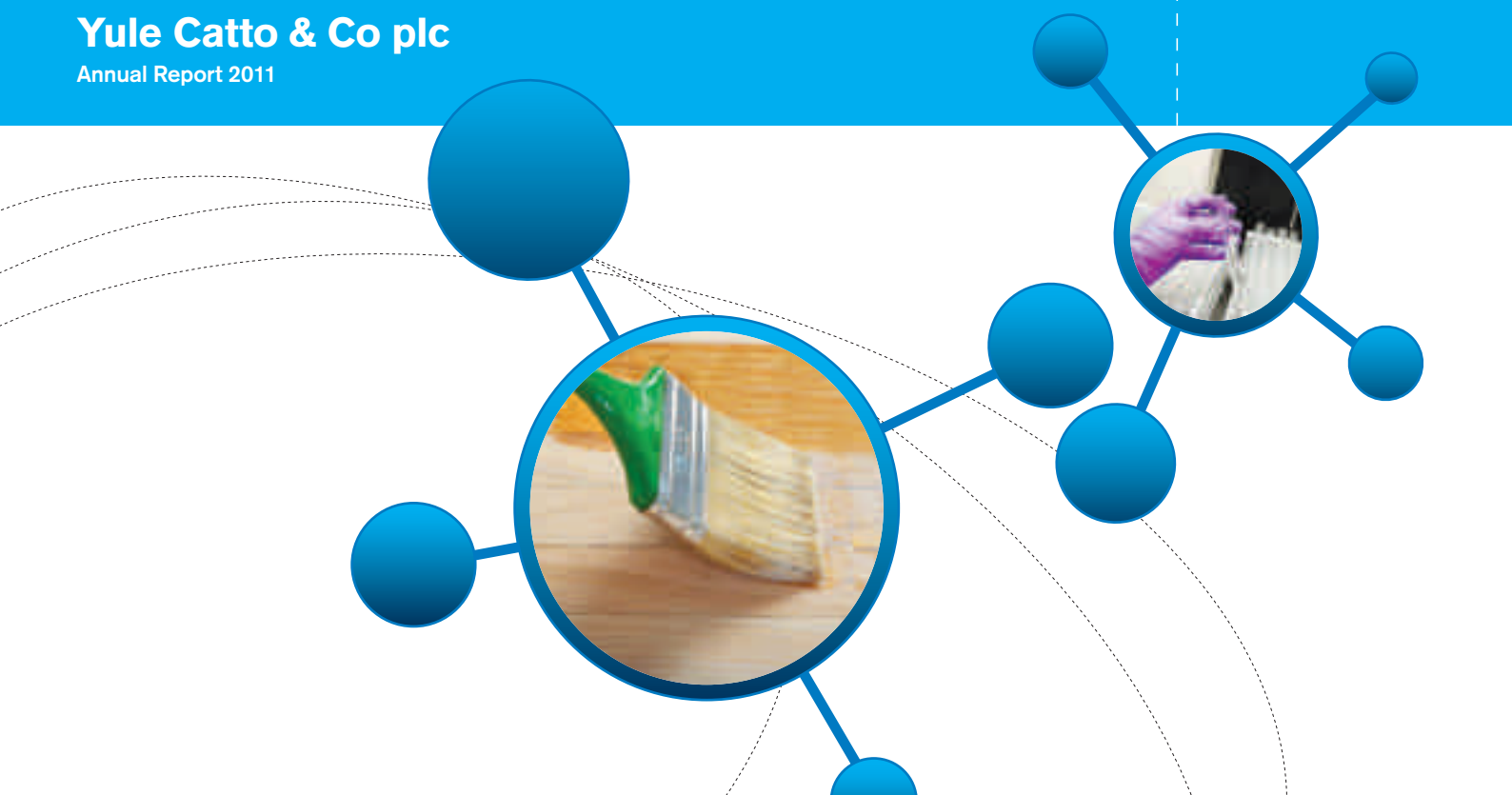


# BEING PART OF ALL OUR LIVES



**Yule Catto & Co plc**  
Annual Report 2011



## WHAT WE DO

# Innovation is critical to our success.

Yule Catto is a trusted partner of its customers around the world. We don't sell chemicals – we sell formulations. Our innovative formulations and application know-how are an integral part of our customers' products which cover a wide range of industries, including coatings, building products, gloves, carpets, paper, adhesives, plastics, PVC and many more.

### Our approach

Our approach is to work closely with our customers. We understand their product and process requirements. The combination of this intimate understanding and our technology and process know-how are the key to our, and our customers', business success.

### Reshaped business

During 2011, we completed the acquisition of PolymerLatex and sold the Group's remaining non-core business – Pharma. This completed a transformation started in 2007, which has taken the Group from a small diversified chemical business to being a substantial, focused, leading producer of specialty aqueous polymers.

## Contents

| Overview                                       |    | Business review                           |    | Governance                                |     |
|--|----|---|----|---|-----|
| Financial highlights                           | 01 | Chief Executive's report                  | 10 | Directors and advisers                    | 30  |
| Our business                                   | 02 | Financial review                          | 16 | Report of directors                       | 31  |
| Chairman's statement                           | 09 | Corporate social responsibility report    | 20 | Corporate governance                      | 34  |
|  |    |   |    | Directors' remuneration report            | 39  |
|  |    |   |    | Statement of directors' responsibilities  | 46  |
| Group financial statements                     |    | Company financial statements              |    | Other information                         |     |
| Independent auditor's report                   | 47 | Independent auditor's report              | 90 | Principal subsidiaries and joint ventures | 99  |
| Consolidated income statement                  | 48 | Company balance sheet                     | 91 | Five year financial summary               | 100 |
| Consolidated statement of comprehensive income | 49 | Notes to the Company financial statements | 92 |   |     |
| Consolidated statement of changes in equity    | 49 |   |    |   |     |
| Consolidated balance sheet                     | 50 |   |    |   |     |
| Consolidated cash flow statement               | 51 |   |    |   |     |
| Notes to the consolidated financial statements | 52 |   |    |   |     |

## FINANCIAL HIGHLIGHTS

Total sales\*

# £1,117m

Profit before taxation\*

# £84.8m

Earnings per share\*

# 18.8p

Increase in profit before taxation\*

# +99%

\* Underlying performance.

| As reported                                    | Underlying performance <sup>(a)</sup> |               | IFRS          |               |
|--|---------------------------------------|---------------|---------------|---------------|
|  | 2011<br>£'000                         | 2010<br>£'000 | 2011<br>£'000 | 2010<br>£'000 |
| Continuing operations                          |                                       |               |               |               |
| Total sales <sup>(b)</sup>                     | 1,116,862                             | 582,858       | 1,116,862     | 588,547       |
| EBITDA <sup>(c)</sup>                          | 115,208                               | 60,716        | 115,208       | 60,716        |
| Operating profit                               | 96,368                                | 50,435        | 54,329        | 59,414        |
| Profit before taxation                         | 84,795                                | 42,595        | 39,439        | 54,219        |
| Earnings per share <sup>(g)</sup>              | 18.8p                                 | 14.5p         | 9.8p          | 20.7p         |
| Dividends per share <sup>(d)</sup>             | 3.5p                                  | 2.6p          | 3.5p          | 2.6p          |
| Net borrowings <sup>(e)</sup>                  | 164,325                               | 63,370        | 156,129       | 76,044        |
| Cash generated from operations <sup>(f)</sup>  | 80,191                                | 42,228        | 80,191        | 42,228        |
| Free cash flow before dividends <sup>(f)</sup> | 36,331                                | 9,825         | 36,331        | 9,825         |

The above table represents the results of Yule Catto & Co plc, its subsidiaries and its share of joint ventures.

(a) Underlying performance excludes special items as shown on the consolidated income statement.

(b) As defined in the accounting policies at note 2.

(c) As defined in the accounting policies at note 2 and reconciled at note 36.

(d) See note 11.

(e) As shown on the consolidated balance sheet on page 50.

(f) As shown within the consolidated cash flow statement on page 51.

(g) See note 12.

### Underlying performance

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 defined in note 2. The Board's view is that underlying performance provides more meaningful information for the Group's investors and so it is the primary focus of the Group's narrative reporting. Where appropriate, statutory performance inclusive of special items is also described.

### Pro-forma

| Continuing operations  | Underlying performance <sup>(a)</sup> |               |
|------------------------|---------------------------------------|---------------|
|                        | 2011<br>£'000                         | 2010<br>£'000 |
| Total sales            | 1,268,845                             | 1,077,694     |
| EBITDA                 | 132,189                               | 120,385       |
| Operating profit       | 109,650                               | 93,206        |
| Profit before taxation | 95,977                                | 76,966        |

Pro-forma numbers reflect the results of PolymerLatex as though it were under the Group's ownership for the relevant reporting periods, with an estimate of the associated notional finance cost for those periods. See the Chairman's Statement on page 9 for a fuller explanation.

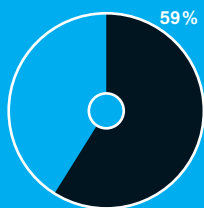
## WHO WE ARE TODAY



Synthomer is the trading name of Yule Catto's Polymer business, and for over 50 years has stood for reliability and innovation in the emulsion polymer market. To find more details about our business please go to [www.synthomer.com](http://www.synthomer.com)

## The Polymer Chemical business of Yule Catto

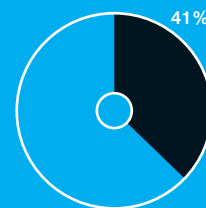
**Europe & North America**  
59% of sales\*



13 manufacturing plants  
2 R&D centres



**Asia & Rest of World**  
41% of sales\*



8 manufacturing plants  
1 R&D centre



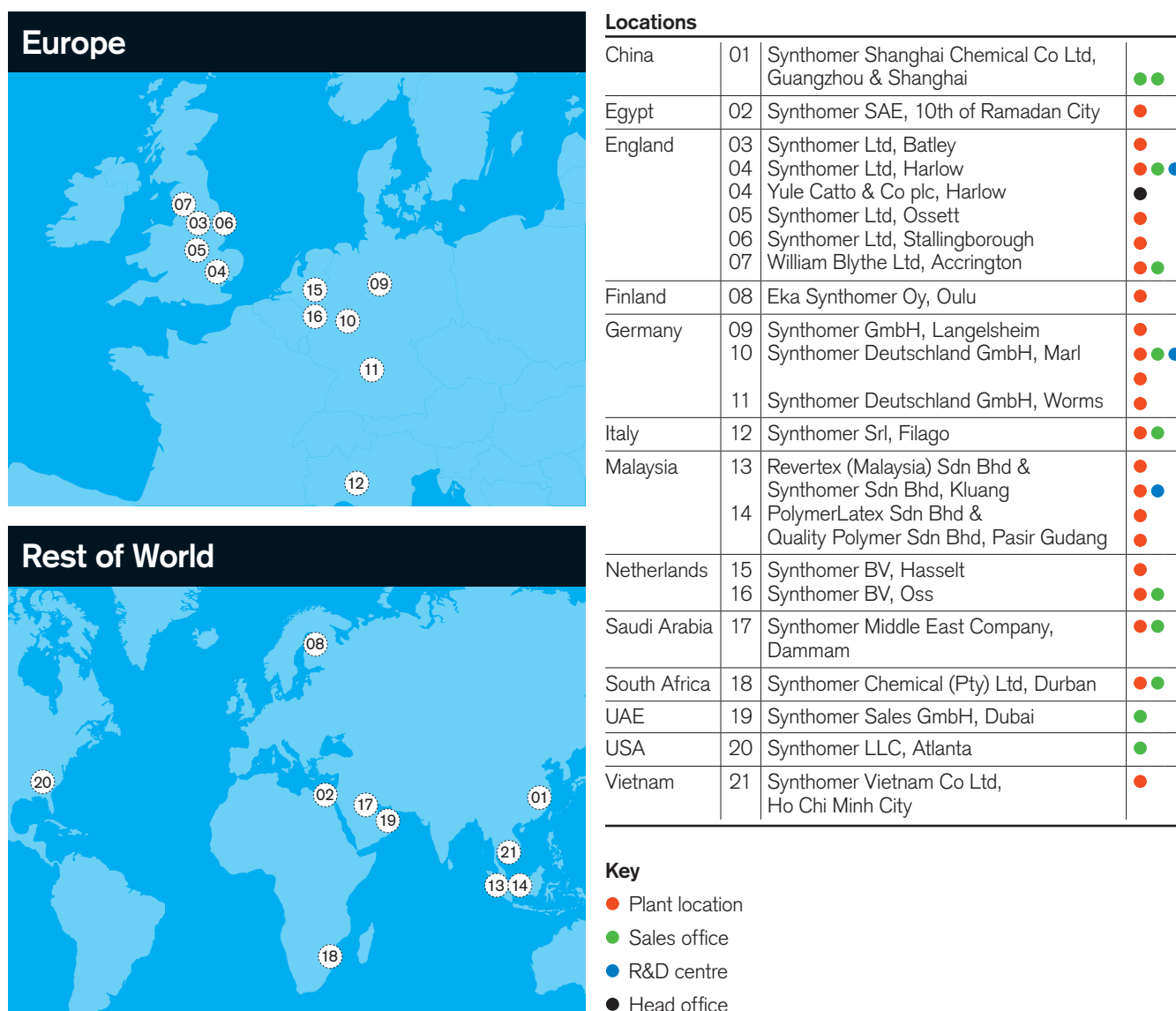
- 1 SBR latex plant, Marl (Germany)
- 2 NBR latex plant, Pasir Gudang (Malaysia)
- 3,4 R&D Europe, Marl (Germany) and Harlow (UK)
- 5 R&D Asia, Kluang (Malaysia)

\* Pro-forma basis. Sales by destination. Eastern Europe included in Asia & Rest of World.

## WHERE WE ARE TODAY

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

### The global locations of Yule Catto



## OUR PRODUCTS

Our products combine chemical reaction and formulation, based on a diverse range of chemistries.

### Synthetic latex

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

### Dispersions

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

### Compounds

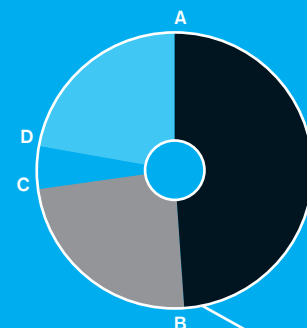
These products are specially formulated at our plants in the UK, Netherlands and Egypt using SBR latex, HSSBR latex, Natural Rubber latex and a wide range of other functional materials.

### Specialties

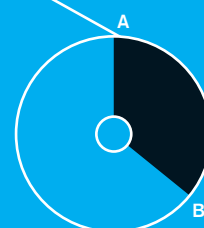
Comprise a number of specialty polymers, mainly non aqueous including, Polyvinyl Alcohol, Liquid Polybutadiene, High Solid SBR Latex and Chloroprene. Specialties also includes Inorganic products based on Copper, Tin and Iodine from the Group's one remaining non-Polymer business.

### Sales by product

- A Latex – 49%
- B Specialties – 24%
- C Compounds – 5%
- D Dispersions – 22%



- A NBR – 36%
- B SBR – 64%



# No.1

NBR latex  
producer globally

# No.1

High solid SBR latex  
producer globally

## OUR MARKETS

Our products are used in many different end use markets across the globe, providing the business with substantial application and geographic diversification.

### Health & Protection

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

### Paper

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

### Construction & Coatings

#### Construction

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

#### Coatings

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

### Carpet, Compounds & Foam

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

### Functional Polymers

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

### Performance Polymers

**Lithene** – for various automotive applications in electrical insulation and sound damping.

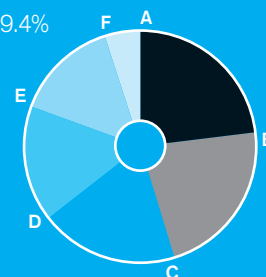
**Alcotex** – Polyvinyl alcohol used as a stabilising material in the PVC polymerisation process.

**Polyvinyl Acetate** – for Solvent Adhesives, Polyester resins and composites.

**Inorganic (non-Polymer) Specialties** – for catalysts, flame retardants and other niche applications.

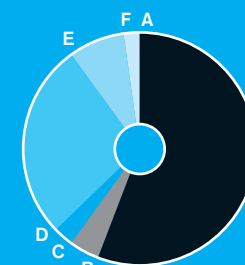
### Sales by market

- A Construction and Coatings – 23.1%
- B Health and Protection – 22.2%
- C Carpet, Compounds and Foam – 19.4%
- D Paper – 15.9%
- E Functional Polymers – 14.5%
- F Performance Polymers – 4.9%



### Sales by destination

- A Western Europe – 56%
- B Eastern Europe – 4%
- C North America – 3%
- D Asia – 27%
- E Africa & Middle East – 8%
- F Rest of World – 2%



# No.1

SBR latex producer  
in Europe

# No.3

Acrylic dispersion  
producer in Europe

# No.1

Acrylic and vinyl  
dispersion producer  
in the Middle East



## THE RIGHT FORMULA

Innovation is at our core. We have excellent product application know-how and consistently develop and produce quality products using our leading process capability and well located facilities.

### 1. Customer Focus

Central to our success is the in depth understanding of our customers' needs, from application performance to product formulation to service requirements.



### 2. Changing Markets

We have a deep understanding of the mega-trends and industry specific drivers that affect our markets, allowing a unique insight into future requirements.

### 3. The Right Knowledge

We have been developing specialty polymers for over 50 years, and have over 150 highly experienced R&D and technical support professionals at our three research centres. We have a culture of continued technical learning built through interaction with our customers, suppliers, industry bodies and academia.







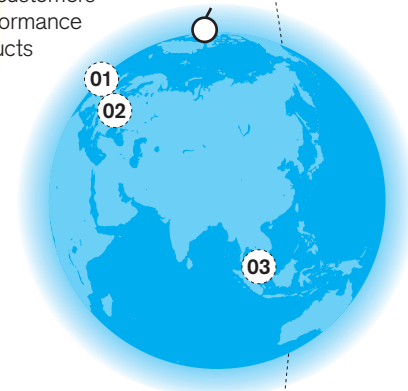
#### 4. The Right Formula

A thorough understanding of our core chemistry, formulation know-how and applications technology is essential for us to create market leading products. A fast time to market is achieved through the combination of our state of the art development facilities, extensive applications capabilities and flexible modern manufacturing facilities.



#### 5. Reliable Service

Our sites are well located for our customers and we use our experience in logistics to get the right product to our customers when and where they need it. Technical service support is provided by our experienced personnel so that our customers can maximize the performance benefits that our products can bring.



#### Global R&D centres

- 01 Harlow, England
- 02 Marl, Germany
- 03 Kluang, Malaysia

## THE RIGHT FORMULA FOR GROWTH

We deliver growth from the application of knowledge, and our ability to develop and produce the right product for our customers, with leading process capability and well located manufacturing.



- Customer knowledge and relationships
- Applications technology and understanding
- Highly experienced and expert personnel



- Access to multiple Polymer technologies
- Differentially managed product portfolio
- Value sales approach



- Access to Asian and Emerging Markets
- Manufacturing close to customers
- Proximity to suppliers



- Cost effective production
- Flexible and effective organisation
- Fast and commercially focused R&D

# CHAIRMAN'S STATEMENT

## Overview

2011 was an exceptional year for Yule Catto. We delivered a very strong set of financial results. Just as importantly though, it marked the end of a process of transformation for the Group from a small diversified chemical business in 2007 through to a much larger focused specialty Polymer business in 2011, with a broad product offering and exposure to high growth markets.

At the end of March, we completed the acquisition of PolymerLatex, effectively doubling the size of our business. Subsequently, in November, we concluded the sale of our Pharmaceutical business, the last non-core asset we needed to divest to complete the transformation process to become a focused specialty Polymer business.

## Strategy

Our broad strategy remains unchanged. We are focused on geographic expansion around existing business hubs, further increasing our presence in emerging markets, and in developing market sectors where our technology, new product development and manufacturing capabilities give us a real competitive advantage. Consistent with this strategy we commenced construction of 70,000 tonnes of new nitrile latex capacity in the year in Malaysia, due on line in the fourth quarter of 2012, and completed the acquisition of a small dispersion manufacturer there in late 2011.

## Performance

We delivered a very strong set of financial results. The Group reported underlying profit before tax of £84.8 million, an increase of some 100%, and underlying sales were £1,117 million an increase of 92% over 2010. Throughout the year the Board has reviewed the performance of the business on a pro-forma basis, which includes the results of PolymerLatex for 2010 and 2011 in full, with an allowance for the finance cost of the acquisition for the periods we did not actually own the business. On this basis, and excluding the divested Pharma business, the comparisons are more representative, and are very strong with sales of £1,269 million, up 18%, and underlying profit before tax of £96.0 million, up 25%.

## Integration progress

When we announced the acquisition of PolymerLatex we committed to deliver hard synergies of at least £20 million from the combination of both polymer businesses. I am pleased to say that, at the end of 2011, only nine months after the acquisition, we had already established a synergy run rate (annualised rate of delivery) of £15 million. The Board now anticipates we will achieve an annual run rate of £25 million by March 2013.

## Balance sheet

The acquisition of PolymerLatex was structured so as to ensure that the enlarged Group had a solid balance sheet, with an estimated ratio of net borrowings to EBITDA at the date of acquisition of just below 2.0. The strong performance during the year, and the divestment of the Pharma business, have resulted in net borrowings reducing substantially from the position at the date of acquisition, and our closing net borrowings was £164.3 million. This represents a pro-forma underlying net borrowings to EBITDA of 1.2, which the Board considers to be a prudent leverage position.

## Dividend

The Board has recommended a final dividend of 2.3p per share, making a total dividend per share for the full year of 3.5p. This represents growth of 35% on the adjusted full year dividend per share for 2010. Looking ahead, the Board expects to increase the dividend ahead of earnings growth in accordance with the Board's stated intention of pursuing a progressive dividend policy.

## Safety, health and environment

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

## People

The Group's employees, including those who have left as part of the restructuring, have worked extremely hard this year to deliver the transformation of the Group, and the Board thanks them for all their efforts.

## Board composition

At the forthcoming AGM, I shall not be seeking re election as Chairman. After eleven years as a Director, the last three being as Chairman, and after the transformational year of 2011, I feel this is the right time for a change. Dr A A Dobbie has also indicated he will not be seeking re-election. He has been a director for five years and Chairman of the Remuneration Committee for the last three. We thank him for his valuable contribution and wish him well in the future.

In January 2012, Dominique Fournier joined the Board as a non-executive director. Dominique subsequently became potentially conflicted and he decided to step down from the Board on 13 March 2012.

The appointment of three new non-executive directors is well advanced and we expect to make further announcements shortly.

During 2011, we brought Neil Johnson onto the Board as our Senior Independent Non-Executive Director, and I am very pleased he has agreed to succeed me as Chairman.

## Current trading and outlook

Looking forward, we continue to anticipate several years of low growth in western economies with global growth generally driven by emerging markets, where we have a significant and increasing presence.

Whilst the general economic environment requires a degree of caution, I am pleased that the business has made a solid start to the year. Earnings will benefit from the synergies from the PolymerLatex acquisition coming through over the course of 2012, and the Board remains confident about the prospects for the Group in 2012 and beyond.



**Peter Wood**  
Chairman  
14 March 2012

## CHIEF EXECUTIVE'S REPORT



**18%**

increase in  
operating profits\*

### Overview

2011 was a pivotal year in the development of the Yule Catto Group. The acquisition of PolymerLatex was announced in December 2010 and completed at the end of March 2011 when we received the relevant clearances. With the sale of our Pharma business in November 2011, and the increased scale created by the PolymerLatex acquisition, Yule Catto has now become a substantial focused specialty Polymer business, with a strong and diversified portfolio of products, and well invested facilities in Europe and Asia. As part of the integration the combined Polymer business has adopted the Synthomer brand name, and we now operate all of our Polymer operations around the world under this well recognised and respected name.

The integration process between PolymerLatex and Synthomer started in April following completion of the acquisition. This has been an intense process covering all operating regions. In Europe this has so far resulted in the closure of the Mouscron site in Belgium and the exit from Latex production in Stallingborough in the UK. In addition to this manufacturing network rationalisation there have been significant changes to the Commercial and Technical organisations with the closure of Synthomer's technical service and research laboratories in Frankfurt, Germany and Dispersion research laboratories in Harlow, UK. Every effort has been made to retain core skills and fill defined vacancies as a result of these changes. During the year some 200 people left the business as a result of these changes. The resulting savings will be mainly seen in 2012.

In Asia the operations of Synthomer in Kluang and PolymerLatex in Pasir Gudang have also been brought under one management structure. In R&D the implementation of a combined innovation process is well underway with the very clear aim of pursuing strong market needs, fast speed to market and delivering added value to our customers.

The integration process absorbed a lot of management effort in 2011. Clearly much of the focus was on delivering the synergies we committed to on launching the acquisition. However, and just as importantly, it has been about building a strengthened management team and greater capability throughout the organisation. Overall this process has been very successful. In parallel with the integration process, we have remained very focused on driving performance, where we have seen very good results, with Group pro-forma operating profit of £109.7 million, 18% ahead of 2010.

\* Pro-forma basis.

When we announced the acquisition of PolymerLatex we anticipated at least £20 million of annual synergies. As at the end of December 2011 the annualised run rate from synergies stood at £15 million. We now anticipate that by the end of March 2013 the annual run rate of synergies will be £25 million. This should result in a benefit to operating profit in 2012 of some £15 million compared to 2011.

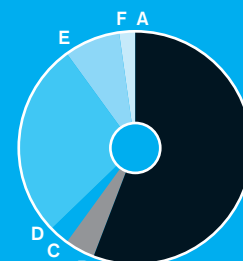
The macroeconomic environment deteriorated over the course of 2011 as the sovereign debt crisis developed. End market demand for our products was generally good through the first half of the year, with volumes ahead 3%, with European volumes broadly flat but strong growth in Asia. The second half however saw significant destocking. This arose from a combination of the macroeconomic uncertainties and customers delaying orders to take full advantage of the benefits of falling input costs. This was most noticeable in the fourth quarter, where demand was down by some 13%. This was a similar pattern to what we saw in 2009 and, as then, margin management generally compensated for the volume shortfall, resulting in our strong overall financial performance.

Raw material price volatility in basic monomers created difficulties through the year, which the business worked hard to overcome. Most monomer prices moved up strongly during the first half of the year and this, combined with a tight supply situation created a challenging environment for the business. Raw material prices fell sharply in the fourth quarter, creating different challenges as customers destocked. Throughout this volatile period, the business' priority has remained on ensuring a balanced approach to margin and volume with a continued focus on value delivery, which was broadly successful.

We manage the business in two segments. 'Europe & North America' and 'Asia & Rest of World'. The reported results are on an 'origination basis', meaning the segmental sales and operating profits are reported based on where the product is manufactured. We export many specialty products from Europe to Asia. Looking at sales on a destination basis, Europe & North America comprises 63% of Group turnover with Asia & Rest of World accounting for 37%.

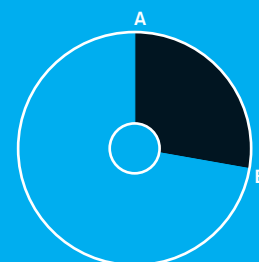
### 2011 Sales £1,269m by destination\*

- A Western Europe – 56%
- B Eastern Europe – 4%
- C North America – 3%
- D Asia – 27%
- E Africa & Middle East – 8%
- F Rest of World – 2%



### 2011 Divisional operating profit £118.5m by origination\*

- A Asia & Rest of World – 28%
- B Europe & USA – 72%



**41%**

of total sales to  
emerging markets\*

**£109.7m**  
operating profit\*

\* Pro-forma basis.

## CHIEF EXECUTIVE'S REPORT

continued

### Europe & North America (ENA)

#### Underlying – as reported\*

Sales (£'m)

|      |       |
|------|-------|
| 2011 | 777.7 |
| 2010 | 335.8 |

Operating profit (£'m)

|      |      |
|------|------|
| 2011 | 73.1 |
| 2010 | 36.4 |

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

#### Underlying – pro-forma\*\*

Sales (£'m)

|      |       |
|------|-------|
| 2011 | 913.0 |
| 2010 | 779.9 |

Operating profit (£'m)

|      |      |
|------|------|
| 2011 | 85.5 |
| 2010 | 77.6 |

\*\* Reconciliation of underlying performance to pro-forma results provided in the financial review.

# OUR FORMULAS ARE PART OF ALL OUR LIVES

Yule Catto's formulas in aqueous and specialty polymers are used in a diverse range of applications that we see around us.

You will find our products all around you.

Inside the home and buildings you will find them in wall plaster, paints (matt, gloss and vinyl), wood stains and varnishes, floor, tile and wood adhesives, cushions, table cloths, blinds, foam in the sofa, wipes, kitchen gloves, and many many more.

Outside you will see our products in masonry paint, gloss lacquers, mortar, plasters, adhesives, insulation panels, waterproof membranes, PVC products and as a bitumen modifier.

You will find our products in cars and boats and many other places, such as thin walled medical gloves, an essential product in modern health and hygiene. Even the paper this report is printed on contains our Latex.

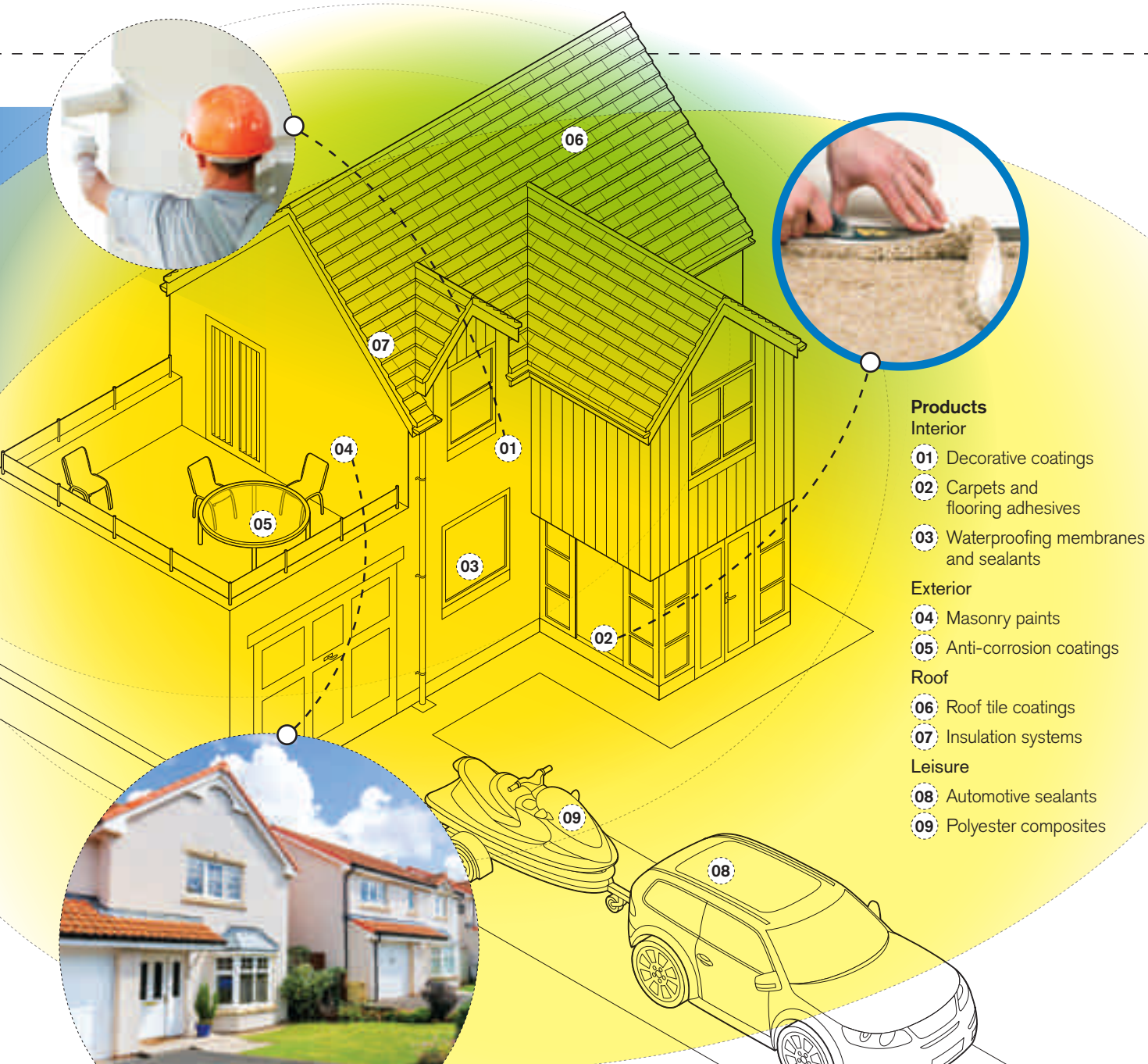


Pro-forma operating profit in our ENA business was ahead by 10%. Volumes for the year were down, affected by the destocking activity we saw over the second half of 2011. The destocking was broad based with volumes down across almost all segments. Our focus on margin management and benefits from our innovation pipeline ensured that overall profitability still increased substantially.

Alongside the plant closures in Europe we are investing in our Stallingborough Dispersions facility to raise the overall capability of the site. During the year we made some modest increases to our HSSBR capacity by debottlenecking. These changes have created a much more capable, robust manufacturing network in Europe.

Some £3 million of synergy benefits from cost reductions came through in the Group results for the year, and these are almost entirely reflected in the ENA segment.

The coming together of PolymerLatex and Yule Catto's R&D activities has created a stronger R&D capability in Europe. We now have a broad portfolio of projects primarily focused on commercially driven projects to develop technically leading products in both key growth segments and traditional business segments where our strong market positions can be maintained. The development programme has led to new product launches in a number of segments during the year including specialty adhesives, construction, paper coating and synthetic grass applications.



## CHIEF EXECUTIVE'S REVIEW

### continued

### Asia & Rest of World (ARW)

#### Underlying – as reported\*

Sales (£'m)

|      |       |
|------|-------|
| 2011 | 339.1 |
| 2010 | 247.0 |

Operating profit (£'m)

|      |      |
|------|------|
| 2011 | 32.1 |
| 2010 | 23.9 |

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

#### Underlying – pro-forma\*\*

Sales (£'m)

|      |       |
|------|-------|
| 2011 | 355.8 |
| 2010 | 297.8 |

Operating profit (£'m)

|      |      |
|------|------|
| 2011 | 33.0 |
| 2010 | 25.5 |

\*\* Reconciliation of underlying performance to pro-forma results provided in the financial review.

# EXPANSION INTO ASIA

We have been in Asia for over 100 years. Leveraging our capabilities there is key to the Group's future growth.

### Product development

Our R&D facility is heavily focused on Nitrile (NBR) Latex, which we supply to the medical glove industry – a market growing at some 15% a year.



Pro-forma operating profit in our ARW segment was ahead by 29%. Manufactured volumes in ARW were 9% up at the half year, but destocking, particularly in Nitrile, resulted in full year volumes showing no growth.

In order to maintain leadership in the fast growing Synthetic Glove market a 70,000 tonne nitrile latex expansion to the Pasir Gudang plant was sanctioned during the year and is now under construction. The new capacity will come on stream in Q4 2012. This expansion will also be structured to allow SBR production, and we are aiming to build a growing presence in Asia in SBR, leveraging our leading technology, over the coming years. This was one of the strategic objectives we set ourselves at the time of the PolymerLatex acquisition, taking advantage of our greater financial flexibility and scale.

Our Dispersions facilities in Asia operated near capacity through most of 2011. In October we completed the acquisition of Quality Polymer, a Malaysian Dispersions manufacturer owned by one of our major customers.

This has resolved our near-term Dispersion capacity issue in the region, whilst improving our market share in Malaysia.

In Asia, the integration of the R&D activities has been focused on optimising the combined range of NBR latex to ensure the best and most comprehensive of offerings to our customers for glove dipping applications and also on improvements in product consistency and quality to deliver improved operational efficiencies. In parallel, to support the changing needs of the market and drive sustained growth in the region, extensive research and applications work is ongoing to develop the next generation of latices. This development work is focused on improving the strength and feel of gloves, whilst maintaining the key barrier and chemical resistance properties of the latex.

**Adrian Whitfield**  
Chief Executive  
14 March 2012

#### Locations

- 01 Shanghai, China
- 02 Guangzhou, China
- 03 Ho Chi Minh City, Vietnam
- 04 Kluang, Malaysia
- 05 Pasir Gudang, Malaysia

### China

Our ability to sell into China was enhanced in 2011 with the creation of our new subsidiary which will promote our high value specialty products into the country.

### Acquisition

In 2011 we expanded our dispersion polymerisation capacity with the purchase of Quality Polymer from one of our major customers in the region.

### 70,000 tonnes of capacity

We are constructing another 70,000 tonnes of NBR latex capacity, due for completion by the end of 2012. This will allow us to both support the fast growing nitrile market, and sell SBR latex products into the region.

### State of the art production facilities

Our latex facility in Pasir Gudang is only three years old – and will deliver over 200,000 tonnes of NBR and SBR latex emulsion when the new expansion is complete.





## FINANCIAL REVIEW

### Income statement

The acquisition of PolymerLatex substantially changed the size of the Group. The acquisition was completed on 31 March 2011 after competition clearance was received. To allow a meaningful comparison of the results for 2011, the table below shows pro-forma results by adjusting the underlying performance of the Group to include the underlying results of PolymerLatex for 2010 and 2011, and to allow for an estimated interest cost of £2.1 million per quarter for the periods that the business was not actually owned. The underlying pro-forma results provide the most meaningful comparison of year on year performance.

### Sales, operating profit and profit before tax – underlying pro-forma

Total sales increased by 18% to £1,269 million. Volumes for the year were 3% lower and the increase in sales value was driven in the main by the recovery of monomer price increases. Translation increased turnover by 1%.

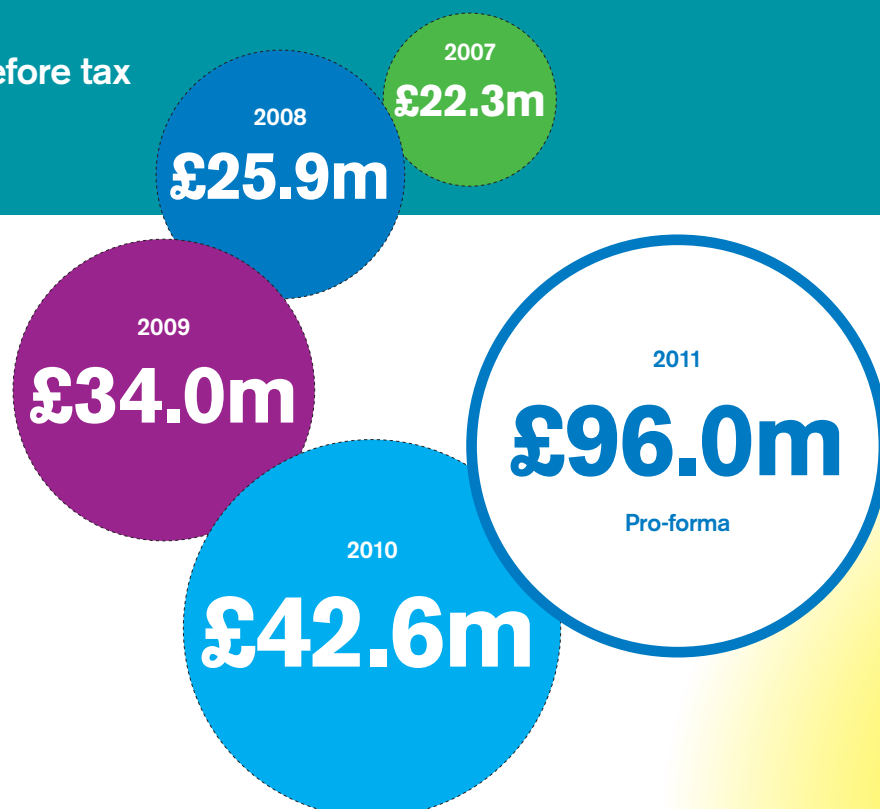
Underlying pro-forma operating profit of £109.7 million was ahead by 18%, with strong profit growth in both segments.

Had PolymerLatex been bought on 1 January 2011 then it is estimated that the finance costs for the year would have been some £2.1 million higher, resulting in a pro-forma underlying profit before tax for the Group of £96.0 million, an increase of 25% on the equivalent result, calculated on the same pro-forma basis in 2010.

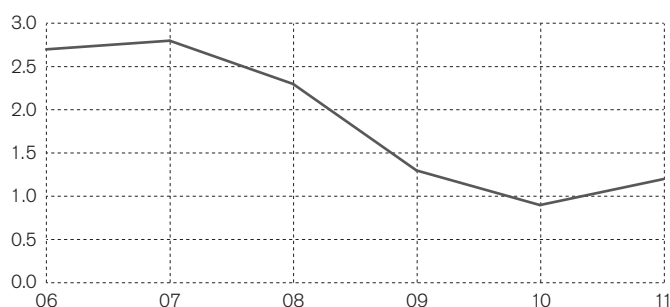
## IMPROVING PROFITABILITY THROUGH TRANSFORMATION

The focus on specialty polymers has allowed the Group to grow earnings strongly whilst improving the financial strength and scale of the Group.

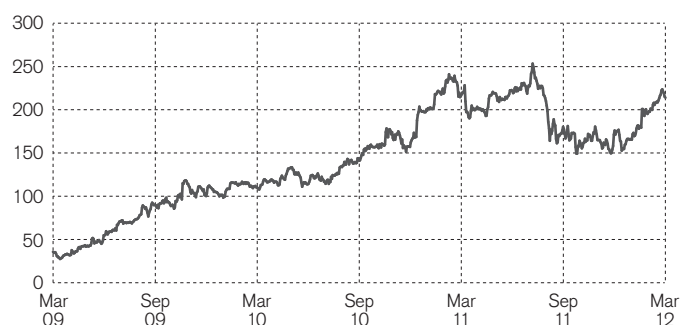
### Profit before tax



Net debt to EBITDA



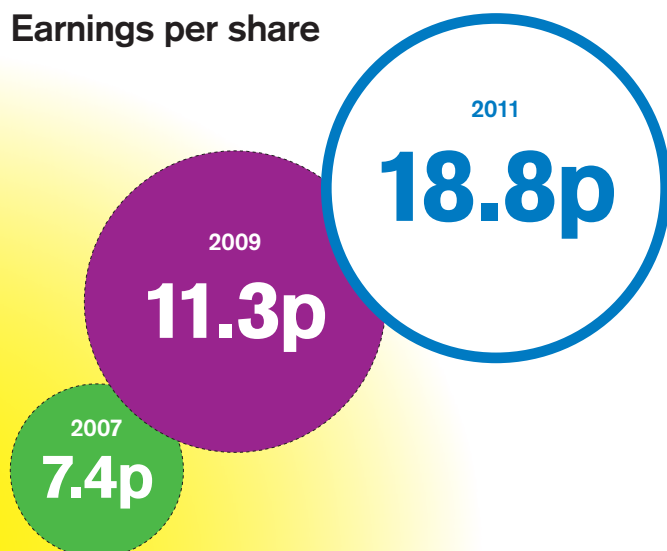
Share price graph



## Pro-forma results

|                        | 2011              |                                |                  | 2010              |                                       |                  |
|------------------------|-------------------|--------------------------------|------------------|-------------------|---------------------------------------|------------------|
|                        | Underlying<br>£'m | PolymerLatex<br>Q1 2011<br>£'m | Pro-forma<br>£'m | Underlying<br>£'m | PolymerLatex<br>Full year 2010<br>£'m | Pro-forma<br>£'m |
| Group                  |                   |                                |                  |                   |                                       |                  |
| Sales                  | 1,116.8           | 152.0                          | 1,268.8          | 582.8             | 494.9                                 | 1,077.7          |
| Operating profit       | 96.4              | 13.3                           | 109.7            | 50.4              | 42.8                                  | 93.2             |
| Profit before tax      | 84.8              | 11.2                           | 96.0             | 42.6              | 34.4                                  | 77.0             |
| Europe & North America |                   |                                |                  |                   |                                       |                  |
| Sales                  | 777.7             | 135.3                          | 913.0            | 335.8             | 444.1                                 | 779.9            |
| Operating profit       | 73.1              | 12.4                           | 85.5             | 36.4              | 41.2                                  | 77.6             |
| Asia & ROW             |                   |                                |                  |                   |                                       |                  |
| Sales                  | 339.1             | 16.7                           | 355.8            | 247.0             | 50.8                                  | 297.8            |
| Operating profit       | 32.1              | 0.9                            | 33.0             | 23.9              | 1.6                                   | 25.5             |
| Unallocated            |                   |                                |                  |                   |                                       |                  |
| Operating profit       | (8.8)             | 0.0                            | (8.8)            | (9.9)             | 0.0                                   | (9.9)            |

## Earnings per share



## 2007-2009

Yule Catto divested four businesses and with the performance improvements in polymers and working capital management delivered sufficient cash to put the balance sheet on a solid base.

## 2010-2011

The acquisition of PolymerLatex announced at the end of 2010 was done with a conservative capital structure allowing the Group to near double in size, substantially improve pro-forma earnings and exit the year with a strong balance sheet.

## FINANCIAL REVIEW

### continued

#### Sales, operating profit and profit before tax – underlying non pro-forma

Total sales increased by 92% to £1,117 million, whilst Group operating profit increased by 91% mainly due to the PolymerLatex acquisition. Finance costs increased due to higher borrowings for the acquisition, partly mitigated by the beneficial impact of the repayment of some high coupon fixed rate debt in September 2010. As a result, profit before tax increased by 99% to £84.8 million.

#### Tax and EPS

The underlying tax rate of 23% (2010 20%), was low, reflecting the benefits of pioneer status (extended tax holiday) on our nitrile investments in Malaysia, and a zero rate in the UK as a result of losses after deduction of the contributions to the UK pension scheme. The overall rate, whilst low, has increased as a result of the PolymerLatex acquisition, as much of the acquired business' profits are made in Germany, which has an overall corporate rate of the order of 32%.

Profit attributable to minority interests was £1.6 million (2010 £1.3 million).

As a result, overall underlying earnings per share for 2011 was 18.8p per share, compared to a 14.5p per share for 2010, as adjusted to reflect the rights issue in December 2010. This is an increase in underlying earnings per share of 30%. On a pro-forma basis, including the first quarter's results of PolymerLatex, EPS would have been 21.1p, an increase of 46%.

#### Dividend

The Group committed to a minimum dividend per share of 3.0p for 2011, at the time of the interim announcement with an interim dividend of 1.2p. The Board has recommended a higher full year dividend of 3.5p and therefore a final dividend of 2.3p per share is recommended, payable on 6 July 2012 to shareholders on the register on 8 June 2012.

#### Special items and IFRS

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

- Restructuring costs associated with delivering the synergy targets for the PolymerLatex acquisition. At the time of the acquisition the Group announced an estimated total cash expenditure of £20 million to deliver these synergies of which £15.8 million was incurred in 2011. Some £4.4 million of non-cash asset write downs have also been expensed as a result of the plant closures giving a total expense of £20.2 million.
- Acquisition costs relating mainly to the purchase of PolymerLatex of £1.4 million charged in the year.

- Various cross currency and interest rate swaps for hedging purposes, which involve maturities of up to five years. IFRS requires that where the strict requirements of IAS 39 are not met, changes in the market value should be recognised annually in the income statement. However, such financial instruments are maintained by the Group for the length of the contract and over their lifetime have a fair value of nil. Hence the notional annual adjustment, a loss of £0.9 million (2010 gain £2.6 million) is segregated from the underlying performance. During the year the Group also settled the mark to market position on a number of interest rate swaps acquired with the former PolymerLatex business. The associated charge to special items was £2.4 million.
- Amortisation of intangibles of £20.4 million (comprising £19.1 million in the Company and subsidiaries and £1.3 million in share of joint ventures). IFRS acquisition accounting requires an explicit number to be placed on certain intangibles and amortised through the consolidated income statement, with the balance of the excess of the purchase price over the physical assets being carried as goodwill, which is subject to annual impairment testing. The amortisation expense arising from this in 2011 represents nine months' amortisation, and has been treated as a special item and will continue to be so as the associated intangible assets are amortised down to zero.
- Tax credits of £15 million of which £7.5 million related to historic issues that were closed during 2011, £5.1 million was in respect of the release of deferred tax associated with the amortisation of acquired intangibles and £2.4 million represented the tax relief from restructuring and site closure costs incurred during the year.

On an IFRS reported basis, Group revenue increased by 86% to £1,059 million, reflecting the effect of the PolymerLatex acquisition, and profit before tax declined to £39.4 million (2010 £54.2 million). Whilst underlying profit before tax doubled with the PolymerLatex acquisition, the IFRS results include the special items above. A loss from discontinued operations of £40.3 million was recorded in the year which principally represents the impairment of the non-core Pharma business offset by £4.1 million of operating profits prior to sale.

#### Balance sheet

Goodwill increased to £244.7 million at the end of 2011 from £124.0 million at the end of 2010. £164.2 million was recognised on acquisition of the PolymerLatex Group during the year, offset by a recognised impairment on the non-core Pharma business of £36.9 million at 30 June 2011, prior to its disposal on 30 November 2011. Currency translation reduced goodwill by £6.6 million.

Acquired intangible assets increased to £165.4 million at 31 December 2011 from £nil in the prior year. Acquired intangibles of £191.2 million were recognised as a result of the acquisition of the PolymerLatex Group and Quality Polymers Sdn Bhd, relating to customer relationships and technology. These additions were offset by amortisation charges of £19.1 million and currency translation adjustments of £6.7 million.

Property, plant and equipment (PPE) was £183.6 million at 31 December 2011 compared to £102.6 million at 31 December 2010. Additions during the year comprised £25.5 million of capital expenditure and £120.4 million due to acquisitions. £31.8 million of the acquired asset value resulted from fair value adjustments. These additions were offset by depreciation, exchange adjustments and an impairment on the Pharma assets prior to sale.



Deferred tax liability has increased from £6.7 million to £61.4 million during the year. The primary driver of this movement was the recognition of deferred tax liabilities on the recognised intangible assets and PPE fair value uplifts.

### Pensions

In the main UK defined benefit pension scheme the majority of investments are in equities. Equities were little changed over the course of 2011. The yield on high-quality corporate bonds decreased substantially (0.6%) during the year, which increased liabilities. The Company made cash contributions to the fund in the year of £12.6 million. The overall effect of these changes was that there was an increase in the accounting deficit of the scheme, which stood at £73.9 million at the end of 2011 (2010 £56.5 million).

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

Overseas net pension liabilities increased to £44.1 million (2010 £9.5 million) reflecting the inclusion of liabilities in the PolymerLatex Germany scheme of some £34.5 million. The PolymerLatex scheme is a traditional German unfunded 'on balance sheet' arrangement.

### Borrowings, cash flow and liquidity

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

|  | 2011<br>audited<br>£'m | 2010<br>audited<br>£'m |
|--|------------------------|------------------------|
| Underlying operating profit (before joint ventures)        | 91.5                   | 47.5                   |
| Operating profit from discontinued operations              | 4.1                    | 4.4                    |
| Movement in working capital                                | (5.0)                  | (10.7)                 |
| Depreciation and amortisation (underlying)*                | 22.8                   | 14.6                   |
| Capital expenditure (net)                                  | (21.9)                 | (10.5)                 |
| Interest paid (net)  | (15.2)                 | (9.2)                  |
| Tax paid   | (19.9)                 | (8.7)                  |
| Pension funding in excess of IAS 19 charge                 | (10.9)                 | (12.2)                 |
| Minority interest and joint venture cash flows             | 6.3                    | (3.8)                  |
| Operating cash flow  | 51.8                   | 11.4                   |
| Cash impact of restructuring and termination of businesses | (6.2)                  | (1.4)                  |
| Acquisitions and disposals (net)                           | (362.0)                | 15.7                   |
| Acquisition costs  | (4.4)                  | (1.2)                  |
| Dividends paid   | (8.5)                  | (2.9)                  |
| Net proceeds on issue of shares                            | 216.9                  | —                      |
| Exchange/other   | 11.5                   | 3.1                    |
| Movement in underlying borrowings                          | (100.9)                | 24.7                   |
| Closing underlying net borrowings                          | 164.3                  | 63.4                   |

\* Includes £4.0 million of depreciation from the discontinued Pharma business in 2011 (2010 £4.3 million).

Underlying net borrowings increased significantly during the year to £164.3 million with the additional leverage for the PolymerLatex acquisition.

Group pro-forma EBITDA increased substantially to £132.2 million reflecting the PolymerLatex acquisition.

Capital expenditure increased substantially in 2011 to £24.2 million (£21.9 million net of proceeds from asset disposals). This reflects the increased scale of the Group.

Underlying working capital outflow for the year was an outflow of £5.0 million (IFRS basis £14.8 million). After a substantial outflow in the first half of 2011, the position mainly reversed on the back of lower input costs and volumes over the second half of the year. Control of working capital is a core focus of the business management.

Cash spend on acquisitions comprised the £386.1 million we spent on PolymerLatex (of which £216.9 million was funded from the rights issue) and £10.1 million spent on Quality Polymer, the Malaysian dispersion business purchased in October. Divestment proceeds of £34.2 million were received for the sale of the Pharma business (comprising £28.5 million in cash and £5.7 million deferred consideration).

Whilst net borrowings overall increased to £164.3 million, this closing position represents a reduction of over £70 million from the position at the date of the PolymerLatex acquisition.

### Financing and liquidity

As at the year end the Group had US private placement debt (net of derivatives) of £75 million, and £14 million in a four year amortising loan in Malaysian ringgit. In December 2010 the Group agreed a new three year £210 million loan facility (comprising a term loan of £150 million, and an undrawn revolving facility of £60 million) for the acquisition of PolymerLatex. This loan facility had an original maturity of December 2013, but during 2011 this date was extended to March 2015. In aggregate this amounts to £299 million of term debt at the end of year of which £239 million was borrowed.

Alongside the undrawn £60 million loan facility, the Group had £86 million of cash in hand. Repayments due in 2012 under loan arrangements comprise £24 million (net of derivatives) of US private placements and £4 million under the Malaysian loan facility.

In arriving at the Group's net borrowings, some £20.9 million of non recourse off balance sheet factoring has been added back. Excluding this adjustment net borrowings would have been £143.4 million.

Underlying pro-forma net borrowings to EBITDA, the Group's key leverage metric, was 1.2 at the end of 2011.

### David Blackwood

Finance Director  
14 March 2012

# CORPORATE SOCIAL RESPONSIBILITY REPORT

## Introduction

2011 was a year which saw very significant changes for the Yule Catto Group with the integration of PolymerLatex from April onwards and the sale of Uquifa at the end of November. The sale of Uquifa in particular, following the sale of other chemical businesses operating in a range of sectors, changed the Group to an almost exclusive focus on relatively high-volume water-based polymers. This change in structure, coupled with the location of most of the PolymerLatex sites on integrated chemical parks, means that comparisons with previous years are harder to make than usual. Nonetheless the outturn figures on many of our headline environmental measures, especially water and energy use per tonne of production, are very significantly better than previous years.

For the Yule Catto Group, water use per tonne of production fell by 26.5% and energy use fell by 10.5% in 2011 compared to 2010. The fall in energy use led to a fall in carbon dioxide emitted per tonne of 10.7% and this was accompanied by a further reduction of 78.6% in the sulphur dioxide emissions per tonne of production. This latter figure comes on top of the >99% reduction in sulphur dioxide production already achieved by the Group in the 10 years to 2010. For continuing activities the production of waste was also sharply better, seeing a reduction of more than a third in the waste produced per tonne. However, there was an exceptional amount of waste exported by the Kluang site as material previously deposited in an on-site landfill was moved to a secure landfill off-site. It should be noted that the waste was included in the figures for waste production in previous years; and that the movement was a one-off event which will not be repeated. It has therefore been treated as an exceptional item and excluded from the environmental KPI tables and the year on year graphs.

There was a rise in the number of personal injury accidents in the Group for the second year in a row, though the rate achieved is considerably less than half the rate being achieved 10 years ago. This rise has been discussed in the Group from shop floor to the Board and programmes are being developed, involving staff at all levels, to return our performance to our previous best – and then to improve it further. It is also notable that the absolute total costs of water and energy both more than doubled during the year – the Group's energy bill rose to £23.25 million – and that, despite the improved performance achieved, the cost per tonne of each one rose by 21%. Achieving the Group's environmental targets remains a very high priority both for social responsibility and for business reasons.

The UK Chemical Industries Association (CIA), in common with other national associations, set the industry sustainable development targets for its 2010 performance. Given the changing nature of the UK chemical industry these targets are difficult to carry forward for the industry as a whole but we have continued to use them as one marker of our performance. On the measures we focus on we continue to improve and the Group has remained ahead of the notional 2011 targets on all the measures. We have also continued to meet our targets on involvement in our Safety Health and Environments (SHE) system as measured by staff 'Near Miss' reporting (more properly hazard reporting and removal) rates. These achievements are a continuing tribute to the hard work and commitment of our staff to SHE improvement.

## Our policy commitments

Yule Catto's central commitments to good SHE performance remain unchanged. The Group remains committed to both the global chemical industry's Responsible Care® initiative and to the principles of Sustainable Development as set out in the UK CIA Sustainable Development (SD) guiding principles.

Responsible Care® aims to improve and enhance the chemical industry's SHE performance, year on year. Yule Catto has been committed to Responsible Care® since the 1990s and this commitment remains at the core of our efforts towards excellence in Corporate Social Responsibility. All Yule Catto sites are required to adhere to these principles and actively support the Group's efforts to achieve continuous improvement in our SHE performance.

The Yule Catto Group has been committed to the CIA's SD guiding principles since they were published in 2005 and we have reported annually against the targets set out in those principles each year since then. The commitment was re-confirmed in 2010 when the SD principles were re-signed by the current Chief Executive and the Chairman of the Yule Catto Board. The SD principles are followed by the Group's sites around the world and are used both to set annual improvement targets, especially for our environmental performance, and to help the Group to define its route to a safe and sustainable business. Yule Catto's principles include a strong commitment to open reporting of our environmental performance, reflected in this Annual Report, and full respect for the people and communities amongst whom we work.

As with quality systems, we accept the importance of demonstrating the strength of our environmental management systems through external accreditation. By using the strengths of the new enlarged Group, Yule Catto has set itself the target of achieving uniform accreditation of the whole company to the environmental management standard ISO 14001 by the end of 2014.

With a significant part of our operations being in Europe, Yule Catto is heavily affected by the EU's carbon reduction commitments. These require very significant absolute reductions in carbon dioxide production over the period to 2020 and then an 80% reduction by 2050. As reported below, Yule Catto has already achieved very significant reductions in specific energy use (that is energy consumption per tonne of production). We also already have a long-term commitment to take low carbon energy (electricity) from the waste incinerator built next to Synthomer's Stallingborough plant, which was built expressly for this purpose. To continue this improvement, and safeguard our operations in the changing energy environment, Yule Catto is committed to seeking to decarbonise our energy supply and will continue to seek to use carbon-neutral energy supply options where feasible.

Yule Catto has been a member of FTSE4Good for a number of years and is committed to maintaining our membership of that index.

#### **SHE performance and achievements during 2011**

The long-term performance of Yule Catto against our targets and metrics improved noticeably in 2011 and in nearly all areas set high standards of performance for the new Group. Of the five 'headline' measures used to monitor Group performance two showed significant improvement over 2010, two were broadly neutral and one deteriorated.

Both energy and water use showed very significant gains, with energy use per tonne of production improving by 10.5% and water use by 26.5%. Both energy and water use are less than 50% of what they were in 2001. Despite these gains the cost of energy and water both rose by 21% per tonne. 'Near Miss' reporting – a leading indicator of both staff involvement and sites' intent to spot and remove hazards – remained strong overall with the Group achieving nearly four 'Near Miss' reports per employee during the year, easily exceeding the target of three. Further, different measures of staff involvement in the SHE system are being discussed, particularly with the newer sites, to ensure maximum involvement by staff in all regions.

The total amount of hazardous waste produced in 2011 was the same as in 2010, despite production being 68% higher. Of this waste 63% was able to be either recycled or recovered, or burnt as a fuel – in a cement kiln for example. The most difficult of the remaining hazardous wastes have to be incinerated, which is energy consuming and environmentally unpopular. In 2011, over 1,200 tonnes less had to be incinerated, despite the increased production. However, this reduction in incineration meant that the amount to be disposed of to landfill increased more than the increase in production, giving a rise in the amount of hazardous waste sent to landfill for the second year in a row. Whilst the amount sent to landfill per tonne of production was above that seen in 2008/9, the absolute quantity was less than 60% of the 2000 amount, despite production having over doubled, and less than 35% of the extrapolated SD target.

The number of Reportable Lost Time Accidents (RTLAs) increased compared to 2010 with the Group's RLTA frequency rate increasing to 0.42 per 100,000 hours worked. On a positive note, our site at Oulu in Finland achieved 10 years without a single day lost due to an accident. On many other measures environmental performance improved: despite increasing production at our Accrington site in 2011 our measured discharges of heavy metals are less than 6% of the figures for 2000; our releases of acid gases to atmosphere reduced again and are now less than 0.2% of their 2000 values; and our releases of phosphorous to water were down by more than 50% compared to 2010 to just over 10% of their 2000 value (all on a per tonne basis).

Following further improvements to our measurement systems and increased output in Kluang, our recorded discharge of Volatile Organic Compounds (VOCs) increased again in 2011. A project to abate these releases is progressing and the recovery plant should be operational by the end of 2012 giving major reductions in 2013. There were more reportable safety incidents in 2011 but the number of reportable environmental incidents fell.

The Yule Catto Board and the Group Executive Committee continue to monitor performance in all these areas and provide leadership in driving the Group to continued improvements across all aspects of SHE performance.

#### **Managing safety and environmental performance**

Safety and environmental performance is the responsibility of all Yule Catto staff and all staff are expected to be responsible for their own safety and to take care of those around them. Likewise all staff have a role to play in the environmental performance of our sites, whether it is in recycling, energy conservation or managing their site's environmental performance. The management of safety and environmental performance is fully integrated into Yule Catto's management structure with all staff having responsibility for those who report to them.

Yule Catto has two principal systems to assist in the management of SHE. All accidents (events which cause personal injury) and incidents (events which cause property damage, environmental release, cause complaints or result in other harm) are recorded in the Group's AIMS (Accident and Incident Management System) database. AIMS has been in place for nearly 10 years and the system is used both to record and categorise, then to manage the investigation of all accidents and incidents. The system is also used to record and manage Near Misses: events or hazardous situations which under other circumstances could have caused an accident or incident. The system provides a way of tracking events and examining what is happening on our sites for trends or common failings.

## CORPORATE SOCIAL RESPONSIBILITY REPORT

### continued

The second system is a set of management policies and procedures which make up the Yule Catto SHE Management System (SHEMS). The elements of this system set the standards sites are expected to achieve and provide guidance on how they should achieve those standards. It covers most areas of SHE performance and provides comprehensive coverage of the procedures Yule Catto expects all sites to have in place. Sites are expected to operate to these standards, or to equivalent standards when they have their own suitable standards already in place.

SHE performance is always a primary duty for management at all levels in the Group. The practices adopted in previous years remain a cornerstone of our efforts towards continuous improvement in SHE performance. The practices include:

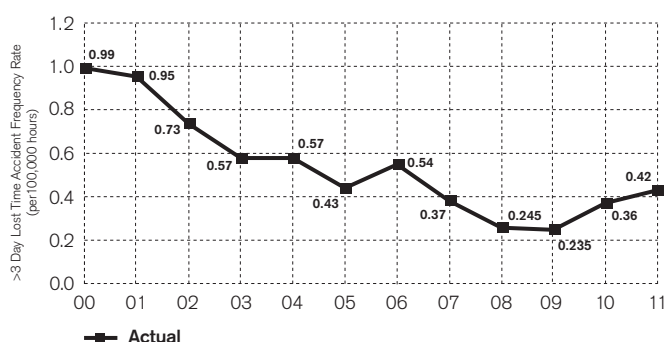
- SHE performance is discussed in all management meetings, as the first agenda item;
- Yule Catto conduct regular, in-depth SHE audits of all sites to assess performance and identify opportunities for improvement. The results of the audits are discussed both with the site involved and with wider management, for example at the Group Executive committee;
- The Group AIMS is used to collect and analyse data on all accidents, incidents and 'Near Misses' on our sites. The system ensures that all of these are appropriately investigated, with the most serious or potentially serious incidents being fully investigated to root causes. The system is then used to ensure that the identified actions to prevent recurrence are put in place;
- Sites are expected to implement policies, procedures and practices in line with the Group's Safety, Health and Environment Management System (SHEMS), and to provide training for all their staff to ensure that these are used by staff at all times;
- Key measures of SHE performance are collected monthly or quarterly as appropriate and reported to the Group Executive and to the Board. This process is mirrored at company and site level to give management and staff a clear picture of current performance;
- Key leading performance indicators, covering items such as inspections and engineering performance metrics, are being collected and reported to senior management to give assurance of good performance at site hardware level;
- Senior managers have SHE targets as part of their annual objectives. Other employees have similar objectives set, either on an individual or a site basis; and
- Group SHE visits sites to carry out training and development of key staff.

### Health, safety and accident performance

The most widely used comparative measures of Occupational Safety are lost time accident rates, either all Lost Time Accidents (LTAs) or 'Reportable' – that is over three days away from work – Lost Time Accidents (RLTAs). Yule Catto has for many years used RLTAs as our primary measure and it is disappointing to report that the Group's performance on RLTAs was slightly worse in 2011 than in 2010. There were 23 RLTAs in the year and, although this is for a larger company, there was a consequent rise in the Group's RLTA frequency rate from 0.36 to 0.42 per 100,000 hours worked (100,000 hours is, very broadly, a working lifetime). Despite this rise, in 2011 a Yule Catto employee was still much less than half as likely to have a reportable accident in 2011, as they were in 2001.

The number of accidents resulting in less than three days lost time (LTA's) also increased in 2011. This meant that the Group was just below the most recently reported frequency rate for all lost time accidents quoted by the European Chemical Industry Council, (Cefic) in their Responsible Care report for 2010. The UK chemical industry remains amongst the safest manufacturing industries in the world and the UK Chemical Industries Association (CIA) collects data on its member's performance. Yule Catto's objective remains to be operating at or below the average accident frequency rate for CIA member companies, in all our operations around the world.

### Reportable lost time accident frequency rates



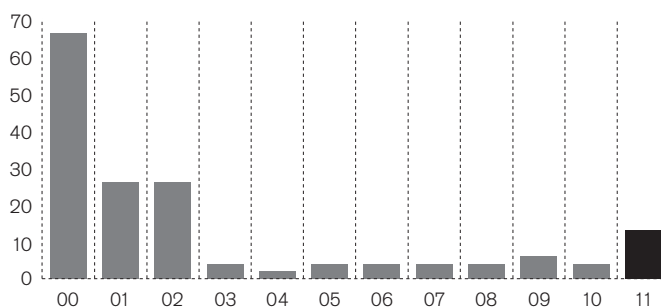
### Process safety and reportable safety incidents

Process safety – the set of procedures and practices which ensure that our processes are safe to operate – is an essential topic in the chemical industry. Process incidents have the potential to be very damaging to people, plant and the environment – our aim is always to have multi-layered systems and procedures to prevent serious incidents. Process incidents and upsets which could lead to significant incidents are analysed and the lessons shared, internally and externally. This understanding is why Yule Catto contributed to and has benefited from the Institution of Chemical Engineers (IChemE) Process Safety Courses, for both operational staff and for senior managers.

There were an increased number of process safety incidents in 2011. This included the failure of a pressure filter in our divested Pharma business, Uquifa, a reaction runaway in Kluang, and striking an unmarked 11kV cable during the removal of diseased trees on the Kluang plantation. Only the first of these caused any injury and none of these incidents caused any lasting environmental damage. The secondary safety system contained nearly all material in the reaction runaway in Kluang, and no material was lost off-site in Uquifa.

Improved process safety procedures are a focus of work in Yule Catto, learning from the work done between HSE, EA and William Blythe in the last five years. A Process Safety Manager has been appointed in Malaysia and the strengthened central SHE team in Synthomer includes a process safety specialist. Two Process Safety training courses were run in-house in 2011, one for the Yule Catto Executive and senior managers; the second for technical, engineering and production staff across the Group. Staff in South Africa and Malaysia attended IChemE public courses in those countries. Further courses are planned for 2012.

### Reportable safety incidents



### Occupational health and hygiene

All of our sites have programmes to limit the exposure of our staff to hazardous materials and these programmes have shown notable progress over the last couple of years with significant improvements in handling systems at our Kluang site, for example. Our aim is always to limit the exposure of our staff to the chemicals they handle, using the standard hierarchy of removal, reduction, control and protection. Much of our chemistry is complex and precise, necessarily using hazardous materials to give our products the exact qualities required to satisfy our customers' needs. For this reason it will never be possible to remove all hazardous chemicals from our sites and this in turn means that control of exposure by engineering means, backed up by the extensive use of Personal Protective Equipment (PPE), will always be a focus of activity for operational and SHE staff. To assist in the thorough assessment of the risk to our staff from exposure to hazardous chemicals, the Group has an assessment programme based on the principles of the UK Control of Substances Hazardous to Health regulations. This system has continued to be rolled out to our sites and is now in use on all sites except the former PolymerLatex sites. Assessment of the adequacy of controls at site level, and the provision of advice on how to improve controls on chemical exposure, has continued to be a matter of discussion during – and recommendations following – the Group SHE audits.

The health of our staff is monitored by a comprehensive set of medical arrangements on each site. Staff who work with chemicals are provided with regular medical examinations by trained occupational health nurses or doctors. Whilst always respecting medical confidentiality, the occupational health personnel who provide the service to each site, inform the local company in the case of a Reportable Disease which could be caused by a work activity. They are also asked to inform the company if their overview of the health of our staff causes them concern.

### Audit programme

Yule Catto has an internal SHE auditing programme whereby an internal team reviews the SHE performance of sites on a two year rolling cycle. The reports from the audits are used to provide senior management – at site, Divisional and Group level – with a consistent view of the SHE performance of Group operations. The audits incorporate a scoring system and were developed from the principles of the CIA's Responsible Care® management system. The audits are used to provide recommendations to each site on priority areas for improvement.

The results of the audits are monitored closely by the Group Executive Committee, who are committed to achieving high standards of SHE performance on all Yule Catto sites. An overview of the outcome of the audits is also discussed by the Yule Catto Board. During 2011 some auditing resources were reallocated at both site and Group level, to give support to sites to improve their SHE performance where problems have been identified. The audit programme in 2012 will mainly focus on sites which have recently joined the Yule Catto Group.



## CORPORATE SOCIAL RESPONSIBILITY REPORT

### continued

#### Asset protection and insurance inspections

There were no major insured losses in 2011 and the re-instatement of the Stallingborough Latex plant, after a fire in 2010, was completed. The Group has continued to work closely with our property insurers to ensure that our risks are accurately understood by the underwriters and the correct insurance is in place. This process continues to be aided by the series of twice-yearly meetings held with the insurer's risk management team to discuss the Group's risk profile; and by the biennial insurance surveys carried out during a joint visit by the insurers and Yule Catto's internal auditors. The surveys are a useful opportunity for the Yule Catto auditors to discuss current standards and thinking with the insurance surveyors, and have identified areas where sites can make improvements. The improvements made following these visits have enabled our sites to improve the insurer's rating of our risk profile and this improvement has enabled the Group to control our insurance costs.

#### Regulatory Affairs: REACH and GHS

2011 was a year of reduced external regulatory pressure as the 2010 deadline for GHS (Globally Harmonised System) implementation had passed and the next deadline for REACH (The EU's Registration, Evaluation, Authorisation and restriction of Chemicals regulations) registration is not until June 2013. Despite this the regulatory workload was significant with a continuing rise in customer expectations, the need to consolidate GHS and be ready for the next stages of REACH; and – for Synthomer – the need to integrate all Synthomer's sites across the world in a new global structure.

All Yule Catto's European operations have successfully switched to GHS as the new system for labelling chemicals with their hazards. So far the switch has only applied to single chemicals, with mixtures not due to change until 2015. Nonetheless the impact was significant and work is continuing to be ready for the next change. The impact of the new system was also seen on our sites around the world as other countries adopted the new system. The switch meant submitting dossiers on 60 chemicals to the European Chemicals Agency (ECHA), which was done on time without problem.

Preparatory work has continued for the next round of REACH registrations in 2013, though the bulk of the work will fall into 2012. The costs in 2012/3 are expected to be around £1 million for the registrations Yule Catto companies need to make.

Feedback from customers and suppliers on our Regulatory Affairs work continues to be very good and the service we give in this area is recognised as an essential part of our business offering. The new Group structure has provided the opportunity for the concentration of expertise into a central Regulatory Affairs Group, mainly in Harlow, serving the whole of the polymer business. This centre of excellence in the Company provides an 'Only Representative' service to the whole polymer business, easing access to European markets. It also ensures that the right information is provided to all our customers around the world and that the Group remains compliant in the changing regulatory landscape.

## Sustainable Development Performance Report 2011

#### Managing our environmental responsibilities

As a company Yule Catto is committed to operating in conformity to local laws and regulations and to improving its environmental performance year on year. The Group are also signatory to the programme of Sustainable Development (SD) goals put forward by UK Chemical Industry Association (CIA) to its member companies in 2005 – indeed Yule Catto were one of the first signatory companies to those principles. The Company's commitment to these SD goals has led to a significant reduction of our environmental impacts since 2000. The commitment has also been shown by our continuous record of investment in environmental improvement and an equally continuous record of achievement against the targets set. The targets used internally over the last five years have been those which were set by CIA: these were set for the period up to 2010. The chemical industry, at both national and European level is currently discussing how SD targets should be set for the future and so, until these discussions are completed Yule Catto have extrapolated the existing targets forward for 2011.

Not all of the Group's measures of our SD performance are recorded in the graphs presented in this report. Most of the other measures which we use internally also show very significant improvement over the last 10 years. As examples: our releases of nitrogen oxides to air have fallen by more than 75% per production tonne since 2000; our releases of phosphorous to water have fallen by nearly 90% since 2000; and our releases of heavy metals are down from 4.5 gm/tonne to 0.106 gm/tonne, a better than 96% reduction. These have been achieved by investment in better systems for environmental control; the development of better processes; better process control focusing on avoiding releases and other losses; and incremental improvement in the operational systems on our sites. All of this is underpinned by the performance of our site staff, who have driven improvement and whose aims are to produce better quality product, using more carefully husbanded resources, whilst producing less waste.

This record of success is reflected in the formally reported SD measures, all of which have improved both in 2011 and very considerably since 2000. All of the SD targets set for the Group have been comfortably bettered. There were three measures on which the Group performed less well in 2010: energy, waste and VOC releases. In 2011 the Group significantly improved its energy performance and regained its long-term trend. For our continuing operations waste production per tonne of product was down and the proportion being recycled was up. On absolute VOC releases, there was a further increase in the declared quantity but schemes now in place are expected to significantly reduce releases from the end of 2012.



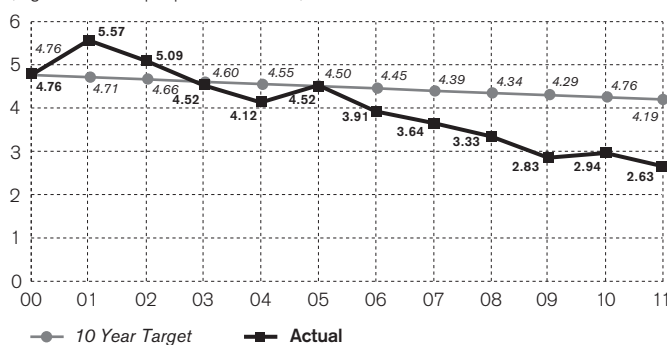
## Energy

Specific energy consumption measured across the Yule Catto Group improved by over 10% in 2011. This continues the long-term trend and means that in 2011 the Group used less than half the energy per tonne that was used in 2001, and that consumption was 38% better than the extrapolated 2011 target. The reduction in 2011 has been helped by different technologies brought into the Group from PolymerLatex and the use of these across the Group offers opportunities for further improvements in future. Despite the improvements achieved, the cost of energy remains a significant challenge to Yule Catto with the energy bill rising to £23.25 million. This represented a 21% increase in the cost of energy per tonne of production compared to 2010. The most significant part of this was electricity use where the electricity consumed fell by 16% per tonne of production but the cost of electricity rose by 17% per tonne of production.

The reduction in specific energy use has improved the Group's carbon dioxide (CO<sub>2</sub>) emissions per tonne and this is reflected in the Global Warming burden discussed below. The CO<sub>2</sub> release figure quoted in the environmental KPI section does include both the direct release from carbon fuels burned on-site and the calculated release from the electricity consumed. Yule Catto's CO<sub>2</sub> releases have fallen in line with the reduction in energy used and this is a significant contribution to reducing overall CO<sub>2</sub> emissions. However, in line with our goal of decarbonising the Group's energy use, we will be exploring different energy supplies with the aim of reducing CO<sub>2</sub> releases faster than improvements in our energy consumption. This will put the Group in line with the EU's commitment to decarbonisation of energy supplies and help us meet national governments' targets, most notably in Britain and Germany.

## Energy consumption

(GigaJoules used per production tonne)



## Global warming

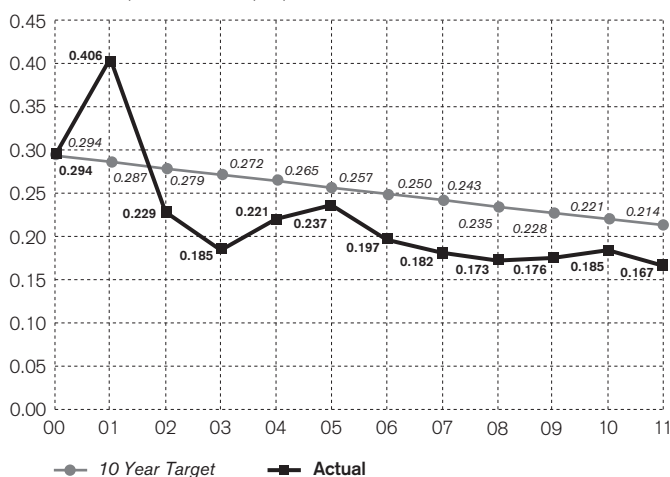
There are two significant releases from Yule Catto companies which contribute to global warming: CO<sub>2</sub> released during energy generation and the release of VOCs. The improvement in energy consumption has been discussed above and this led to a 10.6% improvement in CO<sub>2</sub> releases. Unfortunately reported VOC releases increased for the third year in a row. The increase was concentrated at our Kluang NBR plant and was due to continued improvements in the measurements and calculation of VOC releases, and to further increases in the production of nitrile latex to supply the rapid expansion of glove manufacturing in Malaysia. Across the Yule Catto Group, absolute VOC releases increased by over 50% in 2011, though per tonne of production VOC releases fell by just over 8%.

The combination of these two improvements meant that the global warming burden of the Group's activities improved in 2011 by some 10%, reversing the slight upward trend seen in the last two years and giving the Group its best ever performance. In 2011 Group performance was nearly 60% better than it was in 2001 and the Group was just less than 25% below the extrapolated target for 2011.

After a period spent examining different options a scheme to recover a large proportion of the VOC released from the NBR plant at Kluang has been developed and the project is expected to be constructed during 2012. Significant reductions in VOC release should be seen once the recovery plant is running.

## Global warming burden

(Tonnes CO<sub>2</sub> equivalent release per production tonne)



# CORPORATE SOCIAL RESPONSIBILITY REPORT

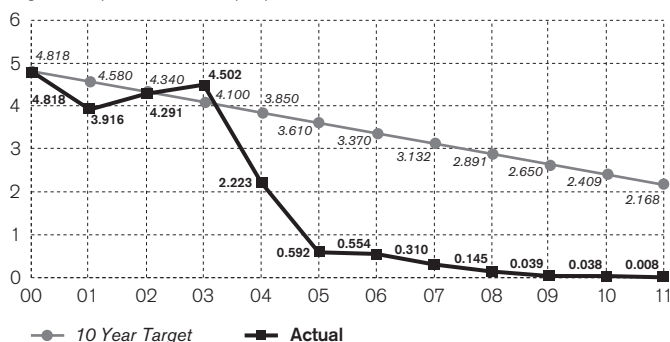
## continued

### Atmospheric acidification

There was a further sharp reduction in the Group's emissions of acid gases in 2011 with the amount of sulphur dioxide (SO<sub>2</sub>) falling by a further 65% to less than 10 tonnes for the year. The Group's emissions per tonne of SO<sub>2</sub> are now less than 0.2% of what they were in 2000 and less than 0.4% of the extrapolated 2011 target. It is worth stressing that the change is due to real reduction achieved by Yule Catto companies over the 10 year period, not just changes due to the structure of the Group. The residual emissions are almost entirely due to the quality of gas and oil used in sites' boilers or electrical generation sets. Given the variable quality of gas and oil in different countries, further reductions will be quite difficult to achieve in future.

### Atmospheric acidification burden

(Kgs SO<sub>2</sub> equivalent released per production tonne)



### Water use

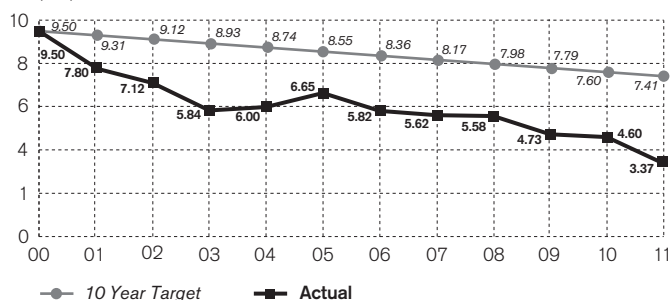
Water consumption by Yule Catto's companies underwent a step change in 2011, reducing by 26.5% compared to the year before. Whilst a large part of this is due to different technology used on the former PolymerLatex sites, requiring far less cooling water, it is notable that the other European sites in Synthomer also reduced their water consumption significantly during the year. Water use per tonne of production has now reduced by nearly two thirds since 2000 (64.5% reduction) and is less than 45% of the extrapolated target for 2011. Despite this very large improvement, the cost of water increased by 21% on a per tonne basis.

Water is a vital resource for nearly all chemical plants and this is especially true for our polymer manufacturing units, where the final product is a dispersion in water. The water is also an essential part of the safety system in our polymer reactors, ensuring that heat can be absorbed and transferred out of the system. For both of these reasons secure and high quality water is a vital resource for our plants. We are fortunate in Malaysia that on our Kluang site we have on-site water collection systems which provide the great majority of our water. This on-site supply has now been strengthened by the provision of a further piped supply from off-site sources. Elsewhere in the Group we are aware that there is significant growth in demand for water in the areas around our sites, as improvements to living standards and further industrialisation continue.

There are also constraints on supply which exist currently and which may become more severe if weather patterns change with global warming. The Group continues to target a 4% reduction in water use per tonne each year and further initiatives to reduce water usage are underway, with trials re-using cleaned effluent water for vessel washing – which is a constant and important use of water on our polymer plants – proposed in 2012.

### Water consumption

(m<sup>3</sup> per production tonne)



### Waste disposal

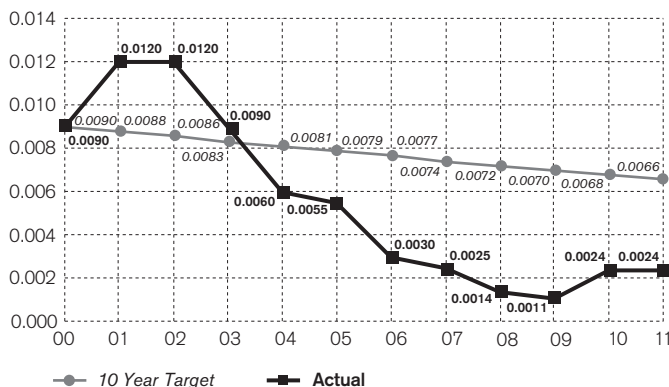
For a number of years the site in Kluang operated an on-site landfill in a disused part of the plantation which, whilst acknowledged by the authorities, was not fully licensed. In recent years the landfill was only used for non-hazardous waste and there is no known harm resulting from this activity. However in 2010 it was decided between the Malaysian authorities and the site that the landfill should be closed and the land returned to beneficial use. This operation involved the removal of 29,599 tonnes of material. Though some natural rubber was able to be recovered for beneficial use, the great majority went to an off-site landfill. The operation lasted for several months and the site has now been restored. Monitoring protocols to confirm that there is no environmental impact have been agreed with the Malaysian Department of the Environment and the land is likely to return to being part of the plantation, once settlement has finished.

This material from the landfill, was included in the figures for waste production in previous years and declared as 'waste disposed to on-site landfill'. This waste movement has therefore not been included in the figures for 2011.

The total amount of hazardous waste produced in 2011 was the same as in 2010, despite production being 68% higher. Of this waste 63% was able to be either recycled or recovered, or burnt as a fuel – in a cement kiln for example. Over 1,200 tonnes less had to be incinerated, despite the increased production. This left an amount to be disposed of to landfill which increased in line with the increase in production. Whilst the amount sent to landfill per tonne of production was above that seen in 2008/9, the quantity was roughly one quarter of the figure in 2000 and less than 35% of the extrapolated Sustainable Development target.

### Hazardous waste disposed to land

(Tonnes waste per production tonne)

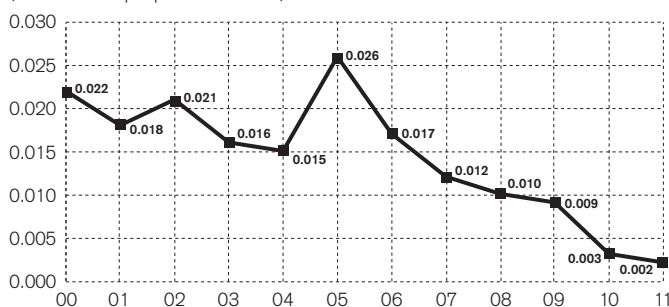


The quantity of non-hazardous waste going to landfill fell again in 2011 and is now little more than 10% of the quantity disposed of to landfill in 2000. This has been achieved by the imaginative use of recycling, recovery and reuse of waste materials, in particular the use of polymer waste as a soil improver when incorporated into compost. This process suffered a hiccup in 2011 while the UK DoE reassessed the process to ensure its acceptability. For a period material previously going to composting, had to go to landfill, which significantly increased the quantity sent to landfill during the year. However DoE re-authorised the process and composting has recommenced, with an improvement in UK site performance and genuine environmental benefits.

The use of imaginative, environmentally friendly disposal routes has been so successful that for a number of Synthomer's sites, the net production of waste is now zero – all their waste is recovered, recycled or reused. The lessons learned by these sites are being shared with other sites in the Yule Catto Group, to reduce the quantity of waste requiring final disposal still further.

### Non-hazardous waste disposed to land

(Tonnes waste per production tonne)



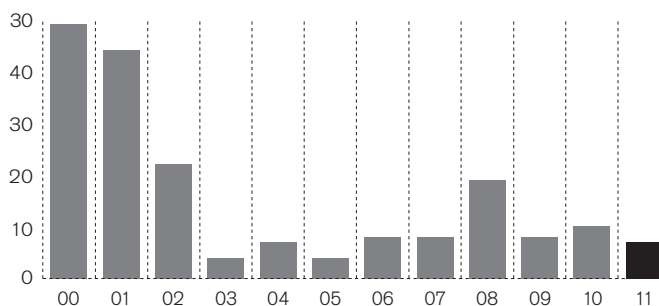
### Environmental incidents

The headline number of environmentally reportable incidents which led to a release which involved the environmental regulators, fell to seven in 2011. All of the incidents have been investigated to determine their cause, and to determine what preventive or mitigation measures should be put in place to prevent any environmental harm. None of the incidents during the year were found to have caused more than transitory environmental harm.

Five of these releases were problems in the outflow from the Effluent Treatment Plants (ETPs) in either Kluang or Durban, South Africa. The Durban site planned to construct a new ETP during 2011 but this was not possible due to delays in receiving regulatory approval. Approval has now been received and the scheme will be completed in 2012, which should give an outflow well below the current consent limits. It should also ensure that excursions away from the consent limits are much less likely.

In Kluang, the NBR plant ETP was significantly improved during the year by putting an ammonia stripper unit in the outfall. This deals directly with one of the environmental incidents in 2011. Improvements are currently being planned for both of the ETP at Kluang to deal with the other environmental incidents which have occurred there over the past two years. Also, although the site is currently in consent, Synthomer's Vietnam plant is currently investing in a new combined chemical and biological ETP to meet tightening consent limits.

### Reportable environmental incidents



# CORPORATE SOCIAL RESPONSIBILITY REPORT

## continued

### Environmental KPIs

The UK Department for Environment, Food, and Rural Affairs (DEFRA) published guidelines for reporting environmental key performance indicators in 2006. The key measures suggested were energy use, emissions to air, waste disposal and water consumption, on an absolute and a per tonne basis. Yule Catto has reported on these indicators for a number of years, and to aid transparency in environmental performance reporting Yule Catto adopted DEFRA's preferred format in 2008 for the report on our 2007 performance. This format is used in the table below which gives the data for the period 2009/2011.

|   | 2011             | 2010      | 2009      | % change<br>2009-2011 | % change<br>2010-2011 |
|---|------------------|-----------|-----------|-----------------------|-----------------------|
| <b>Energy consumption<sup>1</sup></b>         |                  |           |           |                       |                       |
| <b>GJ</b>                                     | <b>3,144,349</b> | 2,092,339 | 1,967,478 | 59.82%                | 50.28%                |
| Gas   | <b>793,671</b>   | 698,891   | 641,691   |                       |                       |
| Light oil                                     | <b>25,884</b>    | 28,178    | 24,885    |                       |                       |
| Heavy oil                                     | <b>57,166</b>    | 64,326    | 61,046    |                       |                       |
| Steam   | <b>657,120</b>   | 161,617   | 147,456   |                       |                       |
| Electricity (primary basis)                   | <b>1,604,767</b> | 1,138,600 | 1,086,779 |                       |                       |
| <b>GJ/tonne production</b>                    | <b>2.633</b>     | 2.942     | 2.765     | (4.78%)               | (10.51%)              |
| <b>Emissions to air<sup>2</sup></b>           |                  |           |           |                       |                       |
| <b>Carbon Dioxide (CO<sub>2</sub>)</b>        |                  |           |           |                       |                       |
| Tonnes  | <b>156,900</b>   | 104,572   | 98,289    | 59.63%                | 50.04%                |
| <b>Tonnes CO<sub>2</sub>/tonne production</b> | <b>0.131</b>     | 0.147     | 0.138     | (4.80%)               | (10.65%)              |
| <b>Sulphur Dioxide (SO<sub>2</sub>)</b>       |                  |           |           |                       |                       |
| Tonnes  | <b>9.8</b>       | 27.2      | 27.9      | (65.01%)              | (64.06%)              |
| <b>Kilos SO<sub>2</sub>/tonne production</b>  | <b>0.008</b>     | 0.038     | 0.039     | (79.15%)              | (78.60%)              |
| <b>Nitrous Oxides (NO<sub>x</sub>)</b>        |                  |           |           |                       |                       |
| Tonnes  | <b>42.30</b>     | 19.45     | 20.03     | 111.15%               | 117.43%               |
| <b>Kilos NO<sub>x</sub>/tonne production</b>  | <b>0.035</b>     | 0.027     | 0.028     | 25.81%                | 29.47%                |
| <b>Volatile Organic Compounds (VOC)</b>       |                  |           |           |                       |                       |
| Tonnes  | <b>3,704</b>     | 2,407     | 2,155     | 71.90%                | 53.87%                |
| <b>Kilos VOC/tonne production</b>             | <b>3.101</b>     | 3.385     | 3.028     | 2.42%                 | (8.37%)               |
| <b>Water usage</b>                            |                  |           |           |                       |                       |
| <b>Cubic metres (m<sup>3</sup>)</b>           | <b>4,036,053</b> | 3,271,018 | 3,366,442 | 19.89%                | 23.39%                |
| Public potable supply                         | <b>1,003,420</b> | 879,006   | 938,084   |                       |                       |
| Raw water from river                          | <b>1,277,868</b> | 1,514,427 | 1,609,773 |                       |                       |
| Raw water from borehole                       | <b>524,965</b>   | 337,058   | 308,738   |                       |                       |
| Raw water from canal                          | –                | –         | 2,565     |                       |                       |
| Raw water from other                          | <b>1,229,800</b> | 540,527   | 507,282   |                       |                       |
| <b>m<sup>3</sup>/tonne production</b>         | <b>3.380</b>     | 4.600     | 4.731     | (28.57%)              | (26.53%)              |

1. Data relates to site usage of all fuels, excluding transport.

2. Emissions to air have been calculated from the usage of all fuels, excluding transport fuel; and therefore include both direct emissions and indirect emissions related to bought-in electricity.

|  | 2011             | 2010    | 2009    | % change<br>2009-2011 | % change<br>2010-2011 |
|--|------------------|---------|---------|-----------------------|-----------------------|
| <b>Waste management<sup>3</sup></b>            |                  |         |         |                       |                       |
| <b>Hazardous waste</b>                         |                  |         |         |                       |                       |
| Tonnes   | <b>21,635</b>    | 21,946  | 12,131  | 78.34%                | (1.42%)               |
| <b>Hazardous waste sent off-site</b>           |                  |         |         |                       |                       |
| Recycled – energy recovery                     | <b>6,920</b>     | 5,243   | 1,981   |                       |                       |
| Recycled – separated, reprocessed              | <b>6,736</b>     | 9,010   | 3,865   |                       |                       |
| Incinerated – no energy recovery               | <b>5,116</b>     | 6,332   | 3,462   |                       |                       |
| Disposed by landfill                           | <b>2,837</b>     | 1,126   | 817     |                       |                       |
| Other  | <b>24</b>        | 7       | 65      |                       |                       |
| <b>Hazardous waste disposed on-site</b>        |                  |         |         |                       |                       |
| Incinerated on-site with energy recovery       | –                | –       | –       |                       |                       |
| Incinerated on-site with no energy recovery    | –                | 129     | 1,941   |                       |                       |
| Disposed to on-site landfill                   | <b>2</b>         | 100.39  | –       |                       |                       |
| Hazardous waste tonnes/tonne production        | <b>0.018</b>     | 0.031   | 0.017   | 6.26%                 | (41.30%)              |
| <b>Non-hazardous waste</b>                     |                  |         |         |                       |                       |
| Tonnes   | <b>11,709</b>    | 9,002   | 12,809  | (8.58%)               | 30.08%                |
| <b>Non-hazardous waste sent off-site</b>       |                  |         |         |                       |                       |
| Recycled – energy recovery                     | <b>2,855</b>     | 1,940   | 3,077   |                       |                       |
| Recycled – separated, reprocessed              | <b>4,665</b>     | 3,311   | 1,418   |                       |                       |
| Incinerated – no energy recovery               | <b>22</b>        | –       | 78      |                       |                       |
| Disposed by landfill                           | <b>2,407</b>     | 2,084   | 6,041   |                       |                       |
| Other – municipality                           | <b>1,711</b>     | 1,606   | 1,580   |                       |                       |
| <b>Non-hazardous waste disposed of on-site</b> |                  |         |         |                       |                       |
| Recycled – energy recovery                     | –                | –       | –       |                       |                       |
| Incinerated – no energy recovery               | –                | –       | –       |                       |                       |
| Disposed by landfill                           | <b>50</b>        | 60      | 616     |                       |                       |
| Non-hazardous waste tonnes/tonne production    | <b>0.010</b>     | 0.013   | 0.018   | (45.53%)              | (22.54%)              |
| <b>Total waste tonnes/tonne production</b>     | <b>0.028</b>     | 0.044   | 0.035   | (20.34%)              | (35.84%)              |
| <b>Production</b>                              |                  |         |         |                       |                       |
| Tonnes   | <b>1,194,232</b> | 711,138 | 711,560 | 67.83%                | 67.93%                |

3. The 2011 figures in this table are for the continuing operations. As noted in the text 29,599 tonnes of waste transferred from a landfill on the Kluang site to a secure off-site landfill are not included in the figures. The production of this waste was included in the figures for previous years' waste arising (see entries: 'Hazardous waste disposed on-site – Disposed to on-site landfill' and 'Non-hazardous waste disposed on-site – Disposed by landfill').

## DIRECTORS AND ADVISERS

### Executive directors

#### A M Whitfield<sup>2</sup> – Chief Executive

Joined the Group and was appointed to the Board in March 2006. He assumed the role of Chief Executive in August 2006. Prior to appointment he was Chief Executive of the plastics division of D S Smith Plc. Age 50.

#### D C Blackwood – Finance Director

Joined the Group and was appointed to the Board in October 2007. Prior to appointment he was Group Treasurer of Imperial Chemical Industries PLC. Age 52.

### Non-executive directors

#### P S Wood<sup>2</sup> – Chairman

Joined the Board in 2001 and was appointed Chairman on 1 February 2009. He was Chief Executive of The BSS Group plc until retirement at the end of 2005 and is a non-executive director of RPC Group plc. He is a member of the Institute of Chartered Accountants of England and Wales. Age 64.

#### The Hon. A G Catto

Joined the Board in 1981. He is Managing Director of CairnSea Investments Ltd, a private investment company, and a non-executive director of several early stage companies that have been backed by CairnSea. Until 1995 he was a Managing Director of Lazard Brothers and prior to this he was with J P Morgan and Morgan Grenfell & Co. Age 59.

#### Dr A A Dobbie<sup>1,2,3</sup>

Joined the Board in August 2007. He is a founding Director of Cogency Chemical Consultants Limited, a Director of NiTech Solutions Limited and Marine Biopolymers Limited and is Chairman of Chemical Sciences Scotland. Age 60.

#### N A Johnson<sup>1,2,3</sup> – Senior Independent Director

Joined the Board on 1 September 2011. He is Chairman of Motability Operations Group plc, Hornby Group plc and Umeco plc. Age 62.

#### Dato' Lee Hau Hian

Joined the Board in 1993 and stood down in 2000 to become an Alternate Director. He rejoined the Board in 2002. He is a Director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd. Age 58.

#### J K Maiden<sup>1,2,3</sup>

Joined the Board in August 2007. He is Group Finance Director of National Express Group PLC and a Fellow of the Chartered Institute of Management Accountants. Age 50.

1. Member of Audit Committee.

2. Member of Nomination Committee.

3. Member of Remuneration Committee.

### Registered office

Yule Catto & Co plc  
Temple Fields  
Harlow  
Essex  
CM20 2BH

Registered No. 98381

### Secretary

Richard Atkinson

### Bankers

Barclays Bank plc  
Commerzbank AG  
HSBC Bank plc  
Maybank – Malayan Banking Berhad

### Joint stockbrokers

Barclays Capital and Collins Stewart Europe Limited

### Registrars

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

### Auditor

Deloitte LLP  
Chartered accountants and statutory auditor  
Cambridge, UK

### Solicitors

Pinsent Masons LLP  
Salans LLP  
Squire Sanders (UK) LLP



## REPORT OF THE DIRECTORS

### for the year ended 31 December 2011

The directors submit their annual report (including a management report) and the audited financial statements for the year ended 31 December 2011.

#### Results and dividends

The loss attributable to shareholders for the year was £6,946,000. The interim dividend of 1.2 pence per share was paid on 10 November 2011. The directors recommend a final dividend of 2.3 pence per share payable on 6 July 2012 to those shareholders registered at the close of business on 8 June 2012. A dividend re-investment plan is available to shareholders and this alternative will continue to be offered until further notice.

#### Principal activities and business review

The principal activities of the Company and a business review are set out on pages 9 to 29 and form part of the report of the directors.

#### Acquisitions and disposals

On 31 March 2011 the Group completed the acquisition of PolymerLatex Deutschland Beteiligungsgesellschaft mbH (PolymerLatex) from PolymerLatex Holdings BV. On 14 October 2011 the Group acquired Quality Polymer Sdn Bhd from Nippon Paint (M) Sdn Bhd through its 70% subsidiary Revertex (Malaysia) Sdn Bhd. The Group sold its Pharmachem Division comprising Union Químico Farmacéutica SA and Uquifa Mexico SA de CV to Vivimed Labs on 30 November 2011. Further details of these transactions are contained in notes 28 and 29.

#### Financial instruments

Details of the Group's use of financial instruments and its financial risk management objectives and policies, and of its exposure to price, credit, liquidity and cash flow risk in relation to such instruments, are contained in note 23 to the financial statements.

#### Directors

The present membership of the Board is shown on page 30 all of whom served throughout the year except for Mr N A Johnson who joined the Board on 1 September 2011. All the directors will retire and will be seeking election or re-election as appropriate at the forthcoming Annual General Meeting except for Mr P S Wood and Dr A A Dobbie who are leaving the Board. Mr D D Fournier joined the Board on 1 January 2012 and resigned on 13 March 2012.

None of the directors seeking election or re-election has a service contract other than Mr Whitfield and Mr Blackwood who each have a service contract which contains a 12 month notice period. Details of directors' emoluments and the interests of each director in the share capital of the Company are shown in the Remuneration report on pages 39 to 45.

#### Director indemnity provisions

Under the Company's Articles of Association, the directors of the Company have the benefit of a qualifying third-party indemnity provision which provides that they shall be indemnified by the Company against certain liabilities as permitted by Sections 232 and 234 of the Companies Act 2006 and against costs incurred by them in relation to any liability for which they are indemnified. The Company has purchased and maintains insurance against directors' and officers' liabilities in relation to the Company.

#### Share capital and control

Details of the Company's share capital are contained in note 26 to the financial statements. On 31 December 2010 194,217,582 shares were provisionally allotted nil paid in connection with the rights issue announced on 13 December 2010. On 17 January 2011 such 194,217,582 shares were allotted fully paid. No shares were re-purchased in 2011. A total of 38,517 shares were purchased on the open market on behalf of the shareholders who elected to participate in the dividend re-investment plan.

The rights and obligations attaching to the Company's ordinary shares, being the only class of issued share capital, as well as the powers of the Company's directors, are set out in the Company's Articles of Association, copies of which can be obtained from Companies House or can be downloaded from the Company's website. There are no restrictions on the voting rights attaching to the Company's ordinary shares or on the transfer of securities in the Company. No person holds securities in the Company carrying special rights with regard to the control of the Company. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. Unless expressly specified to the contrary in the Articles of Association of the Company, the Company's Articles of Association may be amended by special resolution of the Company's shareholders.

Other than in relation to its borrowings which, unless certain conditions are satisfied, become repayable on a takeover, the Company is not party to any significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

The Company does not have agreements with any director or employee that would provide compensation for loss of office or employment resulting from a takeover.

All of the Company's share schemes contain provisions relating to a change of control. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time.

# REPORT OF THE DIRECTORS

## continued

### Contractual arrangements

The Group has contractual and other arrangements with numerous third parties in support of its business operations. The disclosure in this report of information about any such third parties is not considered to be necessary for an understanding of the development, performance or position of the Group's business.

### Major shareholdings

Other than the shareholdings disclosed as directors' interests in the Remuneration report as at 17 February 2011, the Company had been notified under Section 5 of the Disclosure and Transparency Rules of the UK Listing Authority of the following significant holdings of voting rights in its ordinary shares:

|                                      | Ordinary<br>shares<br>(number) | Percentage<br>of ordinary<br>shares in<br>issue | Nature<br>of holding            |
|--------------------------------------|--------------------------------|---|---------------------------------|
| Kuala Lumpur<br>Kepong Berhad Group  | 64,111,401                     | 18.86   | Direct interest                 |
| Standard Life<br>Investments Limited | 30,804,259                     | 9.06  | Direct and<br>Indirect interest |

### Employment policies

The Group gives every consideration to applications for employment from disabled persons. Employees who become disabled are given every opportunity to continue employment under normal terms and conditions with appropriate training, career development and promotion wherever possible. The Group seeks to achieve equal opportunities in employment through recruitment and training policies.

### Authority to purchase own shares

The Company has a general authority, which expires at the conclusion of the 2012 Annual General Meeting, to make market purchases of not more than 33,988,076 of the Company's ordinary shares in accordance with the terms of the special resolution passed at the 2011 Annual General Meeting. A resolution will be tabled at the 2012 Annual General Meeting to renew this authority.

### Employee involvement

The Group is organised on a decentralised basis so as to promote greater employee involvement and better communications with employees. Each Group company is encouraged to make its employees aware of the financial and economic factors affecting the performance of the Company. Performance related bonus schemes are in operation in a number of Group companies.

A new long-term share incentive plan for directors and senior executives was introduced in 2011 with the approval of shareholders.

### UK pension funds

The trustees have reviewed the independent investment management of the assets of the Company pension schemes in the UK and assured themselves of the security and controls in place. In particular, it is the trustees' policy not to invest in Yule Catto shares nor lend money to the Company.

### Creditor payment policy

The Group's policy is to make payments to creditors and other suppliers 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 2011 were **28 days** (2010 31 days) based on the ratio of trade creditors at the year end to the amounts invoiced during the year by trade creditors.

### Charitable donations

Charitable donations in the year amounted to **£53,500** (2010 £73,507) There were no political donations during the year.

### Statement as to disclosure of information to auditor

Each director of the Company confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. For these purposes, relevant audit information means information needed by the Company's auditor in connection with preparing their reports on pages 47 and 90.

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

### Corporate governance

The Corporate Governance report is set out on pages 34 to 38 and forms part of the report of the directors.

### Principal risks and uncertainties

The directors have appropriately considered the Group's principal risks and uncertainties including the following:

- Conditions in the global economy, economic fluctuations in customer industries and volatility and cyclicalities of the global chemicals and polymers markets may adversely affect the results of operations, financial condition and cash flows of the Group;
- Volatility in raw material prices and energy prices may adversely affect the profitability of the Group and its working capital position;
- The failure of the Group to procure key raw materials may lead to production interruptions that may adversely affect the profitability of the Group and its working capital position;
- The markets in which the Group operates are highly competitive and the Group may lose market share to other producers or sellers of water based polymers or to other products that can be substituted for the products of the Group;

- The Group operates in a number of different geographies which may present different legal and regulatory risks. In addition, the Group operates in a number of different tax regimes, which may increase the volatility of the effective tax rate and cash tax rate of the Group;
- The ability of the Group to compete is highly dependent on its ability to develop technological innovations, to introduce new products and to protect its intellectual property, trade secrets and know-how. Failure to do so could have an adverse affect on the Group;
- The Group may be liable for damages based on product liability claims brought against its customers in end-use markets. In addition, compliance with extensive environmental, health and safety laws and regulations could require material expenditure, changes in the operations of the Group or site remediation;
- The manufacture, storage and transportation of chemicals is inherently dangerous and any incidents relating to the hazards which the Group faces may adversely affect its financial condition, results of operations and reputation;
- Fluctuations in currency exchange rates may significantly impact the results of the operations of the Group and may significantly affect the comparability of financial results between financial periods;
- Credit market conditions and credit ratings may restrict the ability of the Group to obtain credit facilities or to refinance its existing debt facilities in the longer term. In addition, interest rate fluctuations and increases in bank lending margins may increase the Group's costs of borrowing in the longer term; and
- The Group has funding risks relating to defined benefit pension schemes and any deterioration in the value of assets in which the pension scheme has invested as against the financial obligations to make payments to members of the schemes could have an adverse affect on the Group.

Not all these risks can be managed or substantially mitigated. The Group has a number of key processes to effect reduction and some mitigation of operational risks where reasonably practical, including:

- Active management processes to manage margins and recover input cost increases from customers;
- Sourcing strategies to access multiple sources for key raw materials;
- Actively managed innovation processes;
- Product quality control and testing processes;
- A centralised internal audit function dedicated to SHE issues, and programmes for continuous improvement across all major SHE areas; and
- Internal audit and business performance review processes, the format of which has been enhanced for 2012.

Financial risks are partly mitigated through currency and interest rate hedging and the Group has a policy on leverage limits and seeks to ensure it has adequate borrowing headroom on a 12 month forecast basis.

### Going concern

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

- the Group's Euro denominated £150 million term loan facility and £60 million multicurrency revolving credit facility the termination dates of which were extended from 13 December 2013 to 31 March 2015 on 22 December 2011; and
- the first repayment under the 2004 series private placement notes of US\$43 million due in September 2012.

Further discussion on liquidity and financing is provided in the Financial review.

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

### Key performance indicators

Management monitors a number of financial and non-financial key performance indicators, which are disclosed within the Chief Executive's report, the Financial review and Corporate Social Responsibility report. These key performance indicators include divisional sales and underlying operating profit, net borrowings, reportable safety incidents, energy usage and water consumption.

### 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.

### Auditor

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed at the Annual General Meeting.

### Annual General Meeting

The Annual General Meeting will be held at 11.00 am on Thursday 17 May 2012 at Manor of Groves Hotel, High Wych, Sawbridgeworth, Hertfordshire CM21 0JU.

By order of the Board

**R Atkinson**

Secretary

14 March 2012

# CORPORATE GOVERNANCE

## Report from the Chairman

This section of the annual report sets out how the Board and its Committees apply the principles of good governance in the UK Corporate Governance Code ('the Code') which was published in June 2010 by the Financial Reporting Council.

I am pleased that we were able to strengthen the effectiveness of the Board by the appointment of Mr N A Johnson, who will succeed me as Chairman in May. With regard to gender diversity we have taken note of the recommendations contained in the Davies Report on 'Women on Boards'. The Board will be seeking to address these points over time as it makes new appointments. A process is already well advanced to recruit three new independent non-executive directors to maintain Board balance following the retirement of myself and Dr Dobbie at the end of the forthcoming Annual General Meeting and the resignation of Mr D D Fournier.

Our full statements on compliance and the application of the main principles of the Code are set out in the following sections of this report.

**Peter Wood**  
Chairman

## Statement of compliance

The Company considers that it has complied throughout the financial year ended 31 December 2011 with the provisions set out in the Code except in relation to the composition of the Board and its Committees and the annual re-election of all directors. Further details on these matters and how they have been addressed are set out in this report.

## Application of the Code

The main principles of the Code were applied as follows:

### Leadership and effectiveness

#### Operation of the Board

The activities of the Company are controlled by the Board which, during 2011, comprised two executive directors and five non-executive directors until 1 September 2011 when Mr N A Johnson was appointed and the number of non-executive directors increased to six. Mr D D Fournier was appointed with effect from 1 January 2012 and he resigned on 13 March 2012. The roles of Chairman and Chief Executive are clearly divided between Mr P S Wood who heads the Board in his capacity as non-executive Chairman and Mr A M Whitfield who has responsibility for the running of the Company's business as Chief Executive. The non-executive directors all have wide business and boardroom experience gained in a broad range of business sectors.

The Board has reserved to itself a schedule of matters which includes setting long-term objectives for the Group and the strategies to be employed in achieving them, setting policies in the areas of safety, health and the environment, recruitment and employment, risk management and treasury and, subject to materiality thresholds, decisions on the raising of capital, financial commitments, capital expenditure, acquisitions and disposals and the prosecution, defence and settlement of litigation.

During 2011 the Board held six scheduled meetings to review current and projected performance and to determine strategic issues. The directors receive in advance full information on all matters to be discussed at Board meetings as well as a detailed review of performance prepared by the Chief Executive. The Board has established Audit, Nomination and Remuneration committees which are discussed below.

In addition arrangements are made each year for the Board to visit up to two of the Group's operational sites and meet local management. Ad hoc site visits are facilitated for individual non-executive directors on request. During 2011 the Board held a meeting at the offices and research & development facilities in Marl, Germany. In conjunction with the Board meeting presentations were given by the senior management of the Polymer Division and the directors visited the Group's plants at the Marl chemical park.

The Board has delegated to the Chief Executive responsibility for the development and preparation of the business plan for the Group and the annual Group budget for recommendation to the Board. As the senior executive director, the Chief Executive is responsible for all aspects of day-to-day operational control of the Group and execution of the Group strategy. The Chief Executive has established and chairs an Executive Committee (whose other members are the Finance Director, the Chief Executive of the Polymer Division, the Deputy Finance Director, the Company Secretary and the Director of Group Human Resources) to assist him in the performance of his duties and which meets once a month. The Chairman has available to him the minutes of the Executive Committee and all directors receive a monthly trading summary and commentary from the Finance Director and an update report from the Chief Executive.

### Board membership and balance

The Chairman, Chief Executive and senior independent director are identified on page 30. The Chairmen and members of the Audit, Nomination and Remuneration Committees are identified below. The Board considers Mr D D Fournier was and that Dr A A Dobbie, Mr N A Johnson and Mr J K Maiden are independent in accordance with the provisions of the Code.

During 2011 the Company was not in compliance with the requirement of Code provision B.1.2 for half the Board, excluding the Chairman, to comprise independent non-executive directors. Following a recruitment exercise in 2011 the Board returned to compliance with this requirement with effect from 1 January 2012 until 13 March 2012 when Mr Fournier resigned from the Board. The Board is seeking to return to compliance and has a well advanced recruitment process in hand for this purpose.

The Board held a total of six meetings in 2011. In addition the Chairman held one separate meeting with the non-executive directors without the executive directors being present to appraise the performance of the executive management. The non-executive directors also met once without the Chairman to appraise his performance.

The table below shows the number of meetings of the Board, Audit, Remuneration and Nomination Committees held during the year and the number of meetings attended by each director. Where a director is unable to attend a Board or Committee meeting his views on agenda items are canvassed in advance of the meeting and incorporated into the discussions.

| <b>Number of meetings held</b>     | <b>Board</b> | <b>Audit</b> | <b>Remuneration</b> | <b>Nomination</b> |
|------------------------------------|--------------|--------------|---------------------|-------------------|
|                                    | 6            | 5            | 4                   | 2                 |
| <b>Number of meetings attended</b> |              |              |                     |                   |
| D C Blackwood                      | 6/6          | N/A          | N/A                 | N/A               |
| A G Catto                          | 6/6          | N/A          | N/A                 | N/A               |
| A A Dobbie                         | 6/6          | 5/5          | 4/4                 | 2/2               |
| N A Johnson*                       | 2/2          | N/A          | N/A                 | N/A               |
| Lee Hau Hian                       | 6/6          | N/A          | N/A                 | N/A               |
| J K Maiden                         | 6/6          | 5/5          | 4/4                 | 2/2               |
| A M Whitfield                      | 6/6          | N/A          | N/A                 | 2/2               |
| P S Wood                           | 6/6          | N/A          | N/A                 | 2/2               |

\* Appointed on 1 September 2011.

The Committee has not implemented early adoption of the amendment to the Code requiring reporting on boardroom diversity policy, including gender, associated objectives and progress toward achieving them. The Committee will be giving consideration during 2012 as to how to implement these requirements with effect from 2013 as required by the Code.

#### Induction and training

Induction arrangements are in place in order to ensure new directors receive a full formal and tailored induction on appointment. The Chairman reviews and agrees the training and development needs of the directors and the skills and knowledge of the Board as a whole are updated by briefings provided by the Company's internal resources and materials and seminars offered by external advisers.

#### Performance evaluation

Performance evaluations of the Board, its committees and its directors were carried out in the last year by the following internal processes:

- an assessment of the performance of individual non-executive directors is carried out by the Chairman through a rolling programme of one-to-one discussions using performance evaluation questions as the centrepiece for those discussions. Every non-executive director is assessed in this way once a year;
- the performance of the executive directors was reviewed in August 2011 at a meeting of the non-executive directors chaired by the Chairman;
- a meeting of the non-executive directors (in the absence of the Chairman) chaired by the senior independent director was held in November 2011 to evaluate the performance of the Chairman, taking into account the views of the executive directors; and
- the Board and its Committees carry out an annual self-assessment of performance led by the Chairman and the Chairman of each committee respectively. The results of assessment questionnaires completed by those Chairmen were reviewed by the relevant committees and the Board and were shared with and discussed by the Board as a whole at its meeting in November 2011.

The Board is formulating its policy on the extent and frequency of any externally facilitated evaluation.

Non-executive directors are appointed for three-year terms. All directors will submit themselves for annual election for the first time with effect from the 2012 Annual General Meeting. The Board did not comply with this provision of the Code in 2011 as it wished to fully consider its implications before doing so.

#### Board committees

The Board has formally established Nomination, Audit, and Remuneration Committees, each with their own terms of reference which set out their respective roles and the authority delegated to them by the Board. Copies of the terms of reference are available upon request from the Company Secretary and can also be downloaded from the Company's website. During 2011 the Nomination, Audit and Remuneration Committees did not comply with the composition requirements of Code Provisions B.2.1, C.3.1 and D.2.1 respectively until 9 November 2011 when Mr Johnson joined the Committees. All non-executive directors have a standing invitation to attend Committee meetings unless they are notified otherwise.



## CORPORATE GOVERNANCE

### continued

#### Audit Committee

During 2011 the Audit Committee comprised Mr J K Maiden (Chairman) and Dr A A Dobbie until 9 November 2011 when Mr N A Johnson joined the Committee. Mr Maiden is considered by the Board to have 'recent and relevant financial experience' for the purposes of Provision C.3.1 of the Code due to his current financial position outside the Group. The Committee has established a detailed remit regarding the application of financial reporting and internal control principles, which covers:

- monitoring the integrity of the financial statements of the Group and any formal announcements relating to the Group's financial performance and reviewing significant financial reporting judgements contained therein; and
- reviewing the Group's internal financial controls and the Group's internal control and risk management systems.

The Finance Director and senior members of his department attend meetings of the Committee as part of the review of the Group's interim and financial statements prior to their submission to the Board. The Committee meets periodically with the Company's auditor to discuss the adequacy of the Group's financial management, internal controls and information systems. The Committee's remit also includes the review of the terms of engagement, effectiveness, independence and objectivity of the auditor (including the extent of non-audit services and fees payable to the auditor) which is carried out and discussed with the auditor on a periodic basis. With regard to seeking to ensure the independence and objectivity of the auditor, the Audit Committee's policy is to avoid the auditor providing services in areas which may create or be perceived to create a conflict of interest. Accordingly, other than in circumstances where time constraints render it impractical or assignments are of a minor nature, the auditor is not invited to tender or propose for services of the following nature: corporate finance, legal, information technology and systems, recruitment or remuneration, accounting, internal audit or control, acquisition due diligence, valuations or appraisals, actuarial or general business consulting. In addition the auditor has been requested not to provide services to executive directors or senior executives. Non-executive directors are required to disclose any relationship they have with the auditor.

For 2011 the Group did not have a dedicated internal audit function and use was made periodically of outsourced internal audit services. During 2011 the Committee reviewed this in view of the significant increase in the size of the Group as a result of the acquisition of PolymerLatex. The Committee has concluded that whilst there are in place appropriate procedures for assuring the integrity and effectiveness of the Group's governance, risk management and control processes these should be supplemented by a formalised programme of outsourced internal audit services. The Board has accepted this recommendation and this new function will operate from the first quarter of 2012 with reports being made to the Committee twice a year.

The current auditor was first appointed in 2002 and its appointment was reviewed by the Committee in 2009. The senior statutory auditor is subject to retirement every seven years and in accordance with this requirement Mr R Knight replaced Mr S Henderson with effect from the 2011 audit. Details of audit and non-audit fees paid to them in 2011 are set out in note 6 on page 64. Non-audit fees principally relate to tax compliance and advisory services. The Board accepts the Committee's recommendation that the current auditor be proposed for reappointment at the forthcoming Annual General Meeting.

The Committee met formally five times during 2011 and carried out the following main activities:

- Reviewed the financial statements in the 2010 annual report and the 2011 interim statement;
- Reviewed the scope and effectiveness of the external audit
- Monitored the effectiveness of the internal controls and risk management;
- Received reports from the external auditor on the major findings of its work;
- Approved the annual audit plan;
- Reviewed its remit.

In addition the Chairman of the Committee had regular dialogue with the auditor during the course of the year. As well as complying with the terms of its remit during the year the Committee carried out a review of its content.

#### Nomination Committee

During 2011 the Nomination Committee comprised Mr P S Wood (Chairman), Dr A A Dobbie, Mr J K Maiden and Mr A M Whitfield. On 9 November 2011 Mr N A Johnson joined the Committee. The Committee is responsible for: the regular review of the structure, size and composition of the Board and the making of recommendations with regard to any changes; leading the process for Board appointments and nominating candidates for non-executive positions; and considering succession planning.

The Committee led the process for nominating Mr N A Johnson and Mr D D Fournier for appointment as independent non-executive directors. This process involved a thorough review of a range of candidates put forward by a recruitment consultancy, which conducted an extensive search process. The diversity (including gender) of the Board was taken into account by the Committee; however an appropriate female candidate could not be found for nomination at that time.

The Nomination Committee held two formal meetings during 2011 and a number of informal meetings and telephone calls as well as numerous interviews in connection with the nomination process referred to above.



The election by the Board of Mr Johnson as Chairman to succeed Mr Wood with effect from the close of the 2012 Annual General Meeting was based on the specification for the role as fulfilled by Mr Wood. In addition, in making the appointment the Board assessed the expected time commitment required of Mr Johnson in the role of Chairman and was satisfied that this was not at odds with his other significant commitments which are set out on page 30.

As a result of the resignation of Mr Fournier, the retirement of Mr Wood and Dr Dobbie and Mr Johnson assuming the role of Chairman, there is an immediate need for the appointment of one additional independent non-executive director and the need for two further independent non-executive directors to be appointed by May 2012 in order for continued compliance with Code Provision B.1.2. Accordingly the Committee has a well advanced recruitment process in hand.

#### Remuneration Committee

All matters relating to the Remuneration Committee and remuneration are covered in the Remuneration report, set out on pages 39 to 45.

#### Relations with shareholders

Dialogue with institutional investors is conducted on a regular basis by the Chief Executive and the Finance Director and meetings take place following the announcement of interim and full year results and at other times according to circumstances.

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

The Chief Executive reports on shareholder relations at each Board meeting. Communications with shareholders relating to corporate governance matters are conducted by the Chairman with the assistance of the Chairmen of the Audit, Nomination and Remuneration Committees. Written reports on all meetings between non-executive directors and institutional shareholders and their representative bodies are presented to the Board at the first opportunity following such meetings as is all correspondence with them.

The Board seeks to encourage participation of all shareholders, and in particular private investors, at the Company's Annual General Meeting and endeavours to ensure all Board members are in attendance. In particular, the Chairmen of the Remuneration, Audit and Nomination Committees are available to answer questions.

The Company makes use of its website [www.yulecatto.com](http://www.yulecatto.com) to communicate with its shareholders where it publishes interim and full year results, Company announcements, share price and corporate governance and other investor information.

#### Accountability

An explanation of the directors' responsibility for preparing the financial statements, their report that the business is a going concern, a responsibility statement and their statement as to disclosure of information to the auditor are set out on pages 46 and 32 respectively. Statements by the auditor about its reporting responsibilities are set out on pages 47 and 90 respectively. A report on the approach to internal control is set out below. The directors endeavour to make the annual report and financial statements as informative and understandable as possible.

#### Internal control

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

The Group's internal controls over the financial reporting and consolidation processes are designed under the supervision of the Group Finance Director to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of the Group's published financial statements for external reporting purposes in accordance with IFRS.

An ongoing process for identifying, evaluating and managing significant business risks faced by the Group has been in place since 2000. This has since been built upon so as to embed further the process into the businesses and to enhance the usefulness of the relevant processes and information, and has been operated throughout 2011 and up to the date of approval of the annual report and accounts, and accords with the Turnbull Guidance.

The system is applied at all material subsidiaries, and a 'bottom up' risk profile is created by evaluating the information at business, divisional and Group level. Individual directors within Yule Catto's businesses identify and assess key risks associated within their area of responsibility based on formal management information and interaction with colleagues, customers, suppliers and other parties.

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

## CORPORATE GOVERNANCE

### continued

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

The process was last reviewed by the Yule Catto Board of Directors in March 2011. The nature of the risks identified as a result of this process during the year primarily relate to matters of an operational and financial nature and the most significant of those which faced the Group in 2011 are reviewed in the reports of the Chairman, Chief Executive, Group Finance Director and the Directors' Report.

Risks associated with safety, health and the environment are, by the nature of the Group's business, always of the utmost concern and the Corporate Social Responsibility report on pages 20 to 29 reviews the Group's performance in this connection in 2011.

The processes which are used by the Board either directly or, where appropriate, through the Audit Committee to review the effectiveness of the internal control and risk management systems (including in relation to the financial reporting process and the process for preparing consolidated accounts) include the following:

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

In addition, the Board:

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

The Board confirms that a review of the effectiveness of the Company's risk management and internal control systems was carried out in 2011.

#### Environmental, social and governance matters

In January 2007 the Association of British Insurers (ABI) published a revised version of its guidelines on responsible investment disclosure. These guidelines require statements on the extent to which environmental, social and governance matters are taken into account by the Board and identified, assessed, managed and monitored, particularly in relation to the risks and opportunities they present to the value of the Company.

The Company is a member of the FTSE4Good Index.

#### Environmental matters

The maintenance of high standards of environmental (together with health and safety) protection is central to the Company's business. A separate statement on safety, health and environmental (SHE) matters has been a feature of the annual report for a number of years. The Corporate Social Responsibility report statement on pages 20 to 29 incorporates the ABI guidelines and includes a report on the initiatives the Company has adopted regarding sustainable development.

#### Social and ethical matters

The Board takes account of social and ethical matters as part of its review of internal control which, by virtue of its approach to risk identification, covers areas which encompass social and ethical matters.

The Board is conscious of its responsibility to the communities in which the Group's businesses operate and is supportive of local initiatives by management.

The Board is also aware of the reputational risk associated with social and ethical issues and has a Group-wide code of business conduct on corruption and anti-competitive activities, which is available on the Company's website and upon request from the Company Secretary. The purpose of this code is to ensure that the Group's employees have a clear understanding of the principles that are important in these areas when conducting the Group's business. The application of the code is explained to senior management at regular intervals and they are charged with its communication throughout their businesses supported by internal and external training. A compliance procedure involving annual certification by the senior management of each operating company and a procedure for maintaining a register of, and where appropriate gaining prior approval for, gifts, entertainment and corporate hospitality operates throughout the Group. A report is made to the Audit Committee annually on the code and the Company's whistleblowing procedure.

#### Governance

The Board's approach to governance, training of directors and identification and assessment of risk is set out above.

## DIRECTORS' REMUNERATION REPORT

The following report complies with the relevant provisions of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and satisfies the requirements of the Listing Rules of the Financial Services Authority and the UK Corporate Governance Code which was published in June 2010 by the Financial Reporting Council.

### Principal areas of focus for the Committee during 2011

2011 was an exceptional year for the Company with the delivery of a very strong set of financial results and the transformation of the Group into a focused specialty Polymer business. At the end of March 2011 the acquisition of PolymerLatex was completed and as a result of this acquisition the Committee conducted a comprehensive review of its policies in early 2011 with the assistance of New Bridge Street. A key area of focus for that review was the ongoing competitiveness of the remuneration paid to the Company's senior executives compared with its peers in the following sectors: chemicals and process manufacturing; a broader base of similar sized companies in the FTSE 250 (excluding financial services companies, investment trusts and consumer focused companies); and the FTSE 250 as a whole. It was considered appropriate to review this range of sectors due to the small size of the FTSE 250 chemical sector and the fact that the Company re-joined the FTSE 250 Index in September 2010 and has subsequently moved up that index following the rights issue that took place in January 2011 in conjunction with the acquisition of PolymerLatex. The outcome of that review resulted in the increases in executive directors' basic salaries and the enhancements to the maximum bonus potential under the annual incentive arrangements set out below.

The Committee also reviewed the long-term incentive provision at the Company during the year. Following advice from New Bridge Street and consultation with the Company's major institutional shareholders the Committee concluded that the Company's existing Performance Share Plan should be replaced with a similar scheme incorporating latest best practice. This recommendation was approved by the Board and shareholders in June 2011.

In conjunction with the review of the executive remuneration non-executive director remuneration was also reviewed during 2011, the last review having been carried out in 2006. As a result of this review the Chairman's fee was found by the Committee to be substantially below market rates for similar positions and was increased accordingly. Fees for the other non-executive directors were also increased as in the Board's view these had also fallen well below competitive market rates and in addition were proving to be an impediment to the recruitment of the new non-executive directors to fill vacant positions on the Board.

### Role of the Remuneration Committee and its advisers

During 2011 the Remuneration Committee comprised Dr A A Dobbie (Chairman) and Mr J K Maiden until 9 November 2011 when Mr N A Johnson was appointed to the Committee.

The Committee is responsible for determining, in agreement with the Board, the Company's policy on executive remuneration and the specific remuneration for the Chairman and each of the executive directors, including pension rights within the terms of the agreed policy. The Committee is also responsible for reviewing the remuneration of senior executives throughout the Group. The Committee was assisted in its deliberations on the Chairman's and the Finance Director's remuneration by the Chief Executive and also took independent advice from and used the services of New Bridge Street (a trading name of Aon Hewitt Limited). Aon Hewitt Limited is part of Aon Group as is Aon Limited which provides insurance broking services to the Group. The Committee is satisfied that this in no way compromises the provision of independent advice by New Bridge Street.

New Bridge Street was paid £65,000 for its services in 2011 which included assistance with the review of executive and non-executive director remuneration and the design and implementation of the 2011 Performance Share Plan as well as general advice to the Committee. No director is involved in any discussions relating to their own remuneration.

The Remuneration Committee met four times during 2011.

### Remuneration policy

#### Executive directors' remuneration

The Company's central policy for 2011 was and continues to be to structure executive pay in such a way that key executives may be recruited, motivated and retained through being offered remuneration packages that are competitive. The Committee has the discretion to consider the Company's performance on environmental, social and governance matters when setting the remuneration of the executive directors.

Remuneration of the Executive Directors comprises:

- a base salary;
- performance related incentives (being an annual cash bonus plan and the 2011 Performance Share Plan); and
- pension and ancillary benefits.

Incentive arrangements were designed in accordance with the provisions of Schedule A to the Code. No elements of remuneration other than basic salary are pensionable.

The details of these are set out below.

The Committee does not consider that the incentive structure for senior executives gives rise to environmental, social or governance risks by inadvertently motivating irresponsible behaviour.

## DIRECTORS' REMUNERATION REPORT

### continued

#### Base salaries

The basic element of the remuneration package of senior executives is a salary which is reviewed with effect from 1 January each year. The Committee also takes into account the pay and employment conditions elsewhere in the Group when considering annual salary increases and total remuneration.

Changes to the basic salaries of the executive directors in 2011 have been as follows:

**Chief Executive** – the Chief Executive's basic annual salary was increased by 18.4% to £450,000 with effect from 1 April 2011 (2010 £380,000) following an interim increase to £430,000 with effect from 1 January 2011 pending the outcome of the review of executive remuneration referred to above. With effect from 1 January 2012 the Chief Executive received a 5% increase to £472,500 per annum.

**Finance Director** – the Finance Director's basic annual salary was increased by 10% to £270,000 with effect from 1 January 2011 (2010 £245,000). With effect from 1 January 2012 the Finance Director received a 13% increase to £305,000 per annum in order to fully reflect the outcome of the executive remuneration review carried out in 2011.

#### Annual incentive arrangements

For 2011 the Company operated a cash bonus plan for the executive directors and senior group employees related to the achievement of profit before tax targets.

The maximum profit before tax target for 2011 was £91.1 million (being 2010 pro-forma profit before tax for the enlarged Group plus 10% plus synergies from the PolymerLatex acquisition planned for delivery in 2011). The actual profit before tax result was above this, giving rise to maximum payments to be made to the executive directors and other participants under the plan. The maximum amount payable to the executive directors under the plan was increased in 2011 from 60% and 80% of basic annual salary for the Finance Director and Chief Executive respectively to 100% of basic annual salary for each of them. This increase was reflective of the outcome of the Committee's review of remuneration conducted in the year. For senior operational management the 2011 annual cash bonus payments were based on appropriate combinations of profit, cash flow, working capital and safety and environmental targets. In 2011 their bonuses were subject to limits of between 50% to 80% of basic pay, depending on levels of seniority. As a result of the acquisition of PolymerLatex the Company inherited bonus arrangements for senior management which paid up to 140% of basic pay in 2011 and other than for one individual such arrangements have been terminated with effect from 2012. For 2012, the annual bonus will operate within a similar framework to 2011.

#### Share plan

A final grant of awards was made under the 2002 Performance Share Plan (PSP) in April 2011 and this Plan has now been superseded by the 2011 Performance Share Plan which was introduced in June 2011. For the awards granted in 2011, the Committee retained the absolute total shareholder return (TSR) condition for 50% of the shares comprised in each award as used in prior years. However the relative TSR condition for the other 50% of the shares comprised in each award was replaced with a TSR condition linked to performance against a comparator group comprising the companies listed in the FTSE 250 Index. Full details of the performance conditions attaching to these awards are set out on page 44.

#### 2011 Performance Share Plan

The 2011 Performance Share Plan was introduced in 2011 following shareholder approval at a General Meeting held in June 2011 and covers the executive directors and senior management. It was introduced (i) to replace the PSP which was nine years old and had only one more year to run and (ii) to take into account the acquisition of PolymerLatex. An award consists of a right to acquire shares which can be exercised for a nominal price, subject to the Company satisfying performance conditions. The value of shares awarded under the 2011 Performance Share Plan in any financial year to any individual normally may not exceed 150% of their annual basic salary. However, in exceptional circumstances, up to a further 150% of salary may be granted in line with market practice.

The award policy for 2012 is for annual awards of 100% of salary and, should this policy increase, the Remuneration Committee would consult with key shareholders in advance.

The current policy is that two performance conditions will apply to normal, annual awards under the 2011 Performance Share Plan. One half of the awards will vest subject to a relative total shareholder return (TSR) performance condition comparing the Company's TSR against the TSR of the constituents of the FTSE 250 Index (excluding investment trusts and financial services companies) over a three year period. An underpin will apply to the TSR performance condition which permits the Committee, at its discretion, to scale down the vesting of this part of an award in exceptional circumstances if it considers that the level of vesting is not reflective of the Company's underlying financial performance. The other half of the awards will vest subject to an earnings per share (EPS) performance condition relating to the annualised three year growth in EPS. The Committee will have the discretion to reduce (or defer) the level of vesting of an award under both the TSR and EPS performance conditions where an event has occurred (such as a material health and safety incident) as a result of which the Committee considers that it would be inappropriate for vesting to occur in accordance with the TSR and EPS performance conditions.

The 2011 Performance Share Plan provides for clawback if the Group's accounts have been materially misstated or there has been an error in the calculation of any performance conditions which results in an overpayment.

No normal annual awards were made under the 2011 Performance Share Plan in 2011 due to its introduction at the end of the first half of the year. The first normal awards under the 2011 Performance Share Plan will be made in March 2012. As set out in the Notice of EGM when it was approved, exceptional awards were made under the 2011 Performance Share Plan immediately after its approval in June 2011 as the Committee wanted to put in place an incentive for the achievement of truly exceptional business performance delivered by key executives following the acquisition of PolymerLatex. Accordingly exceptional awards of 100% of salary were made to the Chief Executive and the Finance Director and awards of between 50% and 100% of salary were made to a restricted group of senior executives. The performance conditions attaching to those awards are set out on page 44.

In order to further align the interests of the executive directors and shareholders there are share ownership requirements in connection with both the PSP and the 2011 Performance Share Plan requiring the retention of 30% of the shares acquired by executive directors until such time as ordinary shares in the Company have been built up to a level equivalent in value to their annual basic salary. Progress toward this target as at 31 December 2011 is as follows:

| Director      | Actual share ownership<br>as a % of 2011 salary<br>based on closing share<br>price on 31/12/11 | Actual share ownership<br>plus 30% of vested<br>unexercised awards<br>as a % of salary based on<br>share price on 31/12/11 |
|---------------|--|--|
| A M Whitfield | 6%   | 43%  |
| D C Blackwood | 25%  | 66%  |

During 2011 671,290 shares were the subject of awards made in April that year under the PSP and 739,845 shares were the subject of awards made in June that year as exceptional awards under the 2011 Performance Share Plan.

The shares comprised in the awards granted in 2009 under the PSP have vested in full as the performance conditions were exceeded by a margin of over 200%. The value of shares comprised in the awards granted in 2009 did not exceed 100% of the then applicable annual salary of any individual and the number of shares in each award is reflective of the Company's share price of 41.25p on the day prior to the grant of the awards.

#### Pension arrangements

Mr A M Whitfield and Mr D C Blackwood are eligible to participate in the Group personal pension plan and receive payments of 25% and 20% of basic annual salary respectively from the Company which they may use either in conjunction with that plan and/or to enable them to make their own arrangements. There are no unfunded pension promises or similar arrangements for directors.

#### Benefits

Ancillary benefits comprise a fully expensed car and private health insurance.

#### Executive directors' service contracts

No director other than Mr A M Whitfield and Mr D C Blackwood has a service contract. Mr Whitfield's contract is dated 22 November 2005 and Mr Blackwood's is dated 12 September 2007. Both contracts have no unexpired term, provide for a notice period of one year and make no provision for pre-determined compensation on termination.

The Remuneration Committee's policy on contracts and notice periods for executive directors is to seek to comply with best practices in corporate governance.

#### Non-executive directorships held by the executive directors

Mr Whitfield is a non-executive director of the Chemical Industries Association Limited for which he does not receive any remuneration. He is also a non-executive director of AZ Electronic Materials SA for which he receives and retains £50,000 pa. Mr Blackwood is a member of the Board for Actuarial Standards for which he received and retains £10,000 pa.

#### Non-executive directors' remuneration and terms of appointment

The Board determines the remuneration of the non-executive directors, including members of the Remuneration Committee.

It has been the Board's policy to review fees paid to non-executive directors periodically. A review of non-executive director remuneration was carried out in 2011 (the previous review having been carried out in December 2006) with the assistance of advice provided by New Bridge Street. As a result of this review the Committee determined that the Chairman's fee be increased from £110,000 pa to £140,000 pa with effect from 1 April 2011. Also with effect from 1 April 2011 the Board determined that non-executive director fees be increased as follows: £40,000 pa (previously £30,000 pa) for those who do not sit on a committee; £45,000 pa (previously £33,000 pa) for those who do sit on a committee; £50,000 pa (previously £36,000 pa) for those who are Committee chairmen and the Senior Independent Director.

The Committee has decided that in future non-executive directors' remuneration will be reviewed on a biennial basis.

Non-executive directors are not eligible to receive awards under any of the Company's share schemes or other employee benefit schemes nor does the Company make any contribution to their pension arrangements.

All non-executive directors are appointed in writing.

In addition to Mr N A Johnson's letter of appointment as a non-executive director the Company has entered into a consultancy agreement with CI (International Consulting) Limited for the provision of consultancy services by Mr Johnson. The total of the annual fees paid to Mr Johnson and to CI (International Consulting) Limited equates to the fees due to an individual fulfilling the role of Senior Independent Director of the Company of £50,000 pa. The first year of each director's appointment is shown in the directors' biographies on page 30. The periods of appointment and the requirements for re-election of non-executive directors are provided within the Performance Evaluation section of the Corporate Governance report on page 35.



## DIRECTORS' REMUNERATION REPORT

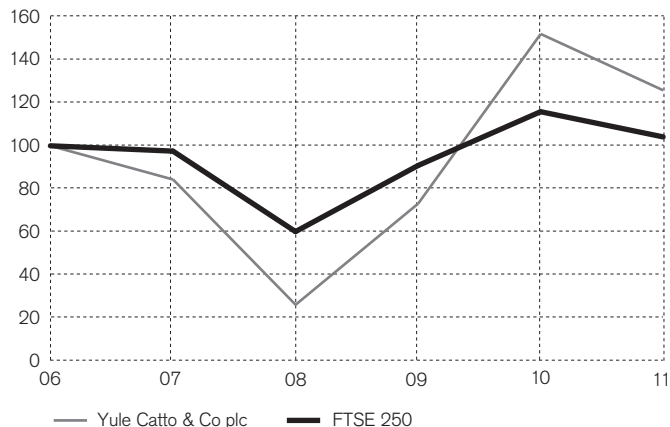
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#### Total shareholder return over five years

The following graph compares the share price performance of the Company (by reference to total shareholder return) with that of the FTSE 250 which is considered to be the most appropriate index against which to make a comparison.

#### Yule Catto shareholder return versus FTSE 250 total return

(Cumulative) years ended 31 December



#### AGM approval

The directors' Remuneration Report has been submitted to the 2012 Annual General Meeting for approval.

#### Remuneration details

The amount and components of the directors' remuneration are set out below.

#### Audited information

Directors' remuneration

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| <b>Emoluments</b>  |               |               |
| The total amounts for directors' remuneration and other benefits were: |               |               |
| Emoluments   | 1,799         | 1,381         |

The emoluments of the individual executive directors holding office during the year were:

|                                       | Base<br>salary<br>2011<br>£ | Annual<br>incentive<br>arrangement <sup>1</sup><br>2011<br>£ | Benefits<br>2011<br>£ | Total<br>2011<br>£ | Total<br>2010<br>£ |
|---------------------------------------|-----------------------------|--|-----------------------|--------------------|--------------------|
| A M Whitfield – Highest paid director | 445,000                     | 445,000  | 29,807                | 919,807            | 711,374            |
| D C Blackwood                         | 270,000                     | 270,000  | 22,281                | 562,281            | 410,156            |

1. Before its award A M Whitfield and D C Blackwood each sacrificed part of their cash bonus entitlement. Pension contributions equal to the amount given up were made into pension plans for the benefit of their dependants. The amount shown in the annual incentive arrangement column reflects the full amount earned.

The annual incentive arrangement is discussed in more detail on page 40 of the Remuneration Report.



**Pension arrangements**

To fund their pension arrangements, Mr A M Whitfield and Mr D C Blackwood received the following payments:

|               | 2011<br>£ | 2010<br>£ |
|---------------|-----------|-----------|
| A M Whitfield | 111,250   | 95,000    |
| D C Blackwood | 54,000    | 49,100    |

**Directors' fees**

The fees of the individual non-executive directors holding office during the year were:

|                     | 2011<br>£ | 2010<br>£ |
|---------------------|-----------|-----------|
| P S Wood – Chairman | 132,500   | 110,000   |
| The Hon. A G Catto  | 37,500    | 30,000    |
| Dr A A Dobbie       | 46,500    | 36,000    |
| Dato' Lee Hau Hian  | 37,500    | 30,000    |
| N A Johnson         | 16,667    | –         |
| J K Maiden          | 46,500    | 36,000    |
| G R Menzies         | –         | 18,000    |
|                     | 317,167   | 260,000   |

The non-executive directors receive no other remuneration in addition to their fee.

**Shareholdings**

Given below are details of the interests of the directors in the share capital of the Company at 31 December 2011 and 31 December 2010:

|                    | Ordinary shares |            | Options   |           |
|--------------------|-----------------|------------|-----------|-----------|
|                    | 2011            | 2010       | 2011      | 2010      |
| D C Blackwood      | 40,833          | 40,833     | 1,602,826 | 1,345,442 |
| The Hon. A G Catto | 2,046,955       | 2,046,955  | –         | –         |
|                    | 7,741,950*      | 7,741,950* | –         | –         |
| Dr A A Dobbie      | 114,853         | 114,853    | –         | –         |
| Dato' Lee Hau Hian | 24,763          | 24,763     | –         | –         |
| N A Johnson        | –               | –          | –         | –         |
| J K Maiden         | 2,523           | –          | –         | –         |
| A M Whitfield      | 14,000          | 14,000     | 2,507,862 | 2,078,889 |
| P S Wood           | 51,914          | 51,914     | –         | –         |

\* Non-beneficial interest.

Between 31 December 2011 and 17 February 2012 there were no changes in the directors' holdings.

## DIRECTORS' REMUNERATION REPORT

### continued

#### Executive options

|               | At                        | Number of options during the year |        |           | At               | Exercise price | Notional value<br>£ | Exercise period |
|---------------|---------------------------|-----------------------------------|--------|-----------|------------------|----------------|---------------------|-----------------|
|               | 01/01/11                  | Granted                           | Lapsed | Exercised | 31/12/11         |                |                     |                 |
| A M Whitfield | 346,738 <sup>(i)</sup>    | –                                 | –      | –         | <b>346,738</b>   | –              | 569,691             | 2011-2018       |
|               | 1,392,992 <sup>(ii)</sup> | –                                 | –      | –         | <b>1,392,992</b> | –              | 2,288,686           | 2012-2019       |
|               | 339,159 <sup>(iii)</sup>  | –                                 | –      | –         | <b>339,159</b>   | –              | 557,238             | 2013-2020       |
|               | –                         | 222,551 <sup>(iv)</sup>           | –      | –         | <b>222,551</b>   | –              | 365,651             | 2014-2021       |
|               | –                         | 206,422 <sup>(v)</sup>            | –      | –         | <b>206,422</b>   | –              | 339,151             | 2014-2021       |
|               | 2,078,889                 | 428,973                           | –      | –         | <b>2,507,862</b> | –              | 4,120,417           |                 |

|               | At                       | Number of options during the year |        |           | At               | Exercise price | Notional value<br>£ | Exercise period |
|---------------|--------------------------|-----------------------------------|--------|-----------|------------------|----------------|---------------------|-----------------|
|               | 01/01/11                 | Granted                           | Lapsed | Exercised | 31/12/11         |                |                     |                 |
| D C Blackwood | 224,647 <sup>(i)</sup>   | –                                 | –      | –         | <b>224,647</b>   | –              | 369,095             | 2011-2018       |
|               | 901,681 <sup>(ii)</sup>  | –                                 | –      | –         | <b>901,681</b>   | –              | 1,481,462           | 2012-2019       |
|               | 219,114 <sup>(iii)</sup> | –                                 | –      | –         | <b>219,114</b>   | –              | 360,004             | 2013-2020       |
|               | –                        | 133,531 <sup>(iv)</sup>           | –      | –         | <b>133,531</b>   | –              | 219,391             | 2014-2021       |
|               | –                        | 123,853 <sup>(v)</sup>            | –      | –         | <b>123,853</b>   | –              | 203,491             | 2014-2021       |
|               | 1,345,442                | 257,384                           | –      | –         | <b>1,602,826</b> | –              | 2,633,443           |                 |

#### Vested awards

(i) The awards made in 2008 under the PSP were subject to the following performance conditions:

- (a) Absolute total shareholder return condition. Vesting in respect of 50% of the shares comprised in the award upon the Company's total shareholder return (TSR) over a three year period ended on 31 December 2010 increasing by the rise in RPI plus 15.76% or more compared with the Company's TSR at the start of the three year performance period; vesting in respect of 25% of the shares comprised in the award upon the Company's TSR increasing by the rise in RPI plus 9.27% over the three year performance period; and vesting in respect of between 25% to 50% of the shares for performance between these points on a straight-line basis with lesser performance resulting in no part of the 50% of the shares vesting.
- (b) Relative total shareholder return condition. Vesting in respect of 50% of the shares comprised in the award upon the growth in the Company's TSR over the three year performance period exceeding the growth of the FTSE 250 total return index over the same three year period by 7.69% or more; vesting in respect of 5% of the shares comprised in the award upon the growth in the Company's TSR over the three year performance period being equal to the growth of the FTSE total return index over the same period; and vesting in respect of between 5% to 50% of the shares for performance between these points on a straight-line basis with lesser performance resulting in no part of the 50% of the shares vesting.

The 2008 awards vested in March 2011 in full due to the maximum performance criteria being exceeded.

(ii) For the awards made in 2009 under the PSP the same performance conditions applied as for the awards made in 2008 measured over a three year period ending on 31 December 2011.

The 2009 awards have vested in full due to the maximum performance criteria being exceeded.

**Unvested awards**

- (iii) For the awards made in 2010 under the PSP the same performance conditions apply as for the awards made in 2008 measured over a three year period ending on 31 December 2012.
- (iv) For the awards made in April 2011 under the PSP the same absolute total shareholder condition applied to 50% of the shares comprised in the award. For the other 50% of the shares comprised in the award the following conditions applied: vesting in respect of 50% of the shares comprised in the award upon the Company's TSR at the end of the three year period ending on 31 December 2013 being in the top quartile of the TSR of the companies in the FTSE 250 Index; vesting in respect of 5% of the share comprised in the award upon the Company's TSR at the end of the three year period ending on 31 December 2013 being at least equal to the FTSE 250 Total Return Index; and vesting in respect of between 5% and 50% of the shares for performance between these points on a straight-line base with lesser performance resulting in no part of the 50% of the shares vesting.
- (v) For the exceptional awards made in June 2011 under the 2011 Performance Share Plan 100% of the shares comprised in the award vest if earnings per share (EPS) for 2013 is equal to or greater than 30.3 pence per share. No shares will vest if EPS for 2013 is less than 27.3 pence per share and between 27.3 pence and 30.3 pence per share vesting will be on a straight-line basis.

The notional value of unexercised share options is based on the mid-market price of a share on 31 December 2011 of 164.3 pence. During the year the market price ranged between 148.0 pence and 253.0 pence.

By order of the Board

**R Atkinson**

Secretary

14 March 2012

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

### Financial statements, including adoption of going concern basis

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Other matters

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board  
**A M Whitfield**  
 Chief Executive  
 14 March 2012

**D C Blackwood**  
 Group Finance Director

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YULE CATTO & CO PLC

We have audited the Group financial statements of Yule Catto & Co plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, contained within the Directors' Report, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

## Other matter

We have reported separately on the parent company financial statements of Yule Catto & Co plc for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

## Robert Knight (Senior statutory auditor)

for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
Cambridge, United Kingdom  
14 March 2012

**CONSOLIDATED INCOME STATEMENT**

for the year ended 31 December 2011

|   |      | 2011                               |                           |               | 2010                               |                           |               |
|---|------|------------------------------------|---------------------------|---------------|------------------------------------|---------------------------|---------------|
|   | Note | Underlying<br>performance<br>£'000 | Special<br>items<br>£'000 | IFRS<br>£'000 | Underlying<br>performance<br>£'000 | Special<br>items<br>£'000 | IFRS<br>£'000 |
| Continuing operations   |      |                                    |                           |               |                                    |                           |               |
| Group revenue   | 4,5  | 1,059,438                          | –                         | 1,059,438     | 563,832                            | 5,689                     | 569,521       |
| Share of joint ventures' revenue                              | 4,5  | 57,424                             | –                         | 57,424        | 19,026                             | –                         | 19,026        |
| Total sales   |      | 1,116,862                          | –                         | 1,116,862     | 582,858                            | 5,689                     | 588,547       |
| Group revenue   |      | 1,059,438                          | –                         | 1,059,438     | 563,832                            | 5,689                     | 569,521       |
| Company and subsidiaries<br>before special items              |      | 91,549                             | –                         | 91,549        | 47,501                             | –                         | 47,501        |
| Restructuring and site closure                                | 3    | –                                  | (20,230)                  | (20,230)      | –                                  | –                         | –             |
| Acquisition costs   | 3    | –                                  | (1,427)                   | (1,427)       | –                                  | (4,182)                   | (4,182)       |
| Amortisation of acquired intangibles                          | 3    | –                                  | (19,096)                  | (19,096)      | –                                  | –                         | –             |
| Operations sold or closed<br>during the year                  | 4    | –                                  | –                         | –             | –                                  | 13,161                    | 13,161        |
| Company and subsidiaries                                      |      | 91,549                             | (40,753)                  | 50,796        | 47,501                             | 8,979                     | 56,480        |
| Share of joint ventures                                       | 4,5  | 4,819                              | (1,286)                   | 3,533         | 2,934                              | –                         | 2,934         |
| Operating profit/(loss)                                       | 5    | 96,368                             | (42,039)                  | 54,329        | 50,435                             | 8,979                     | 59,414        |
| Interest payable  | 8    | (12,312)                           | –                         | (12,312)      | (8,266)                            | –                         | (8,266)       |
| Interest receivable   | 8    | 739                                | –                         | 739           | 426                                | –                         | 426           |
|   |      | (11,573)                           | –                         | (11,573)      | (7,840)                            | –                         | (7,840)       |
| Fair value adjustment   | 3,8  | –                                  | (3,317)                   | (3,317)       | –                                  | 2,645                     | 2,645         |
| Finance costs   |      | (11,573)                           | (3,317)                   | (14,890)      | (7,840)                            | 2,645                     | (5,195)       |
| Profit/(loss) before taxation                                 |      | 84,795                             | (45,356)                  | 39,439        | 42,595                             | 11,624                    | 54,219        |
| Taxation  | 9    | (19,438)                           | 14,955                    | (4,483)       | (8,432)                            | 6,558                     | (1,874)       |
| Profit/(loss) for the year from<br>continuing operations      |      | 65,357                             | (30,401)                  | 34,956        | 34,163                             | 18,182                    | 52,345        |
| Discontinued operations                                       |      |                                    |                           |               |                                    |                           |               |
| (Loss)/profit for the year from<br>discontinued operations    | 3    | –                                  | (40,257)                  | (40,257)      | –                                  | 2,929                     | 2,929         |
| Profit/(loss) for the year                                    |      | 65,357                             | (70,658)                  | (5,301)       | 34,163                             | 21,111                    | 55,274        |
| Profit attributable to minority interests                     |      | 1,645                              | –                         | 1,645         | 1,300                              | 4,236                     | 5,536         |
| Profit/(loss) attributable to equity<br>holders of the parent |      | 63,712                             | (70,658)                  | (6,946)       | 32,863                             | 16,875                    | 49,738        |
|   |      | 65,357                             | (70,658)                  | (5,301)       | 34,163                             | 21,111                    | 55,274        |
| Earnings/(loss) per share                                     |      |                                    |                           |               |                                    |                           |               |
| From continuing operations                                    |      |                                    |                           |               |                                    |                           |               |
| – Basic   | 12   | 18.8p                              | (9.0)p                    | 9.8p          | 14.5p                              | 6.2p                      | 20.7p         |
| – Diluted   | 12   | 18.4p                              | (8.8)p                    | 9.6p          | 14.1p                              | 6.0p                      | 20.1p         |
| From continuing and<br>discontinued operations                |      |                                    |                           |               |                                    |                           |               |
| – Basic   | 12   | 18.8p                              | (20.8)p                   | (2.0)p        | 14.5p                              | 7.5p                      | 22.0p         |
| – Diluted   | 12   | 18.4p                              | (20.4)p                   | (2.0)p        | 14.1p                              | 7.3p                      | 21.4p         |

**Special items**

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



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2011

|   | 2011                                  |                             |                | 2010                                  |                             |                |
|---|---------------------------------------|-----------------------------|----------------|---------------------------------------|-----------------------------|----------------|
|   | Equity holders of the parent<br>£'000 | Minority interests<br>£'000 | Total<br>£'000 | Equity holders of the parent<br>£'000 | Minority interests<br>£'000 | Total<br>£'000 |
| (Loss)/profit for the year  | (6,946)                               | 1,645                       | (5,301)        | 49,738                                | 5,536                       | 55,274         |
| Actuarial gains and losses  | (33,959)                              | –                           | (33,959)       | 76                                    | –                           | 76             |
| (Losses)/gains on cash flow hedges arising during the period          | (7,344)                               | –                           | (7,344)        | 4,495                                 | –                           | 4,495          |
| Exchange differences on translation of foreign operations             | (4,402)                               | (202)                       | (4,604)        | 6,030                                 | 649                         | 6,679          |
| Gains on a hedge of a net investment taken to equity                  | 509                                   | –                           | 509            | 1,732                                 | –                           | 1,732          |
| Tax relating to components of other comprehensive income (see note 9) | 1,295                                 | –                           | 1,295          | 300                                   | –                           | 300            |
| Other comprehensive income for the period                             | (43,901)                              | (202)                       | (44,103)       | 12,633                                | 649                         | 13,282         |
| Total comprehensive income for the period                             | (50,847)                              | 1,443                       | (49,404)       | 62,371                                | 6,185                       | 68,556         |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2011

|   | Share capital<br>£'000 | Share premium<br>£'000 | Capital redemption reserve<br>£'000 | Own shares<br>£'000 | Hedging and translation reserve<br>£'000 | Cash flow hedging reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 | Minority interest<br>£'000 | Total equity<br>£'000 |
|---|------------------------|------------------------|-------------------------------------|---------------------|--|------------------------------------|----------------------------|----------------|----------------------------|-----------------------|
| At 1 January 2011                         | 14,566                 | 33,034                 | 949                                 | –                   | 6,828                                    | 4,495                              | 46,444                     | 106,316        | 6,249                      | 112,565               |
| (Loss)/profit for the year                | –                      | –                      | –                                   | –                   | –  | –                                  | (6,946)                    | (6,946)        | 1,645                      | (5,301)               |
| Other comprehensive income for the period | –                      | –                      | –                                   | –                   | (3,893)                                  | (7,344)                            | (32,664)                   | (43,901)       | (202)                      | (44,103)              |
| Total comprehensive income for the period | –                      | –                      | –                                   | –                   | (3,893)                                  | (7,344)                            | (39,610)                   | (50,847)       | 1,443                      | (49,404)              |
| Dividends paid                            | –                      | –                      | –                                   | –                   | –  | –                                  | (8,489)                    | (8,489)        | –                          | (8,489)               |
| Investment by minority interest           | –                      | –                      | –                                   | –                   | –  | –                                  | –                          | –              | 2,920                      | 2,920                 |
| Issue of share capital                    | 19,422                 | 205,871                | –                                   | –                   | –  | –                                  | –                          | 225,293        | –                          | 225,293               |
| Expenses on issue of shares               | –                      | (8,371)                | –                                   | –                   | –  | –                                  | –                          | (8,371)        | –                          | (8,371)               |
| Shares purchased by ESOP trust            | –                      | –                      | –                                   | 659                 | –  | –                                  | –                          | 659            | –                          | 659                   |
| Share-based payments                      | –                      | –                      | –                                   | (659)               | –  | –                                  | 609                        | (50)           | –                          | (50)                  |
| At 31 December 2011                       | 33,988                 | 230,534                | 949                                 | –                   | 2,935                                    | (2,849)                            | (1,046)                    | 264,511        | 10,612                     | 275,123               |

|   | Share capital<br>£'000 | Share premium<br>£'000 | Capital redemption reserve<br>£'000 | Own shares<br>£'000 | Hedging and translation reserve<br>£'000 | Cash flow hedging reserve<br>£'000 | Retained earnings<br>£'000 | Total<br>£'000 | Minority interest<br>£'000 | Total equity<br>£'000 |
|---|------------------------|------------------------|-------------------------------------|---------------------|--|------------------------------------|----------------------------|----------------|----------------------------|-----------------------|
| At 1 January 2010                         | 14,566                 | 33,034                 | 949                                 | –                   | (934)                                    | –                                  | 19                         | 47,634         | 6,903                      | 54,537                |
| Profit for the year                       | –                      | –                      | –                                   | –                   | –  | –                                  | 49,738                     | 49,738         | 5,536                      | 55,274                |
| Other comprehensive income for the period | –                      | –                      | –                                   | –                   | 7,762                                    | 4,495                              | 376                        | 12,633         | 649                        | 13,282                |
| Total comprehensive income for the period | –                      | –                      | –                                   | –                   | 7,762                                    | 4,495                              | 50,114                     | 62,371         | 6,185                      | 68,556                |
| Dividends paid                            | –                      | –                      | –                                   | –                   | –  | –                                  | (2,913)                    | (2,913)        | (6,585)                    | (9,498)               |
| Investment by minority interest           | –                      | –                      | –                                   | –                   | –  | –                                  | –                          | –              | 130                        | 130                   |
| Divestment by minority interest           | –                      | –                      | –                                   | –                   | –  | –                                  | –                          | –              | (384)                      | (384)                 |
| Share-based payments                      | –                      | –                      | –                                   | –                   | –  | –                                  | (776)                      | (776)          | –                          | (776)                 |
| At 31 December 2010                       | 14,566                 | 33,034                 | 949                                 | –                   | 6,828                                    | 4,495                              | 46,444                     | 106,316        | 6,249                      | 112,565               |

**CONSOLIDATED BALANCE SHEET**

31 December 2011

|  | Note | 2011<br>£'000    | 2010<br>£'000    |
|--|------|------------------|------------------|
| <b>Non-current assets</b>                                  |      |                  |                  |
| Goodwill   | 14   | 244,690          | 124,027          |
| Acquired intangible assets                                 | 15   | 165,366          | –                |
| Other intangible assets                                    | 16   | 863              | 363              |
| Property, plant and equipment                              | 17   | 183,599          | 102,568          |
| Financial asset  | 18   | 5,589            | –                |
| Deferred tax assets  | 10   | 1,116            | 161              |
| Investment in joint ventures                               | 19   | 14,325           | 3,716            |
|  |      | <b>615,548</b>   | <b>230,835</b>   |
| <b>Current assets</b>                                      |      |                  |                  |
| Inventories  | 20   | 73,825           | 65,379           |
| Trade and other receivables                                | 21   | 146,692          | 111,285          |
| Cash and cash equivalents                                  | 22   | 85,922           | 36,211           |
| Derivatives at fair value                                  | 23   | 17,368           | 22,765           |
| <b>Total current assets</b>                                |      | <b>323,807</b>   | <b>235,640</b>   |
| <b>Current liabilities</b>                                 |      |                  |                  |
| Borrowings   | 22   | (31,739)         | (9,876)          |
| Trade and other payables                                   | 24   | (193,630)        | (140,079)        |
| Current tax liability                                      | 9    | (37,864)         | (28,763)         |
| Derivatives at fair value                                  | 23   | (5,628)          | –                |
| <b>Total current liabilities</b>                           |      | <b>(268,861)</b> | <b>(178,718)</b> |
| <b>Non-current liabilities</b>                             |      |                  |                  |
| Borrowings   | 22   | (215,901)        | (102,379)        |
| Trade and other payables                                   | 24   | (181)            | (144)            |
| Deferred tax liability                                     | 10   | (61,379)         | (6,672)          |
| Post retirement benefit obligations                        | 25   | (117,910)        | (65,997)         |
|  |      | <b>(395,371)</b> | <b>(175,192)</b> |
| <b>Net assets</b>  |      | <b>275,123</b>   | <b>112,565</b>   |
| <b>Equity</b>  |      |                  |                  |
| Called up share capital                                    | 26   | 33,988           | 14,566           |
| Share premium  |      | 230,534          | 33,034           |
| Capital redemption reserve                                 |      | 949              | 949              |
| Hedging and translation reserve                            |      | 2,935            | 6,828            |
| Cash flow hedging reserve                                  |      | (2,849)          | 4,495            |
| Retained earnings  |      | (1,046)          | 46,444           |
| <b>Equity attributable to equity holders of the parent</b> |      | <b>264,511</b>   | <b>106,316</b>   |
| <b>Minority interests</b>                                  |      | <b>10,612</b>    | <b>6,249</b>     |
| <b>Total equity</b>  |      | <b>275,123</b>   | <b>112,565</b>   |
| <b>Analysis of net borrowings</b>                          |      |                  |                  |
| Cash and cash equivalents                                  | 22   | 85,922           | 36,211           |
| Current borrowings   | 22   | (31,739)         | (9,876)          |
| Financial asset  | 18   | 5,589            | –                |
| Non-current borrowings                                     | 22   | (215,901)        | (102,379)        |
| <b>Net borrowings</b>                                      |      | <b>(156,129)</b> | <b>(76,044)</b>  |
| Special item: deduct fair value adjustment                 | 22   | 12,759           | 12,674           |
| Special item: add non-recourse factoring                   | 22   | (20,955)         | –                |
| <b>Net borrowings (underlying performance)</b>             |      | <b>(164,325)</b> | <b>(63,370)</b>  |

The financial statements were approved by the Board of Directors and authorised for issue on 14 March 2012.  
They are signed on its behalf by:

**A M Whitfield**  
**D C Blackwood**  
Directors

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2011

|  | Note | 2011             |                  | 2010     |          |
|--|------|------------------|------------------|----------|----------|
|  |      | £'000            | £'000            | £'000    | £'000    |
| <b>Operating</b>   |      |                  |                  |          |          |
| Cash generated from operations   | 27   |                  | <b>80,191</b>    |          | 42,228   |
| Interest received  |      | <b>739</b>       |                  | 426      |          |
| Interest paid  |      | <b>(15,954)</b>  |                  | (9,630)  |          |
| Net interest paid  |      |                  | <b>(15,215)</b>  |          | (9,204)  |
| UK corporation tax paid  |      | <b>(52)</b>      |                  | (39)     |          |
| Overseas corporate tax paid  |      | <b>(19,878)</b>  |                  | (8,693)  |          |
| Total tax paid   |      |                  | <b>(19,930)</b>  |          | (8,732)  |
| <b>Net cash inflow from operating activities</b>   |      |                  | <b>45,046</b>    |          | 24,292   |
| <b>Investing</b>   |      |                  |                  |          |          |
| Dividends received from joint ventures   | 19   |                  | <b>3,399</b>     |          | 2,667    |
| Purchase of property, plant and equipment  |      | <b>(24,248)</b>  |                  | (10,592) |          |
| Sale of property, plant and equipment  |      | <b>2,327</b>     |                  | 43       |          |
| Net capital expenditure and financial investment   |      |                  | <b>(21,921)</b>  |          | (10,549) |
| Purchase of businesses   | 29   | <b>(365,379)</b> |                  | (371)    |          |
| Sale of businesses   | 28   | <b>28,460</b>    |                  | 16,075   |          |
| Net cash impact of acquisitions and disposals  |      |                  | <b>(336,919)</b> |          | 15,704   |
| <b>Net cash (outflow)/inflow from investing activities</b>                                     |      |                  | <b>(355,441)</b> |          | 7,822    |
| <b>Financing</b>   |      |                  |                  |          |          |
| Equity dividends paid  | 11   |                  | <b>(8,489)</b>   |          | (2,913)  |
| Dividends paid to minority interests   |      |                  | –                |          | (6,585)  |
| Investment by minority shareholder   |      |                  | <b>2,920</b>     |          | 130      |
| Proceeds on issue of shares  |      |                  | <b>225,293</b>   |          | –        |
| Expenses on issue of shares  |      |                  | <b>(8,371)</b>   |          | –        |
| Purchase of own shares   |      |                  | <b>(659)</b>     |          | –        |
| Repayment of borrowings  | 30   |                  | <b>(4,340)</b>   |          | (35,978) |
| Proceeds of non-current borrowings   | 30   |                  | <b>154,100</b>   |          | –        |
| <b>Net cash inflow/(outflow) from financing activities</b>                                     |      |                  | <b>360,454</b>   |          | (45,346) |
| <b>Increase/(decrease) in cash and bank overdrafts during the year</b>                         |      |                  | <b>50,059</b>    |          | (13,232) |
| Comprised of:  |      |                  |                  |          |          |
| Cash and cash equivalents  | 30   |                  | <b>42,208</b>    |          | (10,657) |
| Bank overdrafts  | 30   |                  | <b>7,851</b>     |          | (2,575)  |
|  |      |                  | <b>50,059</b>    |          | (13,232) |
| <b>Reconciliation of net cash flow from operating activities to movement in net borrowings</b> |      |                  |                  |          |          |
| Net cash inflow from operating activities  |      |                  | <b>45,046</b>    |          | 24,292   |
| Add back: reduction in factored invoices   |      |                  | <b>9,807</b>     |          | –        |
| Add back: dividends received from joint ventures   | 19   |                  | <b>3,399</b>     |          | 2,667    |
| Less: net capital expenditure and financial investment   |      |                  | <b>(21,921)</b>  |          | (10,549) |
| Less: dividends paid to minority interests   |      |                  | –                |          | (6,585)  |
| <b>Free cash flow before dividends</b>   |      |                  | <b>36,331</b>    |          | 9,825    |
| Net cash impact of acquisitions (underlying)   | 29   |                  | <b>(396,141)</b> |          | (371)    |
| Net cash impact of disposals (underlying)  | 28   |                  | <b>34,178</b>    |          | 16,075   |
| Investment by minority shareholder   |      |                  | <b>2,920</b>     |          | 130      |
| Proceeds on issue of shares  |      |                  | <b>225,293</b>   |          | –        |
| Expenses on issue of shares  |      |                  | <b>(8,371)</b>   |          | –        |
| Purchase of own shares   |      |                  | <b>(659)</b>     |          | –        |
| Equity dividends paid  | 11   |                  | <b>(8,489)</b>   |          | (2,913)  |
| Exchange movements   |      |                  | <b>13,983</b>    |          | 1,922    |
| <b>Movement in net borrowings (underlying performance)</b>                                     |      |                  | <b>(100,955)</b> |          | 24,668   |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

## 1 General information

Yule Catto & Co plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 30.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

### New and revised standards

In the current year, the following new and revised standards have been adopted:

- IFRS 7 (amended October 2010) – Disclosures – Transfers of Assets;
- IAS 24 (revised November 2009) – Related Party Disclosures;
- IAS 32 (amended October 2009) – Classification of Rights Issues;
- IFRIC 14 (amended November 2009) – Prepayments of a minimum funding requirement;
- IFRIC 19 Extinguishing financial liabilities with equity instruments
- The improvements to IFRSs (May 2010).

In the current financial year, the Group has adopted IAS 24 'Related Party Disclosures', IFRIC 14 (Amendment) 'Prepayments of a minimum funding requirement' and Improvements to IFRSs 2010 – as published in May 2010. IAS 24 simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by government related entities and clarifies the definition of a related party. This revision does not impact the Group's related party disclosures. IFRIC 14 (Amendment) allows an entity to recognise an early payment of contributions to cover minimum funding requirements on its pension plan as a prepayment. This amendment does not represent a material impact on the Group's Financial Statements.

The improvements to IFRSs 2010 incorporated necessary, but non-urgent amendments to seven International Financial Reporting Standards. The amendments most relevant to the Group are:

- IFRS 7 – Financial Instruments – Disclosures. The required enhanced disclosures, where applicable have been incorporated in these Financial Statements.
- IAS 34 – Interim Financial Reporting emphasises the principle that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual report. The amended disclosure requirements where applicable, were included in the Group's Interim Financial Statements for the half-year ended 30 June 2011.

The remaining five amendments in this collection of improvements do not currently impact the Group's Financial Statements.

The following Standards and Interpretations are also effective from the current financial year, but do not currently impact the Group's Financial Statements:

- IAS 32 (Amendment) – 'Classification of rights issues'.

IFRIC 19 'Extinguishing financial liabilities with equity instruments' is not currently relevant to the Group's operations.

No amendments to these financial statements have been made as a result of adopting these new and revised Standards and Interpretations.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 7 (amended December 2011) – Disclosures – Offsetting Financial Assets and Financial Liabilities;
- IFRS 9 Financial Instruments;
- IFRS 10 Consolidated Financial Statements;
- IFRS 11 Joint Arrangements;
- IFRS 12 Disclosure of Interest in Other entities;
- IFRS 13 Fair Value Measurement;
- IAS 1 (amended June 2011) Presentation of Items of Other Comprehensive Income;
- IAS 12 Deferred Tax: Recovery of Underlying Assets;
- IAS 19 (revised June 2011) Employee Benefits;
- IAS 27 (revised May 2011) Separate Financial Statements;
- IAS 28 (revised May 2011) Investments in Associates and Joint Ventures;
- IAS 32 (amended December 2011) Offsetting Financial Assets and Financial Liabilities;
- IFRIC 20 Stripping Costs in the Production Phase of a Surface mine.

The directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group, except for additional disclosures, when the relevant standards come into effect.

## 2 Significant accounting policies

### Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments. As discussed in the Report of the directors on page 33, the financial statements have been prepared on a going concern basis. The principal accounting policies adopted are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

The results of joint ventures are accounted for using equity accounting.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of combination. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised

as an asset and reviewed for impairment at least annually.

Any impairment is recognised immediately in the consolidated income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 Share-based payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current assets held for sale and discontinued operations are measured in accordance with that standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 2 Significant accounting policies continued

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

#### Acquired intangible assets

Intangible assets acquired through acquisition are measured at their fair value and are amortized on a straight-line basis over their estimated useful lives, on the following bases:

|                        |                         |
|------------------------|-------------------------|
| Customer relationships | – between 5 and 8 years |
| Technology             | – 10 years              |

Where necessary the fair value at acquisition and estimated useful lives for these intangible assets are based on independent valuation reports.

#### Other intangible assets

Software development and environmental licensing costs resulting in development of a long-term intangible asset are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives as follows:

|          |                         |
|----------|-------------------------|
| Software | – between 3 and 5 years |
|----------|-------------------------|

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

- an asset is created that can be separately identified (such as software and new processes);
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

No research or development costs met the criteria for required capitalisation under IAS 38 during the year.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

#### Property, plant and equipment

Property, plant and equipment is stated at cost, net of depreciation and any provision for impairment. Except for freehold land and land grants in Malaysia, which are not depreciated, the cost or valuation of property, plant and equipment is depreciated on a straight-line basis over its expected useful life as follows:

|                              |  |
|------------------------------|--|
| Freehold buildings           | – 50 years   |
| Leasehold land and buildings | – the lesser of 50 years and the period of the lease |
| Plant and equipment          | – between 3 and 10 years                             |

#### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at its revalued amount, in which case the reversal of impairment loss is treated as a revaluation increase.

#### Operating leases

Operating lease payments are expensed on a straight-line basis to the income statement over the term of the relevant lease. Any benefits received as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.



**2 Significant accounting policies** continued**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow-moving or defective items where appropriate.

**Financial instruments**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

**Loans and receivables****Trade receivables**

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss where there is objective evidence that the asset is impaired.

All trade receivables that are factored by third parties are done so on a non-recourse basis. At the point of factoring, the Group forfeits the right to future cash flows from these receivables and those amounts are derecognised. The cost of factoring receivables is recognised as a finance cost in the period in which the receivable is factored.

**Amortised costs****Bank borrowings**

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the consolidated income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Trade payables**

Trade payables are measured at initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method.

**Derivative financial instruments**

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

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives, as set out in note 23.

**Impairment of financial assets**

At each balance sheet date, the Group reviews the carrying amounts of its financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

**Finance costs**

Finance costs of debt are recognised in the income statement over the term of such instruments at an effective interest rate on the carrying amount. Finance costs that are directly attributable to the construction of tangible fixed assets are capitalised as part of the cost of those assets in accordance with IAS 23.

**Foreign currencies**

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling-denominated assets and liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 2 Significant accounting policies continued

#### Derivative financial instruments

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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates certain derivatives as either hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

#### Hedge accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either cash flow hedges, or hedges of net investments in foreign operations.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

#### Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line of the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

#### Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line of the income statement.

#### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

**2 Significant accounting policies** continued**Taxation** continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Retirement benefit costs**

The costs of defined benefit contributions to the Group's pension schemes and of augmenting existing pensions are charged to the consolidated income statement on a systematic basis over the expected period of benefits from employees' service.

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

Actuarial gains on the defined benefit schemes are recognised in full in each period in which they occur. They are recognised outside of the consolidated income statement and are presented in the consolidated statement of comprehensive income.

The UK defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds.

For the German schemes, the assets are included within the assets of the respective companies, as permitted under local laws. The assets of the other overseas schemes are held separately from those of the Group.

**Provisions**

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's liability.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

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

**Share-based payments**

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

**Definitions****Total sales**

Total sales represent the total of revenue from Yule Catto & Co plc, its subsidiaries, and its share of the revenue of joint ventures.

**Operating profit**

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

**EBITDA**

EBITDA is calculated as operating profit before depreciation, amortisation and special items.

**Special items**

The following are disclosed separately in order to provide a clearer indication of the Group's underlying performance:

- Amortisation of acquired intangible assets;
- Impairment of non-current assets;
- Costs of business combinations 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;
- Amounts advanced in respect of invoices sold under non-recourse factoring arrangements;
- Other non-recurring and non-operating items;
- Tax impact of above items; and
- Settlement of prior period tax issues.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### continued

#### 2 Significant accounting policies continued

##### *Net borrowings*

Net borrowings represents cash and cash equivalents together with short and long-term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting, non-recourse factoring arrangements, and the inclusion of financial assets.

##### *Critical judgements in applying accounting policies*

The following are the critical judgements, apart from those involving estimations (see below), that the Group has made in the process of applying the accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

##### *Going concern*

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

##### *Recognition of deferred tax assets*

The Group activities give rise to significant potential deferred tax assets, particularly in respect of the UK pension liability, tax losses and accelerated capital allowances. Determination of whether these assets should be recognised requires a high degree of management judgement and is dependent on management's ability to project future earnings from activities that may apply loss positions carried forward against future income taxes.

##### *Key sources of estimation uncertainty*

The preparation of consolidated financial statements requires that management make estimates and assumptions that affect reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis taking the current and expected future market conditions into consideration.

##### *Impairment/reversal of impairment*

The Group has significant investments in property, plant and equipment and goodwill. Changes in the circumstances or expectations of future performance of an individual asset may be an indicator that the asset is impaired requiring the book value to be written down to its recoverable amount. Impairments are reversed if the conditions for impairment are no longer present. Evaluating whether an asset is impaired or if an impairment should be reversed requires a high degree of judgement and may depend to a large extent on the selection of key assumptions about the future.

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The industry growth rates used within the forecast future cash flows are developed with reference to external sources but are subject to estimation uncertainty.

##### *Post retirement benefit obligations*

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

##### *Current tax liability and deferred tax*

The Group annually incurs significant amounts of income taxes payable to various jurisdictions around the world, and it also recognises significant changes in deferred tax assets and deferred tax liabilities, all of which are based on management's interpretations of applicable laws, regulations and relevant court decisions. The quality of these estimates is highly dependent upon management's ability to properly apply what can be very complex sets of rules and to recognise changes in applicable rules.

**3 Special items**

The special items are made up as follows:

|   | <b>2011</b><br><b>£'000</b> | 2010<br>£'000 |
|---|-----------------------------|---------------|
| <b>Continuing operations</b>  |                             |               |
| <b>Total sales</b>  |                             |               |
| Revenue of operations sold or closed during the year                      | –                           | 5,689         |
| <b>Operating (loss)/profit</b>  |                             |               |
| Operating profit of operations sold or closed during the year             | –                           | 890           |
| Restructuring and site closure  |                             |               |
| – Cash costs  | <b>(15,792)</b>             | –             |
| – Non-cash costs  | <b>(4,438)</b>              | –             |
| Acquisition costs (see note 29)   | <b>(1,427)</b>              | (4,182)       |
| Amortisation of acquired intangibles                                      |                             |               |
| – Subsidiaries  | <b>(19,096)</b>             | –             |
| – Share of joint ventures   | <b>(1,286)</b>              | –             |
| <b>Profit arising from the sale or closure of operations (see note 7)</b> | –                           | 12,271        |
|   | <b>(42,039)</b>             | 8,979         |
| <b>Finance costs</b>  |                             |               |
| Fair value adjustment (see note 8)  | <b>(3,317)</b>              | 2,645         |
| <b>(Loss)/profit before taxation from continuing operations</b>           | <b>(45,356)</b>             | 11,624        |
| <b>Taxation (see note 9)</b>  | <b>14,955</b>               | 6,558         |
| <b>(Loss)/profit for the year from continuing operations</b>              | <b>(30,401)</b>             | 18,182        |

The restructuring and site closure costs charged to the consolidated income statement above are in respect of post acquisition activities to integrate the former PolymerLatex business with that of the existing Group. 'Cash costs' represent those charges which have or will be defrayed in the form of cash settlements to third parties. As disclosed in note 27, at 31 December 2011 £5,801,000 of these costs have been physically paid to third parties. 'Non-cash costs' represent charges for the write off of specific fixed assets and stocks held on sites which are being closed as part of the integration exercise.

|   | <b>2011</b><br><b>£'000</b> | 2010<br>£'000 |
|---|-----------------------------|---------------|
| <b>Discontinued operations</b>  |                             |               |
| <b>Total sales</b>  |                             |               |
| Revenue of operations sold or closed during the year                      | <b>63,115</b>               | 62,933        |
| <b>Operating (loss)/profit of discontinued operations</b>                 |                             |               |
| Operating profit of operations sold or closed during the year             | <b>4,124</b>                | 4,450         |
| Impairment of goodwill (see note 14)                                      | <b>(36,885)</b>             | –             |
| Impairment of fixed assets prior to sale of operation (see note 17)       | <b>(5,620)</b>              | –             |
| Loss arising from the sale or closure of operations (see note 7)          | <b>(813)</b>                | (858)         |
|   | <b>(39,194)</b>             | 3,592         |
| <b>Taxation</b>   |                             |               |
| Taxation on operating profit of operations sold or closed during the year | <b>(1,063)</b>              | (663)         |
| <b>(Loss)/profit for the year from discontinued operations</b>            | <b>(40,257)</b>             | 2,929         |

The (loss)/profit for the year from discontinued operations is attributable solely to equity holders of the parent.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 4 Segmental analysis

The chief operating decision maker of the Group is considered to be the Executive Committee, which reviews internal reports prepared on a divisional basis in order to allocate the resources of the Group and to assess business performance. Following the acquisition of PolymerLatex the Group revised its reporting to the Executive Committee for these purposes and now reports under three revised reportable segments under IFRS 8, being Polymer Chemicals Europe & North America, Polymer Chemicals Asia & Rest of World, and Pharma Chemicals. As noted in the Chairman's Statement the Group disposed of its Pharma Chemicals business in the second half of 2011 and now recognises this as a discontinued activity in this Annual Report. The Group no longer allocates the UK defined benefit pension scheme deficit to a specific segment.

The segmental analysis below in respect of 2010 has been restated to reflect the change in segmentation discussed above.

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

No single customer accounts for more than 10% of the Group's revenues. No information is provided at the divisional level to the Executive Committee concerning interest revenues, interest expense, depreciation or amortisation, income taxes, other material non-cash items or material items disclosed in accordance with IAS 1.97.

|  | Total sales                        |                           |                  | Operating profit                   |                           |               |
|--|------------------------------------|---------------------------|------------------|------------------------------------|---------------------------|---------------|
|  | Underlying<br>performance<br>£'000 | Special<br>items<br>£'000 | IFRS<br>£'000    | Underlying<br>performance<br>£'000 | Special<br>items<br>£'000 | IFRS<br>£'000 |
| <b>2011</b>                                |                                    |                           |                  |                                    |                           |               |
| Analysis by activity                       |                                    |                           |                  |                                    |                           |               |
| Continuing activity                        |                                    |                           |                  |                                    |                           |               |
| Polymer Chemicals – Europe & North America |                                    |                           |                  |                                    |                           |               |
| Subsidiaries                               | 743,534                            | –                         | 743,534          | 70,649                             | (35,495)                  | 35,154        |
| Share of joint ventures                    | 34,196                             | –                         | 34,196           | 2,498                              | (1,286)                   | 1,212         |
|  | 777,730                            | –                         | 777,730          | 73,147                             | (36,781)                  | 36,366        |
| Polymer Chemicals – Asia & Rest of World   |                                    |                           |                  |                                    |                           |               |
| Subsidiaries                               | 315,904                            | –                         | 315,904          | 29,788                             | (3,831)                   | 25,957        |
| Share of joint ventures                    | 23,228                             | –                         | 23,228           | 2,321                              | –                         | 2,321         |
|  | 339,132                            | –                         | 339,132          | 32,109                             | (3,831)                   | 28,278        |
| <b>Total sales</b>                         | <b>1,116,862</b>                   | <b>–</b>                  | <b>1,116,862</b> |                                    |                           |               |
| Divisional operating profit/(loss)         |                                    |                           |                  | 105,256                            | (40,612)                  | 64,644        |
| Unallocated corporate expenses             |                                    |                           |                  | (8,888)                            | (1,427)                   | (10,315)      |
| <b>Operating profit/(loss)</b>             |                                    |                           |                  | <b>96,368</b>                      | <b>(42,039)</b>           | <b>54,329</b> |
| <b>Total share of joint ventures</b>       |                                    |                           |                  |                                    |                           |               |
| Polymer Chemicals – Europe & North America | 34,196                             | –                         | 34,196           | 2,498                              | (1,286)                   | 1,212         |
| Polymer Chemicals – Asia & Rest of World   | 23,228                             | –                         | 23,228           | 2,321                              | –                         | 2,321         |
|  | 57,424                             | –                         | 57,424           | 4,819                              | (1,286)                   | 3,533         |



## 4 Segmental analysis continued

|  | Total sales                     |                        |               | Operating profit                |                        |               |
|--|---------------------------------|------------------------|---------------|---------------------------------|------------------------|---------------|
|  | Underlying performance<br>£'000 | Special items<br>£'000 | IFRS<br>£'000 | Underlying performance<br>£'000 | Special items<br>£'000 | IFRS<br>£'000 |
| 2010                                       |                                 |                        |               |                                 |                        |               |
| <b>Analysis by activity</b>                |                                 |                        |               |                                 |                        |               |
| Continuing activity                        |                                 |                        |               |                                 |                        |               |
| Polymer Chemicals – Europe & North America |                                 |                        |               |                                 |                        |               |
| Subsidiaries                               | 335,807                         | –                      | 335,807       | 36,408                          | –                      | 36,408        |
| Share of joint ventures                    | –                               | –                      | –             | –                               | –                      | –             |
|  | 335,807                         | –                      | 335,807       | 36,408                          | –                      | 36,408        |
| Polymer Chemicals – Asia & Rest of World   |                                 |                        |               |                                 |                        |               |
| Subsidiaries                               | 228,025                         | 5,689                  | 233,714       | 20,941                          | 13,161                 | 34,102        |
| Share of joint ventures                    | 19,026                          | –                      | 19,026        | 2,934                           | –                      | 2,934         |
|  | 247,051                         | 5,689                  | 252,740       | 23,875                          | 13,161                 | 37,036        |
| <b>Total sales</b>                         | 582,858                         | 5,689                  | 588,547       |                                 |                        |               |
| Divisional operating profit                |                                 |                        |               | 60,283                          | 13,161                 | 73,444        |
| Unallocated corporate expenses             |                                 |                        |               | (9,848)                         | (4,182)                | (14,030)      |
| <b>Operating profit</b>                    |                                 |                        |               | 50,435                          | 8,979                  | 59,414        |
| <b>Total share of joint ventures</b>       |                                 |                        |               |                                 |                        |               |
| Polymer Chemicals – Europe & North America | –                               | –                      | –             | –                               | –                      | –             |
| Polymer Chemicals – Asia & Rest of World   | 19,026                          | –                      | 19,026        | 2,934                           | –                      | 2,934         |
|  | 19,026                          | –                      | 19,026        | 2,934                           | –                      | 2,934         |

## Special items

|  | Polymer Chemicals – Europe & North America<br>£'000 | Polymer Chemicals – Asia & Rest of World<br>£'000 | Unallocated corporate expenses<br>£'000 | Total<br>£'000 |
|--|---|---|---|----------------|
| 2011   |   |   |   |                |
| Revenue of businesses sold or closed during the year | –   | –   | –                                       | –              |
| Restructuring & site closure – cash costs            | (15,293)  | (499)   | –                                       | (15,792)       |
| – non-cash costs                                     | (4,438)   | –   | –                                       | (4,438)        |
| Amortisation of acquired intangibles                 | (15,764)  | (3,332)   | –                                       | (19,096)       |
| Share of joint ventures special items                | (1,286)   | –   | –                                       | (1,286)        |
| Acquisition costs                                    | –   | –   | (1,427)                                 | (1,427)        |
|  | (36,781)  | (3,831)   | (1,427)                                 | (42,039)       |

|  | Polymer Chemicals – Europe & North America<br>£'000 | Polymer Chemicals – Asia & Rest of World<br>£'000 | Unallocated corporate expenses<br>£'000 | Total<br>£'000 |
|--|---|---|---|----------------|
| 2010   |   |   |   |                |
| Revenue of businesses sold or closed during the year               | –   | 5,689   | –                                       | 5,689          |
| Operating profit of businesses sold or closed during the year      | –   | 890   | –                                       | 890            |
| Profit arising from the sale or closure of operations (see note 7) | –   | 12,271  | –                                       | 12,271         |
| Acquisition costs  | –   | –   | (4,182)                                 | (4,182)        |
|  | –   | 13,161  | (4,182)                                 | 8,979          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 4 Segmental analysis continued

|   | Total<br>assets<br>£'000 | Total<br>liabilities<br>£'000 | Capital<br>expenditure<br>£'000 | Depreciation<br>and<br>amortisation<br>£'000 |
|---|--------------------------|-------------------------------|---------------------------------|--|
| <b>2011</b>                                   |                          |                               |                                 |  |
| <b>Analysis by activity</b>                   |                          |                               |                                 |  |
| Continuing activity                           |                          |                               |                                 |  |
| Subsidiaries                                  |                          |                               |                                 |  |
| Polymer Chemicals – Europe & North America    | 224,209                  | (163,630)                     | 7,239                           | 9,393  |
| Polymer Chemicals – Asia & Rest of World      | 162,327                  | (70,479)                      | 13,964                          | 9,237  |
|   | <b>386,536</b>           | <b>(234,109)</b>              | <b>21,203</b>                   | <b>18,630</b>                                |
| Unallocated assets and liabilities            | 36,927                   | (131,583)                     | 216                             | 210  |
| Discontinued activity                         |                          |                               |                                 |  |
| Pharma Chemicals                              | –                        | –                             | 4,067                           | 4,001  |
|   | <b>423,463</b>           | <b>(365,692)</b>              | <b>25,486</b>                   | <b>22,841</b>                                |
| Share of joint ventures (see note 19)         | 25,612                   | (11,287)                      |                                 |  |
| Goodwill (see note 14)                        | 244,690                  | –                             |                                 |  |
| Acquired intangibles and related deferred tax | 165,366                  | (50,900)                      |                                 |  |
| Net borrowings (see note 22)                  | –                        | (156,129)                     |                                 |  |
|   | <b>859,131</b>           | <b>(584,008)</b>              |                                 |  |
| <b>Net assets</b>                             |                          | <b>275,123</b>                |                                 |  |

|  | Total<br>assets<br>£'000 | Total<br>liabilities<br>£'000 | Capital<br>expenditure<br>£'000 | Depreciation<br>and<br>amortisation<br>£'000 |
|--|--------------------------|-------------------------------|---------------------------------|--|
| <b>2010</b>                                |                          |                               |                                 |  |
| <b>Analysis by activity</b>                |                          |                               |                                 |  |
| Continuing activity                        |                          |                               |                                 |  |
| Subsidiaries                               |                          |                               |                                 |  |
| Polymer Chemicals – Europe & North America | 96,795                   | (59,513)                      | 3,730                           | 3,990  |
| Polymer Chemicals – Asia & Rest of World   | 116,019                  | (55,166)                      | 3,909                           | 5,984  |
|  | 212,814                  | (114,679)                     | 7,639                           | 9,974  |
| Unallocated assets and liabilities         | 26,638                   | (105,715)                     | 147                             | 307  |
| Discontinued activity                      |                          |                               |                                 |  |
| Pharma Chemicals                           | 63,069                   | (21,261)                      | 2,939                           | 4,337  |
|  | 302,521                  | (241,655)                     | 10,725                          | 14,618                                       |
| Share of joint ventures (see note 19)      | 8,442                    | (4,726)                       |                                 |  |
| Goodwill (see note 14)                     | 124,027                  | –                             |                                 |  |
| Net borrowings (see note 22)               | –                        | (76,044)                      |                                 |  |
|  | 434,990                  | (322,425)                     |                                 |  |
| <b>Net assets</b>                          |                          | <b>112,565</b>                |                                 |  |

|   | <b>2011<br/>£'000</b> | 2010<br>£'000 |
|---|-----------------------|---------------|
| <b>Analysis of total sales by destination</b> |                       |               |
| Western Europe                                | <b>609,166</b>        | 248,283       |
| Eastern Europe                                | <b>35,952</b>         | 23,311        |
| North America                                 | <b>38,827</b>         | 28,433        |
| Asia  | <b>317,481</b>        | 214,256       |
| Africa and Middle East                        | <b>95,816</b>         | 64,537        |
| Rest of World                                 | <b>19,620</b>         | 9,727         |
|   | <b>1,116,862</b>      | 588,547       |

**4 Segmental analysis** continued**Inter-segmental sales**

In addition to the amounts included above, inter-segmental sales of **£4,635,000** (2010 **£4,453,000**) were made as set out below. These sales were eliminated on consolidation.

|  | Polymer<br>Chemicals –<br>Europe &<br>North America<br>£'000 | Polymer<br>Chemicals –<br>Asia & Rest<br>of World<br>£'000 | Pharma<br>Chemicals<br>£'000 | Total<br>£'000 |
|--|--|--|------------------------------|----------------|
| <b>2011</b>                                |  |  |                              |                |
| Polymer Chemicals – Europe & North America | –  | <b>1,675</b>   | <b>312</b>                   | <b>1,987</b>   |
| Polymer Chemicals – Asia & Rest of World   | <b>2,648</b>   | –  | –                            | <b>2,648</b>   |
| <b>Total</b>                               | <b>2,648</b>   | <b>1,675</b>   | <b>312</b>                   | <b>4,635</b>   |

|  | Polymer<br>Chemicals –<br>Europe &<br>North America<br>£'000 | Polymer<br>Chemicals –<br>Asia & Rest<br>of World<br>£'000 | Pharma<br>Chemicals<br>£'000 | Total<br>£'000 |
|--|--|--|------------------------------|----------------|
| <b>2010</b>                                |  |  |                              |                |
| Polymer Chemicals – Europe & North America | –  | 2,342  | 264                          | 2,606          |
| Polymer Chemicals – Asia & Rest of World   | 1,847  | –  | –                            | 1,847          |
| <b>Total</b>                               | <b>1,847</b>   | <b>2,342</b>   | <b>264</b>                   | <b>4,453</b>   |

**5 Operating profit**

|                         | Company<br>and<br>subsidiaries<br>2011<br>£'000 | Joint<br>ventures<br>2011<br>£'000 | Total<br>2011<br>£'000 | Company<br>and<br>subsidiaries<br>2010<br>£'000 | Joint<br>ventures<br>2010<br>£'000 | Total<br>2010<br>£'000 |
|-------------------------|---|------------------------------------|------------------------|---|------------------------------------|------------------------|
| Total sales             | <b>1,059,438</b>                                | <b>57,424</b>                      | <b>1,116,862</b>       | 569,521   | 19,026                             | 588,547                |
| Cost of sales           | <b>(858,219)</b>                                | <b>(49,368)</b>                    | <b>(907,587)</b>       | (449,289)                                       | (13,752)                           | (463,041)              |
| Gross profit            | <b>201,219</b>                                  | <b>8,056</b>                       | <b>209,275</b>         | 120,232   | 5,274                              | 125,506                |
| Distribution costs      | <b>(75,136)</b>                                 | <b>(1,588)</b>                     | <b>(76,724)</b>        | (44,432)  | (1,280)                            | (45,712)               |
| Administrative expenses | <b>(34,534)</b>                                 | <b>(1,649)</b>                     | <b>(36,183)</b>        | (27,409)  | (1,060)                            | (28,469)               |
| Special items           | <b>(40,753)</b>                                 | <b>(1,286)</b>                     | <b>(42,039)</b>        | 8,089   | –                                  | 8,089                  |
| <b>Operating profit</b> | <b>50,796</b>                                   | <b>3,533</b>                       | <b>54,329</b>          | 56,480  | 2,934                              | 59,414                 |

|  | <b>2011<br/>£'000</b> | 2010<br>£'000 |
|--|-----------------------|---------------|
| Operating profit is stated after charging/(crediting) the following: |                       |               |
| Depreciation   | <b>22,373</b>         | 14,315        |
| Amortisation: underlying   | <b>468</b>            | 303           |
| Amortisation: special items  | <b>19,096</b>         | –             |
| Hire of plant and equipment  | <b>2,516</b>          | 2,127         |
| Other lease rentals  | <b>3,792</b>          | 3,004         |
| Research and development expenditure                                 | <b>12,467</b>         | 9,472         |
| Profit arising from the sale or closure of operations                | –                     | (12,271)      |
| Acquisition costs  | <b>1,427</b>          | 4,182         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 6 Auditor's remuneration

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Fees payable to the Company's auditor for:<br>audit of the Company's annual accounts  | 7             | 7             |
| Fees payable to the Company's auditor and their associates for<br>other services to the group:<br>audit of the Company's subsidiaries | 594           | 409           |
| Total audit fees  | 601           | 416           |
| Reporting accountant fees   | –             | 515           |
| Total audit and related service fees  | 601           | 931           |
| Audit related assurance services  | 34            | 24            |
| Tax compliance services   | 22            | 10            |
| Other taxation advisory services  | 91            | –             |
| Services relating to the acquisition of PolymerLatex  | 17            | 235           |
| Other services  | 6             | 2             |
| Total non-audit fees  | 170           | 271           |

The other services provided by the Group auditor in the current year related to foreign translation of financial statements and other sundry projects (2010 assistance given in grant applications and sundry projects). Other taxation advisory services relate to advice on the disposal of the Pharma business and other sundry projects.

Details of the Company's policy on the use of auditor for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee report on page 36. No services were provided pursuant to contingent fee arrangements.

### 7 (Loss)/profit arising from the sale or closure of an operation

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Continuing operations                          |               |               |
| Sale of Revertex Finewaters Sdn Bhd            | –             | 12,271        |
| Discontinued operations                        |               |               |
| Closure of Uquifa's Italian manufacturing site | (355)         | (858)         |
| Sale of Uquifa Pharma business                 | (458)         | –             |
|  | (813)         | (858)         |
| Total continuing and discontinued operations   | (813)         | 11,413        |

In each case, assets retained that cannot be sold are written off. To the extent that workers are not redeployed, termination terms are agreed.

### 8 Finance costs

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Interest payable on bank loans and overdrafts | 9,230         | 5,251         |
| Interest payable on other loans               | 3,082         | 3,015         |
|   | 12,312        | 8,266         |
| Less: interest receivable                     | (739)         | (426)         |
| Net interest payable                          | 11,573        | 7,840         |
| Fair value adjustment                         | 3,317         | (2,645)       |
| Total finance costs                           | 14,890        | 5,195         |

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.

**9 Current taxation**

|  | 2011<br>£'000   | 2010<br>£'000 |
|--|-----------------|---------------|
| <b>Continuing operations</b>                       |                 |               |
| <b>Current tax</b>                                 |                 |               |
| UK corporation tax                                 | 52              | 58            |
| Overseas taxation                                  | 20,327          | 9,103         |
|  | <b>20,379</b>   | 9,161         |
| <b>Deferred tax</b>                                |                 |               |
| Origination and reversal of temporary differences  | (941)           | (729)         |
|  | <b>19,438</b>   | 8,432         |
| <b>Special items</b>                               |                 |               |
| Current tax:                                       |                 |               |
| Historic issues                                    | (7,435)         | (6,558)       |
| Restructuring and site closure costs               | (2,410)         | –             |
| Deferred tax:                                      |                 |               |
| Amortisation on acquisitions                       | (5,110)         | –             |
|  | <b>(14,955)</b> | (6,558)       |
| <b>Total tax on profit before taxation</b>         | <b>4,483</b>    | 1,874         |
| <b>Discontinued operations</b>                     |                 |               |
| Tax on special items                               | 1,063           | 663           |
| Tax charge for the year on discontinued operations | <b>1,063</b>    | 663           |

UK corporation tax is calculated at **26.5%** (2010 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

|                          | 2011<br>£'000 | 2010<br>£'000 |
|--------------------------|---------------|---------------|
| <b>Tax expense</b>       |               |               |
| Continuing operations    | 4,483         | 1,874         |
| Discontinued operations  | 1,063         | 663           |
| <b>Total tax expense</b> | <b>5,546</b>  | 2,537         |

**Reconciliation of tax expense to profit before taxation**

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

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Profit before taxation – continuing operations   | 39,439        | 54,219        |
| Tax on profit before taxation (continuing operations) at standard UK corporation tax rate of <b>26.5%</b> (2010 28%) | 10,451        | 15,181        |
| Effects of:  |               |               |
| Expenses not deductible for tax purposes   | 8,688         | 3,993         |
| Tax incentives and items not subject to tax  | (6,552)       | (17,192)      |
| Losses not recognised less utilisation of losses not previously recognised   | 544           | (203)         |
| Higher tax rates on overseas earnings  | 756           | 484           |
| Other deferred tax asset not recognised less amounts now recognised  | (3,552)       | 88            |
| Adjustments to tax charge in respect of prior periods  | (5,940)       | (447)         |
| Effect of change of rate on deferred tax   | 88            | (30)          |
| <b>Tax charge for year</b>   | <b>4,483</b>  | 1,874         |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 9 Current taxation continued

Tax charges to other comprehensive income

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Deferred tax credit in respect of actuarial losses | (1,295)       | (300)         |

### Current tax liabilities

|                         | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------|---------------|---------------|
| Current tax liabilities | (37,864)      | (28,763)      |

### 10 Deferred taxation

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets to the extent that it is probable that these assets will be recovered. No deferred tax is recognised on the unremitted earnings of overseas subsidiaries and joint ventures. As the earnings are continually reinvested by the Group, no tax is expected to be payable on them in the foreseeable future.

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

### Deferred tax liabilities

|                            | Accelerated<br>tax<br>depreciation<br>£'000 | Acquired<br>intangibles<br>£'000 | Other<br>£'000 | Total<br>£'000 |
|----------------------------|---|----------------------------------|----------------|----------------|
| <b>2011</b>                |   |                                  |                |                |
| At 1 January               | (6,046)                                     | –                                | (626)          | (6,672)        |
| Credit to income statement | 726   | 5,110                            | 555            | 6,391          |
| Acquired in the year       | (9,559)                                     | (58,356)                         | 600            | (67,315)       |
| Disposed in the year       | 3,402                                       | –                                | (70)           | 3,332          |
| Exchange adjustment        | 467   | 2,346                            | 72             | 2,885          |
| At 31 December             | (11,010)                                    | (50,900)                         | 531            | (61,379)       |

### Deferred tax assets

|                                    | Pensions<br>£'000 |
|------------------------------------|-------------------|
| <b>2011</b>                        |                   |
| At 1 January                       | 161               |
| Charged to income statement        | (340)             |
| Credited through retained earnings | 1,295             |
| At 31 December                     | 1,116             |

### Deferred tax asset not recognised

Deferred tax assets are not recognised when it is not probable that taxable profits will be available against which the deferred tax asset could be utilised. The amounts of deferred tax not recognised at the balance sheet dates are as follows:

|                                | 2011<br>£'000 | 2010<br>£'000 |
|--------------------------------|---------------|---------------|
| UK pension liability           | 18,463        | 17,208        |
| Tax losses                     | 8,117         | 22,414        |
| Accelerated capital allowances | 3,857         | 3,737         |
| Other timing differences       | (1,152)       | (1,164)       |
|                                | 29,285        | 42,195        |



## 11 Ordinary dividends

|                         | 2011<br>Pence per<br>share | 2010<br>Pence per<br>share | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------|----------------------------|----------------------------|---------------|---------------|
| Interim dividend        | 1.2                        | 1.3                        | 4,075         | 2,913         |
| Proposed final dividend | 2.3                        | 1.3                        | 7,817         | 4,414         |

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

## 12 Earnings per share

### Number of shares

|   | 2011<br>Number<br>'000 | 2010<br>Number<br>'000 |
|---|------------------------|------------------------|
| Weighted average number of ordinary shares for the purposes of basic earnings per share   | 339,611                | 226,268                |
| Effect of dilutive potential ordinary shares:   |                        |                        |
| Share options   | 7,516                  | 6,518                  |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | 347,127                | 232,786                |

### Earnings per share

|   | 2011                               |                           |               | 2010                               |                           |               |
|---|------------------------------------|---------------------------|---------------|------------------------------------|---------------------------|---------------|
|   | Underlying<br>performance<br>£'000 | Special<br>items<br>£'000 | IFRS<br>£'000 | Underlying<br>performance<br>£'000 | Special<br>items<br>£'000 | IFRS<br>£'000 |
| From continuing operations  |                                    |                           |               |                                    |                           |               |
| Earnings (profit/(loss) attributable to equity holders of the parent) | 63,712                             | (30,401)                  | 33,311        | 32,863                             | 13,946                    | 46,809        |
| Basic earnings per share  | 18.8p                              | (9.0)p                    | 9.8p          | 14.5p                              | 6.2p                      | 20.7p         |
| Diluted earnings per share  | 18.4p                              | (8.8)p                    | 9.6p          | 14.1p                              | 6.0p                      | 20.1p         |
| From continuing and discontinued operations                           |                                    |                           |               |                                    |                           |               |
| Earnings (profit/(loss) attributable to equity holders of the parent) | 63,712                             | (70,658)                  | (6,946)       | 32,863                             | 16,875                    | 49,738        |
| Basic earnings per share  | 18.8p                              | (20.8)p                   | (2.0)p        | 14.5p                              | 7.5p                      | 22.0p         |
| Diluted earnings per share  | 18.4p                              | (20.4)p                   | (2.0)p        | 14.1p                              | 7.3p                      | 21.4p         |

## 13 Employees

|  | 2011<br>Number | 2010<br>Number |
|--|----------------|----------------|
| The average monthly number of employees during the year by activity was: |                |                |
| Continuing activity  |                |                |
| Polymer Chemicals – Europe & North America                               | 1,300          | 769            |
| Polymer Chemicals – Asia & Rest of World                                 | 747            | 637            |
| Holding companies  | 29             | 33             |
|  | 2,076          | 1,439          |
| Share of joint ventures  | 65             | 45             |
| Discontinued activity  |                |                |
| Pharma Chemicals   | 398            | 388            |
|  | 2,539          | 1,872          |

The split of employees for 2010 above has been restated in line with the Group's new segmentation, as described in note 4.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 13 Employees continued

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| The aggregate remuneration of all Group employees comprised: |               |               |
| Wages and salaries   | 79,133        | 50,650        |
| Social security costs  | 10,935        | 8,350         |
| Post retirement benefit obligations                          | 7,958         | 4,759         |
|  | <b>98,026</b> | <b>63,759</b> |

### 14 Goodwill

|                                      | 2011<br>£'000  | 2010<br>£'000  |
|--------------------------------------|----------------|----------------|
| <b>Cost</b>                          |                |                |
| At 1 January                         | 263,939        | 263,939        |
| Recognised on acquisition            | 164,184        | –              |
| Exchange adjustments                 | (6,636)        | –              |
| Eliminated on disposal               | (66,885)       | –              |
| At 31 December                       | <b>354,602</b> | <b>263,939</b> |
| <b>Accumulated impairment losses</b> |                |                |
| At 1 January                         | 139,912        | 139,912        |
| Impairment losses for the year       | 36,885         | –              |
| Eliminated on disposal               | (66,885)       | –              |
| At 31 December                       | <b>109,912</b> | <b>139,912</b> |
| <b>Net book value</b>                |                |                |
| At 31 December                       | <b>244,690</b> | <b>124,027</b> |

The Group tests goodwill annually for impairment at the balance sheet date, or more frequently if there are indications that goodwill might be impaired.

With completion of the acquisition of PolymerLatex the Board undertook a review of future options for the Pharma business and concluded that it was non-core to the Group moving forward. As part of this review the carrying value of the goodwill associated with this business was re-assessed, with the conclusion that it had been impaired. The goodwill was accordingly written down to zero in the period to 30 June 2011. On 30 November 2011 the remaining operating entities of the Pharma business were disposed of (see note 28 for further details). Goodwill acquired in a business combination is allocated, at acquisition, to the Cash Generating Units (CGUs) that are expected to benefit from that business combination.

Following the acquisition of PolymerLatex, the Group re-assessed its CGUs for goodwill impairment testing. The revised CGUs better reflect the composition and operational structure of the Group, and the expected benefit of synergies from the acquisition.

**14 Goodwill** continued

The allocation of the carrying value of goodwill is represented below.

|  | 31 December 2009<br>Net book<br>value<br>£'000 | 31 December 2010                          |                            | 31 December 2011                         |                                  |   |                            |
|--|--|---|----------------------------|--|----------------------------------|---|----------------------------|
|  |  | Impairment<br>during the<br>year<br>£'000 | Net book<br>value<br>£'000 | Recognised<br>on<br>acquisition<br>£'000 | Exchange<br>adjustments<br>£'000 | Impairment<br>during<br>the year<br>£'000 | Net book<br>value<br>£'000 |
| <b>Polymer Chemicals</b>               |  |   |                            |  |                                  |   |                            |
| Europe & North America                 | 86,730   | –   | 86,730                     | <b>130,907</b>                           | <b>(6,262)</b>                   | –   | <b>211,375</b>             |
| Asia & Rest of World                   | 412  | –   | 412                        | <b>33,277</b>                            | <b>(374)</b>                     | –   | <b>33,315</b>              |
|  | 87,142   | –   | 87,142                     | <b>164,184</b>                           | <b>(6,636)</b>                   | –   | <b>244,690</b>             |
| <b>Pharma Chemicals</b>                |  |   |                            |  |                                  |   |                            |
| Uquifa Spain SA and Uquifa Mexico SACV | 36,885   | –   | 36,885                     | –  | –                                | <b>(36,885)</b>                           | –                          |
|  | 36,885   | –   | 36,885                     | –  | –                                | <b>(36,885)</b>                           | –                          |
| <b>Total</b>                           | <b>124,027</b>                                 | –   | <b>124,027</b>             | <b>164,184</b>                           | <b>(6,636)</b>                   | <b>(36,885)</b>                           | <b>244,690</b>             |

The recoverable amounts for CGUs are determined from value in use calculations, based upon discounted cash flows. The key assumptions for those discounted cash flow calculations are the discount rate, profitability and growth rate. The discount rate is based on the Group's weighted average cost of capital adjusted, where appropriate, for the risk premium attributable to the particular CGU's activities and geography of operation. Profitability and growth rates are based on past experience combined with management's expectations for future business performance, which is informed by a number of factors including economic growth, internal plans and competitor and customer activity.

Discount rates of 11% and 12% have been used in the above calculations.

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

**15 Acquired intangible assets**

|  | Customer<br>relationships<br>£'000 | Technology<br>£'000 | Total<br>£'000 |
|--|------------------------------------|---------------------|----------------|
| <b>Cost</b>                                    |                                    |                     |                |
| Recognised on acquisition                      | 188,102                            | 3,077               | 191,179        |
| Exchange adjustments                           | (7,156)                            | (145)               | (7,301)        |
| <b>At 31 December 2011</b>                     | <b>180,946</b>                     | <b>2,932</b>        | <b>183,878</b> |
| <b>Accumulated amortisation and impairment</b> |                                    |                     |                |
| Amortisation charge for the year               | 18,869                             | 227                 | 19,096         |
| Exchange adjustments                           | (576)                              | (8)                 | (584)          |
| <b>At 31 December 2011</b>                     | <b>18,293</b>                      | <b>219</b>          | <b>18,512</b>  |
| <b>Net book value</b>                          |                                    |                     |                |
| <b>At 31 December 2011</b>                     | <b>162,653</b>                     | <b>2,713</b>        | <b>165,366</b> |

The cost of intangibles recognised on acquisition is split as follows:

|                          | Customer<br>relationships<br>£'000 | Technology<br>£'000 | Total<br>£'000 |
|--------------------------|------------------------------------|---------------------|----------------|
| PolymerLatex Group       | 177,163                            | 3,077               | 180,240        |
| Quality Polymers Sdn Bhd | 10,939                             | –                   | 10,939         |
|                          | 188,102                            | 3,077               | 191,179        |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 16 Other intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

No development expenditure met the requirements to be recognised as an internally generated intangible asset, therefore all development costs in the period were expensed.

|   | Software<br>£'000 | Environmental<br>licences<br>£'000 | Total<br>£'000 |
|---|-------------------|------------------------------------|----------------|
| Cost                                    |                   |                                    |                |
| At 1 January 2011                       | 6,124             | 215                                | 6,339          |
| Exchange adjustments                    | (449)             | –                                  | (449)          |
| Additions                               | 440               | –                                  | 440            |
| Acquisition of subsidiary undertaking   | 675               | –                                  | 675            |
| Disposals                               | (19)              | (114)                              | (133)          |
| Sale of subsidiary undertaking          | (784)             | (101)                              | (885)          |
| <b>At 31 December 2011</b>              | <b>5,987</b>      | <b>–</b>                           | <b>5,987</b>   |
| Accumulated amortisation and impairment |                   |                                    |                |
| At 1 January 2011                       | 5,761             | 215                                | 5,976          |
| Exchange adjustments                    | (414)             | –                                  | (414)          |
| Amortisation charge for the year        | 468               | –                                  | 468            |
| Disposals                               | (16)              | (114)                              | (130)          |
| Sale of subsidiary undertaking          | (675)             | (101)                              | (776)          |
| <b>At 31 December 2011</b>              | <b>5,124</b>      | <b>–</b>                           | <b>5,124</b>   |
| Net book value                          |                   |                                    |                |
| <b>At 31 December 2011</b>              | <b>863</b>        | <b>–</b>                           | <b>863</b>     |

|   | Software<br>£'000 | Environmental<br>licences<br>£'000 | Total<br>£'000 |
|---|-------------------|------------------------------------|----------------|
| Cost                                    |                   |                                    |                |
| At 1 January 2010                       | 5,551             | 215                                | 5,766          |
| Exchange adjustments                    | 546               | –                                  | 546            |
| Additions                               | 49                | –                                  | 49             |
| Disposals                               | (22)              | –                                  | (22)           |
| At 31 December 2010                     | 6,124             | 215                                | 6,339          |
| Accumulated amortisation and impairment |                   |                                    |                |
| At 1 January 2010                       | 4,947             | 215                                | 5,162          |
| Exchange adjustments                    | 528               | –                                  | 528            |
| Amortisation charge for the year        | 303               | –                                  | 303            |
| Disposals                               | (17)              | –                                  | (17)           |
| At 31 December 2010                     | 5,761             | 215                                | 5,976          |
| Net book value                          |                   |                                    |                |
| At 31 December 2010                     | 363               | –                                  | 363            |

## 17 Property, plant and equipment

|  | Land and buildings |                             |                | Plant and equipment<br>£'000 | Total<br>£'000 |
|--|--------------------|-----------------------------|----------------|------------------------------|----------------|
|  | Freeholds<br>£'000 | Leaseholds<br>Long<br>£'000 | Short<br>£'000 |                              |                |
| Cost   |                    |                             |                |                              |                |
| At 1 January 2011  | 44,868             | 4,890                       | 8,372          | 338,977                      | 397,107        |
| Exchange adjustments   | (2,223)            | 2                           | (316)          | (14,834)                     | (17,371)       |
| Additions  | 920                | –                           | 2,524          | 22,042                       | 25,486         |
| Acquisition of subsidiary undertaking                        | 20,703             | 426                         | 6,903          | 92,347                       | 120,379        |
| Sale of subsidiary undertaking                               | (12,410)           | –                           | –              | (85,517)                     | (97,927)       |
| Disposals  | (1,809)            | –                           | (43)           | (1,736)                      | (3,588)        |
| <b>At 31 December 2011</b>                                   | <b>50,049</b>      | <b>5,318</b>                | <b>17,440</b>  | <b>351,279</b>               | <b>424,086</b> |
| Accumulated depreciation and impairment                      |                    |                             |                |                              |                |
| At 1 January 2011  | 19,126             | 2,433                       | 1,151          | 271,829                      | 294,539        |
| Exchange adjustments   | (761)              | 1                           | (34)           | (10,086)                     | (10,880)       |
| Depreciation charge for the year                             | 1,996              | 130                         | 135            | 20,112                       | 22,373         |
| Assets written down pending closure of business              | 1,242              | –                           | –              | 2,907                        | 4,149          |
| Impairment of assets prior to sale of subsidiary undertaking | –                  | –                           | –              | 5,620                        | 5,620          |
| Sale of subsidiary undertaking                               | (2,345)            | –                           | –              | (71,512)                     | (73,857)       |
| Disposals  | –                  | –                           | (4)            | (1,453)                      | (1,457)        |
| <b>At 31 December 2011</b>                                   | <b>19,258</b>      | <b>2,564</b>                | <b>1,248</b>   | <b>217,417</b>               | <b>240,487</b> |
| Net book value   |                    |                             |                |                              |                |
| <b>At 31 December 2011</b>                                   | <b>30,791</b>      | <b>2,754</b>                | <b>16,192</b>  | <b>133,862</b>               | <b>183,599</b> |

|   | Land and buildings |                             |                | Plant and equipment<br>£'000 | Total<br>£'000 |
|---|--------------------|-----------------------------|----------------|------------------------------|----------------|
|   | Freeholds<br>£'000 | Leaseholds<br>Long<br>£'000 | Short<br>£'000 |                              |                |
| Cost                                    |                    |                             |                |                              |                |
| At 1 January 2010                       | 45,514             | 4,887                       | 7,298          | 329,803                      | 387,502        |
| Exchange adjustments                    | 264                | 3                           | 1,038          | 2,584                        | 3,889          |
| Additions                               | 345                | –                           | 36             | 10,344                       | 10,725         |
| Sale of subsidiary undertaking          | (1,255)            | –                           | –              | (2,255)                      | (3,510)        |
| Disposals                               | –                  | –                           | –              | (1,499)                      | (1,499)        |
| <b>At 31 December 2010</b>              | <b>44,868</b>      | <b>4,890</b>                | <b>8,372</b>   | <b>338,977</b>               | <b>397,107</b> |
| Accumulated depreciation and impairment |                    |                             |                |                              |                |
| At 1 January 2010                       | 18,732             | 2,304                       | 863            | 261,788                      | 283,687        |
| Exchange adjustments                    | (137)              | –                           | 124            | (166)                        | (179)          |
| Depreciation charge for the year        | 729                | 129                         | 164            | 13,293                       | 14,315         |
| Sale of subsidiary undertaking          | (198)              | –                           | –              | (1,599)                      | (1,797)        |
| Disposals                               | –                  | –                           | –              | (1,487)                      | (1,487)        |
| <b>At 31 December 2010</b>              | <b>19,126</b>      | <b>2,433</b>                | <b>1,151</b>   | <b>271,829</b>               | <b>294,539</b> |
| Net book value                          |                    |                             |                |                              |                |
| <b>At 31 December 2010</b>              | <b>25,742</b>      | <b>2,457</b>                | <b>7,221</b>   | <b>67,148</b>                | <b>102,568</b> |

Freehold land amounting to **£6,308,000** (2010 **£9,357,000**) has not been depreciated.

Of the depreciation charge for the year **£4,001,000** (2010 **£nil**) relates to discontinued operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 18 Financial asset

As described in note 28, the Group disposed of its Pharma Chemicals business on 30 November 2011. Part of the consideration agreed with the buyer, totalling \$10,000,000, was in the form of a deferred payment to the Group which will be made by the buyer on or before 30 September 2014. In the event that the buyer is unable to fulfil his obligation, this deferred consideration is secured by an irrevocable bank guarantee held in favour of Yule Catto & Co plc by HSBC Bank plc.

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

The amount of £5,589,000 included in non-current assets represents the agreed amount of \$10,000,000 discounted at the rate of 5% per annum from 30 September 2014 to date of completion, plus an appropriate amount unwound on this discounting in the period up to 31 December 2011.

### 19 Investment in joint ventures

|   | 2011<br>£'000 | 2011<br>£'000 | 2010<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|---------------|---------------|
| At 1 January                                  |               |               |               |               |
| Share of non-current assets                   |               | 974           |               | 1,028         |
| Share of current assets                       |               | 7,468         |               | 6,135         |
| Share of current liabilities                  |               | (4,726)       |               | (3,365)       |
|   |               | 3,716         |               | 3,798         |
| Share of net assets of acquired joint venture |               | 10,975        |               | –             |
|   |               | 14,691        |               | 3,798         |
| Share of income                               | 57,424        |               | 19,026        |               |
| Share of expenses (including special items)   | (53,523)      |               | (15,955)      |               |
|   | 3,901         |               | 3,071         |               |
| Tax   | (368)         |               | (137)         |               |
|   | 3,533         |               | 2,934         |               |
| Dividends paid during the year                | (3,399)       |               | (2,667)       |               |
| Exchange adjustments                          | (500)         |               | (349)         |               |
| Retained loss                                 | (366)         |               | (82)          |               |
| At 31 December                                |               |               |               |               |
| Share of non-current assets                   |               | 10,168        |               | 974           |
| Share of current assets                       |               | 15,444        |               | 7,468         |
| Share of current liabilities                  |               | (9,962)       |               | (4,726)       |
| Share of non-current liabilities              |               | (1,325)       |               | –             |
|   |               | 14,325        |               | 3,716         |

During the year the Group acquired a 50% interest in Eka PolymerLatex Oy as a part of the acquisition of the PolymerLatex Group. See note 29 for further details.

A list of principal subsidiary undertakings and joint ventures is given on page 99.

### 20 Inventories

|                               | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 28,594        | 26,886        |
| Work in progress              | –             | 1,656         |
| Finished goods                | 45,231        | 36,837        |
|                               | 73,825        | 65,379        |

The value of stock written off during the year was £1,436,000 (2010 £1,605,000).

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

The nature of the chemical reaction necessary to produce finished goods from raw materials is such that 'work in progress' is not a material part of the Group's inventory at any given point of time. The work in progress reported for 2010 above represents inventory held by the Pharma Chemicals business.



**21 Trade and other receivables**

|                                | <b>2011</b>    | 2010    |
|--------------------------------|----------------|---------|
|                                | <b>£'000</b>   | £'000   |
| Trade receivables              | <b>121,903</b> | 100,031 |
| Amounts owed by joint ventures | <b>952</b>     | 549     |
| Other receivables              | <b>22,871</b>  | 8,378   |
| Prepayments and accrued income | <b>966</b>     | 2,327   |
|                                | <b>146,692</b> | 111,285 |

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

**Credit risk**

Amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

Before accepting a new customer, the Group uses appropriate procedures to assess the potential customer's credit quality in order to set a credit limit.

**Ageing of trade receivables**

|                                | <b>2011</b>    | 2010    |
|--------------------------------|----------------|---------|
|                                | <b>£'000</b>   | £'000   |
| Not yet due                    | <b>103,464</b> | 85,505  |
| 0 – 60 days overdue            | <b>18,962</b>  | 14,828  |
| 61 – 120 days overdue          | <b>1,886</b>   | 832     |
| Over 120 days due              | <b>2,028</b>   | 1,633   |
|                                | <b>126,340</b> | 102,798 |
| Less: provision for impairment | <b>(4,437)</b> | (2,767) |
|                                | <b>121,903</b> | 100,031 |

**Provision for impairment of receivables**

|                                      | <b>2011</b>  | 2010  |
|--------------------------------------|--------------|-------|
|                                      | <b>£'000</b> | £'000 |
| At 1 January                         | <b>2,767</b> | 3,356 |
| Exchange adjustments                 | <b>(52)</b>  | (22)  |
| Provisions of acquired businesses    | <b>1,262</b> | –     |
| Provisions of sold businesses        | <b>(548)</b> | –     |
| Credit/(charge) for the year         | <b>1,510</b> | (66)  |
| Amounts written off as uncollectible | <b>(502)</b> | (501) |
| At 31 December                       | <b>4,437</b> | 2,767 |

The provision is predominantly against trade receivables more than 61 days overdue.

Provisions of acquired businesses represent amounts provided against receivables of acquired companies. The fair value of receivables acquired is stated net of these amounts, as shown in note 29.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 22 Cash and borrowings

|  | 2011<br>£'000  | 2010<br>£'000 |
|--|----------------|---------------|
| <b>Current borrowings</b>  |                |               |
| Bank loans   |                |               |
| Bank loans and overdrafts  | –              | 6,565         |
| Malaysian ringgits 100 million six-year amortising term loan               | <b>3,935</b>   | 3,311         |
| <b>Other loans</b>   |                |               |
| \$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012* | <b>27,821</b>  | –             |
|  | <b>31,756</b>  | 9,876         |
| Less: capitalised costs  | <b>(17)</b>    | –             |
|  | <b>31,739</b>  | 9,876         |
| <b>Non-current borrowings</b>  |                |               |
| Bank loans   |                |               |
| Unsecured £150 million multicurrency term loan facility expiring 2015      | <b>148,995</b> | –             |
| Malaysian ringgits 100 million six-year amortising term loan               | <b>9,807</b>   | 14,853        |
| Other bank loans   | <b>23</b>      | 461           |
| <b>Other loans</b>   |                |               |
| \$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012* | –              | 27,794        |
| \$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014* | <b>45,290</b>  | 45,246        |
| \$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016* | <b>14,234</b>  | 14,220        |
|  | <b>218,349</b> | 102,574       |
| Less: capitalised costs  | <b>(2,448)</b> | (195)         |
|  | <b>215,901</b> | 102,379       |

\* In aggregate £87.3 million, associated with which is the currency impact of derivatives of £12.7 million, net £74.6 million.

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents or government bond rates appropriate to the country in which the borrowing is incurred.

At 31 December 2011, the Group had available **£60 million** (2010 **£30 million**) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

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

#### Analysis of borrowings at carrying value by currency

|  | Sterling<br>£'000 | US dollar<br>£'000 | Euro<br>£'000  | Other<br>£'000 | Total<br>£'000  |
|--|-------------------|--------------------|----------------|----------------|-----------------|
| <b>31 December 2011</b>                    |                   |                    |                |                |                 |
| Bank loans                                 | –                 | –                  | <b>148,995</b> | <b>13,765</b>  | <b>162,760</b>  |
| Loan notes                                 | –                 | <b>87,345</b>      | –              | –              | <b>87,345</b>   |
| Capitalised costs                          | <b>(2,465)</b>    | –                  | –              | –              | <b>(2,465)</b>  |
|  | <b>(2,465)</b>    | <b>87,345</b>      | <b>148,995</b> | <b>13,765</b>  | <b>247,640</b>  |
| Cash and cash equivalents                  |                   |                    |                |                | <b>(85,922)</b> |
| Financial asset – see note 18              |                   |                    |                |                | <b>(5,589)</b>  |
| Net borrowings                             |                   |                    |                |                | <b>156,129</b>  |
| Deduct: special item fair value adjustment |                   |                    |                |                | <b>(12,759)</b> |
| Add: special item non-recourse factoring   |                   |                    |                |                | <b>20,955</b>   |
| Net borrowings (underlying performance)    |                   |                    |                |                | <b>164,325</b>  |

**22 Cash and borrowings** continued

|  | Sterling<br>£'000 | US dollar<br>£'000 | Euro<br>£'000 | Other<br>£'000 | Total<br>£'000 |
|--|-------------------|--------------------|---------------|----------------|----------------|
| 31 December 2010                           |                   |                    |               |                |                |
| Bank loans and overdrafts                  | 3,277             | 97                 | 2,967         | 224            | 6,565          |
| Bank loans                                 | –                 | –                  | 437           | 18,188         | 18,625         |
| Loan notes                                 | –                 | 87,260             | –             | –              | 87,260         |
| Capitalised costs                          | (195)             | –                  | –             | –              | (195)          |
|  | 3,082             | 87,357             | 3,404         | 18,412         | 112,255        |
| Cash and cash equivalents                  |                   |                    |               |                | (36,211)       |
| Net borrowings                             |                   |                    |               |                | 76,044         |
| Deduct: special item fair value adjustment |                   |                    |               |                | (12,674)       |
| Net borrowings (underlying performance)    |                   |                    |               |                | 63,370         |

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less. The special item fair value adjustment represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate, together with the transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges prior to the adoption of IFRS.

**23 Financial instruments**

The Group's treasury function operates procedures designed to reduce or eliminate financial risk and ensure that funds are available for current and future needs. The policies are approved by the Board and the use of financial instruments is strictly controlled.

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the cash and borrowings disclosed in note 22, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Group's principal financial instruments comprise borrowings, some cash and liquid resources and various items, such as trade debtors and trade creditors, that arise directly from its operations. The Group also uses interest rate swaps, currency swaps and forward foreign currency contracts to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout the period under review, the Group's policy that no trading in Derivative Financial instruments shall be undertaken.

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

|   | Carrying values<br>at 31 December |               | Fair values<br>at 31 December |               |
|---|-----------------------------------|---------------|-------------------------------|---------------|
|   | 2011<br>£'000                     | 2010<br>£'000 | 2011<br>£'000                 | 2010<br>£'000 |
| <b>Fair value of financial assets</b>             |                                   |               |                               |               |
| Trade and other receivables excluding prepayments | <b>145,726</b>                    | 108,958       | <b>145,726</b>                | 108,958       |
| Cash and cash equivalents                         | <b>85,922</b>                     | 36,211        | <b>85,922</b>                 | 36,211        |
| Financial asset                                   | <b>5,589</b>                      | –             | <b>5,589</b>                  | –             |
| Derivatives at fair value                         | <b>17,368</b>                     | 22,765        | <b>17,368</b>                 | 22,765        |
|   | <b>254,605</b>                    | 167,934       | <b>254,605</b>                | 167,934       |
| <b>Fair value of financial liabilities</b>        |                                   |               |                               |               |
| Loan notes  | <b>87,208</b>                     | 87,065        | <b>91,817</b>                 | 92,775        |
| Bank loans and overdrafts                         | <b>160,432</b>                    | 25,190        | <b>160,432</b>                | 25,190        |
| Derivatives at fair value                         | <b>5,628</b>                      | –             | <b>5,628</b>                  | –             |
| Trade and other payables excluding accruals       | <b>146,297</b>                    | 117,699       | <b>146,297</b>                | 117,699       |
|   | <b>399,565</b>                    | 229,954       | <b>404,174</b>                | 235,664       |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### continued

#### 23 Financial instruments continued

Fair values have been obtained from the relevant institutions where appropriate. Where market values are not available, fair values of financial assets and financial liabilities have been calculated by discounting expected future cash flow at prevailing interest rates and by applying year end exchange rates. The carrying amount of short-term borrowings approximates to book value.

The fair value of the Group's financial instruments are measured using inputs other than quoted prices that are directly or indirectly observable.

The main risks arising from the Group's financial instruments are market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below, together with related disclosure required by IFRS.

#### Market risk

The Group's main exposure to market risk is in the form of interest rate risk and foreign currency risk. The policies adopted to address these risks are as follows:

##### *Interest rate risk*

The Group finances its operations through a mixture of retained profits, loan notes and bank borrowings. The Group borrows at both fixed and floating rates of interest and uses interest rate swaps to generate the desired interest profile in order to manage the Group's exposure to interest rate fluctuations.

##### *Foreign currency risk*

The Group uses currency borrowings, forward contracts and currency swaps to hedge overseas net assets, which are predominantly denominated in euros. Profit translation exposures are not hedged.

The Group hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The Group's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2010 none).

#### Impact on income statement

Changes in the fair value of derivative contracts amounting to **£3,317,000** have been debited to the income statement in the year (2010 credit of £2,645,000). These changes are shown separately as a special item in the consolidated income statement.

#### Hedge accounting

The Group has a number of cross currency swaps that are used to reduce the exposure to interest rate and currency risk. These swaps are fully effective at eliminating the risks they address. The Group has reviewed the requirements necessary to permit the application of hedge accounting under IAS 39. It has concluded that the costs involved in meeting these requirements cannot be justified and therefore IAS 39 hedge accounting will not be applied.

Changes in the fair value of derivative financial instruments to which hedge accounting is not applied are recognised in the income statement as they arise.

On 31 March 2011, as part of the acquisition of PolymerLatex Group (see note 29), the Group acquired a number of Interest Rate Swap agreements that had been used by the former PolymerLatex Group to Hedge external borrowings. In the period since completion several of these contracts were terminated, with the Group electing to retain those which in combination represent a floating to fixed interest rate swap on a Euro amount of €155 million. On 1 July 2011, the Group designated these remaining contracts as Hedging Instruments in order to use them as an effective hedge against the interest rate exposure associated with a substantial portion of the Group's Euro denominated, floating rate, £150 million Term Loan. As such these contracts are now accounted for as Cashflow Hedges as permitted by IAS 39.

In addition the Group has taken out forward foreign exchange contracts to fix the sterling value of its net investments in certain foreign operations, which have a euro functional currency. These contracts have been accounted for as net investment hedges as permitted by IAS 39.

**23 Financial instruments** continued

## Interest rate risk profile

*Financial liabilities*

After taking into account the various interest rate and currency swaps entered into by the Group, the currency and interest rate exposure of the Group as at 31 December 2011 was:

|  | Floating rate<br>borrowings<br>2011<br>£'000 | Fixed rate<br>borrowings<br>2011<br>£'000 | Total<br>borrowings<br>2011<br>£'000 | Floating rate<br>borrowings<br>2010<br>£'000 | Fixed rate<br>borrowings<br>2010<br>£'000 | Total<br>borrowings<br>2010<br>£'000 |
|--|--|---|--------------------------------------|--|---|--------------------------------------|
| Sterling                                 | 32,121                                       | 40,000                                    | 72,121                               | 37,368                                       | 40,000                                    | 77,368                               |
| Euro                                     | 18,298                                       | 130,697                                   | 148,995                              | 3,404  | –   | 3,404                                |
| US dollar                                | –  | –   | –                                    | 97   | –   | 97                                   |
| Other                                    | 13,765                                       | –   | 13,765                               | 18,412                                       | –   | 18,412                               |
|  | <b>64,184</b>                                | <b>170,697</b>                            | <b>234,881</b>                       | <b>59,281</b>                                | <b>40,000</b>                             | <b>99,281</b>                        |
| Cash and cash equivalents                |  |   | <b>(85,922)</b>                      |  |   | (36,211)                             |
| Financial asset – see note 18            |  |   | <b>(5,589)</b>                       |  |   | –                                    |
| Add: special item non-recourse factoring |  |   | <b>20,955</b>                        |  |   | –                                    |
| Net borrowings (underlying performance)  |  |   | <b>164,325</b>                       |  |   | 63,070                               |

The effective interest rate for the year was 4.4% (2010 4.8%).

**Sensitivity analysis**

The following table illustrates the effect on the income statement and items that are recognised directly in equity that would result from reasonably possible movements in UK and US interest rates and in euro and US dollar to sterling exchange rates, before the effect of tax.

|                                       | 2011                 |                |                | 2010                 |                |                |
|---------------------------------------|----------------------|----------------|----------------|----------------------|----------------|----------------|
|                                       | Income statement     |                | Equity         | Income statement     |                | Equity         |
|                                       | Underlying<br>-/+ £m | IFRS<br>-/+ £m | IFRS<br>-/+ £m | Underlying<br>-/+ £m | IFRS<br>-/+ £m | IFRS<br>-/+ £m |
| Interest rate sensitivity analysis    |                      |                |                |                      |                |                |
| UK interest rate +/- 1.0%             | 0.3                  | 1.2            | –              | 0.4                  | 1.5            | –              |
| Euro interest rate +/- 1.0%           | 0.4                  | 0.4            | 2.5            | 0.1                  | 0.1            | –              |
| US interest rate +/- 1.0%             | –                    | 2.2            | –              | –                    | 3.1            | –              |
| Foreign currency sensitivity analysis |                      |                |                |                      |                |                |
| Euro exchange rate +/- 10%            | 0.8                  | 0.8            | 3.6            | 1.1                  | 1.1            | 3.1            |
| US dollar exchange rate +/- 10%       | –                    | 1.1            | –              | –                    | 1.2            | –              |

The interest rate sensitivity analysis has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

The foreign currency sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the functional currency of the lender or borrower.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 23 Financial instruments continued

#### Liquidity risk

The objective of the Group is to meet financial commitments as and when they fall due. The Board closely monitors liquidity through monthly management accounts.

At the year end, Yule Catto & Co plc had the following principal facilities:

A committed syndicated bank facility of £210 million comprising a £150 million Term Loan which was drawdown in Euros on completion of the PolymerLatex acquisition, and a £60 million revolving credit facility which was undrawn at 31 December 2011.

Unsecured loan notes totalling approximately £75 million raised from the US private placement market in 2004. With maturity between 2012 and 2016, these loan notes provide the Group's long-term requirements. Please see note 22 for further details.

A RM100 million (£18 million) six year amortising loan through its Malaysian subsidiary Synthomer Sdn Bhd.

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

|   | 2011                        |                                      |                                      |                           |                | 2010                        |                                      |                                      |                           |                |
|---|-----------------------------|--------------------------------------|--------------------------------------|---------------------------|----------------|-----------------------------|--------------------------------------|--------------------------------------|---------------------------|----------------|
|   | Amount due                  |                                      |                                      |                           |                | Amount due                  |                                      |                                      |                           |                |
|   | within<br>one year<br>£'000 | between<br>1 and<br>2 years<br>£'000 | between<br>2 and<br>5 years<br>£'000 | after<br>5 years<br>£'000 | Total<br>£'000 | within<br>one year<br>£'000 | between<br>1 and<br>2 years<br>£'000 | between<br>2 and<br>5 years<br>£'000 | after<br>5 years<br>£'000 | Total<br>£'000 |
| Non-interest bearing                        |                             |                                      |                                      |                           |                |                             |                                      |                                      |                           |                |
| Trade and other payables excluding accruals | 146,116                     | 181                                  | –                                    | –                         | 146,297        | 117,555                     | 144                                  | –                                    | –                         | 117,699        |
| Variable interest rate instruments          |                             |                                      |                                      |                           |                |                             |                                      |                                      |                           |                |
| Bank loans and overdrafts                   | 9,733                       | 9,900                                | 161,409                              | –                         | 181,042        | 10,502                      | 3,935                                | 11,872                               | 461                       | 26,770         |
| Fixed interest rate instruments             |                             |                                      |                                      |                           |                |                             |                                      |                                      |                           |                |
| Loan notes                                  | 32,834                      | 3,469                                | 64,695                               | –                         | 100,998        | 5,008                       | 32,802                               | 53,027                               | 15,071                    | 105,908        |
|   | 188,683                     | 13,550                               | 226,104                              | –                         | 428,337        | 133,065                     | 36,881                               | 64,899                               | 15,532                    | 250,377        |

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

|   | 2011                        |                                      |                                      |                           |                | 2010                        |                                      |                                      |                           |                |
|---|-----------------------------|--------------------------------------|--------------------------------------|---------------------------|----------------|-----------------------------|--------------------------------------|--------------------------------------|---------------------------|----------------|
|   | Amount due                  |                                      |                                      |                           |                | Amount due                  |                                      |                                      |                           |                |
|   | within<br>one year<br>£'000 | between<br>1 and<br>2 years<br>£'000 | between<br>2 and<br>5 years<br>£'000 | after<br>5 years<br>£'000 | Total<br>£'000 | within<br>one year<br>£'000 | between<br>1 and<br>2 years<br>£'000 | between<br>2 and<br>5 years<br>£'000 | after<br>5 years<br>£'000 | Total<br>£'000 |
| Non-interest bearing                              |                             |                                      |                                      |                           |                |                             |                                      |                                      |                           |                |
| Trade and other receivables excluding prepayments | 145,726                     | –                                    | –                                    | –                         | 145,726        | 108,958                     | –                                    | –                                    | –                         | 108,958        |
| Financial asset                                   | –                           | –                                    | 5,589                                | –                         | 5,589          | –                           | –                                    | –                                    | –                         | –              |
| Variable interest rate instruments                |                             |                                      |                                      |                           |                |                             |                                      |                                      |                           |                |
| Cash and cash equivalents                         | 85,922                      | –                                    | –                                    | –                         | 85,922         | 36,211                      | –                                    | –                                    | –                         | 36,211         |
|   | 231,648                     | –                                    | 5,589                                | –                         | 237,237        | 145,169                     | –                                    | –                                    | –                         | 145,169        |



**23 Financial instruments** continued

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

|                                       | 2011                        |                                      |                                      |                           |                | 2010                        |                                      |                                      |                           |                |
|---------------------------------------|-----------------------------|--------------------------------------|--------------------------------------|---------------------------|----------------|-----------------------------|--------------------------------------|--------------------------------------|---------------------------|----------------|
|                                       | Amount due                  |                                      |                                      |                           |                | Amount due                  |                                      |                                      |                           |                |
|                                       | within<br>one year<br>£'000 | between<br>1 and<br>2 years<br>£'000 | between<br>2 and<br>5 years<br>£'000 | after<br>5 years<br>£'000 | Total<br>£'000 | within<br>one year<br>£'000 | between<br>1 and<br>2 years<br>£'000 | between<br>2 and<br>5 years<br>£'000 | after<br>5 years<br>£'000 | Total<br>£'000 |
| Interest rate swaps                   | (2,357)                     | (2,357)                              | –                                    | –                         | (4,714)        | –                           | –                                    | –                                    | –                         | –              |
| Cross currency swaps                  | (1,867)                     | (1,170)                              | (1,530)                              | –                         | (4,567)        | (2,212)                     | (2,441)                              | (2,658)                              | (186)                     | (7,497)        |
| Foreign exchange<br>forward contracts | 798                         | –                                    | –                                    | –                         | 798            | 4,576                       | –                                    | –                                    | –                         | 4,576          |
|                                       | (3,426)                     | (3,527)                              | (1,530)                              | –                         | (8,483)        | 2,364                       | (2,441)                              | (2,658)                              | (186)                     | (2,921)        |

In accordance with IFRS 7, the above table shows undiscounted cash flows. In contrast IAS 39 requires these items to be carried in the balance sheet at fair value, which is based on discounted cash flows.

**24 Trade and other payables**

|                                     | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------------------|---------------|---------------|
| Amount due within one year          |               |               |
| Trade creditors                     | 102,720       | 90,880        |
| Other creditors                     | 43,396        | 26,675        |
| Accruals and deferred income        | 47,514        | 22,524        |
|                                     | 193,630       | 140,079       |
| Amount due in greater than one year |               |               |
| Other creditors                     | 181           | 144           |
|                                     | 193,811       | 140,223       |

Accruals and deferred income includes £9,620,000 (2010 £nil) in respect of restructuring costs associated with the integration of PolymerLatex into the Group's existing business. A further amount of £675,000 (2010 £756,000) is accrued for closure costs in respect of activities now classified as discontinued.

Average trade creditor days in 2011 was 51 (2010 64). This figure represents trade creditor days for all trading operations within the Group, calculated as a weighted average based on cost of sales.

The directors consider that the carrying amount of trade payables approximates to their fair value.

**25 Post retirement benefit obligations**

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

|                                | 2011<br>£'000 |          |       | 2010<br>£'000 |          |       | 2009<br>£'000 |          |       | 2008<br>£'000 |          |       | 2007<br>£'000 |          |          |
|--------------------------------|---------------|----------|-------|---------------|----------|-------|---------------|----------|-------|---------------|----------|-------|---------------|----------|----------|
|                                | UK            | Overseas | Total | UK            | Overseas | Total | UK            | Overseas | Total | UK            | Overseas | Total | UK            | Overseas | Total    |
| Defined benefit                | 1,200         | 2,346    | 3,546 | 1,761         | 717      | 2,478 | 3,168         | 699      | 3,867 | 977           | 427      | 1,404 | 1,598         | 763      | 2,361    |
| Defined contribution           | 1,776         | 2,636    | 4,412 | 1,400         | 881      | 2,281 | 486           | 762      | 1,248 | 388           | 771      | 1,159 | 159           | 952      | 1,111    |
|                                | 2,976         | 4,982    | 7,958 | 3,161         | 1,598    | 4,759 | 3,654         | 1,461    | 5,115 | 1,365         | 1,198    | 2,563 | 1,757         | 1,715    | 3,472    |
| Defined benefit – special item | –             | –        | –     | –             | –        | –     | –             | –        | –     | –             | –        | –     | (10,797)      | –        | (10,797) |
|                                | 2,976         | 4,982    | 7,958 | 3,161         | 1,598    | 4,759 | 3,654         | 1,461    | 5,115 | 1,365         | 1,198    | 2,563 | (9,040)       | 1,715    | (7,325)  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 25 Post retirement benefit obligations continued

The fair value of the assets in the schemes, and the present value of the liabilities in the schemes at each balance sheet date were:

|   | 2011<br>£'000 |          |           | 2010<br>£'000 |          |           | 2009<br>£'000 |          |           | 2008<br>£'000 |          |           | 2007<br>£'000 |          |           |
|---|---------------|----------|-----------|---------------|----------|-----------|---------------|----------|-----------|---------------|----------|-----------|---------------|----------|-----------|
|   | UK            | Overseas | Total     | UK            | Overseas | Total     | UK            | Overseas | Total     | UK            | Overseas | Total     | UK            | Overseas | Total     |
| Present value of funded defined benefit obligations | (272,071)     | (50,042) | (322,113) | (250,180)     | (15,274) | (265,454) | (241,475)     | (13,971) | (255,446) | (205,721)     | (13,449) | (219,170) | (228,966)     | (15,530) | (244,496) |
| Fair value of scheme assets                         | 198,219       | 5,984    | 204,203   | 193,722       | 5,735    | 199,457   | 171,515       | 5,242    | 176,757   | 138,293       | 5,318    | 143,611   | 195,325       | 7,935    | 203,260   |
| Post retirement benefit obligations                 | (73,852)      | (44,058) | (117,910) | (56,458)      | (9,539)  | (65,997)  | (69,960)      | (8,729)  | (78,689)  | (67,428)      | (8,131)  | (75,559)  | (33,641)      | (7,595)  | (41,236)  |

### UK pension schemes

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

The assets of the scheme are held separately from those of the companies concerned. Contributions to the scheme are charged to the Income Statement to spread the cost of pensions over employees' working lives within the Group.

### Defined benefit scheme

A full actuarial valuation was carried out as at 6 April 2009 and updated to 31 December 2011 by a qualified actuary.

The major assumptions used by the actuary were:

|   | 2011  | 2010  | 2009  | 2008  | 2007  |
|---|-------|-------|-------|-------|-------|
| Rate of increase in salaries              | N/A   | N/A   | 3.00% | 2.60% | 3.10% |
| Rate of increase in pensions in payment   | 3.00% | 3.25% | 3.00% | 2.50% | 2.50% |
| Rate of increase in pensions in deferment | 2.00% | 2.25% | 3.00% | 2.50% | 2.50% |
| Discount rate                             | 4.80% | 5.40% | 5.70% | 6.50% | 5.90% |
| Rates of return on plan assets            | 6.62% | 7.12% | 8.22% | 7.31% | 7.33% |
| Inflation assumption                      | 3.00% | 3.25% | 3.00% | 2.60% | 3.10% |

**25 Post retirement benefit obligations** (continued)

Amount charged to operating profit

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Current service cost                                 | 678           | 607           |
| Expected return on plan assets                       | (12,707)      | (12,296)      |
| Interest cost relating to pension scheme liabilities | 13,229        | 13,450        |
|  | <b>1,200</b>  | 1,761         |

Actuarial loss recognised in the statement of comprehensive income

|   | 2011<br>£'000   | 2010<br>£'000 |
|---|-----------------|---------------|
| Actual return less expected return on pension scheme assets   | (10,444)        | 7,576         |
| Experience gains and losses arising on the scheme liabilities | (19,055)        | (6,500)       |
|   | <b>(29,499)</b> | 1,076         |

|   | 2011<br>£'000   | 2010<br>£'000 |
|---|-----------------|---------------|
| Cumulative actuarial losses recognised in the statement of other comprehensive income | <b>(68,743)</b> | (39,244)      |

History of experience gains and losses

|  | 2011     | 2010    | 2009     | 2008     | 2007    |
|--|----------|---------|----------|----------|---------|
| Difference between the expected and actual return on scheme assets:                |          |         |          |          |         |
| Amount (£'000)   | (10,444) | 7,576   | 21,209   | (64,742) | (5,891) |
| Percentage of scheme assets (%)  | (5.27)   | 3.91    | 12.37    | (46.82)  | (3.02)  |
| Experience gains and losses arising on the scheme liabilities                      |          |         |          |          |         |
| Amount (£'000)   | (19,055) | (6,500) | (32,753) | 25,273   | 25,872  |
| Percentage of the present value of scheme liabilities (%)                          | (7.00)   | (2.60)  | (13.56)  | 12.29    | 11.30   |
| Total actuarial (losses)/gains recognised in the statement of comprehensive income |          |         |          |          |         |
| Amount (£'000)   | (29,499) | 1,076   | (11,544) | (39,469) | 19,981  |
| Percentage of the present value of scheme liabilities (%)                          | (10.84)  | 0.43    | (4.78)   | (19.19)  | 8.73    |

The actual return on plan assets was £2,263,000 (2010 £19,872,000).

Movements in the present value of defined benefit obligations were as follows:

|   | 2011<br>£'000    | 2010<br>£'000 |
|---|------------------|---------------|
| At 1 January  | (250,180)        | (241,475)     |
| Current service cost  | (678)            | (607)         |
| Interest cost   | (13,229)         | (13,450)      |
| Contributions from scheme members                             | –                | (48)          |
| Experience gains and losses arising on the scheme liabilities | (19,055)         | (6,500)       |
| Cash paid by sponsoring companies                             | 678              | 577           |
| Benefits paid   | 10,393           | 11,323        |
| At 31 December  | <b>(272,071)</b> | (250,180)     |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 25 Post retirement benefit obligations (continued)

Movements in the fair value of the scheme assets were as follows:

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| At 1 January  | 193,722       | 171,515       |
| Expected return on scheme assets                            | 12,707        | 12,296        |
| Actual return less expected return on pension scheme assets | (10,444)      | 7,576         |
| Contributions from sponsoring companies                     | 12,627        | 13,610        |
| Contributions from scheme members                           | –             | 48            |
| Benefits paid   | (10,393)      | (11,323)      |
| At 31 December  | 198,219       | 193,722       |

Contributions from the sponsoring companies are expected to be £10,139,000 in 2012.

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

|                                     | 2011<br>% | 2011<br>£'000 | 2010<br>% | 2010<br>£'000 | 2009<br>% | 2009<br>£'000 | 2008<br>% | 2008<br>£'000 | 2007<br>% | 2007<br>£'000 |
|-------------------------------------|-----------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|
| Equities                            | 6.60      | 104,769       | 7.70      | 110,402       | 8.00      | 113,373       | 9.00      | 90,241        | 8.00      | 148,447       |
| Bonds                               | 4.80      | 69,432        | 5.40      | 60,829        | 5.70      | 54,243        | 6.70      | 47,614        | 5.17      | 44,925        |
| Property                            | 6.60      | 18,709        | 7.70      | 10,480        | –         | –             | –         | –             | –         | –             |
| Cash                                | 0.80      | 5,309         | 2.00      | 12,011        | 2.00      | 3,899         | 4.25      | 438           | 4.25      | 1,953         |
| Total fair value of assets          |           | 198,219       |           | 193,722       |           | 171,515       |           | 138,293       |           | 195,325       |
| Present value of scheme liabilities |           | (272,071)     |           | (250,180)     |           | (241,475)     |           | (205,721)     |           | (228,966)     |
| Post retirement benefit obligations |           | (73,852)      |           | (56,458)      |           | (69,960)      |           | (67,428)      |           | (33,641)      |

### Overseas pension schemes

The Group operates a number of smaller overseas pension and post-retirement schemes. The assets of these schemes are held separately from those of the Group, with the exception of the unfunded German schemes (net liability £42.7 million, 2010 £8.3 million), where in line with common practice, the assets are held within the respective companies.

### Defined benefit schemes

The aggregated pension disclosure below for the overseas defined benefit schemes has been compiled from a number of actuarial valuations at 31 December 2011.

The largest of these schemes, which entered the Group as part of the PolymerLatex acquisition on 31 March 2011, accounts for £34.5 million of the deficit at 31 December 2011. The major assumptions used in the actuarial valuation of this scheme are:

|                              | 2011  |
|------------------------------|-------|
| Rate of increase in salaries | 3.00% |
| Rate of increase in pensions | 2.00% |
| Discount rate                | 4.50% |
| Inflation assumption         | 3.00% |

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

### Amount charged to operating profit

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Current service cost                                 | 456           | 216           |
| Expected return on plan assets                       | (77)          | (68)          |
| Interest cost relating to pension scheme liabilities | 1,967         | 569           |
|  | 2,346         | 717           |

**25 Post retirement benefit obligations** (continued)

Actuarial (loss)/gain recognised in the statement of comprehensive income

|   | 2011<br>£'000  | 2010<br>£'000  |
|---|----------------|----------------|
| Actual return less expected return on pension scheme assets   | 367            | 527            |
| Experience gains and losses arising on the scheme liabilities | (4,827)        | (1,527)        |
|   | <b>(4,460)</b> | <b>(1,000)</b> |

|   | 2011<br>£'000  | 2010<br>£'000 |
|---|----------------|---------------|
| Cumulative actuarial (losses)/gains recognised in the statement of other comprehensive income | <b>(2,741)</b> | 1,719         |

The actual return on plan assets was **£444,000** (2010 £595,000 gain).

Analysis of the movements in the net balance sheet liability before deferred tax

|                                 | 2011<br>£'000   | 2010<br>£'000 |
|---------------------------------|-----------------|---------------|
| Net liability at 1 January      | <b>(9,539)</b>  | (8,729)       |
| Acquisition of PolymerLatex     | <b>(30,781)</b> | –             |
| Total expense as detailed above | <b>(2,346)</b>  | (717)         |
| Contributions made              | 1,135           | 490           |
| Actuarial gain                  | <b>(4,460)</b>  | (1,000)       |
| Exchange movements              | 1,933           | 417           |
| Net liability at 31 December    | <b>(44,058)</b> | (9,539)       |

**26 Share capital**

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Issued and fully paid   |               |               |
| 339,880,769 (2010 145,663,187) ordinary shares of 10 pence each | <b>33,988</b> | 14,566        |
| Issued and nil paid   |               |               |
| Nil (2010 194,217,582) ordinary shares of 10 pence each         | –             | –             |

Ordinary shares carry no right to fixed income.

**Share options**

As at 31 December 2011 the following options were outstanding:

| Executive share options       | Number    | Option price |
|-------------------------------|-----------|--------------|
| Exercisable between 2011-2018 | 936,575   | (a)          |
| Exercisable between 2012-2019 | 4,224,840 | (b)          |
| Exercisable between 2013-2020 | 1,040,015 | (c)          |
| Exercisable between 2014-2021 | 1,314,209 | (d)          |

(a) options granted under the Performance Share Plan with a total exercise price of £16.

(b) options granted under the Performance Share Plan with a total exercise price of £17.

(c) options granted under the Performance Share Plan with a total exercise price of £20.

(d) options granted under the Performance Share Plan with a total exercise price of £36.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 27 Reconciliation of operating profit to cash generated from operations

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Operating profit – continuing operations              | 54,329        | 59,414        |
| Operating profit – discontinued operations            | 4,124         | 4,450         |
| Less: share of profits of joint ventures              | (3,533)       | (2,934)       |
|   | 54,920        | 60,930        |
| Adjustments for:                                      |               |               |
| Depreciation (underlying)                             | 22,373        | 14,315        |
| Amortisation (underlying)                             | 468           | 303           |
| Amortisation: special items                           | 19,096        | –             |
| Profit arising from the sale or closure of operations | –             | (12,271)      |
| Restructuring and site closure – cash costs           | 15,792        | –             |
| non-cash costs  | 4,438         | –             |
| Share-based payments                                  | 1,269         | 333           |
| Acquisition costs expensed in the period              | 1,427         | 4,182         |
| Profit on sale of fixed assets                        | (196)         | (36)          |
| Acquisition costs cash spent in the period            | (4,421)       | (1,188)       |
| Termination of interest swap acquired                 | (3,026)       | –             |
| Cash impact of restructuring and site closure         | (5,801)       | –             |
| Cash impact of termination of discontinued operations | (422)         | (1,445)       |
| Pension funding in excess of IAS 19 charge            | (10,933)      | (12,191)      |
| Decrease/(increase) in inventories                    | 7,320         | (8,362)       |
| Increase in trade and other receivables               | (8,481)       | (14,210)      |
| (Decrease)/increase in trade and other payables       | (13,632)      | 11,868        |
| Cash generated from operations                        | 80,191        | 42,228        |

### Reconciliation of movement in working capital

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Decrease/(increase) in inventories              | 7,320         | (8,362)       |
| Increase in trade and other receivables         | (8,481)       | (14,210)      |
| (Decrease)/increase in trade and other payables | (13,632)      | 11,868        |
| Movement in working capital                     | (14,793)      | (10,704)      |
| Add back: reduction in factored invoices        | 9,807         | –             |
| Movement in working capital (underlying)        | (4,986)       | (10,704)      |



**28 Disposal of subsidiaries**

The Group disposed of the following interest in Group companies in 2011:

| Company name                    | Date of sale     | Purchaser         | Division         | Sale type |
|---------------------------------|------------------|-------------------|------------------|-----------|
| Union Químico Farmacéutica S.A. | 30 November 2011 | Third party trade | Pharma Chemicals | Share     |
| Holliday International Limited  | 30 November 2011 | Third party trade | Pharma Chemicals | Share     |
| Uquifa Mexico S.A. de C.V.      | 30 November 2011 | Third party trade | Pharma Chemicals | Share     |

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

|   | £'000    |
|---|----------|
| Property, plant and equipment                     | 24,070   |
| Other intangibles                                 | 109      |
| Inventories                                       | 13,582   |
| Trade receivables                                 | 15,776   |
| Net cash  | 388      |
| Deferred tax liability                            | (3,332)  |
| Current tax liability                             | (639)    |
| Trade payables                                    | (14,930) |
|   | 35,024   |
| Loss on disposal                                  | (458)    |
| Total consideration                               | 34,566   |
| Satisfied by:                                     |          |
| Cash (net of disposal costs)                      | 28,848   |
| Financial asset                                   | 5,718    |
|   | 34,566   |
| Cash flow:  |          |
| Cash consideration                                | 28,848   |
| Cash disposed                                     | (388)    |
| Net cash inflow arising on disposal               | 28,460   |
| Deferred consideration in form of financial asset | 5,718    |
| Net cash inflow arising on disposal (underlying)  | 34,178   |

The financial asset will be settled in cash by the buyer on or before 30 September 2014, and is subject to a bank guarantee from HSBC Bank Plc in favour of Yule Catto & Co plc (see note 18).

The impact of this disposal on the Group's results in the current period and prior periods is disclosed in note 3.

During the year the Pharma business contributed £6,548,000 to the Group's net operating cash flows and paid £4,276,000 in respect of investing activities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 29 Acquisition of subsidiaries

The Group acquired the following subsidiary companies during the year ended 31 December 2011:

#### PolymerLatex Group

The Group acquired 100% of the issued share capital of PolymerLatex Deutschland Beteiligungsgesellschaft mbH, a group focused on the manufacture of aqueous polymer latex, on 31 March 2011 for a total consideration of £150.3 million. Further details including justification for this acquisition can be found in the Chief Executive's report.

#### Quality Polymer Sdn Bhd

The Group acquired 100% of the issued share capital of Quality Polymer Sdn Bhd on 14 October 2011 through its 70% owned subsidiary Revertex (Malaysia) Sdn Bhd. The total consideration paid was £10.2 million. Quality Polymer Sdn Bhd is a manufacturer of aqueous acrylic and vinyl polymer dispersions. This acquisition has increased the Group's Dispersion production capacity and market share in Asia.

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

|  | PolymerLatex<br>Group<br>£'000 | Quality<br>Polymer<br>£'000 | Total<br>£'000   |
|--|--------------------------------|-----------------------------|------------------|
| <b>Net assets acquired</b>                           |                                |                             |                  |
| Intangible assets                                    | 180,240                        | 10,939                      | <b>191,179</b>   |
| Other intangibles                                    | 675                            | –                           | <b>675</b>       |
| Property, plant and equipment                        | 119,388                        | 991                         | <b>120,379</b>   |
| Investment in joint ventures                         | 10,975                         | –                           | <b>10,975</b>    |
| Inventories  | 32,189                         | 437                         | <b>32,626</b>    |
| Trade and other receivables                          | 46,971                         | 2,194                       | <b>49,165</b>    |
| Cash and cash equivalents                            | 32,347                         | 113                         | <b>32,460</b>    |
| Derivatives at fair value                            | (5,016)                        | –                           | <b>(5,016)</b>   |
| Trade and other payables                             | (79,765)                       | (1,881)                     | <b>(81,646)</b>  |
| Current tax liability                                | (19,264)                       | 218                         | <b>(19,046)</b>  |
| Borrowings   | (237,367)                      | –                           | <b>(237,367)</b> |
| Deferred tax liability                               | (64,471)                       | (2,844)                     | <b>(67,315)</b>  |
| Post retirement benefit obligations                  | (30,781)                       | –                           | <b>(30,781)</b>  |
| Fair value of net assets acquired                    | (13,879)                       | 10,167                      | <b>(3,712)</b>   |
| Goodwill arising on acquisition                      | 164,184                        | –                           | <b>164,184</b>   |
| Total consideration                                  | 150,305                        | 10,167                      | <b>160,472</b>   |
| Satisfied by:  |                                |                             |                  |
| Cash consideration                                   | 154,884                        | 10,167                      | <b>165,051</b>   |
| Gain on cash flow hedge                              | (4,579)                        | –                           | <b>(4,579)</b>   |
|  | 150,305                        | 10,167                      | <b>160,472</b>   |
| Cash flow:   |                                |                             |                  |
| Cash consideration                                   | 150,305                        | 10,167                      | <b>160,472</b>   |
| Cash acquired  | (32,347)                       | (113)                       | <b>(32,460)</b>  |
| Borrowings acquired                                  | 237,367                        | –                           | <b>237,367</b>   |
| Net cash outflow arising on acquisition              | 355,325                        | 10,054                      | <b>365,379</b>   |
| Special item: adjustment for factored invoices       | 30,762                         | –                           | <b>30,762</b>    |
| Net cash outflow arising on acquisition (underlying) | 386,087                        | 10,054                      | <b>396,141</b>   |

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 PolymerLatex Group represents the premium the Group paid to acquire companies which complement the existing business and create significant opportunities for cross-selling and other synergies.

**29 Acquisition of subsidiaries** continued

Acquisition transaction costs expensed:

|                                  | PolymerLatex<br>Group<br>£'000 | Quality<br>Polymer<br>£'000 | Total<br>£'000 |
|----------------------------------|--------------------------------|-----------------------------|----------------|
| in 12 months to 31 December 2010 | 4,182                          | –                           | 4,182          |
| in 12 months to 31 December 2011 | 1,159                          | 268                         | 1,427          |
|                                  | 5,341                          | 268                         | 5,609          |

In the period from acquisition to 31 December 2011 the PolymerLatex Group contributed revenue of £431,730,000 and operating profit of £45,658,000 to the Group's results.

In the period from acquisition to 31 December 2011 Quality Polymer Sdn Bhd contributed revenue of £2,088,000 and operating profit of £214,000 to the Group's results.

If the acquisition of PolymerLatex Deutschland Beteiligungsgesellschaft mbH had been completed on the first day of the financial year, total sales (including share of JV's) for the period would have been £1,268,845,000 and the Group's underlying operating profit (including share of JV's) would have been £109,650,000. The pre-acquisition results of Quality Polymer Sdn Bhd are not material to the overall result of the Group for the year ended 31 December 2011.

**30 Analysis of changes in net borrowings**

|  | 1 January<br>2011<br>£'000 | Reclassification<br>of borrowings<br>£'000 | Cash inflows/<br>(outflows)<br>£'000 | Exchange<br>and other<br>movements<br>£'000 | 31 December<br>2011<br>£'000 |
|--|----------------------------|--|--------------------------------------|---|------------------------------|
| Cash and cash equivalents                  | 36,211                     | –  | 42,208                               | 7,503                                       | <b>85,922</b>                |
| Current borrowing – Bank overdrafts        | (6,565)                    | –  | 7,851                                | (1,286)                                     | <b>–</b>                     |
|  | 29,646                     | –  | 50,059                               | 6,217                                       | <b>85,922</b>                |
| Financial asset                            | –                          | –  | 5,718                                | (129)                                       | <b>5,589</b>                 |
| Current borrowings                         | (3,311)                    | (32,834)                                   | 4,340                                | 66  | <b>(31,739)</b>              |
| Non-current borrowings                     | (102,379)                  | 32,834                                     | (154,100)                            | 7,744                                       | <b>(215,901)</b>             |
| Net borrowings                             | (76,044)                   | –  | (93,983)                             | 13,898                                      | <b>(156,129)</b>             |
| Deduct: special item fair value adjustment | 12,674                     | –  | –                                    | 85  | <b>12,759</b>                |
|  | (63,370)                   | –  | (93,983)                             | 13,983                                      | <b>(143,370)</b>             |
| Add: special item non-recourse factoring   | –                          | –  | –                                    | –   | <b>(20,955)</b>              |
| Net borrowings (underlying performance)    | (63,370)                   | –  | –                                    | –   | <b>(164,325)</b>             |

The special item represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate, together with the transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges under UK GAAP.

**31 Related party transactions**

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

**Key management compensation**

|                                     | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------------------|---------------|---------------|
| Short-term employee benefits        | <b>3,719</b>  | 2,987         |
| Post retirement benefit obligations | <b>301</b>    | 257           |
| Share-based payments                | <b>1,393</b>  | 1,148         |
|                                     | <b>5,413</b>  | 4,392         |

The key management figures given above include the directors and all participants of the Performance Share Plan.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## continued

### 32 Commitments

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Capital expenditure authorised but not provided for in the accounts |               |               |
| Contracted  | 9,441         | 3,970         |
|   | 2011<br>£'000 | 2010<br>£'000 |
| Commitments under operating leases are as follows                   |               |               |
| Payments under operating leases which fall due:                     |               |               |
| Within 1 year   | 3,830         | 3,208         |
| Between 2 and 5 years   | 8,524         | 6,090         |
| After 5 years   | 17,566        | 5,785         |
|   | 29,920        | 15,083        |

### 33 Contingent assets, contingent liabilities and guarantees

Guarantees of the parent company in respect of bank and other facilities of subsidiaries and joint ventures totalled £17,465,000 (2010 £18,782,000).

Other guarantees and contingent liabilities of the Group amount to £389,000 (2010 £1,076,000).

The Company and its subsidiaries have, in the normal course of business, entered into guarantees and counter-indemnities in respect of performance bonds, relating to the Group's own contracts.

### 34 Share-based payments

#### Executive share option schemes

Details of the share option schemes available to senior management are included in the Remuneration Report on pages 39 to 45. For grants made after 7 November 2002, the charge to profit is calculated on the assumption that, given that the exercise price is effectively nil, the share price at grant provides a reasonable estimate of the option value at grant.

For grants made before 7 November 2002, the charge to profit is based on the anticipated cash cost of acquiring shares to meet the options exercised.

|                             | Options<br>2011 | Weighted<br>av. exercise<br>price (£)<br>2011 | Options<br>2010 | Weighted<br>av. exercise<br>price (£)<br>2010 |
|-----------------------------|-----------------|---|-----------------|---|
| Outstanding at 1 January    | 6,517,753       | –   | 5,780,786       | –   |
| Granted during the period   | 1,411,135       | –   | 1,132,673       | –   |
| Exercised during the period | (124,086)       | –   | –               | –   |
| Lapsed during the period    | (289,163)       | –   | (395,706)       | –   |
| Outstanding at 31 December  | 7,515,639       | –   | 6,517,753       | –   |
| Exercisable at 31 December  | 1,783,959       |   | 2,194           |   |

For options outstanding as at 31 December 2011, the exercise price was £nil and the weighted average remaining contractual life was 4.4 years (2010 5.0 years).

#### Yule Catto Employee Benefit Trust

The Company established a trust, the Yule Catto Employee Benefit Trust, on 17 July 1996 to distribute shares to employees enabling the obligations under the Yule Catto Longer-Term Performance Share Plan and the Yule Catto Longer-Term Deferred Bonus Plan to be met. The Trust is managed by the RBC Trustees (Guernsey) Limited, an independent company located in Guernsey. At 31 December 2011, the Trust held 331,502 (2010 3,418) ordinary shares in the Company with a market value of £545,000 (2010 £7,000).

The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans.

**35 Share price information**

The middle market value of the listed ordinary shares at 31 December 2011 was 164.3 pence. During the year, the market price ranged between 148.0 pence and 253.0 pence. The market value of the listed ordinary shares at 31 March 1982 was 19.5 pence. The latest ordinary share price is available on the Financial Times Cityline service, telephone 09058 171690.

**36 Reconciliation of EBITDA**

|   | Underlying performance |               | IFRS           |               |
|---|------------------------|---------------|----------------|---------------|
|   | 2011<br>£'000          | 2010<br>£'000 | 2011<br>£'000  | 2010<br>£'000 |
| Operating profit  | <b>96,368</b>          | 50,435        | <b>54,329</b>  | 59,414        |
| Less: profit arising from the sale or closure of operations         | –                      | –             | –              | (12,271)      |
| Less: operating profit of businesses sold or closed during the year | –                      | –             | –              | (890)         |
| Add: Acquisition costs  | –                      | –             | <b>1,427</b>   | 4,182         |
| Add: Restructuring and site closure – cash costs                    | –                      | –             | <b>15,792</b>  | –             |
| Add: Restructuring and site closure – non-cash costs                | –                      | –             | <b>4,438</b>   | –             |
| Add back: amortisation – underlying                                 | <b>468</b>             | 303           | <b>468</b>     | 303           |
| Add back: amortisation – special items                              | –                      | –             | <b>20,382</b>  | –             |
| Add back: depreciation – underlying                                 | <b>18,372</b>          | 9,978         | <b>18,372</b>  | 9,978         |
| <b>EBITDA</b>   | <b>115,208</b>         | 60,716        | <b>115,208</b> | 60,716        |

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF YULE CATTO & CO PLC

We have audited the parent company financial statements of Yule Catto & Co plc for the year ended 31 December 2011 which comprise the parent company Balance Sheet and the related notes 1 to 16. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

## Other matter

We have reported separately on the group financial statements of Yule Catto & Co plc for the year ended 31 December 2011.

## Robert Knight (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Cambridge, United Kingdom

14 March 2012



**COMPANY BALANCE SHEET**

31 December 2011

|   | Note | 2011<br>£'000    | 2010<br>£'000 |
|---|------|------------------|---------------|
| <b>Fixed assets</b>                             |      |                  |               |
| Tangible fixed assets                           | 6    | <b>2,642</b>     | 2,559         |
| Investments                                     | 7    | <b>272,885</b>   | 334,137       |
|   |      | <b>275,527</b>   | 336,696       |
| <b>Current assets</b>                           |      |                  |               |
| Debtors   | 8    | <b>370,748</b>   | 1,705         |
| Cash at bank and in hand                        |      | <b>31,065</b>    | 940           |
| Derivatives at fair value                       |      | <b>17,368</b>    | 18,189        |
|   |      | <b>419,181</b>   | 20,834        |
| <b>Creditors – due within one year</b>          |      |                  |               |
| Borrowings                                      | 9    | <b>(72,337)</b>  | (3,266)       |
| Other creditors                                 | 10   | <b>(10,223)</b>  | (109,307)     |
|   |      | <b>(82,560)</b>  | (112,573)     |
| <b>Net current assets/(liabilities)</b>         |      | <b>336,621</b>   | (91,739)      |
| <b>Total assets less current liabilities</b>    |      | <b>612,148</b>   | 244,957       |
| <b>Creditors – due after more than one year</b> |      |                  |               |
| Borrowings                                      | 9    | <b>(206,071)</b> | (87,065)      |
| <b>Net assets</b>                               |      | <b>406,077</b>   | 157,892       |
| <b>Capital and reserves</b>                     |      |                  |               |
| Called up share capital                         | 11   | <b>33,988</b>    | 14,566        |
| Share premium                                   | 12   | <b>230,534</b>   | 33,034        |
| Revaluation reserve                             | 12   | <b>820</b>       | 822           |
| Capital redemption reserve                      | 12   | <b>949</b>       | 949           |
| Profit and loss account                         | 12   | <b>139,786</b>   | 108,521       |
| <b>Capital employed</b>                         |      | <b>406,077</b>   | 157,892       |
| <b>Analysis of net borrowings</b>               |      |                  |               |
| Cash at bank and in hand                        |      | <b>31,065</b>    | 940           |
| Borrowings due in less than one year            |      | <b>(72,337)</b>  | (3,266)       |
| Borrowings due after more than one year         |      | <b>(206,071)</b> | (87,065)      |
| <b>Net borrowings</b>                           |      | <b>(247,343)</b> | (89,391)      |
| Deduct: special item                            |      | <b>12,759</b>    | 12,674        |
| <b>Net borrowings (underlying performance)</b>  | 9    | <b>(234,584)</b> | (76,717)      |

The financial statements of Yule Catto & Co plc (registered number 98381) were approved on 14 March 2012.

**A M Whitfield**  
**D C Blackwood**  
Directors

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2011

## 1 Accounting policies

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

### Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets, and comply with applicable UK accounting standards.

### Foreign currencies

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

### Tangible fixed assets

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

|                              |   |
|------------------------------|---|
| Freehold buildings           | – 50 years  |
| Leasehold land and buildings | – the lesser of 50 years<br>and the period of the lease |
| Plant and equipment          | – between 3 and 10 years                                |

### Revaluation of properties

The Company has taken advantage of the transitional provisions of FRS 15 'Tangible Fixed Assets' and retained the book amounts of certain freehold properties which were revalued prior to implementation of that standard.

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

### Investments

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

### Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs.

### Dividends

Dividends are accrued where declared and unpaid at the balance sheet date.

### Taxation

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

### Deferred taxation

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

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

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

Deferred tax is measured on a non-discounted basis.

### Financial instruments

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

### Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### Trade payables

Trade payables are not interest-bearing and are stated at their nominal value.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Derivative financial instruments

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

The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives.

**1 Accounting policies** continued**Net borrowings**

Net borrowings represents cash and cash equivalents together with short and long-term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting.

**Pension funding**

The costs of contributions to the Group's pension schemes and of augmenting existing pensions are charged to the profit and loss account on a systematic basis over the expected period of benefits from employees' service.

The UK defined benefit scheme is funded, with the assets of the scheme held separately from those of the Group, in separate trustee-administered funds.

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

**2 Auditor's remuneration**

The audit fee of Yule Catto & Co plc amounted to £7,000 (2010 £7,000).

**3 Employees**

|  | 2011<br>Number | 2010<br>Number |
|--|----------------|----------------|
| The average monthly number of employees during the year was: | 23             | 26             |

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| The aggregate remuneration of all Company employees comprised: |               |               |
| Wages and salaries   | 2,500         | 2,291         |
| Social security costs  | 319           | 275           |
| Post retirement benefits                                       | 225           | 155           |
|  | 3,044         | 2,721         |

**4 Profit attributable to equity shareholders**

|                                     | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------------------|---------------|---------------|
| UK GAAP basis*                      |               |               |
| Attributable to Yule Catto & Co plc | 39,145        | 38,913        |

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

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

**5 Ordinary dividends**

|                         | 2011<br>Pence<br>per share | 2010<br>Pence<br>per share | 2011<br>£'000 | 2010<br>£'000 |
|-------------------------|----------------------------|----------------------------|---------------|---------------|
| Interim dividend        | 1.2                        | 1.3                        | 4,075         | 2,913         |
| Proposed final dividend | 2.3                        | 1.3                        | 7,817         | 4,414         |

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

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## continued

### 6 Tangible fixed assets

|                                   | Land and buildings |                          | Plant and equipment | Total        |
|-----------------------------------|--------------------|--------------------------|---------------------|--------------|
|                                   | Freeholds<br>£'000 | Long leaseholds<br>£'000 | £'000               | £'000        |
| Cost or valuation                 |                    |                          |                     |              |
| At 1 January 2011                 | 2,777              | 89                       | 1,589               | 4,455        |
| Additions                         | –                  | –                        | 216                 | 216          |
| Disposals                         | –                  | –                        | (67)                | (67)         |
| <b>At 31 December 2011</b>        | <b>2,777</b>       | <b>89</b>                | <b>1,738</b>        | <b>4,604</b> |
| At cost                           | 12                 | –                        | 1,738               | 1,750        |
| At professional valuation in 1985 | 2,765              | 89                       | –                   | 2,854        |
|                                   | 2,777              | 89                       | 1,738               | 4,604        |
| Depreciation                      |                    |                          |                     |              |
| At 1 January 2011                 | 511                | 49                       | 1,336               | 1,896        |
| Charge for the year               | 20                 | 2                        | 111                 | 133          |
| Eliminated on disposals           | –                  | –                        | (67)                | (67)         |
| <b>At 31 December 2011</b>        | <b>531</b>         | <b>51</b>                | <b>1,380</b>        | <b>1,962</b> |
| Net book value                    |                    |                          |                     |              |
| <b>At 31 December 2011</b>        | <b>2,246</b>       | <b>38</b>                | <b>358</b>          | <b>2,642</b> |
| Net book value                    |                    |                          |                     |              |
| At 31 December 2010               | 2,266              | 40                       | 253                 | 2,559        |

Properties included at valuation would have been stated on a historical cost basis at cost of **£1,877,000** (2010 £1,877,000) and depreciation of **£454,000** (2010 £437,000).

Freehold land amounting to **£1,781,000** (2010 £1,781,000) has not been depreciated.

### 7 Investments

|  | Subsidiaries<br>£'000 | Joint ventures<br>£'000 | Other investments<br>£'000 | Total<br>£'000 |
|--|-----------------------|-------------------------|----------------------------|----------------|
| Cost                                   |                       |                         |                            |                |
| At 1 January 2011                      | 334,942               | 500                     | 77                         | 335,519        |
| Disposals                              | (61,252)              | –                       | –                          | (61,252)       |
| <b>At 31 December 2011</b>             | <b>273,690</b>        | <b>500</b>              | <b>77</b>                  | <b>274,267</b> |
| Provisions                             |                       |                         |                            |                |
| At 1 January 2011 and 31 December 2011 | 1,118                 | 220                     | 44                         | 1,382          |
| Net book value                         |                       |                         |                            |                |
| <b>At 31 December 2011</b>             | <b>272,572</b>        | <b>280</b>              | <b>33</b>                  | <b>272,885</b> |
| Net book value                         |                       |                         |                            |                |
| At 31 December 2010                    | 333,824               | 280                     | 33                         | 334,137        |

Details of the principal Group companies are given on page 99.

**8 Debtors**

|                                | 2011<br>£'000  | 2010<br>£'000 |
|--------------------------------|----------------|---------------|
| Amounts owed by subsidiaries   | 359,052        | –             |
| Other debtors                  | 11,668         | 1,605         |
| Prepayments and accrued income | 28             | 100           |
|                                | <b>370,748</b> | <b>1,705</b>  |

**9 Borrowings**

|  | 2011<br>£'000  | 2010<br>£'000 |
|--|----------------|---------------|
| <b>Current borrowings</b>  |                |               |
| <b>Bank loans</b>  |                |               |
| Bank loans and overdrafts  | 44,533         | 3,266         |
| <b>Other loans</b>   |                |               |
| \$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012* | 27,821         | –             |
|  | <b>72,354</b>  | <b>3,266</b>  |
| Less: capitalised costs  | (17)           | –             |
|  | <b>72,337</b>  | <b>3,266</b>  |
| <b>Non-current borrowings</b>  |                |               |
| <b>Bank loans</b>  |                |               |
| Unsecured £150 million term loan facility expiring 2015                    | 148,995        | –             |
| <b>Other loans</b>   |                |               |
| \$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012* | –              | 27,794        |
| \$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014* | 45,290         | 45,246        |
| \$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016* | 14,234         | 14,220        |
|  | <b>208,519</b> | <b>87,260</b> |
| Less: capitalised costs  | (2,448)        | (195)         |
|  | <b>206,071</b> | <b>87,065</b> |

\* In aggregate £87.3 million, associated with which is the currency impact of derivatives of £12.7 million, net £74.6 million.

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

At 31 December 2011, the Company had available £60 million (2010 £30 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

**Analysis of borrowings at carrying value by currency**

The directors calculate the carrying value of the Company's borrowings as follows:

|   | Sterling<br>£'000 | US dollar<br>£'000 | Euro<br>£'000  | Total<br>£'000 |
|---|-------------------|--------------------|----------------|----------------|
| <b>31 December 2011</b>                 |                   |                    |                |                |
| Bank loans and overdrafts               | 8,022             | 745                | 184,761        | 193,528        |
| Loan notes                              | –                 | 87,345             | –              | 87,345         |
| Capitalised costs                       | (2,465)           | –                  | –              | (2,465)        |
|   | <b>5,557</b>      | <b>88,090</b>      | <b>184,761</b> | <b>278,408</b> |
| Cash and cash equivalents               |                   |                    |                | (31,065)       |
| Net borrowings                          |                   |                    |                | <b>247,343</b> |
| Deduct: special item*                   |                   |                    |                | (12,759)       |
| Net borrowings (underlying performance) |                   |                    |                | <b>234,584</b> |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## continued

### 9 Borrowings continued

Analysis of borrowings at carrying value by currency continued

|   | Sterling<br>£'000 | US dollar<br>£'000 | Euro<br>£'000 | Total<br>£'000 |
|---|-------------------|--------------------|---------------|----------------|
| 31 December 2010                        |                   |                    |               |                |
| Bank loans and overdrafts               | 2,994             | 175                | 97            | 3,266          |
| Loan notes                              | –                 | 87,260             | –             | 87,260         |
| Capitalised costs                       | (195)             | –                  | –             | (195)          |
|   | 2,799             | 87,435             | 97            | 90,331         |
| Cash and cash equivalents               |                   |                    |               | (940)          |
| Net borrowings                          |                   |                    |               | 89,391         |
| Deduct: special item*                   |                   |                    |               | (12,674)       |
| Net borrowings (underlying performance) |                   |                    |               | 76,717         |

\* The special item represents the revaluation of US dollar loan notes from the rate of the related cross currency swaps to the year end rate, together with the transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges under pre FRS 26 UK GAAP.

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

### 10 Other creditors

|                                    | 2011<br>£'000 | 2010<br>£'000 |
|------------------------------------|---------------|---------------|
| Amount due within one year         |               |               |
| Trade creditors                    | 1,236         | 1,674         |
| Amounts owed to subsidiaries       | –             | 96,922        |
| Other taxation and social security | 126           | 97            |
| Other creditors                    | 2,059         | 2,216         |
| Accruals and deferred income       | 6,802         | 8,398         |
|                                    | 10,223        | 109,307       |

### 11 Share capital

|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Issued and fully paid   |               |               |
| 339,880,769 (2010 145,663,187) ordinary shares of 10 pence each | 33,988        | 14,566        |
| Issued and nil paid   |               |               |
| Nil (2010 194,217,582) ordinary shares of 10 pence each         | –             | –             |

Ordinary shares carry no right to fixed income.

### Share options

As at 31 December 2011 the following options were outstanding:

| Executive share options       | Number    | Option price |
|-------------------------------|-----------|--------------|
| Exercisable between 2011-2018 | 936,575   | (a)          |
| Exercisable between 2012-2019 | 4,224,840 | (b)          |
| Exercisable between 2013-2020 | 1,040,015 | (c)          |
| Exercisable between 2014-2021 | 1,314,209 | (d)          |

(a) Options granted under the Performance Share Plan with a total exercise price of £16.

(b) Options granted under the Performance Share Plan with a total exercise price of £17.

(c) Options granted under the Performance Share Plan with a total exercise price of £20.

(d) Options granted under the Performance Share Plan with a total exercise price of £36.



## 12 Share premium and reserves

|                              | Share premium<br>£'000 | Revaluation reserve<br>£'000 | Capital redemption reserve<br>£'000 | Profit and loss account<br>£'000 | Total<br>£'000 |
|------------------------------|------------------------|------------------------------|-------------------------------------|----------------------------------|----------------|
| At 1 January 2011            | 33,034                 | 822                          | 949                                 | 108,521                          | 143,326        |
| Profit for the year          | –                      | –                            | –                                   | 39,145                           | 39,145         |
| Dividends                    | –                      | –                            | –                                   | (8,489)                          | (8,489)        |
| Retained profit for the year | –                      | –                            | –                                   | 30,656                           | 30,656         |
| Issue of shares              | 197,500                | –                            | –                                   | –                                | 197,500        |
| Share-based payments         | –                      | –                            | –                                   | 609                              | 609            |
| Revaluation depreciation     | –                      | (2)                          | –                                   | –                                | (2)            |
| At 31 December 2011          | <b>230,534</b>         | <b>820</b>                   | <b>949</b>                          | <b>139,786</b>                   | <b>372,089</b> |

## 13 Related party transactions

There were no related party transactions during the year (2010 none).

## 14 Guarantees and other financial commitments

The Company has given guarantees amounting to **£17,465,000** (2010 £18,782,000) in respect of bank and other facilities of subsidiaries and joint ventures.

## 15 Pension commitments

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

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

The pension charge for the year for the Company amounted to **£14,132,000** (2010 £14,213,000).

In accordance with FRS 17, the Company will account for its contributions to the defined benefit scheme as if it were a defined contribution scheme because it is not possible to identify the Company's share of the assets and liabilities in the scheme on a consistent and reasonable basis. The latest actuarial valuation of the scheme prepared for the purposes of making transitional disclosure in accordance with FRS 17 shows a net pension liability of **£73,126,000** at 31 December 2011 (2010 £56,158,000).

## FRS 17 disclosure

Due to the application of IAS 19 to the Group financial statements, resulting in changes to the required disclosures at Group level, the disclosure requirements of FRS 17 for the Group have been included below.

A full actuarial valuation was carried out as at 6 April 2009 and updated to 31 December 2011 by a qualified actuary.

The major assumptions used by the actuary were:

|   | 2011         | 2010  | 2009  | 2008  | 2007  |
|---|--------------|-------|-------|-------|-------|
| Rate of increase in salaries              | <b>N/A</b>   | N/A   | 3.00% | 2.60% | 3.10% |
| Rate of increase in pensions in payment   | <b>3.00%</b> | 3.25% | 3.00% | 2.50% | 2.50% |
| Rate of increase in pensions in deferment | <b>2.00%</b> | 2.25% | 3.00% | 2.50% | 2.50% |
| Discount rate                             | <b>4.80%</b> | 5.40% | 5.70% | 6.50% | 5.90% |
| Inflation assumption                      | <b>3.00%</b> | 3.25% | 3.00% | 2.60% | 3.10% |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

## continued

### 15 Pension commitments continued

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at each balance sheet date were:

|                                     | 2011<br>% | 2011<br>£'000 | 2010<br>% | 2010<br>£'000 | 2009<br>% | 2009<br>£'000 | 2008<br>% | 2008<br>£'000 | 2007<br>% | 2007<br>£'000 |
|-------------------------------------|-----------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|-----------|---------------|
| Equities                            | 6.60      | 105,027       | 7.70      | 110,702       | 8.00      | 113,673       | 9.00      | 90,541        | 8.00      | 148,747       |
| Bonds                               | 4.80      | 69,900        | 5.40      | 60,829        | 5.70      | 54,243        | 6.70      | 47,614        | 5.17      | 44,925        |
| Property                            | 6.60      | 18,709        | 7.70      | 10,480        | —         | —             | —         | —             | —         | —             |
| Cash                                | 0.80      | 5,309         | 2.00      | 12,011        | 2.00      | 3,899         | 4.25      | 438           | 4.25      | 1,953         |
| Total fair value of assets          |           | 198,945       |           | 194,022       |           | 171,815       |           | 138,593       |           | 195,625       |
| Present value of scheme liabilities |           | (272,071)     |           | (250,180)     |           | (241,475)     |           | (205,721)     |           | (228,966)     |
| Deficit in the scheme               |           | (73,126)      |           | (56,158)      |           | (69,660)      |           | (67,128)      |           | (33,341)      |
| Related deferred tax asset          |           | —             |           | —             |           | —             |           | —             |           | —             |
| Net pension liability               |           | (73,126)      |           | (56,158)      |           | (69,660)      |           | (67,128)      |           | (33,341)      |

Contributions from the sponsoring companies are expected to be £10,139,000 in 2012.

#### Analysis of the amount that would have been charged to operating profit under FRS 17

|                      | 2011<br>£'000 | 2010<br>£'000 |
|----------------------|---------------|---------------|
| Current service cost | 678           | 607           |
|                      | 678           | 607           |

#### Analysis of the amount that would have been charged to net finance income under FRS 17

|  | 2011<br>£'000 | 2010<br>£'000 |
|--|---------------|---------------|
| Expected return on pension scheme assets | (12,707)      | (12,296)      |
| Interest on pension scheme liabilities   | 13,229        | 13,450        |
|  | 522           | 1,154         |

#### Analysis of the actuarial (loss)/gain that would have been recognised in the statement of total recognised gains and losses

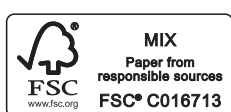
|   | 2011<br>£'000 | 2010<br>£'000 |
|---|---------------|---------------|
| Actual return less expected return on pension scheme assets   | (10,444)      | 7,576         |
| Experience gains and losses arising on the scheme liabilities | (19,055)      | (6,500)       |
|   | (29,499)      | 1,076         |

#### History of experience gains and losses

|  | 2011     | 2010    | 2009     | 2008     | 2007    |
|--|----------|---------|----------|----------|---------|
| Difference between the expected and actual return on scheme assets:                              |          |         |          |          |         |
| Amount (£'000)   | (10,444) | 7,576   | 21,209   | (64,742) | (5,891) |
| Percentage of scheme assets (%)  | (5.25)   | 3.90    | 12.34    | (46.71)  | (3.01)  |
| Experience (losses)/gains on scheme liabilities:   |          |         |          |          |         |
| Amount (£'000)   | (19,055) | (6,500) | (32,753) | 25,273   | 25,872  |
| Percentage of the present value of scheme liabilities (%)  | (7.00)   | (2.60)  | (13.56)  | 12.29    | 11.30   |
| Total actuarial (losses)/gains recognised in the statement of total recognised gains and losses: |          |         |          |          |         |
| Amount (£'000)   | (29,499) | 1,076   | (11,544) | (39,469) | 19,981  |
| Percentage of the present value of scheme liabilities (%)  | (10.84)  | 0.43    | (4.78)   | (19.19)  | 8.73    |

### 16 Share-based payments

For details of share-based payments please refer to note 34 to the consolidated financial statements on page 88.



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## PRINCIPAL SUBSIDIARIES AND JOINT VENTURES

|  | Country of<br>incorporation<br>and operation | Effective<br>Group interest<br>in equity<br>% |
|--|--|---|
| <b>Operating companies</b>   |  |   |
| <b>Arkem (Pty) Ltd</b><br><i>Distributor of specialty chemicals and allied products</i>  | South Africa                                 | 50 <sup>#</sup>                               |
| <b>Eka Synthomer Oy</b><br><i>Styrene-butadiene latex products</i>   | Finland                                      | 50 <sup>#</sup>                               |
| <b>PolymerLatex Sdn Bhd</b><br><i>Synthetic rubber latices</i>   | Malaysia                                     | 100   |
| <b>Quality Polymer Sdn Bhd</b><br><i>Acrylic and vinyl polymer dispersions</i>   | Malaysia                                     | 70  |
| <b>Revertex (Malaysia) Sdn Bhd</b><br><i>Synthetic resin and emulsions, natural rubber latices,<br/>plasticers and allied products</i>               | Malaysia                                     | 70  |
| <b>Synthomer BV</b><br><i>Latex based compounds</i>  | Netherlands                                  | 100   |
| <b>Synthomer Chemicals (Pty) Ltd</b><br><i>Synthetic resin and emulsions and allied products</i>   | South Africa                                 | 100   |
| <b>Synthomer Deutschland GmbH</b><br><i>Synthetic rubber latices and emulsions</i>   | Germany                                      | 100   |
| <b>Synthomer GmbH</b><br><i>Synthetic rubber latices</i>   | Germany                                      | 100   |
| <b>Synthomer Ltd</b><br><i>Synthetic rubber latices and emulsions, latex based compounds,<br/>polyvinyl alcohol/acetate and liquid polybutadiene</i> | England                                      | 100*  |
| <b>Synthomer Middle East Company</b><br><i>Acrylic and vinyl resin emulsions</i>   | Saudi Arabia                                 | 49 <sup>#</sup>                               |
| <b>Synthomer SAE</b><br><i>Latex based compounds</i>   | Egypt  | 88  |
| <b>Synthomer Sdn Bhd</b><br><i>Synthetic rubber latices</i>  | Malaysia                                     | 100   |
| <b>Synthomer S.r.l.</b><br><i>Synthetic rubber latices and acrylic polymer dispersions</i>   | Italy  | 100   |
| <b>Synthomer Vietnam Co. Ltd</b><br><i>Acrylic and vinyl emulsions</i>   | Vietnam                                      | 60  |
| <b>William Blythe Ltd</b><br><i>Inorganic chemicals</i>  | England                                      | 100   |
| <b>Holding companies</b>   |  |   |
| Holliday Chemical Holdings   | England                                      | 100   |
| Yule Catto Financing Ltd   | Ireland                                      | 100   |
| Yule Catto Holdings GmbH   | Germany                                      | 100   |
| Yule Catto Nederland BV  | Netherlands                                  | 100   |

# Joint ventures.

\* Shares held by Yule Catto &amp; Co plc.

## FIVE YEAR FINANCIAL SUMMARY

|                                       |     | 2011<br>£'000    | 2010<br>£'000 | 2009<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
|---------------------------------------|-----|------------------|---------------|---------------|---------------|---------------|
| <b>Underlying performance (a) (f)</b> |     |                  |               |               |               |               |
| Total sales                           |     | <b>1,116,862</b> | 582,858       | 466,867       | 527,190       | 441,298       |
| EBITDA                                | (b) | <b>115,208</b>   | 60,716        | 53,976        | 42,038        | 42,029        |
| Operating profit                      | (c) | <b>96,368</b>    | 50,435        | 43,845        | 36,426        | 33,814        |
| Finance costs                         |     | <b>(11,573)</b>  | (7,840)       | (9,869)       | (10,502)      | (11,497)      |
| Profit before taxation                |     | <b>84,795</b>    | 42,595        | 33,976        | 25,924        | 22,317        |
| Basic earnings per share              |     | <b>18.8p</b>     | 14.5p         | 11.3p         | 9.2p          | 7.4p          |
| Dividends per share                   |     | <b>3.5p</b>      | 2.6p          | N/A           | 2.6p          | 6.2p          |
| Dividend cover                        |     | <b>5.4</b>       | 5.6           | N/A           | 3.5           | 1.2           |
| Net borrowings                        | (e) | <b>(164,325)</b> | (63,370)      | (88,038)      | (135,482)     | (170,831)     |
| Free cash flow before dividends       | (d) | <b>36,331</b>    | 9,825         | 39,001        | 7,781         | 14,012        |
| Capital expenditure                   | (d) | <b>24,248</b>    | 10,592        | 8,687         | 17,007        | 16,994        |

|   |     | 2011<br>£'000    | 2010<br>£'000 | 2009<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
|---|-----|------------------|---------------|---------------|---------------|---------------|
| <b>IFRS – continuing operations (f)</b> |     |                  |               |               |               |               |
| Total sales                             |     | <b>1,116,862</b> | 588,547       | 478,103       | 538,262       | 450,690       |
| EBITDA                                  | (b) | <b>115,208</b>   | 60,716        | 53,976        | 42,038        | 42,029        |
| Operating profit                        | (c) | <b>54,329</b>    | 59,414        | 45,835        | 37,277        | 46,142        |
| Finance costs                           |     | <b>(14,890)</b>  | (5,195)       | (14,270)      | (1,887)       | (7,050)       |
| Profit before taxation                  |     | <b>39,439</b>    | 54,219        | 31,565        | 35,390        | 39,092        |
| Basic earnings per share                | (f) | <b>9.8p</b>      | 20.7p         | 11.8p         | 12.9p         | 13.3p         |
| Dividends per share                     |     | <b>3.5p</b>      | 2.6p          | N/A           | 2.6p          | 6.2p          |
| Dividend cover                          |     | <b>2.8</b>       | 8.0           | N/A           | 5.0           | 2.1           |
| Net borrowings                          | (e) | <b>(156,129)</b> | (76,044)      | (97,646)      | (161,448)     | (150,341)     |
| Free cash flow before dividends         | (d) | <b>36,331</b>    | 9,825         | 39,001        | 7,781         | 14,012        |
| Capital expenditure                     | (d) | <b>24,248</b>    | 10,592        | 8,687         | 17,007        | 16,994        |

(a) As presented in the consolidated income statement on page 48.

(b) As defined in the accounting policies at note 2 and derived in note 36.

(c) As defined in note 2 to the financial statements on pages 53 to 58.

(d) As shown with the consolidated cash flow statement on page 51.

(e) As defined in note 2 to the financial statements and derived in note 22.

(f) 2007 to 2010 figures restated to exclude Pharma Chemicals.