goodwill was £3,597,000 (2017: £17,911,000). The reduction in Operating Profit is mainly attributable to the effects of the contract manufacturing and distribution arrangement noted above. The Directors are satisfied with the results for the year and with careful margin and cost management across the business as a whole, the Directors anticipate an improved Operating Profit next year. With net assets of £127,403,000 (2017: £127,545,000), the Company remains in a strong financial position.

Synthomer plc Group manages its operations on a divisional basis. For this reason the Company's Directors believe that further key performance indicators for the Company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of Synthomer plc, which includes the results of the Company, is discussed in the Synthomer plc 2018 Annual Report, which does not form part of this report.

Principal risks and uncertainties

To carry out its principal activities the Company requires a reliable and timely supply of raw materials. Many of these raw material markets have experienced uncertainty in recent years, however the Company maintains strong relationships with its suppliers to ensure the availability of material at competitive prices.

The Company's activities are subject to competitive pressure across its global markets. The risk of losing sales or market share is mitigated by the Company's commitment to work closely with its customers to provide an individual and tailored service in line with the customer's needs.

Group risks are discussed in the Synthomer plc 2018 Annual Report.

Financial risk management

The Company trades in Euros and United States Dollars and is therefore subject to the risk of adverse exchange rate movements. These exchange rate risks are managed by the use of forward contracts and internal hedging arrangements.

The Company utilises short-term borrowing facilities to enable flexibility in the normal course of its trading. These borrowings are charged at normal bank variable rates. The Company continues to have access to sources of finance sufficient for its needs.

Group risks are discussed in the Synthomer plc 2018 Annual Report.

BY ORDER OF THE BOARD



R Atkinson

Company Secretary

Registered office:

Central Road,
Templefields, Harlow
Essex, CM20 2BH

27 JUNE.....2019

DIRECTORS' REPORT

The Directors present their report and audited financial statements for the year ended 31 December 2018.

Results and dividends

The profit before taxation for the year before amortisation of intangibles on continuing operations amounted to £3,164,000 (2017: £16,771,000). Loss after amortisation but before tax amounted to £5,716,000 (2017: profit of £7,942,000).

No interim dividend has been proposed or paid in respect of the year ended 31 December 2018 (2017: £nil). The Directors do not recommend the payment of a final dividend for the year (2017: nil).

Review of the business, principal risks and uncertainties and financial risk management

The review of the business, the principal risks and uncertainties and the financial risk management are covered in the Strategic Report.

Going Concern

After making enquiries and taking account of reasonably possible changes in trading performance, the Directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were:

R Atkinson
T J Hughes
C Breucker (Resigned 15 October 2018)
S G Bennett
N Whitley
R M Tupker (Appointed 15 October 2018)

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

DIRECTORS' REPORT (continued)

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Creditor payment policy

The Company ensures that, wherever possible, its payments to creditors and other suppliers are made in accordance with terms of payment agreed at the time the contract of supply is made, subject to all the terms and conditions of the order being satisfied by the supplier. Trade creditor days of the company for the year ended 31 December 2018 were 47 days (2017: 49).

Fixed assets and investments

In the opinion of the Directors, the value of land and buildings shown in the financial statements is not materially different from the market value of those assets and the value of intangible fixed assets has shown no evidence of impairment.

Research and development

The Company follows a policy of internal research and development of its products and has access to information resulting from the research activities of the Synthomer plc Group and co-operating Universities. All research and development activities are focussed towards enhancement and extension of the Company's product portfolio.

Employment of disabled persons

The Company treats applications for employment from disabled persons in the same way as those for able persons. Employees who become disabled are given every opportunity to continue employment under normal terms and conditions with appropriate training, career development and promotion wherever possible. The Company seeks to achieve equal opportunities in employment through recruitment and training policies.

Employee involvement

The Company promotes employee involvement and better communications with its employees. The Company makes its employees aware of the financial and economic factors affecting the performance of the Company and obtains the opinions of employees by means of employee committees. A profit-related bonus scheme is in operation.

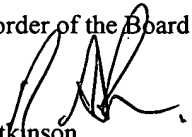
Environment

The Synthomer plc Group recognises the importance of its environmental responsibilities, monitors its impact on the environment, and develops and implements policies to reduce any damage which might be caused by the Group's activities. The Company operates in accordance with Group policies, which are described in the Synthomer plc Annual Report, which does not form part of this report.

Independent Auditors

Resolutions to dispense with holding annual general meetings, the laying of financial statements before the company in general meeting and the appointment of auditors annually are currently in force. The auditors, PricewaterhouseCoopers LLP will therefore be deemed to have been reappointed at the end of the year of 28 days beginning with the day on which copies of this report and financial statements are sent to members unless a resolution is passed under section 485 of the Companies Act 2006 to the effect that their appointment be brought to an end.

By order of the Board


R Atkinson
Company Secretary

Registered office: Central Road
Templefields, Harlow
Essex, CM20 2BH

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNTHOMER (UK) LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Synthomer (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNTHOMER (UK) LIMITED (continued)

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities in respect of the financial statements set out on pages 2 and 3, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Matthew Mullins (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cambridge

28 June 2019

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2018

	NOTE	Year ended 31 December 2018			Year ended 31 December 2017		
		Before amortisation of intangibles	Amorti- sation	Total for the year	Before amortisation of intangibles	Amorti- sation	Total for the year
		£'000	£'000	£'000	£'000	£'000	£'000
Continuing operations							
Turnover	3	444,019	-	444,019	457,060	-	457,060
Net operating costs	4	(440,422)	(8,880)	(449,302)	(439,149)	(8,829)	(447,978)
Operating (loss)/profit	5	3,597	(8,880)	(5,283)	17,911	(8,829)	9,082
Interest receivable and similar income	7	197	-	197	-	-	-
Interest payable and similar expenses	8	(630)	-	(630)	(1,140)	-	(1,140)
(Loss)/profit on ordinary activities before taxation		3,164	(8,880)	(5,716)	16,771	(8,829)	7,942
Tax on (loss)/profit on ordinary activities	9	1,437	-	1,437	(3,171)	-	(3,171)
(Loss)/profit for the year		<u>4,601</u>	<u>(8,880)</u>	<u>(4,279)</u>	<u>13,600</u>	<u>(8,829)</u>	<u>4,771</u>

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	NOTE	2018 £'000	2017 £'000
(Loss)/profit for the year		(4,279)	4,771
Other comprehensive income/(expense):			
Remeasurements of net defined benefit obligation	15	4,982	7,834
Tax on movements on remeasurements of net defined benefit obligation	9	(845)	1,780
Total comprehensive (expense)/income for the year		<u>(142)</u>	<u>14,385</u>

Synthomer (UK) Limited

BALANCE SHEET as at 31 December 2018

	NOTE	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	10	35,256	44,136
Tangible assets	11	38,191	31,206
		<u>73,447</u>	<u>75,342</u>
Current assets			
Inventories	12	18,083	24,409
Debtors	13	113,517	105,763
Cash at bank and in hand		<u>5,186</u>	<u>11,158</u>
		136,786	141,330
Creditors - amounts falling due within one year	14	(64,144)	(65,000)
Net current assets		<u>72,642</u>	<u>76,330</u>
Deferred tax assets	9	4,916	4,658
Total assets less current liabilities		<u>151,005</u>	<u>156,330</u>
Post-employment benefits	15	(18,620)	(27,405)
Provisions for other liabilities	16	(4,982)	(1,380)
Net assets		<u>127,403</u>	<u>127,545</u>
Capital and reserves			
Called up share capital	17	26,301	26,301
Share premium account		30,000	30,000
Retained earnings		<u>71,102</u>	<u>71,244</u>
Total equity		<u>127,403</u>	<u>127,545</u>

Company Registered Number: 872262

The notes on pages 9 to 23 are an integral part of these financial statements.

The financial statements on pages 6 to 23 were authorised for issue by the Board of Directors on 27 June 2019 and signed on its behalf by:


R Atkinson

Director

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Called-up share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2017	26,301	30,000	56,859	113,160
Profit for the financial year	-	-	4,771	4,771
Other comprehensive income for the year	-	-	9,614	9,614
Total comprehensive income for the year	-	-	14,385	14,385
Balance as at 31 December 2017	26,301	30,000	71,244	127,545
Balance as at 1 January 2018	26,301	30,000	71,244	127,545
Loss for the financial year	-	-	(4,279)	(4,279)
Other comprehensive income for the year	-	-	4,137	4,137
Total comprehensive expense for the year	-	-	(142)	(142)
Balance as at 31 December 2018	26,301	30,000	71,102	127,403

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF COMPLIANCE

The individual financial statements of Synthomer (UK) Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006, under the provision of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the year presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

(a) Basis of accounting

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by certain financial assets and liabilities measured at fair value through the profit or loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The estimates and associated assumptions are based on industry experience and various other factors that are believed to be reasonable under the circumstances.

The Directors have reviewed the estimates and assumptions used in the preparation of the financial statements. The directors do not believe that there is a significant risk which would lead to material adjustments to the carrying value of any assets and liabilities in the next financial year due to changes in estimates or assumptions.

(b) Going Concern

The Directors have reviewed the going concern basis of preparation. They have considered the principal risks and uncertainties outlined in the Strategic Report and the fact that the Company is a member of the Synthomer plc Group, and as such is a member of the Group banking arrangements under which it is a cross guarantor.

Based upon the above, the Directors believe that the Company can continue to operate for a period of at least 12 months from the date of approval of these financial statements and have therefore adopted the going concern basis of preparation.

(c) Exemptions for qualifying entities under FRS 102

The Company has taken advantage of exemption under FRS 102 paragraph 1.12(b). These exemptions are:

- (i) the requirement to prepare a statement of cash flows. Section 7 of FRS 102 and para 3.17(d).
- (ii) the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23.

(d) Consolidated financial statements

The Company is a wholly owned subsidiary of Synthomer Holdings Limited and of its ultimate parent, Synthomer plc. It is included in the consolidated financial statements of Synthomer plc which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

These financial statements are the company's separate financial statements.

(e) Foreign currency

- (i) Functional and presentation currency

The Company's functional and presentation currency is the pound sterling.

- (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currency (continued)

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of discounts and rebates allowed by the company and value added taxes.

(g) Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

(i) Defined contribution pension plans

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

(ii) Defined benefit pension plan

The Company participates in a funded defined benefits scheme (the Yule Catto Group Retirement Benefits Scheme) together with a number of other Synthomer Group companies. The assets of the scheme are held separately from those of the Company or any of the Synthomer Group companies. The Group's defined benefit scheme was closed to new members with effect from 31 December 1998.

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

(iii) Annual bonus plan

The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account and in the Statement of Comprehensive Income.

(i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

(ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(i) Intangible assets

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life of twenty years. Provision is made for any impairment in value. The value of Know-how is being amortised over four years. Provision is made for any impairment in value.

The intangible fixed asset arising on the purchase of customer lists from Group companies, representing the future economic benefit of the purchase of the customer list, is capitalised and written off on a straight line basis over its expected useful economic life of five years as estimated by the Directors. Provision is made for any impairment in value.

REACH is a European Union regulation concerning the Registration, Evaluation, Authorisation and Restrictions of Chemicals. Expenses incurred with REACH registration are capitalised and amortised over 5 years.

(j) Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Except for freehold land and assets work in progress, the cost or valuation of tangible fixed assets is depreciated using the straight line method over their expected useful lives as follows:

Freehold Buildings	50 years
Long Leasehold Land & Buildings	the lesser of 50 years and the period of the lease
Plant, Machinery and Equipment	between 5 and 10 years
Fixtures and fittings	between 3 and 10 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (losses)/gains'.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Leased assets

At inception the Company assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(l) Inventories

Inventories and work in progress are stated at the lower of cost, including where appropriate a proportion of production overheads, and net realisable value. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion of the sale. Provision is made for obsolete, slow-moving or sub-standard stock as appropriate.

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

(n) Provisions

Provisions are recognised when the company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

(o) Financial instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Financial instruments (continued)

(ii) Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans and loans from fellow group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(p) Share capital

Ordinary shares are classified as equity.

(q) Distributions to equity holders

Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

(r) Related party transactions

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

(s) Critical accounting judgements and estimates

Post employment benefit obligations (note 15)

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

Onerous provisions (note 16)

Provision is made for the future discounted costs to the Company of an onerous rental contract and associated rates due to expire in 2070 for which there is no future economic benefit to the Company. This provision requires management's best estimate of the costs that will be incurred based on legislative and contractual requirements. In addition, the timing of the cash flows and the discount rates used to establish net present value of the costs require management's judgement.

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. TURNOVER

Turnover represents the invoiced amount of goods sold net of sales rebates, early settlement discounts and VAT. The turnover is wholly attributable to the principal activities of the Company.

An analysis of turnover by geographical market is given below:

	2018 £'000	2017 £'000
United Kingdom	34,379	25,912
Western Europe (excluding the UK)	370,793	393,348
Rest of the World	38,847	37,800
	<u>444,019</u>	<u>457,060</u>

4. NET OPERATING COSTS

	2018 £'000	2017 £'000
Change in stocks of finished goods and work in progress	6,325	(5,303)
Own work capitalised	(129)	(223)
Other operating income	(1,308)	(1,924)
Raw materials and consumables	387,617	406,652
Staff costs (see below)	29,391	27,990
Depreciation/impairment of tangible fixed assets (note 11)	4,088	3,407
Foreign exchange losses/(gains)	407	98
Other operating charges	14,031	8,452
Net operating costs before amortisation of intangibles	<u>440,422</u>	<u>439,149</u>
Amortisation of goodwill	8,829	8,829
Amortisation of REACH	51	-
Amortisation of intangibles	<u>8,880</u>	<u>8,829</u>
Total net operating costs	<u>449,302</u>	<u>447,978</u>
Staff costs		
Wages and salaries	25,189	24,199
Social security costs	2,415	2,294
Other pension costs (note 15)	1,787	1,497
	<u>29,391</u>	<u>27,990</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

4. NET OPERATING COSTS (continued)

	2018	2017
	Number	Number
Average monthly number of employees (including executive directors)	<u>370</u>	<u>349</u>

5. OPERATING (LOSS)/PROFIT

	2018	2017
	£'000	£'000
This is stated after charging:		
Auditors' remuneration - audit fees	65	65
Operating lease rentals:		
- Hire of plant and machinery	183	366
- Hire of other assets	1,327	1,323
Research & development costs	2,792	3,587
Depreciation/impairment and after crediting:	4,088	3,407
Amortisation of grants	5	5
Profit on sale of fixed assets	<u>10</u>	<u>2</u>

6. DIRECTORS' EMOLUMENTS

	2018	2017
	£'000	£'000
Aggregate emoluments	1,877	1,480
Pension	149	123
	<u>2,026</u>	<u>1,603</u>
Aggregate emoluments	652	557
Pension	67	50
	<u>719</u>	<u>607</u>
Highest paid director (included above)	<u>719</u>	<u>607</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. DIRECTORS' EMOLUMENTS (continued)

The number of directors for whom pension contributions were wholly or partly borne by the company and who were members of the Group Pension Schemes was as follows:

	2018	2017
	Number	Number
Defined contribution schemes	<u>1</u>	<u>1</u>

None of the Directors who served during the year had any interest in the shares of the Company.

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	2018	2017
	£'000	£'000
UK banks	15	-
Other group companies	182	-
	<u>197</u>	<u>-</u>

8. INTEREST PAYABLE AND SIMILAR EXPENSES

	2018	2017
	£'000	£'000
UK banks	-	18
Other group companies	-	107
Net interest expense on post-employment benefits (note 15)	630	1,015
	<u>630</u>	<u>1,140</u>

9. TAX ON PROFIT

	2018	2017
	£'000	£'000
Current tax		
UK corporation tax	-	2,010
Adjustments in respect of prior periods	(333)	65
Total Current Tax	<u>(333)</u>	<u>2,075</u>
Deferred tax		
Origination and reversal of temporary differences	(1,104)	1,096
Total tax on (loss)/profit before taxation	<u>(1,437)</u>	<u>3,171</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. TAX ON PROFIT (continued)

Reconciliation of tax expense to (loss)/profit before taxation

The differences between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows.

	2018 £'000	2017 £'000
(Loss)/Profit before taxation	(5,716)	7,942
Tax on profit on ordinary activities – 19.00% (2017: 19.25%)	(1,086)	1,529
Effects of:		
Expenses not deductible for tax purposes including amortisation of intangibles	1,732	2,204
Rate difference	2	301
Movement on deferred tax asset not recognised	(1,078)	(928)
Double tax relief	(36)	-
Adjustments in respect of prior periods	(971)	65
Tax charge for the year	(1,437)	3,171

	2018 £'000	2017 £'000
Tax charges to other comprehensive income		
Deferred tax credit in relation to pension liability	(845)	1,780

There is also an unrecognised deferred tax asset of £45,000 at 31 December 2018 (2017: £1,091,000) in respect of temporary differences primarily relating to fixed assets.

Deferred tax assets - pensions	2018 £'000	2017 £'000
At 1 January	4,658	3,974
Charged to profit and loss account	(647)	(1,096)
(Charge)/credit to statement of comprehensive income	(845)	1,780
At 31 December	3,166	4,658

Deferred tax assets - ACAs	2018 £'000	2017 £'000
At 1 January	-	-
Credit to profit and loss account	1,750	-
At 31 December	1,750	-
Total Deferred tax assets	4,916	4,658

The tax rate for the current year is lower than the prior year, due to changes in the UK corporation tax rate, which decreased from 20% to 19% from 1 April 2017. Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate of UK corporation tax to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS

	Reach £'000	Customer List £'000	Know- how £'000	Goodwill £'000	Total £'000
At 31 December 2017					
Cost	258	2,106	4,000	176,577	182,941
Accumulated amortisation	-	(2,106)	(4,000)	(132,699)	(138,805)
Net book value	258	-	-	43,878	44,136
Year ended 31 December 2018					
Opening net book amount	258	-	-	43,878	44,136
Amortisation	(51)	-	-	(8,829)	(8,880)
Closing net book value	207	-	-	35,049	35,256
At 31 December 2018					
Cost	258	2,106	4,000	176,577	182,941
Accumulated amortisation	(51)	(2,106)	(4,000)	(141,528)	(147,685)
Net book value	207	-	-	35,049	35,256

11. TANGIBLE ASSETS

	Freehold Land and Buildings £'000	Long Leasehold Land and Buildings £'000	Plant, Machinery and Equipment £'000	Fixtures and Fittings £'000	Assets work in progress £'000	Total £'000
At 31 December 2017						
Cost	2,777	6,433	75,304	11,669	5,476	101,659
Accumulated depreciation and impairment	(942)	(3,309)	(57,022)	(9,180)	-	(70,453)
Net book value	1,835	3,124	18,282	2,489	5,476	31,206
Year ended 31 December 2018						
Opening net book value	1,835	3,124	18,282	2,489	5,476	31,206
Additions	-	3	862	131	10,077	11,073
Transfers	-	-	2,798	418	(3,216)	-
Depreciation	(51)	(169)	(3,058)	(810)	-	(4,088)
Closing net book value	1,784	2,958	18,884	2,228	12,337	38,191
At 31 December 2018						
Cost	2,777	6,436	78,964	12,218	12,337	112,732
Accumulated depreciation and impairment	(993)	(3,478)	(60,080)	(9,990)	-	(74,541)
Net book value	1,784	2,958	18,884	2,228	12,337	38,191

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. INVENTORIES

	2018	2017
	£'000	£'000
Raw materials and consumables	7,880	15,560
Finished goods	10,203	8,849
	<u>18,083</u>	<u>24,409</u>

There is no material difference between the replacement cost of finished goods and their carrying amounts.

Inventories are stated after provisions for impairment of £15,000 (2017: £67,000).

13. DEBTORS

	2018	2017
	£'000	£'000
Trade debtors	21,926	15,907
Amounts owed by group undertakings	83,380	86,070
Current corporation tax	2,206	1,873
Other receivables	4,921	480
Prepayments and accrued income	1,084	1,433
	<u>113,517</u>	<u>105,763</u>

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

14. CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018	2017
	£'000	£'000
Bank loans and overdrafts	1,229	419
Trade creditors	42,859	48,690
Amounts owed to group undertakings	13,508	8,382
Other creditors	2,228	3,925
Other taxation and social security	772	693
Accruals and deferred income	3,548	2,891
	<u>64,144</u>	<u>65,000</u>

Amounts owed to Group undertakings are unsecured, have no fixed date of repayment and are repayable on demand. Interest is charged at a rate equivalent to what the Company could obtain from the open market.

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. POST-EMPLOYMENT BENEFITS

The defined benefit scheme was closed to future accrual in 2009. All pension benefits since that time are provided by way of a defined contribution scheme. The assets of the schemes are held separately from those of the companies concerned. The amount recognised in the Balance Sheet is as follows:

	2018	2017
	£'000	£'000
Defined benefit scheme liability	<u>18,620</u>	<u>27,405</u>

The amount recognised in the profit and loss account is as follows:

	2018	2017
	£'000	£'000
Defined contribution scheme	<u>1,787</u>	<u>1,497</u>
Total charge in operating profit	<u>1,787</u>	<u>1,497</u>
Defined benefit scheme		
Past service cost	980	-
Net interest expense	<u>630</u>	<u>1,015</u>
Total charge	<u>3,397</u>	<u>2,512</u>

Following a UK High Court ruling during the year in relation to the equalisation of male and female Guaranteed Minimum Pensions (GMP), a pension plan amendment is deemed to have occurred of £980,000 (2017: nil).

(a) Defined benefit scheme

The defined benefit scheme is administered by a separate fund that is legally separated from the Company. The trustees of the pension fund are required by law to act in the interest of the fund and of all relevant stakeholders in the scheme. The trustees of the pension are responsible for the investment policy with regard to the assets of the fund. A full actuarial valuation was carried out as at 6 April 2015 and updated to 31 December 2018 by a qualified actuary. The Group is committed to a funding deficit recovery plan entered into following the 2015 valuation. The valuation indicated a shortfall which is expected to be eliminated in eight years following the valuation date.

The major assumptions used for the purposes of the actuarial valuations were as follows:

	2018	2017
Rate of increase in pensions in payment	2.00%	2.00%
Rate of increase in pensions in deferment	2.00%	2.00%
Discount rate	2.80%	2.50%
Inflation assumption	3.20%	3.10%

Assumptions regarding future mortality are based on actuarial advice in accordance with published statistics. These assumptions translate into an average life expectancy in years for a pensioner retiring at 65 as follows:

	2018	2017
Retiring today:		
Males	87.1	87.2
Females	89.4	89.1
Retiring in 20 years:		
Males	88.7	88.7
Females	91.2	90.6

NOTES TO THE FINANCIAL STATEMENTS (continued)

15. POST-EMPLOYMENT BENEFITS (continued)

	Assets	Liabilities	Total
	£'000	£'000	£'000
At 1 January 2018	116,375	(143,780)	(27,405)
Benefits paid	(8,260)	8,260	-
Employer contribution	5,413	-	5,413
Past service cost	-	(980)	(980)
Interest income/(expense)	2,870	(3,500)	(630)
Remeasurement gains/(losses)			
- Actuarial gains	-	9,695	9,695
- Return on plan assets excluding interest income	(4,713)	-	(4,713)
At 31 December 2018	111,685	(130,305)	(18,620)

The fair value of the plan assets was:

	2018	2017
	£'000	£'000
Hedge funds	12,670	13,860
Equity instruments	22,715	24,360
Debt instruments	67,270	73,080
Property	2,870	3,500
Cash	6,160	1,575
	111,685	116,375

(b) Defined contribution scheme

Following the closure of the defined benefit scheme to new entrants, the Company provides a defined contribution scheme for its employees.

	2018	2017
	£'000	£'000
Defined contribution pension charge	1,787	1,497

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. PROVISIONS FOR LIABILITIES

	Provisions for Onerous Contracts £'000	Product liability £'000	Total £'000
At 1 January 2018	1,300	80	1,380
Utilised in the year	(12)	(76)	(88)
Charged/(credited) to profit and loss account	3,694	(4)	3,690
At 31 December 2018	<u>4,982</u>	<u>-</u>	<u>4,982</u>

As part of the acquisition of Polmer Latex in 2011, the Group acquired a leasehold interest in an empty property. The provision reflects this onerous contract. The provisions are expected to be fully utilised over the next five years with the exception of the Ossett overseas lease provision which is expected to be utilised over 50 years.

17. CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised:		
26,400,000 (2017: 26,400,000)		
Ordinary shares of £1 each	<u>26,400</u>	<u>26,400</u>
Allotted, called up and fully paid:		
26,301,001 (2017: 26,301,001)		
Ordinary shares of £1 each	<u>26,301</u>	<u>26,301</u>

There is a single class of ordinary shares. There is no restriction on the distribution of dividends and the repayment of capital.

18. CAPITAL AND OTHER COMMITMENTS

At 31 December, the Company had the following capital commitments:

	2018 £'000	2017 £'000
Contracted but not provided	<u>2,092</u>	<u>791</u>

The Company had the following future minimum lease payments under non-cancellable operating leases for each of the following years:

	2018 £'000	2017 £'000
Payments due:		
under 1 year	1,392	1,429
between 2 and 5 years	3,431	3,609
after 5 years	30,017	30,729
	<u>34,840</u>	<u>35,767</u>

The Company had no other off-balance sheet arrangements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. RELATED PARTY TRANSACTIONS

During the year the Company traded with a number of Group companies:

	2018		2017		Group
	Goods & Services Sold £'000	Year end Outstanding Balance £'000	Goods & Services Sold £'000	Year end Outstanding Balance £'000	Interest in Equity %
Synthomer Middle East Company	59	34	39	9	49
Quality Polymer Sdn Bhd	38	(16)	67	-	70
Revertex (Malaysia) Sdn Bhd	315	(41)	742	226	70
Synthomer SAE	95	60	112	27	88

The Company is exempt from disclosing other related party transactions as they are with other companies that are wholly owned within the Group.

20. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Synthomer Holdings Limited.

The ultimate parent undertaking and controlling party is Synthomer plc, a Company incorporated in the United Kingdom.

Synthomer plc is the parent undertaking of both the largest and smallest group of undertakings to consolidate these financial statements at 31 December 2018. Copies of their financial statements are obtainable from the Company Secretary, Synthomer plc, Central Road, Temple fields, Harlow, Essex CM20 2BH.

21. FINANCIAL GUARANTEES

The Company participates in cross-guaranteed overdrafts and other banking facilities of both Synthomer plc and some of its UK subsidiaries.