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Yule Catto & Co plc
Annual Report
For the year ended 31 December 2010

YULE CATTO

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The Group delivered a 19% improvement in underlying profit before tax and achieved a further substantial reduction in its debt over the course of the year.

Financial highlights

Total sales

£646m

Earnings per share*

16.2p

Profit before taxation*

£47.0m

Increase in profit before taxation*

+19%

* Underlying performance

- → Profit before taxation* up 19% to £47.0 million (2009 £39.6 million)
- → Polymers operating profit* ahead by 10%
- → Earnings per share* up 22% at 16.2 pence (2009 13.3 pence)
- → Substantial reduction in net debt* to £63 million (2009 £88 million)

	Underlying performance[a]		IFRS	
Continuing operations	**2010 £'000**	2009 £'000	**2010 £'000**	2009 £'000
Total sales[b]	**645,791**	532,162	**651,480**	543,398
EBITDA[c]	**69,503**	64,092	**69,503**	64,092
Operating profit	**54,885**	49,416	**63,006**	21,406
Profit before taxation	**47,045**	39,547	**57,811**	7,136
Earnings per share[g] [h]	**16.2p**	13.3p	**22.0p**	2.6p
Dividends per share[d] [g]	**2.6p**	N/A	**2.6p**	N/A
Net borrowings[e]	**63,370**	88,038	**76,044**	97,646
Cash generated from operations	**42,228**	64,499	**42,228**	64,499
Free cash flow before dividends[f]	**9,825**	39,001	**9,825**	39,001

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 38.
(f) As shown within the consolidated cash flow statement on page 39.
(g) As restated for rights issue – see note 37.
(h) As restated – 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.

Group overview

Divisions

Polymer Chemicals

Key products
- Emulsions
- Synthetic latices
- Adhesives
- Natural rubber latex
- Liquid polybutadiene
- Polyvinyl alcohol
- Polyvinyl acetate
- Alkyd and polyester resins

Markets
- Surface coatings
- Construction
- Dipping – eg gloves
- Carpets and non-woven

Pharma Chemicals

Key products
- Generic and ethical pharmaceutical actives
- Development and manufacture of clinical phase compounds

Markets
- Generic and ethical drug manufacture
- Generic drugs

Impact Chemicals

Key products
- Inorganic specialities

Markets
- Catalyst pre-cursors
- Flame retardants
- Iodates

"The Group delivered a 19% improvement in underlying profit before tax, and achieved a further substantial reduction in its debt over the course of the year. These results consolidate the considerable progress we have made over the last three years.

The highlight of the year was the acquisition of PolymerLatex announced in December, which will substantially enhance the Group's scale and growth opportunities."

Yule Catto – a world class business

Principal subsidiaries and joint venture as listed on page 82.

Locations (Yule Catto)

Belgium	01	Synthomer SA, Mouscron
China	02	Yule Catto Asia Ltd., Guangzhou
Egypt	03	Synthomer SAE, Sharkiya
England	04	Synthomer Ltd., Batley
	05	Synthomer Ltd., Harlow
	06	Synthomer Ltd., Ossett
	07	Synthomer Ltd., Stallingborough
	08	William Blythe Ltd., Accrington
Germany	09	Synthomer GmbH, Langelsheim
Malaysia	10	Revertex (Malaysia) & Synthomer Sdn Bhd, Kluang
Mexico	11	Uquifa Mexico S.A.C.V., Cuernavaca
Netherlands	12	Synthomer BV, Hasselt
	13	Synthomer BV, Oss
Saudi Arabia	14	Synthomer Middle East Company, Dammam
South Africa	15	Revertex Chemicals (Pty) Ltd. & Synthomer South Africa, Durban
Spain	16	Uquifa SA, Barcelona
	17	Uquifa SA, Lliçà de Vall
	18	Uquifa SA, Sant Celoni
Vietnam	19	Synthomer Vietnam Co. Ltd., Ho Chi Minh City

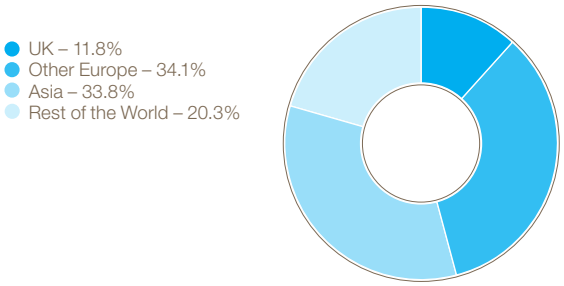
Locations (PolymerLatex)

Finland	20	Eka PolymerLatex Oy., Oulu
Germany	21	PolymerLatex GmbH, Marl
	22	PolymerLatex GmbH, Worms
Italy	23	PolymerLatex Srl, Filago
Malaysia	24	PolymerLatex Sdn Bhd, Pasir Gudang
UAE	25	PolymerLatex GmbH, Dubai

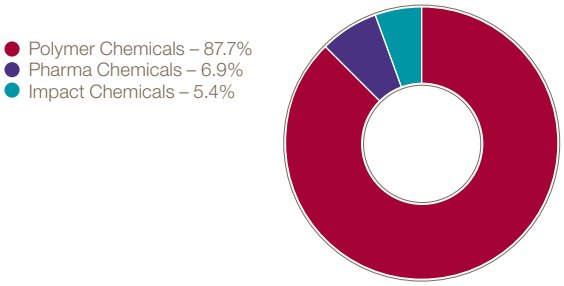
* The Group announced the acquisition of PolymerLatex on 13 December 2010. The acquisition was not complete at the date of the annual accounts.

Chairman's statement

Total sales by destination %
as derived from note 4 to financial statements on page 48



Divisional operating profit %
as derived from note 4 to financial statements on page 46



Performance

2010 was a very good year for Yule Catto, building on the strong improvement in Group performance delivered in 2009.

Underlying Group profit before tax increased by 19% to £47.0 million, and earnings rose by 22% to 16.2 pence per share. Net debt reduced further by £25 million to only £63 million. In the last three years we have lowered our net debt by £107 million, whilst improving earnings per share by 62%, despite the deep recession of 2009.

The Group's core business of Polymers accounted for 85% of Group revenue in 2010 and 88% of divisional operating profits. Volumes were ahead in most areas of the business and operating profit increased by 10%, a good result after the strong improvement of 27% we achieved in 2009.

Our strategy in Polymers remains focused on geographical expansion around existing business hubs, further increasing our presence in emerging markets, particularly in Asia, and in developing market sectors where our technology, new product development and manufacturing capabilities give us a real competitive advantage. We started construction of 15,000 tonnes of new nitrile capacity during the year, and we expect production from this expansion to commence in the first half of 2011.

The Pharma business now represents just 10% of Group revenue, and 7% of divisional operating profit. The business started slowly, with a weak first quarter, but performance improved during the year. Full year operating profit was £1.1 million below prior year.

Our one remaining Impact business, William Blythe, continued to improve generating £3.5 million of operating profit and we expect it will continue to show further improvement over the course of 2011.

PolymerLatex Acquisition

The highlight of the year was the acquisition of PolymerLatex for a consideration of £376 million which we announced in December 2010. This is a transformational transaction for the Group, substantially increasing the scale and opportunities of our core Polymer business. We anticipate eventual annual cost synergies of £20 million from the integration of the business.

The Group's balance sheet has also been strengthened with the significant amount of equity and debt raised for the acquisition, and my thanks go to our shareholders for their support in this important transaction. We expect to complete the transaction at the end of March.

Dividend

The Group returned to paying dividends at the half year, with an interim payment of 2 pence per share, with a commitment to pay at least 5 pence in total for the full year. The remaining 3 pence per share would equate to £4.4 million on the original number of shares in issue prior to the acquisition of PolymerLatex. At the time of the PolymerLatex announcement, the Group undertook to honour the cash commitment, and the final recommended dividend is therefore a cash dividend of £4.4 million, which, on the enlarged number of shares, equates to 1.3 pence per share.

Safety, Health and Environment

The Group is absolutely committed to the continuous improvement of its performance in respect of Safety, Health and the Environment. 2010 marked the end of Yule Catto's first period of commitment to the Chemical Industries Sustainable Development goals. I am delighted to report over the ten years of this commitment our performance has sharply improved, and the decade ended with all of our sustainability targets significantly bettered.

I would like to thank all of our employees, whose continuing support and contribution has made 2010 such a successful year for the Group.

Outlook

Looking forward, we will be reporting results for the enlarged Group. In our core markets, we continue to anticipate several years of low growth in Western markets with global growth generally driven by emerging markets. Following the acquisition of PolymerLatex, we will have a stronger business in Europe and we will remain well placed to access the attractive opportunities in Asia and other emerging economies with over a third of our combined Polymers business in these markets. We continue to anticipate significant operational synergies from the acquisition and we expect the combined business will enjoy additional market development opportunities.

Raw material prices have risen strongly over recent months, exacerbated by the situation in the Middle East. Both Yule Catto and PolymerLatex have been successful in passing through price increases in recent years, and we intend to continue to remain focused on this in the enlarged Group.

Both Yule Catto and PolymerLatex have made a solid start to the year, and we are confident about the prospects for the enlarged Group in the years ahead.

Peter Wood
Chairman
9 March 2011

> 2010 was a very good year for Yule Catto, building on the strong improvement in Group performance delivered in 2009.

Chief Executive's report

The Group delivered a 19% improvement in underlying profit before tax, and achieved a further substantial reduction in its debt over the course of the year. This was a good performance, consolidating the substantial increase in profits and debt reduction we delivered in 2009.

Overview

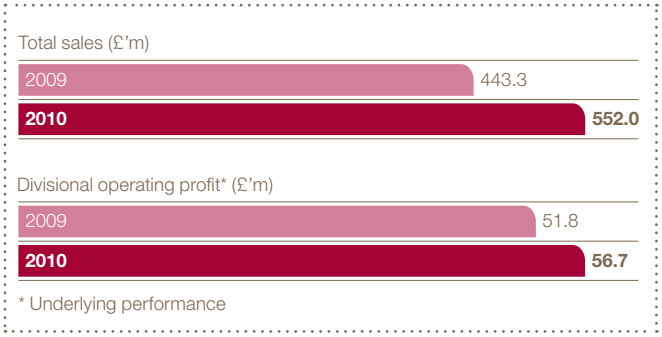
Polymers (85% of sales) saw volumes increase by 4% for the year whilst increasing its operating profit by 10% to £56.7 million. As expected this was characterised by strong demand growth in Asia and only modest improvement elsewhere. We progressed the expansion of our nitrile facility in Malaysia, commencing construction of 15,000 tonnes of new capacity which will start production in the first half of 2011.

The acquisition of PolymerLatex was announced in December 2010 and is on track to complete by the end of March 2011, and will substantially increase the scale of our Polymer business. PolymerLatex is a leading global player in latex products, with a strong and diversified portfolio of products and well invested facilities in Europe and Asia. Its combination with Yule Catto will result in a business with increased scale, established market positions, improved cash generation capability and a product portfolio that will provide a foundation from which the enlarged group can grow and compete more effectively in a consolidating emulsion polymers market. It will also accelerate our strategy of investment in new products and expansion into attractive emerging markets.

Pharmaceuticals (10% of sales) saw a decline in profits, of £1.1 million, after a slow start to the year. We filed 3 Drug Master Files (DMF's) in the year as we continue to develop our generic pipeline. The API manufacturing industry however remains challenging with competition from cheaper manufacturing economies in Asia continuing to develop.

We completed most of the restructuring of the Impact Division with the sale of four of the five operating units over the course of 2008. During 2010 the remaining business, William Blythe, further improved, delivering operating profits of some £3.5 million.

Polymer Chemicals



The core products of Polymer Division are water-based emulsion polymers, formulated around vinyl acetate and acrylic dispersions, styrene and nitrile butadiene rubber, as well as polyvinyl alcohol/acetate, and a number of smaller specialist products. The Division's manufacturing assets consist of 22 production units on 14 sites within four geographical regions – Europe, South East Asia, Middle East and South Africa, and employing approximately 1,300 people. The Division trades under the Synthomer and Revertex brand names around the world, and its products are utilised in a wide range of industries, including coatings, adhesives and construction, where they deliver a range of product performance benefits, from enhanced waterproofing to scratch resistance. It is also a major supplier to the medical industry where its natural rubber and synthetic nitrile latex polymers, are used in the manufacture of condoms, catheters, surgical and examination gloves where it holds a world leading position.

2010 proved to be another successful year for the Division, in challenging circumstances with progress again made on a number of fronts. In many markets there was positive economic recovery, particularly in Asia, however, Europe and the US proved more sluggish and remained weaker than had been predicted. In most markets volumes developed strongly through the first half, although this was followed by more variable performance in some European markets in the later part of the year. The Division's full year polymer volumes were up 4%, led by excellent performance in nitrile butadiene rubber, alkyd resins and specialities which all delivered significant double digit growth.

Raw material supply and pricing, in particular acrylic and butadiene monomers, created a number of difficulties which the business worked hard to overcome throughout the year. All monomer prices showed a resilient upward move during the year and this combined with a tight supply environment created a number of challenges for the business. However the Division was generally able to mitigate these by effective procurement strategies enabling production to continue albeit with significantly higher input prices. In the light of the rising raw material costs and relatively stable demand in Europe, the Division's priority was to ensure a balanced approach to margin and volume with a continued focus on value delivery, which was broadly successful. The cost strategy employed in 2009 delivered benefits in 2010 with full year costs down on 2009.

Innovation interior

1 Emultex VV67-Series

Emultex VV67-Series is a new range of polymer dispersions introduced in 2010 for use in modern domestic wall and ceiling paints. The Emultex VV67-Series uses new monomer combinations in the design of binders for highly washable, scrub resistant vinyl wall paints. Emultex VV673 in particular can be used in a wide range of matt and silk paint finishes and has been designed to meet stringent requirements set out by the European Community eco-label regulations for indoor paints.

2 Revacryl 5737

Revacryl 5737 was developed as a new polymer for the formulation of solvent free, low odour, emulsion paints for interior decorating. The polymer is used in high quality, wash resistant paints. Another innovative product created to meet the most stringent demands for environmentally friendly, low VOC, interior paints that are becoming increasingly important to global markets.

3 Revacryl 30128

Revacryl 30128, a new, APEO free, pure acrylic copolymer dispersion, was developed to complement our existing flooring adhesive range. Produced as an adhesive for laying carpet tiles, it offers excellent adhesion to a wide range of backing materials. The overall polymer design not only provides a permanently tacky film to prevent loose lay carpet tiles from moving, but also allows the carpet to be lifted and replaced with ease.

4 Synthomer 3560

Synthomer 3560 is a new cross-linked polymer latex for woven carpets that meets the latest regulatory and indoor air quality requirements. Synthomer 3560 gives a high quality carpet backing with good runnability on the coater and a high penetration into the woven yarn. The product has excellent cut edge strength in the end application, leading to a high quality and durable carpet.

> Polymers saw volumes increase by 4%, whilst increasing operating profit by 10%.

More information at:
www.yulecatto.com

Chief Executive's report continued

We upgraded our latex and lithene research facilities during the year, and higher margin new product launches supported profitability over the course of the year.

The UK business in particular suffered during the year with three unplanned events holding back latex production volumes over the course of the year. Butadiene supply issues in the first quarter were effectively resolved by sourcing higher cost raw materials from Europe, a styrene fire at the Stallingborough plant temporarily impacted production in the third quarter and the extremely cold weather in December reduced our ability to produce and ship.

Synthetic Latex

Polymer Division's Synthetic Latex dispersions business consists of two product families, Styrene Butadiene Rubber (SBR) manufactured in Germany and the UK and Nitrile Butadiene Rubber (NBR) manufactured in the UK and Malaysia.

Overall SBR latex had a very positive year with a degree of recovery in the construction and specialities market, with non carpet volumes improving by almost 7% over 2009. Previously mentioned issues in Stallingborough did limit progress in the carpet market where conditions also remained difficult and volumes were down on prior year.

In NBR the business experienced strong demand for gloves, in part bolstered by the high cost of natural rubber. Margins were held stable in the face of rising monomer costs and strong competition. To meet the continued growth in demand for NBR the Board approved a new phase of expansion in Malaysia, which is expected to start up before the end of H1 2011 and add 15,000 tonnes of capacity.

Dispersions

2010 was a disappointing year for Dispersions with low customer demand in the European decorative paint market. Slightly lower volumes than 2009 were also experienced in South Africa and the Middle East however, strong margin management allowed these businesses to deliver an improved bottom line. Asia, as in most other product groups, developed positively during the year with volumes strongly ahead.

Compounds

The European carpet market remains in a volatile state, and while there is evidence that the market is strengthening, volumes declined slightly from 2009. While a number of customers have reported anticipated improvements this is yet to be reflected in visible demand or actual sales.

Specialities

Polyvinyl Alcohol

Alcotex® had another very good year with excellent progress in both volume and margin. Demand globally recovered and volumes moved ahead strongly, with a particularly strong performance in Asia. During the year further investment was made in improving plant performance which resulted in several record months of production.

Liquid Polybutadiene

2010 saw a very strong recovery in Lithene® sales on the back of a more buoyant automotive sector. Volumes increased strongly and the work on improving product mix has continued to deliver benefits. Further investments in the plant during the year have delivered more consistent quality and the ability of this plant to produce at higher levels of output.

Alkyds and Polyester

The recovery of industrial markets in South East Asia drove demand for Alkyd resins while the lack of new infrastructure projects severely retarded Polyester sales. The flexible nature of these plants allowed more Alkyd Resin to be produced resulting in a double digit volume increase and strong margins, while Polyester experienced a decline. In aggregate, the combined business delivered a good volume increase, and improved profitability.

Natural Rubber

Natural Rubber had a very difficult year with volumes down 6%. Heavy rainfall in Southern Thailand and Malaysia resulted in lower volumes of field latex and CL60 which resulted in a strong and consistently upward move for the natural rubber price. These conditions forced many manufacturers to halt production, or switch to NBR where they could, resulting in the lowest sales volume achieved for a number of years. However, this volume deficit was more than compensated by higher pricing and increased margin.

> Higher margin new product launches supported profitability over the course of the year.

Innovation infrastructure

1 Synthomer 11003

Synthomer 11003 is based on the latest styrene butadiene latex technology. The next generation polymer for 'liquid applied membrane' products (damp proof membranes) has been specifically developed to meet demanding environmental and regulatory needs. The main application is protecting substrates like plasterboard and wood against water and moisture vapour. The liquid membrane is typically applied on the wall before tiling, for example, in bathrooms and similar wet room constructions.

2 Synthomer 902-Series

Synthomer has developed the 902-Series of SBR latices for chemical bonding of polyester nonwoven reinforcement materials for roofing applications. Modified bitumen membranes for modern and ecological flat or low-slope roofing systems require high performance reinforcement materials, such as fiber glass, polyester or composite materials. Based on a highly cross-linked polymer, these latices provide excellent processability as well as the required strength and thermo-dimensional stability performance in the finished nonwoven materials. They contribute to the durability of modern flat roofing systems for both industrial and residential construction projects.

3 Revacryl 5840

Revacryl 5840 is an environmentally friendly, APEO-free and low odour styrene acrylic copolymer for primer applications. Revacryl 5840 has been designed to form a polymer film sealing the substrate surface and ensuring excellent adhesion of the subsequently applied levelling compound. High performance primers are required for example when applying self levelling flooring compounds, in order to ensure good bonding of the compound to the substrate. Revacryl 5840 has been designed to be used on mineral surfaces as a universal adhesion promoter in demanding applications.

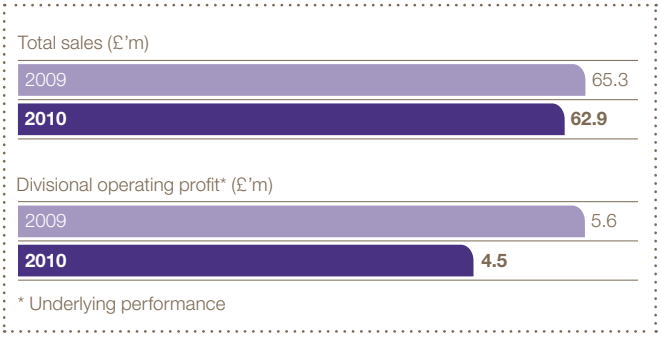
4 Revacryl 5511

Revacryl 5511 enables the formulation of coatings with high water resistance, excellent crack bridging properties and low dirt pick up. A new elastomeric acrylic copolymer dispersion has been introduced for flexible, exterior wall coatings. The polymer was designed for coatings which are extremely flexible under cold conditions, but do not become tacky and attract dirt at higher temperatures. Coatings based on Revacryl 5511 can be applied to exterior walls with cracks of up to 2mm and remain in excellent condition, even after exposure to low temperatures.

More information at:
www.yulecatto.com

Chief Executive's report continued

Pharma Chemicals



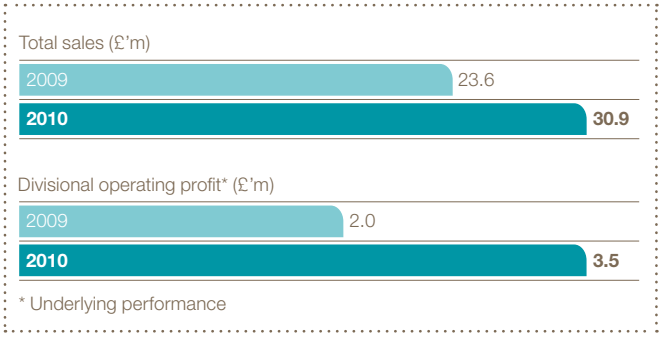
Pharma Chemicals manufactures a broad range of active pharmaceutical ingredients for the life science industry at manufacturing facilities in Barcelona, Spain and Cuernavaca, Mexico. The products are marketed to a broad range of blue chip generic and ethical customers who formulate and distribute the finished dosage form.

Destocking at most of our customers finished in the first six months, and the order book strengthened through the year. However, following the weak start to the year, the business ended the year with operating profits some £1.1 million below 2009. Costs remained in line with expectations, even after taking into account utility and raw material price rises. This was achieved by continued productivity and process improvements throughout the year.

Our strategy of selective dossier development saw the approval of a marketing authorisation in Portugal for Omeprazole. We intend to roll this out to the wider European market over the next 18 months. The strategy of registration of other marketing authorisations of an enlarged range of generic products was developed during 2010, and we made our first finished dosage sales of Pantoprazole.

In Mexico the sales increases of 2009 were consolidated in 2010, through a strong increase in generic sales versus ethical products.

Impact Chemicals



Impact Chemicals originally comprised five businesses, four of which were sold during 2008. The remaining business, William Blythe, is a worldwide supplier of inorganic specialities based on copper, iodine and tin from its UK manufacturing facility. Products are used in a range of applications such as semiconductor manufacture, pharmaceutical actives, non-toxic flame retardants, safety glass coatings and catalysts.

During the period, William Blythe traded ahead of 2009.

Innovation in Asia

Investment
The Group is investing £7 million in its 'Phase V' expansion of its nitrile latex facility in Malaysia. This will bring 15,000 tonnes of new capacity on line in the first half of 2011. The Group remains committed to long-term investment in nitrile latex to support its customers in the high growth synthetic gloves market.

Innovation
Synthomer has invested heavily in Research and Development facilities in Malaysia to support the nitrile latex market. This investment has paid off with well over 50% of sales in 2010 from products introduced in the last three years. One example is our self crosslinking grade which removes the need for accelerators in the glove dipping process (which can cause allergies) thereby creating a premium product for the glove market.

More information at:
www.yulecatto.com

Financial review

Income Statement – Underlying Performance

Total sales increased by 21% driven in the main by the recovery of input price increases and volume gains in the Polymer business. Translation increased turnover by 2.2%. Turnover within Europe comprised some 46% of sales (2009 50%), with sales outside Europe heavily skewed towards Asia and other developing economies, which accounted for 46% of turnover.

Underlying operating profit of £54.9 million was ahead by 11%, driven by higher Polymer profitability, whilst finance costs fell to £7.8 million (2009 £9.9 million) on lower net borrowings.

The underlying tax rate of 19% (2009 20%) reflects the benefits of pioneer status on our investment in Malaysia.

Profit attributable to minority interests was £1.3 million (2009 £1.6 million).

The resultant underlying earnings per share of 16.2 pence is a year-on-year increase of 22%. The Group committed to a minimum dividend per share of 5 pence for 2010, of which 2 pence was paid for the interim results. Consistent with that promise a final cash dividend of £4.4 million, (being 3 pence multiplied by the number of shares prior to the PolymerLatex acquisition) will be paid. Post the rights issue to fund the acquisition, the number of shares in circulation is 340 million, and this therefore equates to a final cash dividend per share of 1.3 pence.

Income Statement – Special Items

To provide a clearer indication of the Group's underlying performance, a number of special items are shown in a separate column of the consolidated income statement. Special items include:

- Sale of Revertex Finewaters. The sale of this business was completed in June 2010, and the revenue and profits of that business are shown as special items in 2009 and 2010. Additionally, the gain on disposal, and the share of that gain attributable to minority interests are shown as special items in 2010.
- Various cross currency and interest rate swaps for hedging purposes, which involve maturities of up to seven 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 gain of £2.6 million (2009 loss £4.4 million) is segregated from the underlying performance.
- The expenses of winding down the Italian Pharma site, the closure of which was announced in 2007.
- Release of tax provisions relating to historic issues that were closed during the course of 2010 of £6.6 million.
- Acquisition cost relating to the purchase of PolymerLatex of £4.2 million charged in the year.

Pensions

In the main UK defined benefit pension scheme the majority of investments are in equities. Equity markets improved in 2010, and overall the fund delivered a return of 11.6%. The yield on high-quality corporate bonds decreased somewhat (0.3%) during the year, which increased liabilities. The company made cash contributions to the fund in the year of £13.6 million. The government announced the replacement of RPI with CPI as the measure of inflation during the year. Most of the Group pension liabilities in payment receive either fixed or RPI linked increases. Consequently this change has only affected the liabilities with respect to the period in deferment, and has reduced liabilities by some £7 million. The overall effect of these changes was that there was a decrease in the deficit of the scheme, which stood at £56 million at the end of 2010 (2009 £70 million).

The UK scheme was closed to future accrual during 2009 and as at the end of 2010 there were no active members in the scheme.

IFRS

On an unadjusted IFRS basis, Group revenue increased by £104.5 million to £632.5 million. Profit before taxation at £57.8 million was £50.7 million higher than the previous period, reflecting the change between the years in the mark to market of the Group's currency swaps, the profit on disposal of businesses and goodwill impairment incurred in 2009.

Borrowings

Underlying net debt reduced significantly during the year.

Capital expenditure slowed substantially in 2009 with the global recession to £8.7 million. Capex increased during 2010, but at £10.6 million remained below depreciation.

Investment in the cash costs of running the Italian Pharma site came to some £1.4 million, whilst net proceeds from divestments totalled £10.9 million, from the sale of Revertex Finewaters (net of distribution to the minority shareholders).

Working capital outflow for the year was £11.9 million as expected, with the impact of volumes and input costs increases. Control of working capital is a core focus of the business management.

Minority interest dividends increased substantially to £6.6 million, due to the distribution of 30% of the proceeds from the sale of Revertex Finewaters to the minority shareholders.

The combination of stronger EBITDA, low capex, divestment proceeds and the substantial working capital outflow resulted in underlying net debt reducing to £63.4 million from £88.0 million at the end of 2009.

Refinancing and liquidity

At the year end the Group had US private placement debt (net of derivatives) of £75 million. Additionally the Group had £18.2 million in a 5 year loan in Malaysian ringgit, and an undrawn £30 million revolving loan facility, maturing December 2011. In December the Group agreed a new three year £210 million loan facility for the acquisition of PolymerLatex, and received net proceeds of £219 million from the rights issue in January. The existing £30 million loan facility was therefore cancelled in January 2011. £24 million of US private placement debt is due in 2012.

Net Debt to EBITDA, the Group's key leverage metric, fell to under 1.0 at the end of the year from 1.3 at the end of 2009.

Corporate Social Responsibility report

Introduction

2010 marked the end of the first period of Yule Catto's commitment to the Chemical Industries' Sustainable Development goals and therefore provides an opportunity to look back over a longer period at the Company's environmental and safety performance. The commitments were signed in 2005 but related to our performance over the first decade of the 21st Century. Over that period the Group's performance has sharply improved: in 2010 we emitted less than 1% of the sulphur dioxide we released in 2000; our personal safety performance as measured by Reportable Lost Time Accidents (those involving over 3 days absence from work) has improved by a factor of 3 over the decade; our performance on all lost time accidents is now over 25% better to that achieved on average by the European Chemical Industry; and our energy consumption per tonne has reduced by a third. On all the Sustainable Development measures used by the Group, the decade ended with performance significantly better than the targets set. All of this is a tribute to the hard work done by our employees to ensure ever safer working on our sites and continuing improvements in the Group's environmental performance.

Progress was maintained in many areas in 2010 with further improvements in measures such as 'Near Miss' reporting, water use and the release of both sulphur dioxide and nitrogen oxides to the atmosphere. However on a number of other measures our performance did not keep up the rate of improvement seen in recent years and on energy and reportable accidents, performance was slightly worse in 2010 compared to 2009.

Our Policy Commitments

Yule Catto remains committed to both the global chemical industries' Responsible Care® initiative and to the principles of Sustainable Development as set out in the UK Chemical Industries Association ('CIA') Sustainable Development ('SD') guiding principles.

Responsible Care® aims to improve and enhance the chemical industry's Safety, Health and Environmental ('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.

SHE performance and achievements during 2010

The long-term performance of Yule Catto against our targets and metrics remains very good although the performance in 2010 slipped back in a number of areas when compared to the excellent results achieved in 2009. Of the five 'headline' measures used to monitor Group performance two showed improvement in 2010 whilst three fell slightly, though all would have been 'best ever' performance 2-3 years ago. 'Near Miss' reporting – a leading indicator of both staff involvement and sites' intent to spot and remove hazards – improved again with all sites achieving over 3 'Near Miss' reports per employee during the year. Over the Group as a whole the rate improved to nearly 5 'Near Misses' per member of staff – an excellent performance. Our consumption of water also fell both in absolute terms and as measured by usage per tonne of production. The Group's water usage is now only half what it was at the beginning of the decade.

The number of Reportable Lost Time Accidents ('RLTA') increased compared to 2009 with the Group's RLTA frequency rate increasing to 0.36 per 100,000 hours worked. The quantity of waste disposed to landfill increased significantly as we remediated a number of sites and sent material previously located on site for off-site disposal. We anticipate this situation will continue into 2011. Excluding this one-off situation waste from ongoing operations declined again in 2010. The Group's energy consumption increased somewhat during the year, though the performance still gave the Group its second best performance ever and meant that the Group as a whole produced over 3 tonnes of product using the same quantity of energy used to produce 2 tonnes of product in 2000.

On many other measures environmental performance improved: our measured discharges of heavy metals are only 25% of what they were in 2008 and less than 4% of the figures for 2000; our releases of acid gases to atmosphere reduced again and are now much less than 1% of their 2000 values; and our releases of both carbon (as carbon oxygen demand) and phosphorous to water were lower than ever before.

Following improvements to our measurement systems and increased output our recorded discharge of Volatile Organic Compounds ('VOC's') has increased again in 2010. Projects to abate these releases are at an advanced design stage and the abatement plants should be fully operational by the end of 2012.

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 fully integrated into Yule Catto's management structure and is always a line management responsibility. Staff at all levels have to manage their own health and safety performance and take care of those around them, as well as managing the SHE performance of all those for whom they are responsible. To assist in this management process, the Group has a set of SHE Management policies and Procedures which make up the Yule Catto SHE Management System ('SHEMS'). This system has been extensively revised and extended in 2010 to cover most areas of SHE performance and now provides comprehensive coverage of the procedures Yule Catto expects

all sites to have in place. During 2011 and 2012 sites will be implementing policies and procedures which ensure these practices meet the Yule Catto SHEMS expectations.

The Group also has an Accident and Incident Management System ('AIMS') to assist in the management of all actual events and all 'Near Misses' throughout the Group. The system provides automatic e-mail alerts to senior management of significant events, and provides a mechanism for storing and sharing the learning gained from accident and incident investigations.

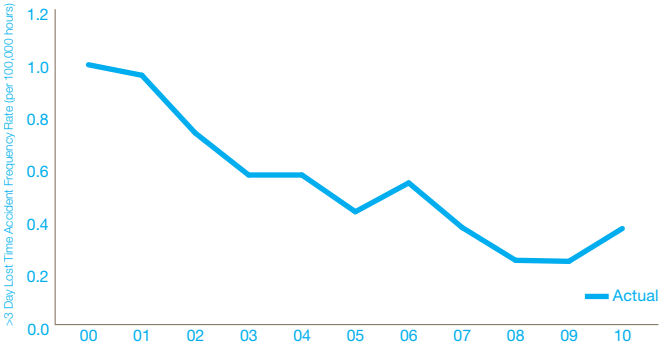
SHE performance is always a primary duty for management at all levels in the Group. The practices adopted in previous years remain a cornerstone of our efforts towards continuous improvement in SHE performance. The practices include:

- 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 site. 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 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.
- Group SHE visits to sites to carry out training and development of key staff.

Health, Safety and Accident performance

The Group's performance on Reportable Lost Time Accidents ('RLTAs') declined in 2010. There were 15 RLTAs in the year resulting in a rise in the Group's RLTA frequency rate from 0.235 to 0.36 per 100,000 hours worked (100,000 hours is, very broadly, a working lifetime). However, even this rise meant that 2010 was the third best year in Yule Catto's history. In 2010 a Yule Catto employee was three times less likely to have a reportable accident than they were in 2000. The number of accidents resulting in less than 3 days lost time ('LTA's') did not change between 2009 and 2010, which meant that the Group was still comfortably below the frequency rate for all lost time accidents reported by the European Chemical Industry Confederation, ('Cefic'). The UK chemical industry remains amongst the safest manufacturing industries in the world and the Chemical Industries Association ('CIA') collects data on its member's performance. Yule Catto aims to be at or below the average frequency rate for CIA member companies, in all our operations around the world.

Reportable lost time accident frequency rates

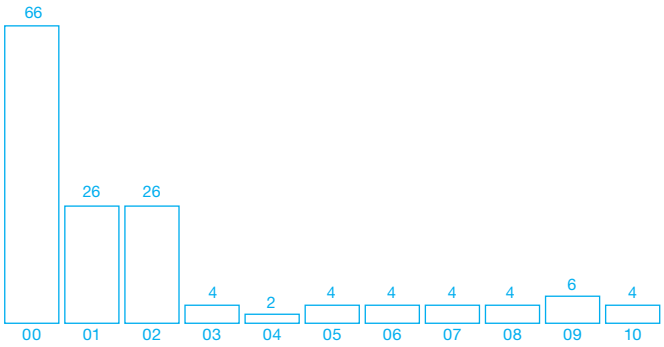


Process Safety and reportable safety incidents

Although already at low levels in 2009 there was a fall in the number of significant, reportable safety incidents in 2010. By definition process safety incidents have the potential to be damaging to people, plant and the environment and are always subject to rigorous investigation.

The four process safety incidents which occurred in 2010 included a fire at Synthomer's Stallingborough plant; a non-standard reaction in a reactor at Synthomer's plant in Vietnam, which caused the contents of a vessel to be relieved through the emergency vents; the loss of a significant amount of flammable material when a valve was left open at the base of an vessel during a filling operation; and a decomposition in a drier at William Blythe, which released a significant volume of oxygen into the plant. There were no personnel injuries in these incidents and only minor product releases which caused no lasting damage to the environment. Recognising the importance of process safety, staff in South Africa and Malaysia attended the UK Institution of Chemical Engineers ('IChemE') Process Safety training course when it was run in those countries. Yule Catto participated in the production of this course which was run in-house for 25 members of staff from across our European and Saudi Arabian operations. Two further in-house courses have been arranged for 2011 in Europe.

Reportable safety incidents



Corporate Social Responsibility report continued

Occupational Health & Hygiene

For the second year in a row there were no cases of occupational disease reported by our sites around the world. This is an excellent result especially as a number of the materials handled on our sites, notably in Pharmaceutical Division, are known to be potent sensitising agents. We achieve this by limiting the exposure of our staff to the chemicals they handle, using the standard hierarchy of removal, reduction, control and protection. Given the complex and precise chemistry of our processes it will never be possible to remove all hazardous chemicals from our sites and this means that control of exposure by engineering means, backed up by the extensive use of Personal Protective Equipment ('PPE'), will always be a major concern for operational and SHE staff on our sites. To assist in the correct assessment of chemical exposure risk the Group's assessment program, based on the principles of the UK Control of Substances Hazardous to Health regulations has continued to be rolled out to our sites in all divisions. 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 the Group SHE audits.

The health of our staff is monitored by a comprehensive set of medical arrangements on all of our sites. Staff who work with chemicals are provided with regular medical examinations by trained occupational health nurses or doctors. Whilst always respecting medical confidentiality, the doctors who provide the service in each country 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

The SHE performance of all Yule Catto sites is audited by an in-house team on a 2-year rolling cycle to provide senior management – at site, Divisional and Group level – with a picture of the fundamental SHE performance of Group operations. The audits, which incorporate a scoring system, are based on the principles of Responsible Care® management and are used to provide guidance to sites on 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. During 2010 additional resources were allocated to the audit process to ensure that problems were adequately assessed and in 2011 additional resources are being allocated at both site and Group level, to improve performance where problems have been identified.

Asset protection and insurance inspections

An incident at Langelsheim in late 2009 and the fire at Stallingborough in 2010 meant that, for the first time for a number of years, the Group has had significant insured losses. These losses have been carefully managed with our insurers, a process which has been considerably helped by the close co-operative work carried out between Yule Catto and our insurer's surveying team, who visit our sites on a 2-year cycle. These biennial insurance surveys serve as a 'sense check' on our own internal audits and have pointed out a number of areas for possible improvement on Group sites. Many of the possible improvements have been addressed, allowing an improvement in our insurer's rating of our risk profile. This improvement, and a commitment to continuing to improve over the next few years, has helped to keep control of the future cost of our global risk insurance, which has fallen by one third over the past six years.

Regulatory Affairs: REACH and GHS

The Registration, Evaluation, Authorisation and Restriction of Chemicals ('REACH') regulations have been in force for over 2 years now and their impact has begun to be felt not only by the chemical industry in Europe but also by the users of our products. 2010 saw the first of the registration deadlines come into force with all chemicals manufactured at over 1000 tonnes per annum requiring to be registered, as well as a series of chemicals which were regarded as being of 'high concern'. Although the great majority of Yule Catto's products were exempt from the registration requirements, being polymers, we did have to register some materials either because they were monomers used in products imported into the EU or because they were directly manufactured materials. All of the registrations required by each of the Divisions were completed successfully, and the registrations confirmed by the responsible body, the European Chemicals Agency ('ECHA').

The first registration deadline in REACH was also the first deadline for notification of the hazard classification and the labelling of all materials sold in the European Union under a second European Directive. This directive, which was implemented across the EU as the Classification, Packaging and Labelling ('CLP') regulations, came into force on 20 January 2010 and implemented the United Nations Globally Harmonised System ('GHS') for the classification and labelling of all chemicals. Under the regulations, all hazardous chemicals sold in the EU had to be notified to ECHA, together with their hazard classification and the labels which would be attached to all packages of the material. At the same time the rules for classification were changed, as were the symbols which must be used to convey hazard information. Polymer dispersions and the latex emulsions produced by the Group are classified as mixtures and are not therefore within the scope of the regulations until 2015. This meant that Polymer Division only had to notify 52 raw materials and 1 manufactured substance by the 1 December deadline but essentially all the products of the other Divisions had to be re-assessed, re-labelled and notified. Group Companies had to modify their internal processes to deal with all the revised information coming from our suppliers, and give extensive training to staff who have to deal with chemicals which now have different labels attached. This was done successfully.

GHS is being introduced in most other countries around the world over the next few years and a number of countries are introducing systems similar to REACH. Our experience in Europe, dealing with REACH and GHS, puts the Group in a good position to deal with these changes as they occur.

Sustainable Development Performance Report 2010

Managing Our Environmental Responsibilities

Yule Catto is firmly committed to the concepts of SD. As a company, Yule Catto was one of the initial group of signatories to the programme of SD goals put forward by UK CIA to its member companies in 2005. The Company's commitment to these SD goals has been shown by a continuous record of investment in environmental improvement and a continuous record of achievement against the targets set. This has led to a significant reduction of our environmental impacts since 2000. Although we are now at the end of this 10 year improvement cycle, Yule Catto remain committed to continuing advances in SD performance and the Company will be proposing a further set of targets for the next 5 year period during 2011.

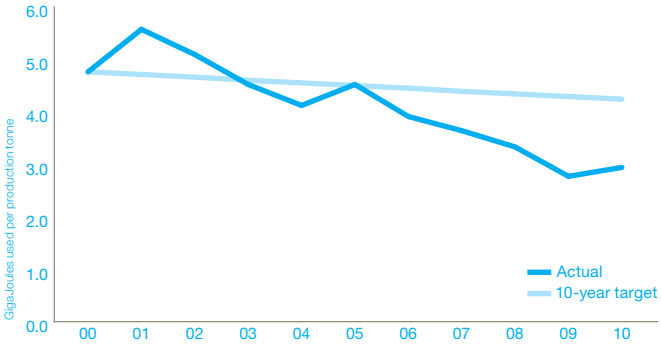
Not all of the Group's measures of our SD performance are recorded in the graphs presented here. A good number of the other measures which we use internally also show very significant improvement over the last 10 years. As examples: our releases of nitrogen oxides to air have fallen by more than 80% per production tonne over the last 10 years; our releases of phosphorous to water have fallen by over 75% over the same period; and our releases of heavy metals are down from 4.5 gm/tonne to 0.147 gm/tonne, a better than 96% reduction. All of these have been achieved by incremental improvement in the operational systems on our sites, investment in improved equipment for environmental control, and of course ever-improving performance by our site staff, to give better quality product, produced with more carefully husbanded resources, whilst producing less waste.

This record of success is reflected in all of our SD measures which have improved considerably since 2000; indeed all are well ahead of the targets we set for improvement over this period. However, on 3 measures the Group performed less well in 2010 than in 2009, though the performance was still considerably better than in earlier years and below target. The measures which performed less well were waste production, energy use and VOC releases. In the case of VOC releases this reflects the improved measurement methods used from 2009 which give a much better estimate of actual releases from our processes; and in the case of waste it reflects the need to deal with legacy wastes, dating back 40 years, on one of our sites.

Energy

Although 2010 saw an increase in energy use per tonne compared to 2009, it was still easily the second best year ever for energy consumption across Yule Catto. Over the 10 year period the Group's energy consumption per tonne has improved such that the energy used to make 2 tonnes in 2000 now makes over 3 tonnes of product. Compared to our 10-year SD commitment energy consumption was 30% better than the target set. The increase in energy use was widely distributed across most of the Group's sites. It partly reflects lower volumes and changing products mix but this is an area where Yule Catto remains committed to further significant improvements in both specific energy use and de-carbonisation of our energy supplies. We will be proposing new Group energy targets during 2011 for the next 5 year period which will reflect these commitments.

Energy consumption

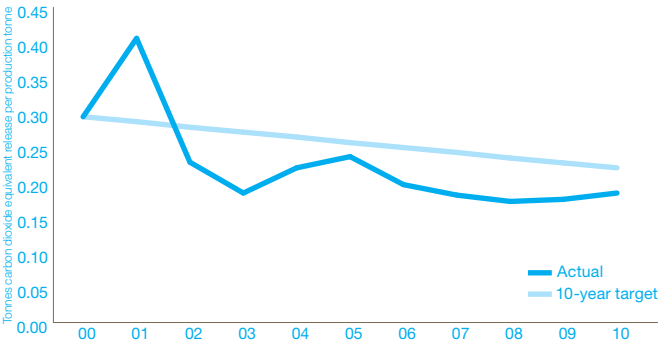


Global warming

Both of the main contributors to Yule Catto's global warming performance moved adversely in 2010: the Group's energy performance per tonne was worse than 2009 (discussed above) and the quantity of VOCs released also increased. The quantity of VOCs increased for the second year in a row, mainly due to an increase in the production of nitrile rubber for the gloves market in Malaysia. The manufacture of this grade of latex is inherently more likely to give rise to the release of VOCs than other materials we produce. There were also higher releases at our Stallingborough plant in the UK, again associated with the grades of material being produced and higher production levels. Although these releases contribute to the environmental cost of the Group's operations we have not been able to detect any adverse environmental consequences locally from the materials released. None the less at both of these plants there are active projects to abate the releases and these are expected to be fully implemented by the end of 2012.

Although the performance in 2010 was disappointing the longer term picture is still of continuing improvement in the Group's releases of greenhouse gases with only the period from 2007-2009 being better than the figure for 2010. Yule Catto beat its 10-year target by 16% and improved by 37% over the decade.

Global warming burden

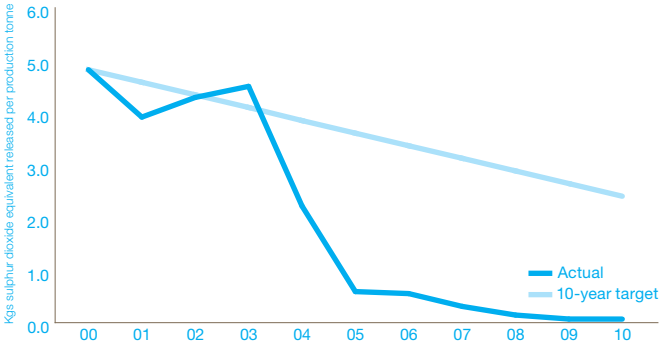


Corporate Social Responsibility report continued

Atmospheric Acidification

The Group's contribution to atmospheric acidification was reduced by a further 2.6% in 2010 compared to 2009. Although the absolute change is small compared to the very large decreases in previous years – achieved by significant capital investment in flue gas scrubbing at the Holiday Pigment's sites which Yule Catto formerly owned – it represents a further 750 kg reduction in sulphurous gases emitted by Group sites. The Group emissions are less than 0.8% of what they were at the beginning of the decade and less than 1.6% of the 10 year target for 2010. The emissions which remain are concentrated at two of our sites: these releases represent 90% of the Group total. The Group will be examining these releases in 2011 to see if abatement systems would be appropriate or if other measures can be taken to reduce them.

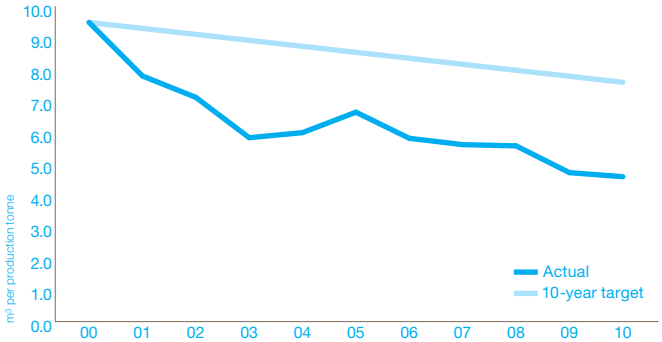
Atmospheric acidification burden



Water use

Yule Catto's water consumption fell again in 2010, both in the absolute quantity of water used and by a further 2.75% on a per tonne basis. This reduction helps to ensure the long-term sustainability of our business as water is an increasingly important and sometimes scarce resource in many regions of the world. Water supply can be a significant constraint on both industry and agriculture. Yule Catto sites are generally in areas where water supply is not a constraint and we are fortunate to have relatively reliable sources of both potable and process water for our sites. This security of supply is especially important for Polymer Division where water is not only vital to the safety of our processes but where the great majority of our product is sold as a dispersion in water. Water supplies were a constraint during the year at our Malaysian site and action has been taken to ensure that a reliable piped supply will always be available in future. In a number of cases our supplies of water come from our own renewable sources. Where we have this type of supply we monitor the source carefully so that we can be certain that it is not being depleted.

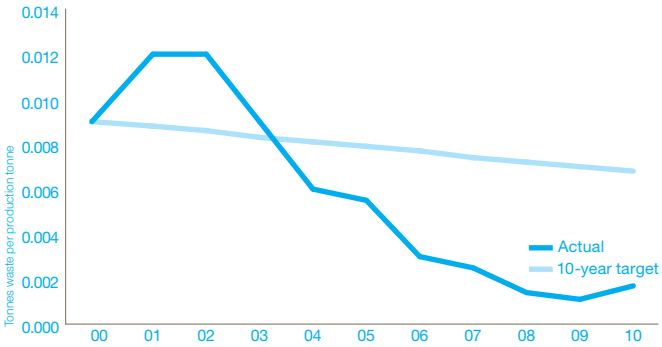
Water consumption



Waste disposal

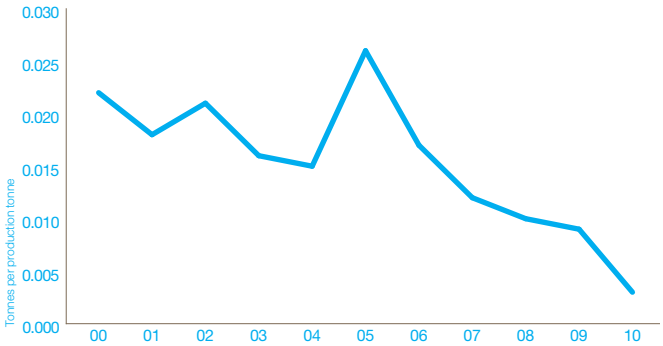
As noted above hazardous waste disposal increased in 2010 as we rectified historical issues. Despite this setback the hazardous waste disposal to landfill from Group sites in 2010 was still only 27% of 2000 levels and only 35% of our SD target. This long-term achievement is more impressive when the re-classification of many formerly non-hazardous wastes as hazardous waste is taken into account.

Hazardous waste disposed to land



The cessation of use of the on-site landfill at Kluang, Malaysia in February 2010, which was only used for non-hazardous waste, meant that the quantity of non-hazardous waste sent to landfill dropped by over 60% in 2010. Alternative methods of disposal have had to be found and these have generally involved off-site disposal with waste streams sent as hazardous waste. However the excellent work done by sites in finding alternative outlets for material previously sent to landfill, which in one case has even involved the recovery of previously dumped material, has reduced the quantity disposed of in this way by 85% compared to 2000.

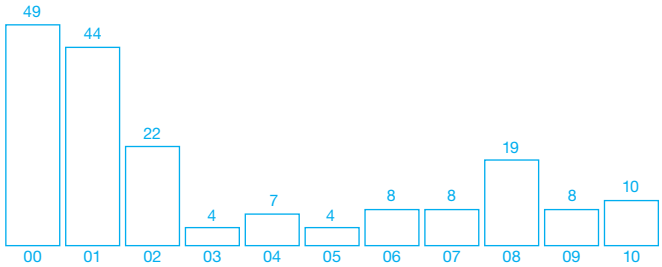
Non-hazardous waste disposed to land



Environmental incidents

The number of environmental reportable incidents increased slightly between 2009 and 2010. The incidents reported are either unforeseen releases, mainly spillages on site which have managed to circumvent the site's containment system; or are routine releases from our Effluent Treatment Plants ('ETP') which have breached their permitted limits. All these incidents have been investigated and appropriate remedial actions taken to reduce the chance of the incident being repeated. Although all such incidents are matters of concern to Yule Catto, none of the incidents in 2010 have led to any noticeable environmental damage being reported to any Group company. Two of the incidents were in Durban, South Africa where the site has plans to construct new ETP during the coming year. This will considerably improve the quality of the effluent routinely released and reduce the chances of exceeding the release limits in future, even if the local authorities further tighten the permitted releases from the plant.

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 2008-2010.

	2010	2009	2008	% change 2008-2010	% change 2009-2010
Energy consumption[1]					
GJ	**2,092,339**	1,967,478	2,633,940	-20.56%	6.35%
Gas	**698,891**	641,691	934,577		
Light oil	**28,178**	24,885	82,920		
Heavy oil	**64,326**	61,046	35,254		
Steam	**161,617**	147,456	165,912		
Electricity (primary basis)	**1,138,600**	1,086,779	1,409,021		
GJ/tonne production	**2.942**	2.765	3.327	-11.56%	6.41%
Emissions to Air[2]					
Carbon Dioxide (CO_2)					
Tonnes	**104,572**	98,289	131,787	-20.65%	6.39%
Tonnes CO_2/tonne production	**0.147**	0.138	0.166	-11.66%	6.56%
Sulphur Dioxide (SO_2)					
Tonnes	**27.2**	27.9	114.0	-76.16%	-2.64%
Kilos SO_2/tonne production	**0.038**	0.039	0.144	-73.47%	-2.58%
Nitrous Oxides (NOx)					
Tonnes	**19.45**	20.03	30.84	-36.93%	-2.89%
Kilos NOx/tonne production	**0.027**	0.028	0.039	-29.86%	-2.83%
Volatile Organic Compounds (VOC)					
Tonnes	**2,407**	2,155	2,081	15.67%	11.71%
Kilos VOC/tonne production	**3.385**	3.028	2.628	28.77%	11.78%
Water Usage					
Cubic Metres (m^3)	**3,271,018**	3,366,442	4,417,697	-25.96%	-2.83%
Public potable supply	**879,006**	938,084	1,358,705		
Raw water from river	**1,514,427**	1,609,773	2,285,307		
Raw water from borehole	**337,058**	308,738	443,308		
Raw water from canal	**–**	2,565	15,282		
Raw water from other	**540,527**	507,282	315,094		
m^3/tonne production	**4.600**	4.731	5.580	-17.57%	-2.78%

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.

	2010	2009	2008	% change 2008-2010	% change 2009-2010
Waste Management					
Hazardous waste					
Tonnes	**22,398**	12,131	18,848	18.84%	84.64%
Hazardous waste sent off-site					
Recycled – energy recovery	**5,243**	1,981	4,855		
Recycled – separated, reprocessed	**9,010**	3,865	5,164		
Incinerated – no energy recovery	**6,332**	3,462	4,232		
Disposed by landfill	**1,578**	817	1,158		
Other	**6.67**	65.10	119		
Hazardous waste disposed on-site					
Incinerated on-site with energy recovery	**–**	–	1,335		
Incinerated on-site with no energy recovery	**129**	1,941	1,986		
Disposed to on-site landfill					
Haz. waste tonnes/tonne production	**0.031**	0.017	0.024	31.24%	84.74%
Non-hazardous waste					
Tonnes	**9.002**	12.809	15.206	-40.80%	-29.72%
Non-hazardous waste sent off-site					
Recycled – energy recovery	**1,940**	3,077	3,413		
Recycled – separated, reprocessed	**3,311**	1,418	2,326		
Incinerated – no energy recovery	**–**	77.7	22.0		
Disposed by landfill	**2,084**	6,041	6,976		
Other – municipality	**1,606**	1,580	1,437		
Non-hazardous waste disposed of on-site					
Recycled – energy recovery	**–**	–	–		
Incinerated – no energy recovery	**–**	–	–		
Disposed by landfill	**60.0**	616	1,031		
Non-haz waste tonnes/tonne production	**0.013**	0.018	0.019	-33.38%	-29.68%
Total waste tonnes/tonne production	**0.044**	0.035	0.043	2.69%	25.98%
Production					
Tonnes	**711,138**	711,560	791,711	-10.18%	-0.06%

Directors and advisers

Executive directors

A M Whitfield[2] – 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 49.

D C Blackwood[4] – 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 51.

Non-executive directors

P S Wood[2] – 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 63.

The Hon. A G Catto[4]
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 58.

Dr A A Dobbie[1,2,3,4]
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 59.

Dato' Lee Hau Hian[4]
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 57.

J K Maiden[1,2,3,4] – Senior Independent Director
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 49.

1. Member of Audit Committee.
2. Member of Nomination Committee.
3. Member of Remuneration Committee.
4. Standing for re-election at 2011 AGM.

Registered office

Yule Catto & Co plc
Temple Fields
Harlow
Essex
CM20 2BH
Registered No. 98381

Secretary

Richard Atkinson

Bankers

Banco de Sabadell SA
Barclays Bank PLC
Commerzbank AG
HSBC Bank plc
Maybank – Malayan Banking Berhad

Joint stockbrokers

RBS Hoare Govett Limited and Collins Stewart Europe Limited

Registrars

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

Auditors

Deloitte LLP
Chartered accountants and statutory auditor
Cambridge, UK

Solicitors

Pinsent Masons LLP
Salans LLP
Squire, Sanders & Dempsey (UK) LLP

Report of the directors

for the year ended 31 December 2010

The directors submit their annual report (including a management report) and the audited financial statements for the year ended 31 December 2010.

Results and dividends

Profit attributable to shareholders for the year was £49,738,000.

The interim dividend of 2 pence per share was paid on 11 November 2010. The directors recommend a final dividend of 1.3 pence per share payable on 8 July 2011 to those shareholders registered at the close of business on 10 June 2011. 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 4 to 21 and form part of the report of the directors.

Acquisitions and disposals

On 2 June 2010 the Group's joint venture subsidiary, Revertex (Finewaters) Sdn Bhd was sold to H B Fuller Company. On 13 December 2010 the Group exchanged contracts with PolymerLatex Holdings BV for the acquisition of PolymerLatex Deutschland Beteiligungsgesellschaft mbH (PolymerLatex). Further details of these transactions are contained in notes 28 and 29 and in relation to the latter in the prospectus dated 13 December 2010.

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, is contained in note 21 to the financial statements.

Directors

The present membership of the Board is shown on page 22 all of whom served throughout the year.

The Hon. A G Catto, Dato' Lee Hau Hian, Dr A A Dobbie, Mr J K Maiden and Mr D C Blackwood retire and will be seeking re-election at the forthcoming Annual General Meeting.

None of the directors seeking re-election has a service contract other than Mr Blackwood who has a service contract which contains a twelve 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 30 to 33.

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 25 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 2010. A total of 8,361 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.

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.

Report of the directors continued

Major shareholdings

Other than the shareholdings disclosed as directors' interests in the Remuneration report as at 18 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 shares (number)	Percentage of ordinary shares in issue	Nature of holding
Kuala Lumpur Kepong Berhad Group	64,111,401	18.86	Direct interest
Old Mutual Asset Managers (UK) Ltd	22,005,930	6.47	Indirect

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 2011 Annual General Meeting, to make market purchases of not more than 14,566,318 of the Company's ordinary shares in accordance with the terms of the special resolution passed at the 2010 Annual General Meeting. A resolution will be tabled at the 2011 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 long-term share incentive plan for directors and senior executives was introduced in 2002 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 2010 were 31 days (2009 25 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 £73,507 (2009 £56,208) There were no political donations during the year.

Statement as to disclosure of information to auditors

Each director of the Company confirms that, so far as he is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information. For these purposes, relevant audit information means information needed by the Company's auditors in connection with preparing their reports on pages 35 and 73.

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 26 to 29 and forms part of the report of the directors.

Going concern

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

- the expiry of the £30 million multicurrency revolving credit facility on 24 December 2011 and its cancellation after the year end; and
- the obligations associated with the pending acquisition of PolymerLatex and the associated rights issue and debt funding arrangements as detailed in the prospectus dated 13 December 2010.

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.

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 cyclicality 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.

A description of how the Company manages these risks is contained in the Chief Executive's Report and the Financial Review.

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 debt, 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.

Auditors

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

Annual General Meeting

The Annual General Meeting will be held at 2.30pm on Thursday 12 May 2011 at Manor of Groves Hotel, High Wych, Sawbridgeworth, Hertfordshire CM21 0JU.

By order of the Board
R Atkinson
Secretary
9 March 2011

Corporate governance

This compliance statement is produced in relation to the Combined Code on Corporate Governance ('the Code') which was published in June 2008 by the Financial Reporting Council.

Statement of compliance

The Company considers that it has complied throughout the financial year ended 31 December 2010 with the provisions set out in Section 1 of the Code.

Application of the Code

The main principles of Section 1 of the Code were applied as follows:

The Board

Operation of the Board

The activities of the Company are controlled by the Board which, during 2010, comprised two executive directors and six non-executive directors until 28 June 2010 when Mr G R Menzies resigned and the number of non-executive directors was reduced to five. 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 2010 the Board held six scheduled meetings to review current and projected performance and to determine strategic issues and 9 meetings in connection with the acquisition of PolymerLatex and the associated rights issue. 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.

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 divisional Chief Executives, the Finance Director, 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 receives 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 22. The Chairmen and members of the Audit, Nomination and Remuneration Committees are identified below. The Board considers Dr A A Dobbie and Mr J K Maiden to be independent in accordance with the provisions of the Code. Mr G R Menzies was considered to be independent up until his resignation.

During 2010 the Company was in compliance with the requirements of Code provision A.3.2 for 'smaller' companies to have at least two independent non-executive directors. Following the re-entry of the Company into the FTSE 250 index on 14 September 2010 the Board is seeking two additional independent non-executive directors in order to achieve a balance of at least half the Board (excluding the Chairman) comprising independent non-executive directors.

The Board held a total of 15 meetings in 2010. 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.

Number of meetings held	Board	Audit	Remuneration	Nomination
	15	3	4	3
Number of meetings attended				
D C Blackwood	15/15	N/A	N/A	N/A
A G Catto	15/15	N/A	N/A	N/A
A A Dobbie	15/15	3/3	4/4	3/3
Lee Hau Hian	15/15	N/A	N/A	N/A
J K Maiden	15/15	3/3	4/4	3/3
G R Menzies[1]	5/5	1/1	2/3	0/0
A M Whitfield	15/15	N/A	N/A	3/3
P S Wood	15/15	N/A	N/A	3/3

1. Resigned on 28 June 2010.

Induction and training

Induction arrangements are in place in order to ensure new directors receive a full formal and tailored induction on appointment. The skills and knowledge of Board members 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 2010 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 2010 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 2010.

Non-executive directors are appointed for three-year terms. Those non-executive directors who have served longer than nine years on the Board are subject to annual re-election by shareholders with other directors subject to re-election at least every three years.

Shareholder communications

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 to communicate with its shareholders where it publishes interim and full year results, Company announcements, share price and corporate governance and other investor information.

Board committees

The Board has formally established Audit, Nomination 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.

Audit Committee

During 2010 the Audit Committee comprised Mr J K Maiden (Chairman), Dr A A Dobbie and Mr G R Menzies until 28 June 2010 when Mr Menzies resigned from the Board following which the Committee comprised Mr Maiden and Dr Dobbie. 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;
- 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 final statements prior to their submission to the Board. The Committee meets periodically with the Company's auditors 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 auditors (including the extent of non-audit services and fees payable to the auditors) which is carried out and discussed with the auditors on a periodic basis. With regard to seeking to ensure the independence and objectivity of the auditors, the Audit Committee's policy is to avoid the auditors 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 auditors are 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 auditors have 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 auditors.

Corporate governance continued

The Group does not have an internal audit function. The Committee has reviewed this during the year and has concluded that there are in place appropriate procedures for assuring the integrity and effectiveness of the Group's governance, risk management and control processes. The Board has accepted this recommendation.

The current auditors were first appointed in 2002 and their appointment was reviewed by the Committee in 2009. Details of audit and non-audit fees paid to them in 2010 are set out in note 6 on page 49. Non-audit fees principally relate to miscellaneous services rendered in connection with the pending acquisition of PolymerLatex which were not considered to give rise to any conflict of interest. The Board accepts the Committee's recommendation that the current auditors be proposed for reappointment at the forthcoming Annual General Meeting.

The Committee met formally 3 times during 2010 principally to discharge its duties in connection with the 2009 report and financial statements, the 2010 interim financial statements and the scope and planning of the audit of the 2010 report and financial statements. In addition the Chairman of the Committee had regular dialogue with the auditors 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 2010 the Nomination Committee comprised Mr P S Wood (Chairman), Dr A A Dobbie, Mr J K Maiden, Mr G R Menzies and Mr A M Whitfield. On 28 June 2010 Mr Menzies resigned from the Committee and the Board. 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 is leading the process seeking two additional independent non-executive directors referred to above. The Nomination Committee held 3 meetings during 2010.

Remuneration Committee

All matters relating to the Remuneration Committee and remuneration are covered in the Remuneration Report, set out on pages 30 to 33.

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 auditors are set out on pages 34 and 24 respectively. Statements by the auditors about their reporting responsibilities are set out on pages 35 and 73 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.

A 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 2010 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 the 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.

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 2010.

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 2010 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 14 to 21 reviews the Group's performance in this connection in 2010.

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 auditors, 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.

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 14 to 21 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 was initiated in 2007 involving annual certification by the senior management of each operating company and since 2009 a procedure for maintaining a register of, and where appropriate gaining prior approval for, gifts, entertainment and corporate hospitality has been instituted. 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 Combined Code on Corporate Governance which was published in June 2008 by the Financial Reporting Council. All figures relating to shares (including shareholdings and share options) have been re-stated to take account of the effect of the rights issue announced on 13 December 2010.

Remuneration Committee

During 2010 the Remuneration Committee comprised Dr A A Dobbie (Chairman), Mr J K Maiden and Mr G R Menzies until 28 June 2010 when Mr Menzies resigned from the Board following which the Committee comprised Dr Dobbie and Mr Maiden.

The Committee is responsible for determining the Company's policy on executive remuneration and the specific remuneration for the Chairman and each of the executive directors, including pension rights. The Committee is also responsible for reviewing the remuneration of senior executives throughout the Group. The Committee was assisted in its deliberations on executive directors' remuneration by the Chief Executive and took advice from and used the services of Hewitt New Bridge Street (HNBS – a trading name of Aon Hewitt Limited) and Grant Thornton UK LLP (Grant Thornton). Hewitt Associates became part of Aon Group in 2010 and Aon Limited provide insurance broking services to the Group. Grant Thornton provides corporate tax advice to the Company. The Board as a whole determines the remuneration of the non-executive directors, including members of the Remuneration Committee.

The Remuneration Committee met 4 times during 2010.

Remuneration policy

Non-executive directors' remuneration

It is the Board's policy to review fees paid to non-executive directors periodically. A review of non-executive director remuneration was last carried out in December 2006 with the assistance of advice provided by Monks, part of PricewaterhouseCoopers LLP. With effect from 1 January 2007 non-executive director fees are as follows: £30,000 pa for those who do not sit on a committee; £33,000 pa for those who do sit on a committee; £36,000 pa for those who are Committee chairmen. The fees payable to the Chairman of the Board are £110,000 pa.

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.

Executive directors' remuneration

The Company's policy for 2010 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 major element of the remuneration package of senior executives is a competitive basic salary which is reviewed with effect from 1 January each year. For this purpose, the Committee uses industry and sector data and surveys, as appropriate, to help inform its decisions and to provide a reference point for the purposes of recommending basic salaries commensurate with operational performance and attainment of strategic objectives. Whilst not adopting set formulae the Committee is also sensitive to the pay and employment conditions elsewhere in the Group when considering annual salary increases and total remuneration. In awarding the executive directors a 3% increase in basic salary with effect from 1 January 2010 the Committee took into account the level of increases made to employees of the Group in the UK which were in line with this figure. The increase in basic salary with effect from 1 January 2011 noted below under 'Remuneration details' were awarded by the Committee following consideration of the additional duties and responsibilities that will be required of the executive directors in connection with the acquisition of PolymerLatex and the increased scale and market capitalisation of the Group. The Committee also has the discretion to consider the Company's performance on environmental, social and governance matters when setting the remuneration of the executive directors.

In addition, the Remuneration Committee has overseen the introduction of incentives, which are designed to reward the achievement of predetermined targets by the individuals concerned. These incentives, which were designed in accordance with the provisions of Schedule A to the Code, currently comprise an annual cash incentive plan and membership of an approved longer term incentive plan (the 'Performance Plan'). 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.

- Annual incentive arrangements

  For 2010 the Company operated an incentive plan (the growth securities ownership plan (GSOP)) for the executive directors and senior group employees related to growth in profit before tax. As a result of the growth achieved in 2010 maximum payments will be made to the executive directors and other participants under the GSOP. The maximum net amount payable to executive directors in 2010 under the GSOP was 60% and 80% of basic pay for the Finance Director and the Chief Executive respectively.

  For senior operational management the 2010 annual cash bonus payments were based on appropriate combinations of profit, cash flow, working capital and safety and environmental targets. In 2010 the bonuses were subject to limits of between 50 to 60% of basic pay, depending on levels of seniority.

- Share plan
  The Performance Plan was introduced in 2002 following shareholder approval at that year's Annual General Meeting and covers the executive directors, senior group employees and senior operational management. 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 Performance Plan in any financial year to any individual currently may not exceed 100% of their annual basic salary. Following review by the Remuneration Committee and shareholder approval awards made since 2006 have been subject to performance conditions related to relative and absolute growth in total shareholder return in order to better align the interests of the participants in the Performance Plan with shareholders. Details of performance conditions are set out at page 33. An award made prior to 2011 which vests in accordance with the performance conditions will only be exercisable and allocated shares may only be transferred as to one-half after the third anniversary of the date the award is made and as to the remaining half after the fourth anniversary of the date the award is made. An award made from 2011 onwards which vests will be exercisable and allocated shares will be transferred in full after the third anniversary of the date the award is made. In order to further align the interests of the executive directors and shareholders there are share ownership requirements in connection with the Performance 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.

  During 2010 1,132,667 shares were awarded under the Performance Plan.

  The shares comprised in the awards granted in 2008 have vested in full as the performance conditions have been met.

- Pension arrangements
  During 2010 Mr A M Whitfield and Mr D C Blackwood became eligible to participate in the Group personal pension plan and receive payments 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.

- Remuneration details
  The amount and components of the directors' remuneration are set out below. At the 2010 salary review basic salaries for the executive directors were increased with effect from 1 January 2011 to £430,000 (13.2% increase) and £270,000 (10% increase) for the Chief Executive and Finance Director respectively. No elements of remuneration other than basic salary are pensionable.

- 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, has no unexpired term, provides for a notice period of one year and makes no provision for pre-determined compensation on termination. Mr Blackwood's contract is dated 12 September 2007, has no unexpired term, provides for a notice period of one year and makes no provision for pre-determined compensation on termination.

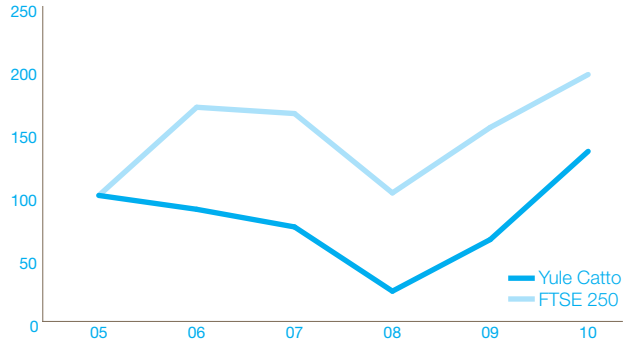
  The Remuneration Committee's policy on contracts and notice periods for executive directors is to seek to comply with best practices in corporate governance.

  All non-executive directors are appointed in writing. The first year of each director's appointment is shown in the directors' biographies on page 22. 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 27.

- 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. Mr Blackwood is a member of the Board for Actuarial Standards for which he receives and retains £10,000 pa respectively.

- 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 2011 Annual General Meeting for approval.

Directors' remuneration report continued

Audited information
Directors' remuneration

Emoluments	2010 £'000	2009 £'000
The total amounts for directors' remuneration and other benefits were:		
Emoluments	1,381	1,366

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

	Base salary 2010 £	Annual incentive arrangement 2010 £	Benefits 2010 £	Total 2010 £	Total 2009 £
A M Whitfield – Highest paid director	380,000	304,000	27,374	711,374	693,071
D C Blackwood	245,500	147,300	17,356	410,156	399,860

The annual incentive arrangement is discussed in more detail on page 30 of the Remuneration report.

Pension arrangements

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

	2010 £	2009 £
A M Whitfield	95,000	92,500
D C Blackwood	49,100	47,900

Directors' fees

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

	2010 £	2009 £
P S Wood – Chairman	110,000	103,833
The Hon. A G Catto	30,000	30,000
Dr A A Dobbie	36,000	35,500
Dato' Lee Hau Hian	30,000	30,000
J K Maiden	36,000	36,000
G R Menzies	18,000	30,000
	260,000	265,333

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 2010 and 31 December 2009:

	Ordinary shares			Options	
	2010 (re-stated)	2009 (re-stated)	2009 (prior to re-statement)	2010	2009
D C Blackwood	40,833	40,833	17,500	1,345,442	1,126,328
The Hon. A G Catto	2,046,955	3,073,377	1,315,604	–	–
	7,741,950*	12,177,020*	5,197,093*	–	–
Dr A A Dobbie	114,853	114,853	49,223	–	–
Dato' Lee Hau Hian	24,763	24,763	10,613	–	–
J K Maiden	nil	nil	nil	–	–
A M Whitfield	14,000	14,000	6,000	2,078,889	1,949,086
P S Wood	51,914	51,914	22,249	–	–

* Non-beneficial interest.

On 4 January 2011 Mr J K Maiden purchased 2,523 shares. All directors holding shares on 13 December 2010, other than the Hon A G Catto, took up their full rights under the terms of the rights issue announced on that date.

Between 31 December 2010 and 19 February 2011 there were no other changes in the directors' holdings.

Executive options

	At 01/01/10	Number of options during the year Granted	Lapsed	Exercised	At 31/12/10	Exercise price	Notional value £	Exercise period
A M Whitfield	209,356	–	209,356	–	–	–	–	–
	346,738 (i)	–	–	–	346,738	–	696,943	2011-2018
	1,392,992(ii)	–	–	–	1,392,992	–	2,799,914	2012-2019
	–	339,159(iii)	–	–	339,159	–	681,710	2013-2020
	1,949,086	339,159	209,356	–	2,078,889	–	4,178,567	

	At 01/01/10	Number of options during the year Granted	Lapsed	Exercised	At 31/12/10	Exercise price	Notional value £	Exercise period
D C Blackwood	224,647(i)	–	–	–	224,647	–	451,540	2011-2018
	901,681(ii)	–	–	–	901,681	–	1,812,379	2012-2019
	–	219,114(iii)	–	–	219,114	–	440,419	2013-2020
	1,126,328	219,114	–	–	1,345,442	–	2,704,338	

(i) The awards made in 2008 to Mr A M Whitfield and Mr D C Blackwood 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 have vested in full due to the maximum performance criteria being exceeded.

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

(iii) For the awards made in 2010 the same performance conditions apply as for the awards made in 2008 measured over a three year period ending on 31 December 2012.

The notional value of unexercised share options is based on the mid-market price of a share on 31 December 2010 of 201 pence. During the year the market price (as re-stated for the effect of the rights issue announced on 13 December 2010) ranged between 103.65 pence and 202.79 pence.

By order of the Board
R Atkinson
Secretary
9 March 2011

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
D C Blackwood — Group Finance Director

9 March 2011

Independent auditors' 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 2010 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 37. 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.

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 2010 and of its profit 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 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 June 2008 Combined 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 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Stuart Henderson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
9 March 2011

Consolidated income statement

for the year ended 31 December 2010

	Note	2010 Underlying performance £'000	2010 Special items £'000	2010 IFRS £'000	2009 Underlying performance £'000	2009 Special items £'000	2009 IFRS £'000
Continuing operations							
Group revenue	4,5	626,765	5,689	632,454	516,712	11,236	527,948
Share of joint ventures' revenue	4,5	19,026	–	19,026	15,450	–	15,450
Total sales		645,791	5,689	651,480	532,162	11,236	543,398
Group revenue		626,765	5,689	632,454	516,712	11,236	527,948
Company and subsidiaries before special items		51,951	–	51,951	48,174	–	48,174
Impairment of goodwill	3	–	–	–	–	(30,000)	(30,000)
Acquisition costs	3	–	(4,182)	(4,182)	–	–	–
Operations sold or closed during the year	4	–	12,303	12,303	–	1,990	1,990
Company and subsidiaries		51,951	8,121	60,072	48,174	(28,010)	20,164
Share of joint ventures	4,5	2,934	–	2,934	1,242	–	1,242
Operating profit/(loss)	5	54,885	8,121	63,006	49,416	(28,010)	21,406
Interest payable	8	(8,266)	–	(8,266)	(10,308)	–	(10,308)
Interest receivable	8	426	–	426	439	–	439
		(7,840)	–	(7,840)	(9,869)	–	(9,869)
Fair value adjustment	3,8	–	2,645	2,645	–	(4,401)	(4,401)
Finance costs		(7,840)	2,645	(5,195)	(9,869)	(4,401)	(14,270)
Profit/(loss) before taxation		47,045	10,766	57,811	39,547	(32,411)	7,136
Taxation	9	(9,095)	6,558	(2,537)	(7,981)	9,065	1,084
Profit/(loss) for the year from continuing operations		37,950	17,324	55,274	31,566	(23,346)	8,220
Discontinued operations							
Profit for the year from discontinued operations	3	–	–	–	–	3,668	3,668
Profit/(loss) for the year		37,950	17,324	55,274	31,566	(19,678)	11,888
Profit attributable to minority interests	26	1,300	4,236	5,536	1,572	630	2,202
Profit/(loss) attributable to equity holders of the parent	26	36,650	13,088	49,738	29,994	(20,308)	9,686
		37,950	17,324	55,274	31,566	(19,678)	11,888
Earnings per share*							
From continuing operations							
– Basic	12	16.2p	5.8p	22.0p	13.3p	(10.7)p	2.6p
– Diluted	12	15.7p	5.7p	21.4p	12.9p	(10.3)p	2.6p
From continuing and discontinued operations							
– Basic	12	16.2p	5.8p	22.0p	13.3p	(9.1)p	4.2p
– Diluted	12	15.7p	5.7p	21.4p	12.9p	(8.7)p	4.2p

Special items

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

* As restated for rights issue – see note 12.

Consolidated statement of comprehensive income

for the year ended 31 December 2010

	2010			2009		
	Minority interests £'000	Equity holders of the parent £'000	Total £'000	Minority interests £'000	Equity holders of the parent £'000	Total £'000
Profit for the year	5,536	49,738	55,274	2,202	9,686	11,888
Actuarial gains and losses	–	76	76	–	(12,619)	(12,619)
Gains/(losses) on a hedge of a net investment taken to equity	–	1,732	1,732	–	(253)	(253)
Gains/(losses) on cash flow hedges arising during the period	–	4,495	4,495	–	(678)	(678)
Exchange differences on translation of foreign operations	649	6,030	6,679	(825)	(6,933)	(7,758)
Tax relating to components of other comprehensive income	–	300	300	–	306	306
Other comprehensive income for the period	649	12,633	13,282	(825)	(20,177)	(21,002)
Total comprehensive income for the period	6,185	62,371	68,556	1,377	(10,491)	(9,114)

Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total Equity £'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

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Cash flow hedging reserve £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total Equity £'000
At 1 January 2009	14,566	33,034	949	–	6,252	678	2,056	57,535	9,157	66,692
Profit for the year	–	–	–	–	–	–	9,686	9,686	2,202	11,888
Other comprehensive income for the period	–	–	–	–	(7,186)	(678)	(12,313)	(20,177)	(825)	(21,002)
Total comprehensive income for the period	–	–	–	–	(7,186)	(678)	(2,627)	(10,491)	1,377	(9,114)
Dividends paid	–	–	–	–	–	–	–	–	(3,631)	(3,631)
Shares purchased by ESOP trust				47	–	–	–	47	–	47
Share-based payments	–	–	–	(47)	–	–	590	543	–	543
At 31 December 2009	14,566	33,034	949	–	(934)	–	19	47,634	6,903	54,537

Consolidated balance sheet

31 December 2010

	Note	2010 £'000	2009 £'000
Non-current assets			
Goodwill	14	124,027	124,027
Other intangible assets	15	363	604
Property, plant and equipment	16	102,568	103,815
Deferred tax assets	10	161	1,139
Investment in joint ventures	17	3,716	3,798
		230,835	233,383
Current assets			
Inventories	18	65,379	56,145
Trade and other receivables	19	111,285	99,006
Cash and cash equivalents	20	36,211	42,384
Derivatives at fair value	21	22,765	11,763
Total current assets		235,640	209,298
Current liabilities			
Borrowings	20	(9,876)	(38,924)
Trade and other payables	23	(140,079)	(125,609)
Current tax liability	9	(28,763)	(34,556)
Total current liabilities		(178,718)	(199,089)
Non-current liabilities			
Borrowings	20	(102,379)	(101,106)
Trade and other payables	23	(144)	(216)
Deferred tax liability	10	(6,672)	(9,044)
Post retirement benefit obligations	24	(65,997)	(78,689)
		(175,192)	(189,055)
Net assets		112,565	54,537
Equity			
Called up share capital	25	14,566	14,566
Share premium	26	33,034	33,034
Capital redemption reserve	26	949	949
Hedging and translation reserve	26	6,828	(934)
Cash flow hedging reserve	26	4,495	–
Retained earnings	26	46,444	19
Equity attributable to equity holders of the parent		106,316	47,634
Minority interests	26	6,249	6,903
Total equity		112,565	54,537
Analysis of net borrowings			
Cash and cash equivalents	20	36,211	42,384
Current borrowings	20	(9,876)	(38,924)
Non-current borrowings	20	(102,379)	(101,106)
Net borrowings		(76,044)	(97,646)
Deduct: special items	20	12,674	9,608
Net borrowings (underlying performance)		(63,370)	(88,038)

The financial statements were approved by the Board of Directors and authorised for issue on 9 March 2011. They are signed on its behalf by:

A M Whitfield
D C Blackwood
Directors

Consolidated cash flow statement

for the year ended 31 December 2010

	Note	2010 £'000	2010 £'000	2009 £'000	2009 £'000
Operating					
Cash generated from operations	27		42,228		64,499
Interest received		426		439	
Interest paid		(9,630)		(10,959)	
Net interest paid			(9,204)		(10,520)
UK corporation tax paid		(39)		(139)	
Overseas corporate tax paid		(8,693)		(6,673)	
Total tax paid			(8,732)		(6,812)
Net cash inflow from operating activities			24,292		47,167
Investing					
Dividends received from joint ventures	17		2,667		1,899
Purchase of property, plant and equipment		(10,592)		(8,687)	
Sale of property, plant and equipment		43		2,253	
Net capital expenditure and financial investment			(10,549)		(6,434)
Purchase of businesses	29	(371)		–	
Sale of businesses	28	16,075		8,760	
Net cash impact of acquisitions and disposals			15,704		8,760
Net cash inflow from investing activities			7,822		4,225
Financing					
Equity dividends paid	11		(2,913)		–
Dividends paid to minority interests	26		(6,585)		(3,631)
Investment by minority shareholder			130		–
Purchase of own shares	26		–		(47)
Repayment of borrowings	30		(35,978)		(33,472)
Proceeds of non-current borrowings			–		19,740
Net cash outflow from financing activities			(45,346)		(17,410)
(Decrease)/increase in cash and bank overdrafts during the year			(13,232)		33,982
Comprised of:					
Cash and cash equivalents	30		(10,657)		20,157
Bank overdrafts	30		(2,575)		13,825
			(13,232)		33,982
Reconciliation of net cash flow from operating activities to movement in net borrowings					
Net cash inflow from operating activities			24,292		47,167
Add back: dividends received from joint ventures	17		2,667		1,899
Less: net capital expenditure and financial investment			(10,549)		(6,434)
Less: dividends paid to minority interests	26		(6,585)		(3,631)
Free cash flow before dividends			9,825		39,001
Net cash impact of acquisitions and disposals	28,29		15,704		8,760
Investment by minority shareholder			130		–
Purchase of own shares	26		–		(47)
Equity dividends paid	11		(2,913)		–
Exchange movements			1,922		(270)
Movement in net borrowings (underlying performance)			24,668		47,444

Notes to the consolidated financial statements

31 December 2010

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 22.

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.

In the current year, the following new and revised Standards have been adopted.

- IFRS 2 (Amended 2009) – Share based payments
- IFRS 3 (Amended 2008) – Business combinations
- IAS 27 (Amended 2008) – Consolidated and separate financial statements
- IAS 28 (Amended 2008) – Investments in associate
- IAS 39 (Amended 2008) – Eligible hedged items
- IFRIC 17 – Distributions of non-cash assets to owners
- The improvements to IFRSs (May 2009)

No amendments to these financial statements have been made as a result of adopting these new and revised Standards and Interpretations except the expensing of acquisition costs as incurred.

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 9 – Financial instruments – classification and measurement
- IAS 24 (Amended 2009) – Related party disclosures
- IAS 32 (Amended 2009) – Classification of rights issue
- IFRIC 14 (Amended 2009) – Prepayments of a minimum funding requirement
- IFRIC 19 – Extinguishing financial liabilities with equity instruments

All amendments to the standards noted above result from the 2010 annual improvement process.

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.

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 24, 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.

2 Significant accounting policies continued

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.

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.

Notes to the consolidated financial statements continued
31 December 2010

2 Significant accounting policies continued

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.

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.

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 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 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 21.

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.

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 hedge

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 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.

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 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.

Notes to the consolidated financial statements continued
31 December 2010

2 Significant accounting policies continued

Retirement benefit costs
The costs of defined benefit contributions to the Group's pension schemes and of augmenting existing pensions are charged to the 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 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 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;
- Other non-recurring and non-operating items; and
- Tax impact of above items.

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

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.

2 Significant accounting policies continued

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 deferred tax assets, particularly in respect of the UK pension liability, tax losses and accelerated capital allowances. Determination 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 24.

Closure of manufacturing sites and site remediation costs

Included in costs to close the manufacturing sites are estimates for redundancy, decontamination and dismantling costs. These estimates are based on experience gained in previous closures but are subject to uncertainty arising from the individual sites' circumstances, historical use and local regulations.

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.

Notes to the consolidated financial statements continued
31 December 2010

3 Special items

	2010 £'000	2009 £'000
Continuing operations		
Total sales		
Revenue of operations sold or closed during the year	5,689	11,236
Operating profit/(loss)		
Operating profit of operations sold or closed during the year	890	1,990
Impairment of goodwill (see note 14)	–	(30,000)
Acquisition costs (see note 29)	(4,182)	–
Profit arising from the sale or closure of operations (see note 7)	11,413	–
	8,121	(28,010)
Finance costs		
Fair value adjustment (see note 8)	2,645	(4,401)
Profit/(loss) before taxation from continuing operations	10,766	(32,411)
Taxation (settlement of historical issues)	6,558	9,065
Profit/(loss) for the year from continuing operations	17,324	(23,346)
Discontinued operations		
Total sales		
Revenue of operations sold or closed during the year	–	772
Operating profit of discontinued operations		
Operating profit of operations sold or closed during the year	–	22
Profit arising from the sale or closure of operations (see note 7)	–	3,652
	–	3,674
Taxation		
Taxation on operating profit of operations sold or closed during the year	–	(6)
Profit for the year from discontinued operations	–	3,668

4 Segmental analysis

The Group is organised into the 3 divisions described in the Group overview on page 2 of this annual report; that overview also provides a summary of the key products from which each segment derives its revenues. The chief operating decision maker of the Group is considered to 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. The 3 divisions, Polymer Chemicals, Pharma Chemicals and Impact Chemicals are therefore considered to be the Group's reportable segments.

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		
2010	Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
Analysis by activity						
Continuing activity						
Polymer Chemicals	532,955	5,689	538,644	53,810	13,161	66,971
Share of Polymer joint ventures	19,026	–	19,026	2,934	–	2,934
	551,981	5,689	557,670	56,744	13,161	69,905
Pharma Chemicals	62,933	–	62,933	4,450	(858)	3,592
Impact Chemicals	30,877	–	30,877	3,539	–	3,539
Total sales	645,791	5,689	651,480			
Divisional operating profit				64,733	12,303	77,036
Unallocated corporate expenses				(9,848)	(4,182)	(14,030)
Operating profit				54,885	8,121	63,006

4 Segmental analysis continued

2009	Total sales			Operating profit		
	Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
Analysis by activity						
Continuing activity						
Polymer Chemicals	427,862	11,236	439,098	50,520	1,990	52,510
Share of Polymer joint ventures	15,450	–	15,450	1,242	–	1,242
	443,312	11,236	454,548	51,762	1,990	53,752
Pharma Chemicals	65,296	–	65,296	5,571	(30,000)	(24,429)
Impact Chemicals	23,554	–	23,554	1,967	–	1,967
Total sales	532,162	11,236	543,398			
Divisional operating profit/(loss)				59,300	(28,010)	31,290
Unallocated corporate expenses				(9,884)	–	(9,884)
Operating profit/(loss)				49,416	(28,010)	21,406

Special items

2010	Pharma Chemicals £'000	Polymer Chemicals £'000	Unallocated corporate expenses £'000	Total £'000
Revenue of businesses sold or closed during the year	–	5,689	–	5,689
Operating profit/(loss) of businesses sold or closed during the year	–	890	–	890
Profit arising from the sale or closure of operations (see note 7)	(858)	12,271	–	11,413
Acquisition costs	–	–	(4,182)	(4,182)
	(858)	13,161	(4,182)	8,121

2009	Pharma Chemicals £'000	Polymer Chemicals £'000	Unallocated corporate expenses £'000	Total £'000
Revenue of businesses sold or closed during the year	–	11,236	–	11,236
Operating profit of businesses sold or closed during the year	–	1,990	–	1,990
Impairment of goodwill	(30,000)	–	–	(30,000)
	(30,000)	1,990	–	(28,010)

2010	Total assets £'000	Total liabilities £'000	Capital expenditure £'000	Depreciation and amortisation £'000
Analysis by activity				
Continuing activity				
Polymer Chemicals	234,306	(155,541)	6,921	9,752
Pharma Chemicals	63,069	(21,261)	2,939	4,337
Impact Chemicals	9,700	(15,980)	718	222
	307,075	(192,782)	10,578	14,311
Holding companies	(4,554)	(48,873)	147	307
	302,521	(241,655)	10,725	14,618
Share of Polymer joint ventures (see note 17)	8,442	(4,726)		
Goodwill (see note 14)	124,027			
Net borrowings (see note 20)		(76,044)		
	434,990	(322,425)		
Net assets		112,565		

Notes to the consolidated financial statements continued
31 December 2010

4 Segmental analysis continued

2009	Total assets £'000	Total liabilities £'000	Capital expenditure £'000	Depreciation and amortisation £'000
Analysis by activity				
Continuing activity				
Polymer Chemicals	181,537	(154,221)	3,772	9,720
Pharma Chemicals	64,151	(20,893)	3,219	4,545
Impact Chemicals	8,340	(16,766)	292	76
	254,028	(191,880)	7,283	14,341
Holding companies	18,594	(56,231)	33	411
	272,622	(248,111)	7,316	14,752
Share of Polymer joint ventures (see note 17)	7,013	(3,368)		
Goodwill (see note 14)	124,027			
Net borrowings (see note 20)		(97,646)		
	403,662	(349,125)		
Net assets		54,537		

Geographical information

	Total sales		Segment net assets		Capital expenditure	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Analysis by region of operation						
United Kingdom	160,082	165,454	(144,247)	(164,506)	2,493	1,323
Other Europe	197,121	183,424	134,478	130,578	2,979	2,827
Asia	201,861	154,830	53,367	50,226	2,864	1,373
Rest of World	92,416	39,690	20,984	11,858	2,389	1,793
	651,480	543,398	64,582	28,156	10,725	7,316
Goodwill			124,027	124,027		
Net borrowings			(76,044)	(97,646)		
Net assets			112,565	54,537		

	2010 £'000	2009 £'000
Analysis of total sales by destination		
United Kingdom	76,663	71,753
Other Europe	221,869	198,053
Asia	220,269	160,123
Africa and Middle East	69,845	63,654
Rest of World	62,834	49,815
	651,480	543,398

Inter-segmental sales

In addition to the amounts included above, inter-segmental sales of £264,000 (2009 £231,000) were made as set out below.

These sales were eliminated on consolidation.

2010	Polymer Chemicals £'000	Pharma Chemicals £'000	Impact Chemicals £'000	Total £'000
Polymer Chemicals	–	–	–	–
Pharma Chemicals	–	–	–	–
Impact Chemicals	–	264	–	264
Total	–	264	–	264

4 Segmental analysis continued

2009	Polymer Chemicals £'000	Pharma Chemicals £'000	Impact Chemicals £'000	Total £'000
Polymer Chemicals	–	–	–	–
Pharma Chemicals	–	–	–	–
Impact Chemicals	–	231	–	231
Total	–	231	–	231

5 Operating profit

	Company and subsidiaries 2010 £'000	Joint ventures 2010 £'000	Total 2010 £'000	Company and subsidiaries 2009 £'000	Joint ventures 2009 £'000	Total 2009 £'000
Total sales	632,454	19,026	651,480	527,948	15,450	543,398
Cost of sales	(501,381)	(13,752)	(515,133)	(403,052)	(12,317)	(415,369)
Gross profit	131,073	5,274	136,347	124,896	3,133	128,029
Distribution costs	(45,259)	(1,280)	(46,539)	(42,027)	(942)	(42,969)
Administrative expenses	(32,973)	(1,060)	(34,033)	(32,705)	(949)	(33,654)
Special items	7,231	–	7,231	(30,000)	–	(30,000)
Operating profit	60,072	2,934	63,006	20,164	1,242	21,406

	2010 £'000	2009 £'000
Operating profit is stated after charging the following:		
Depreciation	14,315	14,345
Amortisation	303	331
Hire of plant and equipment	2,127	2,001
Other lease rentals	3,004	3,047
Research and development expenditure	9,472	9,584
Profit arising from the sale or closure of operations	(11,413)	–
Impairment of goodwill	–	30,000
Acquisition costs	4,182	–

6 Auditors' remuneration

	2010 £'000	2009 £'000
Fees payable to the Company's auditors for:		
audit of the Company's annual accounts	7	7
Fees payable to the Company's auditors and their associates for:		
audit of the Company's subsidiaries pursuant to legislation	409	409
Total audit fees	416	416
Reporting accountant fees	515	–
Total audit and related service fees	931	416
Tax services	10	36
Services relating to pending acquisition of PolymerLatex	235	–
Other services	26	25
Total non-audit fees	271	61

The other services provided by the Group auditors relate to assistance given in grant applications and sundry projects.

Notes to the consolidated financial statements continued
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7 Profit/(loss) arising from the sale or closure of an operation

	2010 £'000	2009 £'000
Continuing operations		
Closure of Uquifa's Italian manufacturing site	(858)	–
Sale of Revertex Finewaters Sdn Bhd	12,271	–
	11,413	–
Discontinued operations		
Sale of Oxford Chemicals Ltd	–	3,944
Write back of excess provision of Holiday Encres SA	–	371
Costs associated with prior year disposals	–	(663)
	–	3,652
	11,413	3,652

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

	2010 £'000	2009 £'000
Interest payable on bank loans and overdrafts	5,251	6,789
Interest payable on other loans	3,015	3,519
	8,266	10,308
Less: interest receivable	(426)	(439)
Net interest payable	7,840	9,869
Fair value adjustment	(2,645)	4,401
Total finance costs	5,195	14,270

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

	2010 £'000	2009 £'000
Continuing operations		
Current tax		
UK corporation tax	58	(11)
Overseas taxation	9,963	8,377
	10,021	8,366
Deferred tax		
Origination and reversal of temporary differences	(926)	(385)
	9,095	7,981
Special items (see note 3)	(6,558)	(9,065)
Total tax on profit before taxation	2,537	(1,084)
Discontinued operations		
Tax on special items – UK	–	6
Tax charge for the year on discontinued operations	–	6

9 Current taxation continued

UK corporation tax is calculated at 28% (2009 28%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2010 £'000	2009 £'000
Tax expense		
Continuing operations	2,537	(1,084)
Discontinued operations	–	6
Total tax expense	2,537	(1,078)

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.

	2010 £'000	2009 £'000
Profit before taxation – continuing operations	57,811	7,136
Profit before taxation – discontinued operations	–	3,674
Profit before taxation	57,811	10,810
Tax on profit before taxation at standard UK corporation tax rate of 28% (2009 28%)	16,187	3,027
Effects of:		
Expenses not deductible for tax purposes	4,006	727
Tax incentives and items not subject to tax	(17,059)	(5,718)
Losses not recognised less utilisation of losses not previously recognised	(203)	988
Higher/(lower) tax rates on overseas earnings	484	(7)
Other deferred tax asset not recognised less amounts now recognised	88	458
Adjustments to tax charge in respect of prior periods	(903)	(501)
Effect of change of rate on deferred tax	(63)	(52)
Tax charge for year	2,537	(1,078)

Tax charges to other comprehensive income

	2010 £'000	2009 £'000
Deferred tax credit on items recognised directly in other comprehensive income	(300)	(306)
	(300)	(306)

Current tax liabilities

	2010 £'000	2009 £'000
Current tax liabilities	(28,763)	(34,556)

Notes to the consolidated financial statements continued
31 December 2010

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

2010	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 1 January	(5,568)	(3,476)	(9,044)
(Charge)/credit to income statement	(581)	2,785	2,204
Exchange adjustment	103	65	168
At 31 December	(6,046)	(626)	(6,672)

Deferred tax assets

2010	Pensions £'000	Other £'000	Total £'000
At 1 January	91	1,048	1,139
Charged to income statement	(230)	(1,048)	(1,278)
Credited through retained earnings	300	–	300
At 31 December	161	–	161

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:

	2010 £'000	2009 £'000
UK pension liability	17,208	19,589
Tax losses	22,414	8,136
Accelerated capital allowances	3,737	18,747
Other timing differences	(1,164)	628
	42,195	47,100

11 Ordinary dividends

	2010 Pence per share	2009 Pence per share	2010 £'000	2009 £'000
Interim dividend as originally disclosed	2.0	–	2,913	–
Restatement (see note 37)	(0.7)	–		
Restated interim dividend	1.3	–		
Proposed final dividend	1.3	–	4,370	–

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

	2010			2009		
	Underlying performance	Special items	IFRS	Underlying performance	Special items	IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
From Continuing operations						
Earnings (Profit attributable to equity holders of the parent)	36,650	13,088	49,738	29,994	(23,976)	6,018
	Number '000	Number '000	Number '000	Number '000	Number '000	Number '000
Weighted average number of ordinary shares in issue – basic						
As originally calculated	226,268	226,268	226,268	145,660	145,660	145,660
Restatement (see note 37)				80,608	80,608	80,608
Restated				226,268	226,268	226,268
Basic earnings per share						
As originally calculated	16.2p	5.8p	22.0p	20.6p	(16.5)p	4.1p
Restatement (see note 37)				(7.3)p	5.8p	(1.5)p
Restated				13.3p	(10.7)p	2.6p
Weighted average number of ordinary shares in issue – diluted						
As originally calculated	232,786	232,786	232,786	149,382	149,382	149,382
Restatement (see note 37)				82,668	82,668	82,668
Restated				232,050	232,050	232,050
Diluted earnings per share						
As originally calculated	15.7p	5.7p	21.4p	20.1p	(16.1)p	4.0p
Restatement (see note 37)				(7.2)p	5.8p	(1.4)p
Restated				12.9p	(10.3)p	2.6p
From Continuing and discontinued operations						
Earnings (Profit attributable to equity holders of the parent)	36,650	13,088	49,738	29,994	(20,308)	9,686

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31 December 2010

12 Earnings per share continued

	2010			2009		
	Underlying performance Number '000	Special items Number '000	IFRS Number '000	Underlying performance Number '000	Special items Number '000	IFRS Number '000
Weighted average number of ordinary shares in issue – basic						
As originally calculated	226,268	226,268	226,268	145,660	145,660	145,660
Restatement (see note 37)				80,608	80,608	80,608
Restated				226,268	226,268	226,268
Basic earnings per share						
As originally calculated	16.2p	5.8p	22.0p	20.6p	(14.0)p	6.6p
Restatement (see note 37)				(7.3)p	4.9p	(2.4)p
Restated				13.3p	(9.1)p	4.2p
Weighted average number of ordinary shares in issue – diluted						
As originally calculated	232,786	232,786	232,786	149,382	149,382	149,382
Restatement (see note 37)				82,668	82,668	82,668
Restated				232,050	232,050	232,050
Diluted earnings per share						
As originally calculated	15.7p	5.7p	21.4p	20.1p	(13.6)p	6.5p
Restatement (see note 37)				(7.2)p	4.9p	(2.3)p
Restated				12.9p	(8.7)p	4.2p

13 Employees

	2010 Number	2009 Number
The average monthly number of employees during the year by activity was:		
Polymer Chemicals	1,326	1,435
Pharma Chemicals	388	421
Impact Chemicals	80	155
Holding companies	33	34
	1,827	2,045
Share of joint ventures	45	48
	1,872	2,093

	2010 £'000	2009 £'000
The aggregate remuneration of all Group employees comprised:		
Wages and salaries	50,650	51,600
Social security costs	8,350	7,866
Post retirement benefit obligations	3,289	4,208
	62,289	63,674

14 Goodwill

	2010 £'000	2009 £'000
Cost		
At 1 January and 31 December	263,939	263,939
Accumulated impairment losses		
At 1 January	139,912	109,912
Impairment losses for the year	–	30,000
At 31 December	139,912	139,912
Net book value		
At 31 December	124,027	124,027

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

Cash Generating Units ('CGU') comprise primarily acquired entities monitored at business unit level. The exception is where management monitor a CGU across similar businesses as a whole or components of businesses largely independent of other parts of those businesses.

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

	31 December 2008 Net book value £'000	31 December 2009 Impairment during the year £'000	31 December 2009 Net book value £'000	31 December 2010 Impairment during the year £'000	31 December 2010 Net book value £'000
Polymer Chemicals					
Synthomer Ltd and Harlow Chemical Company Ltd	70,521	–	70,521	–	70,521
Synthomer GmbH	13,120	–	13,120	–	13,120
Synthomer Hasselt BV	3,089	–	3,089	–	3,089
Synthomer Vietnam Co Ltd	412	–	412	–	412
	87,142	–	87,142	–	87,142
Pharma Chemicals					
Uquifa Spain SA and Uquifa Mexico SACV	66,885	(30,000)	36,885	–	36,885
	66,885	(30,000)	36,885	–	36,885
Total	154,027	(30,000)	124,027	–	124,027

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.

A discount rate of 9% has been used in each calculation.

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 4.0% and 5.0% 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.

The estimated recoverable amount of the Group's Pharma Chemicals division is similar to its carrying value and, consequently, any adverse change in key assumptions would, in isolation, cause an impairment loss to be recognised. Other than Pharma Chemicals, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of any cash generating unit to exceed its recoverable amount.

Notes to the consolidated financial statements continued
31 December 2010

15 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 £'000	Environmental licences £'000	Total £'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**

	Software £'000	Environmental licences £'000	Total £'000
Cost			
At 1 January 2009	6,163	215	6,378
Exchange adjustments	(626)	–	(626)
Additions	72	–	72
Disposals	(58)	–	(58)
At 31 December 2009	5,551	215	5,766
Accumulated amortisation and impairment			
At 1 January 2009	5,294	215	5,509
Exchange adjustments	(620)	–	(620)
Amortisation charge for the year	331	–	331
Disposals	(58)	–	(58)
At 31 December 2009	4,947	215	5,162
Net book value			
At 31 December 2009	604	–	604

16 Property, plant and equipment

	Land and buildings				
		Leaseholds			
	Freeholds £'000	Long £'000	Short £'000	Plant and equipment £'000	Total £'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)
At 31 December 2010	**44,868**	**4,890**	**8,372**	**338,977**	**397,107**
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)
At 31 December 2010	**19,126**	**2,433**	**1,151**	**271,829**	**294,539**
Net book value					
At 31 December 2010	**25,742**	**2,457**	**7,221**	**67,148**	**102,568**

	Land and buildings				
		Leaseholds			
	Freeholds £'000	Long £'000	Short £'000	Plant and equipment £'000	Total £'000
Cost					
At 1 January 2009	48,189	4,889	6,766	341,378	401,222
Exchange adjustments	(3,139)	(2)	(519)	(13,914)	(17,574)
Additions	1,252	–	1,051	4,941	7,244
Disposals	(788)	–	–	(2,602)	(3,390)
At 31 December 2009	45,514	4,887	7,298	329,803	387,502
Accumulated depreciation and impairment					
At 1 January 2009	18,800	2,175	776	261,365	283,116
Exchange adjustments	(785)	–	(62)	(9,916)	(10,763)
Depreciation charge for the year	1,031	129	149	13,112	14,421
Disposals	(314)	–	–	(2,773)	(3,087)
At 31 December 2009	18,732	2,304	863	261,788	283,687
Net book value					
At 31 December 2009	26,782	2,583	6,435	68,015	103,815

Freehold land amounting to £9,357,000 (2009 £9,357,000) has not been depreciated.

Of the depreciation charge for the year £nil (2009 £76,000) relates to discontinued operations.

Notes to the consolidated financial statements continued
31 December 2010

17 Investment in joint ventures

	2010 £'000	2010 £'000	2009 £'000	2009 £'000
At 1 January				
Share of non-current assets		1,028		1,091
Share of current assets		6,135		10,219
Share of current liabilities		(3,365)		(6,362)
		3,798		4,948
Share of income	19,026		15,450	
Share of expenses	(15,955)		(14,096)	
	3,071		1,354	
Tax	(137)		(112)	
Dividends paid during the year	(2,667)		(1,899)	
Exchange adjustments	(349)		(493)	
Retained loss	(82)		(1,150)	
At 31 December				
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

A list of principal subsidiary undertakings and joint ventures is given on page 82.

18 Inventories

	2010 £'000	2009 £'000
Raw materials and consumables	26,886	22,750
Work in progress	1,656	1,398
Finished goods	36,837	31,997
	65,379	56,145

The value of stock written off during the year was £1,605,000 (2009 £853,000).

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

19 Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	100,031	86,468
Amounts owed by joint ventures	549	395
Other receivables	8,378	7,793
Prepayments and accrued income	2,327	4,350
	111,285	99,006

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

19 Trade and other receivables continued

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

	2010 £'000	2009 £'000
Not yet due	85,505	74,844
0-60 days overdue	14,828	11,854
61-120 days overdue	832	986
Over 120 days due	1,633	2,140
	102,798	89,824
Less: provision for impairment	(2,767)	(3,356)
	100,031	86,468

Provision for impairment of receivables

	2010 £'000	2009 £'000
At 1 January	3,356	2,722
Exchange adjustments	(22)	11
(Charge)/credit for the year	(66)	733
Amounts written off as uncollectible	(501)	(110)
At 31 December	2,767	3,356

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

20 Cash and borrowings

	2010 £'000	2009 £'000
Current borrowings		
Bank loans		
Bank loans and overdrafts	6,565	3,608
Malaysian ringgits 100 million six-year amortising term loan	3,311	2,372
Other loans		
$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010	–	27,949
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010	–	5,000
	9,876	38,929
Less: capitalised costs	–	(5)
	9,876	38,924

Notes to the consolidated financial statements continued
31 December 2010

20 Cash and borrowings continued

	2010 £'000	2009 £'000
Non-current borrowings		
Bank loans		
Unsecured £30 million revolving credit facility expiring 2011	–	–
Malaysian ringgits 100 million six-year amortising term loan	14,853	15,936
Other bank loans	461	1,283
Other loans		
$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012*	27,794	26,996
$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014*	45,246	43,948
$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016*	14,220	13,812
	102,574	101,975
Less: capitalised costs	(195)	(869)
	102,379	101,106

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 2010, the Group had available £30 million (2009 £30 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. This facility was cancelled by the company in January 2011 following receipt of the rights issue proceeds and a new facility of £210 million was signed but not drawndown.

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

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

Analysis of borrowings at carrying value by currency

	Sterling £'000	US dollar £'000	Euro £'000	Other £'000	Total £'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					(12,674)
Net borrowings (underlying performance)					63,370
31 December 2009					
Bank loans and overdrafts	–	14	3,410	184	3,608
Bank loan	–	–	1,283	18,308	19,591
Loan notes	5,000	112,705	–	–	117,705
Capitalised costs	(874)	–	–	–	(874)
	4,126	112,719	4,693	18,492	140,030
Cash and cash equivalents					(42,384)
Net borrowings					97,646
Deduct: special item					(9,608)
Net borrowings (underlying performance)					88,038

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 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.

21 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 20, and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings, as disclosed in note 26.

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 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 value at 31 December		Fair values at 31 December	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Fair value of financial assets				
Trade and other receivables excluding prepayments	**108,958**	94,656	**108,958**	94,656
Cash and cash equivalents	**36,211**	42,384	**36,211**	42,384
Derivatives at fair value	**22,765**	11,763	**22,765**	11,763
	167,934	148,803	**167,934**	148,803
Fair value of financial liabilities				
Loan notes	**87,065**	116,831	**92,775**	118,754
Bank loans and overdrafts	**25,190**	23,199	**25,190**	23,199
Trade and other payables excluding accruals	**117,699**	103,664	**117,699**	103,664
	229,954	243,694	**235,664**	245,617

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 (2009 none).

Notes to the consolidated financial statements continued
31 December 2010

21 Financial instruments continued

Impact on income statement

Changes in the fair value of derivative contracts amounting to £2,644,680 have been credited to the income statement in the year (2009 charge of £4,400,652). These changes are shown separately as a special item in the consolidated income statement.

Hedge accounting

The Group has a number of cross currency and interest rate 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.

As disclosed in note 29, the Group anticipates making a euro purchase of €443 million in respect of the pending acquisition. To the extent that this will be funded out of sterling resources, the Group has taken out forward foreign exchange contracts to fix the sterling value of a percentage of this anticipated euro purchase. These contracts have been accounted for as cash flow hedges as permitted by IAS 39.

In addition the Group has taken out forward foreign exchange contract to fix the sterling value of it's 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.

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 2010 was:

	Floating rate borrowings 2010 £'000	Fixed rate borrowings 2010 £'000	Total borrowings 2010 £'000	Floating rate borrowings 2009 £'000	Fixed rate borrowings 2009 £'000	Total borrowings 2009 £'000
Sterling	37,668	40,000	77,668	2,223	105,000	107,223
Euro	3,404	–	3,404	4,693	–	4,693
US dollar	97	–	97	14	–	14
Other	18,412	–	18,412	18,492	–	18,492
	59,581	40,000	99,581	25,422	105,000	130,422
Cash and cash equivalents			(36,211)			(42,384)
Net borrowings (underlying performance)			63,370			88,038

The effective interest rate for the year was 4.8% (2009 6.9%).

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.

	2010			2009		
	Income statement		Equity	Income statement		Equity
	Underlying -/+ £m	IFRS -/+ £m	IFRS -/+ £m	Underlying -/+ £m	IFRS -/+ £m	IFRS -/+ £m
Interest rate sensitivity analysis						
UK interest rate +/- 1.0%	0.4	1.5	–	0.1	2.4	–
Euro interest rate +/- 1.0%	0.1	0.1	–	0.1	0.1	–
US interest rate +/- 1.0%	–	3.1	–	–	3.8	–
Foreign currency sensitivity analysis						
Euro exchange rate -/+ 10%	1.1	1.1	3.1	0.5	0.5	3.2
US dollar exchange rate -/+ 10%	–	1.2	–	–	1.1	–

21 Financial instruments continued

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.

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 revolving credit facility of £30 million. This facility was cancelled by the company in January 2011 following receipt of the rights issue proceeds and a new facility of £210 million was signed but not drawndown.

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 20 for further details.

A RM 100 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:

	2010					2009				
	Amount due					Amount due				
	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000
Non-interest bearing										
Trade and other payables excluding accruals	117,555	144	–	–	117,699	103,448	216	–	–	103,664
Variable interest rate instruments										
Bank loans and overdrafts	10,502	3,935	11,872	461	26,770	6,427	4,400	14,200	–	25,027
Fixed interest rate instruments										
Loan notes	5,008	32,802	53,027	15,071	105,908	40,855	4,864	82,541	15,464	143,724
	133,065	36,881	64,899	15,532	250,377	150,730	9,480	96,741	15,464	272,415

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

	2010					2009				
	Amount due					Amount due				
	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000
Non-interest bearing										
Trade and other receivables excluding prepayments	108,958	–	–	–	108,958	94,656	–	–	–	94,656
Variable interest rate instruments										
Cash and cash equivalents	36,211	–	–	–	36,211	42,384	–	–	–	42,384
	145,169	–	–	–	145,169	137,040	–	–	–	137,040

Notes to the consolidated financial statements continued
31 December 2010

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

	2010					2009				
	Amount due					Amount due				
	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000	within one year £'000	between 1 and 2 years £'000	between 2 and 5 years £'000	after 5 years £'000	Total £'000
Interest rate swaps	–	–	–	–	–	3,984	–	–	–	3,984
Cross currency swaps	(2,212)	(2,441)	(2,658)	(186)	(7,497)	(3,845)	(2,370)	(4,732)	(333)	(11,280)
Foreign exchange forward contracts	4,576	–	–	–	4,576	26	–	–	–	26
	2,364	(2,441)	(2,658)	(186)	(2,921)	165	(2,370)	(4,732)	(333)	(7,270)

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.

22 Assets held for sale
There were no assets held for sale at the year end (2009 nil).

23 Trade and other payables

	2010 £'000	2009 £'000
Amount due within one year		
Trade creditors	90,880	78,961
Other creditors	26,675	24,487
Accruals and deferred income	22,524	22,161
	140,079	125,609
Amount due in greater than one year		
Other creditors	144	216
	140,233	125,825

Accruals and deferred income includes £756,000 (2009 £1,413,000) in respect of restructuring costs.

Average trade creditor days in 2010 was 64 (2009 68). 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.

24 Post retirement benefit obligations
Charge to income statement in respect of the Group's pension schemes

	2010 £'000			2009 £'000			2008 £'000			2007 £'000			2006 £'000		
	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total
Defined benefit	1,761	717	2,478	3,168	699	3,867	977	427	1,404	1,598	763	2,361	2,200	763	2,963
Defined contribution	1,400	881	2,281	486	762	1,248	388	771	1,159	159	952	1,111	299	712	1,011
	3,161	1,598	4,759	3,654	1,461	5,115	1,365	1,198	2,563	1,757	1,715	3,472	2,499	1,475	3,974
Defined benefit – special item	–	–	–	–	–	–	–	–	–	(10,797)	–	(10,797)	–	–	–
	3,161	1,598	4,759	3,654	1,461	5,115	1,365	1,198	2,563	(9,040)	1,715	(7,325)	2,499	1,475	3,974

24 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:

	2010 £'000			2009 £'000			2008 £'000			2007 £'000			2006 £'000		
	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total
Present value of funded defined benefit obligations	(250,180)	(15,274)	(265,454)	(241,475)	(13,971)	(255,446)	(205,721)	(13,449)	(219,170)	(228,966)	(15,530)	(244,496)	(260,425)	(16,591)	(277,016)
Fair value of scheme assets	193,722	5,735	199,457	171,515	5,242	176,757	138,293	5,318	143,611	195,325	7,935	203,260	191,137	7,995	199,132
Post retirement benefit obligations	(56,458)	(9,539)	(65,997)	(69,960)	(8,729)	(78,689)	(67,428)	(8,131)	(75,559)	(33,641)	(7,595)	(41,236)	(69,288)	(8,596)	(77,884)

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 profit and loss account 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 2006 and updated to 31 December 2010 by a qualified actuary. The major assumptions used by the actuary were:

	2010	2009	2008	2007	2006
Rate of increase in salaries	N/A	3.00%	2.60%	3.10%	3.30%
Rate of increase in pensions in payment	3.25%	3.00%	2.50%	2.50%	2.50%
Rate of increase in pensions in deferment	2.25%	3.00%	2.50%	2.50%	2.50%
Discount rate	5.40%	5.70%	6.50%	5.90%	5.20%
Rates of return on plan assets	7.12%	8.22%	7.31%	7.33%	6.95%
Inflation assumption	3.25%	3.00%	2.60%	3.10%	2.80%

Amount charged to operating profit

	2010 £'000	2009 £'000
Current service cost	607	1,493
Expected return on plan assets	(12,296)	(11,393)
Interest cost relating to pension scheme liabilities	13,450	13,068
	1,761	3,168

Actuarial loss recognised in the statement of comprehensive income

	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	7,576	21,209
Experience gains and losses arising on the scheme liabilities	(6,500)	(32,753)
	1,076	(11,544)

Notes to the consolidated financial statements continued
31 December 2010

24 Post retirement benefit obligations continued
History of experience gains and losses

	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	7,576	21,209	(64,742)	(5,891)	13,800
Percentage of scheme assets (%)	3.91	12.37	(46.82)	(3.02)	7.22
Experience gains and losses arising on the scheme liabilities					
Amount (£'000)	(6,500)	(32,753)	25,273	25,872	(30,988)
Percentage of the present value of scheme liabilities (%)	(2.60)	(13.56)	12.29	11.30	(11.90)
Total actuarial (losses)/gains recognised in the statement of recognised income and expense					
Amount (£'000)	1,076	(11,544)	(39,469)	19,981	(17,188)
Percentage of the present value of scheme liabilities (%)	0.43	(4.78)	(19.19)	8.73	(6.61)

The actual return on plan assets was £19,872,000 (2009 £32,602,000).

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

	2010 £'000	2009 £'000
At 1 January	(241,475)	(205,721)
Current service cost	(607)	(1,493)
Interest cost	(13,450)	(13,068)
Contributions from scheme members	(48)	(438)
Experience gains and losses arising on the scheme liabilities	(6,500)	(32,753)
Cash paid by sponsoring companies	577	1,229
Benefits paid	11,323	10,769
At 31 December	(250,180)	(241,475)

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

	2010 £'000	2009 £'000
At 1 January	171,515	138,293
Expected return on scheme assets	12,296	11,393
Actual return less expected return on pension scheme assets	7,576	21,209
Contributions from sponsoring companies	13,610	10,951
Contributions from scheme members	48	438
Benefits paid	(11,323)	(10,769)
At 31 December	193,722	171,515

Contributions from the sponsoring companies are expected to be £9,600,000 in 2011.

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:

	2010 %	2010 £'000	2009 %	2009 £'000	2008 %	2008 £'000	2007 %	2007 £'000	2006 %	2006 £'000
Equities	7.70	110,402	8.00	113,373	9.00	90,241	8.00	148,447	7.90	154,821
Bonds	5.40	60,829	5.70	54,243	6.70	47,614	5.17	44,925	4.92	36,316
Property	7.70	10,480		–		–		–		–
Cash	2.00	12,011	2.00	3,899	4.25	438	4.25	1,953	4.25	–
Total fair value of assets		193,722		171,515		138,293		195,325		191,137
Present value of scheme liabilities		(250,180)		(241,475)		(205,721)		(228,966)		(260,425)
Post retirement benefit obligations		(56,458)		(69,960)		(67,428)		(33,641)		(69,288)

24 Post retirement benefit obligations continued

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 German schemes, where in line with common practice, the assets are held within the respective company.

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 2010. The major assumptions do not differ significantly from those disclosed above in relation to the UK pension schemes.

Amount charged to operating profit

	2010 £'000	2009 £'000
Current service cost	216	224
Expected return on plan assets	(68)	(239)
Interest cost relating to pension scheme liabilities	569	714
	717	699

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

	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	527	2
Experience gains and losses arising on the scheme liabilities	(1,527)	(1,077)
	(1,000)	(1,075)

The actual return on plan assets was £595,000 (2009 £241,000 gain).

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

	2010 £'000	2009 £'000
Net liability at 1 January	(8,729)	(8,131)
Total expense as detailed above	(717)	(699)
Contributions made	490	572
Actuarial gain	(1,000)	(1,075)
Exchange movements	417	604
Net liability at 31 December	(9,539)	(8,729)

25 Share capital

	2010 £'000	2009 £'000
Issued and fully paid		
145,663,187 (2009 145,663,187) ordinary shares of 10 pence each	14,566	14,566
Issued and nil paid		
194,217,582 (2009 nil) ordinary shares of 10 pence each (see note 29)	–	–

Ordinary shares carry no right to fixed income.

As permitted by the Companies Act 2006, the Company removed references to authorised share capital from its articles of association at the annual general meeting on 6 May 2010. This change took effect from 6 May 2010.

Notes to the consolidated financial statements continued
31 December 2010

25 Share capital continued
Share options
As at 31 December 2010 the following options were outstanding:

Executive share options	Number	Option price
Exercisable between 2010-2012	2,194	(a)
Exercisable between 2011-2018	1,018,471	(a)
Exercisable between 2012-2019	4,364,415	(a)
Exercisable between 2013-2020	1,132,673	(a)

(a) Options granted under the Performance Share Plan and the Longer-Term Deferred Bonus Plan with a total exercise price of £55.

26 Changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Cash flow hedging reserve £'000	Minority interest £'000	Retained earnings £'000	Total £'000
At 1 January 2010	14,566	33,034	949	–	(934)	–	6,903	19	54,537
Profit for the year	–	–	–	–	–	–	5,536	49,738	55,274
Actuarial gains and losses	–	–	–	–	–	–	–	76	76
Tax relating to components of other comprehensive income	–	–	–	–	–	–	–	300	300
Exchange differences on cash flow hedging deferred to equity	–	–	–	–	–	4,495	–	–	4,495
Exchange differences on translation of overseas operations	–	–	–	–	6,030	–	649	–	6,679
Net investment hedging	–	–	–	–	1,732	–	–	–	1,732
Total recognised income for the period	–	–	–	–	7,762	4,495	6,185	50,114	68,556
Dividends paid	–	–	–	–	–	–	(6,585)	(2,913)	(9,498)
Investment by minority interest	–	–	–	–	–	–	130	–	130
Divestment by minority interest	–	–	–	–	–	–	(384)	–	(384)
Shares purchased by ESOP trust	–	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	–	–	–	(776)	(776)
At 31 December 2010	**14,566**	**33,034**	**949**	**–**	**6,828**	**4,495**	**6,249**	**46,444**	**112,565**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Cash flow hedging reserve £'000	Minority interest £'000	Retained earnings £'000	Total £'000
At 1 January 2009	14,566	33,034	949	–	6,252	678	9,157	2,056	66,692
Profit for the year	–	–	–	–	–	–	2,202	9,686	11,888
Actuarial gains and losses	–	–	–	–	–	–	–	(12,619)	(12,619)
Tax relating to components of other comprehensive income	–	–	–	–	–	–	–	306	306
Exchange differences on cash flow hedging deferred to equity	–	–	–	–	–	(678)	–	–	(678)
Exchange differences on translation of overseas operations	–	–	–	–	(6,933)	–	(825)	–	(7,758)
Net investment hedging	–	–	–	–	(253)	–	–	–	(253)
Total recognised (expenditure)/ income for the period	–	–	–	–	(7,186)	(678)	1,377	(2,627)	(9,114)
Dividends paid	–	–	–	–	–	–	(3,631)	–	(3,631)
Shares purchased by ESOP trust	–	–	–	47	–	–	–	–	47
Share-based payments	–	–	–	(47)	–	–	–	590	543
At 31 December 2009	14,566	33,034	949	–	(934)	–	6,903	19	54,537

27 Reconciliation of operating profit to cash generated from operations

	2010 £'000	2009 £'000
Operating profit – continuing operations	63,006	21,406
Operating profit for the year from discontinued operations	–	3,674
Less: share of profits of joint ventures	(2,934)	(1,242)
	60,072	23,838
Depreciation and amortisation	14,616	14,771
Impairment of goodwill	–	30,000
Profit arising from the sale or closure of operations	(11,413)	(3,652)
Acquisition costs	4,182	–
Profit on sale of fixed assets	(36)	(76)
Share-based payments	333	(1,306)
Cash impact of termination of businesses	(1,445)	(3,591)
Pension funding in excess of IAS 19 charge	(12,191)	(10,678)
(Increase)/decrease in inventories	(8,362)	4,690
(Increase)/decrease in trade and other receivables	(14,210)	20,779
Increase/(decrease) in trade and other payables	10,682	(10,276)
Cash generated from operations	42,228	64,499

28 Disposal of subsidiaries

The Group disposed of the following interest in Group companies in 2010:

Company name	Date of sale	Purchaser	Division	Sale type
Revertex Finewaters Sdn Bhd	2 June 2010	Third party trade	Polymer Chemicals	Share

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

	Revertex Finewaters Sdn Bhd £'000
Property, plant and equipment	1,713
Inventories	1,316
Trade receivables	3,440
Net borrowing	386
Deferred tax liability	(140)
Current tax liability	(92)
Trade payables	(2,774)
	3,849
Less minority interest	(384)
	3,465
Profit on disposal	12,271
Total consideration	15,736
Satisfied by:	
Cash (net of disposal costs)	16,075
Accrued costs of disposal	(339)
	15,736

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

Notes to the consolidated financial statements continued
31 December 2010

29 Acquisition of subsidiary

On 13 December 2010, Yule Catto & Co plc entered in to an agreement to acquire the entire issued share capital of PolymerLatex Deutschland Beteiligungsgesellschaft mbH for a total transaction value of €443 million (£376 million). This acquisition is to be funded partly by a 4 for 3 right issue to raise £225 million and partly by increased bank borowings. Completion of the acquisition is conditional on the receipt of competition clearance from the relevant authorities. Further details can be found in the Prospectus dated 13 December 2010.

Costs associated with this transaction of £4,182,000 are included in special items (see note 3). £371,000 of these costs were settled in 2010.

30 Analysis of changes in net borrowings

	1 January 2010 £'000	Reclassification of borrowings £'000	Cash inflows\ (outflows) £'000	Exchange and other movements £'000	31 December 2010 £'000
Cash and cash equivalents	42,384	–	(10,657)	4,484	**36,211**
Current borrowing – Bank overdrafts	(3,608)	–	(2,575)	(382)	**(6,565)**
	38,776	–	(13,232)	4,102	**29,646**
Current borrowings	(35,316)	(3,311)	35,878	(562)	**(3,311)**
Non-current borrowings	(101,106)	3,311	100	(4,684)	**(102,379)**
Net borrowings	(97,646)	–	22,746	(1,144)	**(76,044)**
Deduct: special item	9,608				**12,674**
Net borrowings (underlying performance)	(88,038)				**(63,370)**

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

	2010 £'000	2009 £'000
Short-term employee benefits	**2,987**	2,938
Post retirement benefit obligations	**257**	250
Share-based payments	**1,148**	1,069
	4,392	4,257

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

32 Commitments

	2010 £'000	2009 £'000
Capital expenditure authorised but not provided for in the accounts		
Contracted	**3,970**	1,064

	2010 £000	2009 £000
Commitments under operating leases are as follows		
Payments under operating leases which fall due:		
Within 1 year	**3,208**	2,538
Between 2 and 5 years	**6,090**	6,037
After 5 years	**5,785**	6,081
	15,083	14,656

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 £18,782,000 (2009 £18,309,000).

Other guarantees and contingent liabilities of the Group amount to £1,076,000 (2009 £1,376,000).

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.

In connection with a disputed tax assessment in the amount of €11,020,000 by the Spanish tax authorities, Union Quimico Farmaceutica SA has given a charge dated 5 November 2010 over its two manufacturing sites. The charge guarantees a total sum of €13,230,000.

34 Share-based payments

Save As You Earn share option plan

This plan, which is available to almost all UK employees, provides for a grant price equal to the average quoted market price of the Group shares on the date of grant. The vesting period is five to seven years, followed by an exercise period of six months after which the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

	Options 2010	Weighted av. exercise price (£) 2010	Options 2009	Weighted av. exercise price (£) 2009
Outstanding at 1 January	13,872	2.610	13,872	2.610
Lapsed during the period	(13,872)	2.610	–	2.610
Outstanding at 31 December	–		13,872	
Exercisable at 31 December	–		13,872	

No grants have been made under the plan since 7 November 2002, and the Group has elected not to apply IFRS 2 to awards made before that date. For options expected to be settled with shares purchased by the Yule Catto Employee Benefit Trust in the open market, the charge to profit reflects the anticipated cash cost of these shares spread over the vesting period. For options expected to be settled by the issue of new shares, no charge to profit is made.

Executive share option schemes

Details of the share option schemes available to senior management are included in the Remuneration Report on pages 30 to 33.

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 2010	Weighted av. exercise price (£) 2010	Options 2009	Weighted av. exercise price (£) 2009
Outstanding at 1 January	5,780,786	–	1,226,535	–
Restated (see note 37)			678,273	
Outstanding at 1 January (restated)	5,780,786	–	1,904,808	–
Granted during the period	1,132,673	–	4,364,415	–
Exercised during the period	–	–	(119,533)	–
Lapsed during the period	(395,706)	–	(368,904)	–
Outstanding at 31 December	6,517,753	–	5,780,786	–
Exercisable at 31 December	2,194		2,194	

For options outstanding as at 31 December 2010, the exercise price was £nil and the weighted average remaining contractual life was 5.0 years (2009 5.7 years).

Notes to the consolidated financial statements continued
31 December 2010

34 Share-based payments continued
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 2010, the Trust held 3,418 (2009 3,418) ordinary shares in the company with a market value of £7,000 (2009 £5,000) and a provisional allotment of 4,597 nil paid ordinary shares in the company with a market value of £4,000 (2009 nil). 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 2010 was 201.0 pence. During the year, the market price ranged between 103.7 pence and 202.8 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.

The share prices in the proceeding paragraph have been restated as discussed in note 37.

36 Reconciliation of EBITDA

	Underlying performance		IFRS	
	2010 £'000	2009 £'000	**2010 £'000**	2009 £'000
Operating profit	**54,885**	49,416	**63,006**	21,406
Less: profit arising from the sale or closure of operations	**–**	–	**(11,413)**	–
Less: operating profit of businesses sold or closed during the year	**–**	–	**(890)**	(1,990)
Add: Acquisition costs	**–**	–	**4,182**	–
Add: Impairment of goodwill	**–**	–	**–**	30,000
Add back: amortisation	**303**	331	**303**	331
Add back: depreciation	**14,315**	14,345	**14,315**	14,345
EBITDA	**69,503**	64,092	**69,503**	64,092

37 Impact of Rights Issue
The company announced a 4 for 3 rights issue on 13 December 2010. The new shares were provisionally allotted nil paid on 31 December 2010.

To the extent that these new shares contained a bonus element, the following have been restated in accordance with accepted practise up to and including 30 December 2010:

Earnings per share	reduced by a factor of 64.39%
Dividends per share	reduced by a factor of 64.39%
Share option	increased by a factor of 155.3%
Share price	reduced by a factor of 64.39%

Independent auditors' 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 2010 which comprise the 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.

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 2010;
- 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 2010.

Stuart Henderson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
9 March 2011

Company balance sheet

31 December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible fixed assets	6	2,559	2,533
Investments	7	334,137	334,130
		336,696	336,663
Current assets			
Debtors	8	1,705	978
Cash at bank and in hand		940	1,603
Derivatives at fair value		18,189	11,737
		20,834	14,318
Creditors – due within one year			
Borrowings	9	(3,266)	(32,944)
Other creditors	10	(109,307)	(112,756)
		(112,573)	(145,700)
Net current liabilities		(91,739)	(131,382)
Total assets less current liabilities		244,957	205,281
Creditors – due after more than one year			
Borrowings	9	(87,065)	(83,887)
Net assets		157,892	121,394
Capital and reserves			
Called up share capital	11	14,566	14,566
Share premium	12	33,034	33,034
Revaluation reserve	12	822	824
Capital redemption reserve	12	949	949
Profit and loss account	12	108,521	72,021
Capital employed		157,892	121,394
Analysis of net borrowings			
Cash at bank and in hand		940	1,603
Borrowings due in less than one year		(3,266)	(32,944)
Borrowings due after more than one year		(87,065)	(83,887)
Net borrowings		(89,391)	(115,228)
Deduct: special item		12,674	9,608
Net borrowings (underlying performance)	9	(76,717)	(105,620)

The financial statements of Yule Catto & Co plc (registered number 98381) were approved on 9 March 2011.

A M Whitfield
D C Blackwood
Directors

Notes to the Company financial statements

31 December 2010

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 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 tax

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 Group'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 Group's balance sheet when the Group 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.

Notes to the Company financial statements continued
31 December 2010

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 Auditors' remuneration

The audit fee of Yule Catto & Co plc amounted to £7,000 (2009 £7,000).

3 Employees

	2010 Number	2009 Number
The average monthly number of employees during the year was:	26	29

	2010 £'000	2009 £'000
The aggregate remuneration of all Company employees comprised:		
Wages and salaries	2,291	2,260
Social security costs	275	273
Post retirement benefits	155	153
	2,721	2,686

4 Profit/(loss) attributable to equity shareholders

UK GAAP basis*	2010 £'000	2009 £'000
Attributable to Yule Catto & Co plc	38,913	(10,053)

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

*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.

5 Ordinary dividends

	2010 Pence per share	2009 Pence per share	2010 £'000	2009 £'000
Interim dividend as originally disclosed	2.0	–	2,913	–
Restatement (see note 37 to the consolidated financial statements)	(0.7)	–		
Restated interim dividend	1.3	–		
Proposed final dividend	1.3	–	4,370	–

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.

6 Tangible fixed assets

	Land and buildings			
	Freeholds £'000	Long leaseholds £'000	Plant and equipment £'000	Total £'000
Cost or valuation				
At 1 January 2010	2,777	89	1,442	4,308
Additions	–	–	147	147
Disposals	–	–	–	–
At 31 December 2010	**2,777**	**89**	**1,589**	**4,455**
At cost	12	–	1,589	1,601
At professional valuation in 1985	2,765	89	–	2,854
	2,777	89	1,589	4,455
Depreciation				
At 1 January 2010	491	47	1,237	1,775
Charge for the year	20	2	99	121
Eliminated on disposals	–	–	–	–
At 31 December 2010	**511**	**49**	**1,336**	**1,896**
Net book value				
At 31 December 2010	**2,266**	**40**	**253**	**2,559**
Net book value				
At 31 December 2009	2,286	42	205	2,533

Properties included at valuation would have been stated on a historical cost basis at cost of £1,877,000 (2009 £1,877,000) and depreciation of £437,000 (2009 £420,000).

Freehold land amounting to £1,781,000 (2009 £1,781,000) has not been depreciated.

7 Investments

	Subsidiaries £'000	Joint ventures £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2010	334,942	500	59	335,501
Additions	–	–	18	18
At 31 December 2010	**334,942**	**500**	**77**	**335,519**
Provisions				
At 1 January 2010	1,118	220	33	1,371
Amortisation	–	–	11	11
At 31 December 2010	**1,118**	**220**	**44**	**1,382**
Net book value				
At 31 December 2010	**333,824**	**280**	**33**	**334,137**
Net book value				
At 31 December 2009	333,824	280	26	334,130

Details of the principal Group companies are given on page 82.

Notes to the Company financial statements continued
31 December 2010

8 Debtors

	2010 £'000	2009 £'000
Other debtors	1,605	900
Prepayments and accrued income	100	78
	1,705	978

9 Borrowings

	2010 £'000	2009 £'000
Current borrowings		
Bank loans		
Bank loans and overdrafts	3,266	–
Other loans		
$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010	–	27,949
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010	–	5,000
	3,266	32,949
Less: capitalised costs	–	(5)
	3,266	32,944
Non-current borrowings		
Bank loans		
Unsecured £30 million revolving credit facility expiring 2011	–	–
Other loans		
$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012*	27,794	26,996
$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014*	45,246	43,948
$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016*	14,220	13,812
	87,260	84,756
Less: capitalised costs	(195)	(869)
	87,065	83,887

* 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 2010, the Company had available £30 million (2009 £30 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. This facility was cancelled by the company in January 2011 following receipt of the rights issue proceeds and a new facility of £210 million was signed but not drawn down.

9 Borrowings continued

Analysis of borrowings at carrying value by currency

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

	Sterling £'000	US dollar £'000	Euro £'000	Total £'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
31 December 2009				
Loan notes	5,000	112,705	–	117,705
Capitalised costs	(874)	–	–	(874)
	4,126	112,705	–	116,831
Cash and cash equivalents				(1,603)
Net borrowings				115,228
Deduct: special item*				(9,608)
Net borrowings (underlying performance)				105,620

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 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.

10 Other creditors

	2010 £'000	2009 £'000
Amount due within one year		
Trade creditors	1,674	1,088
Other taxation and social security	97	114
Other creditors	2,216	2,341
Amounts owed to subsidiaries	96,922	104,111
Accruals and deferred income	8,398	5,102
	109,307	112,756

11 Share capital

	2010 £'000	2009 £'000
Issued and fully paid		
145,663,187 (2009 145,663,187) ordinary shares of 10 pence each	14,566	14,566
Issued and nil paid		
194,217,582 (2009 nil) ordinary shares of 10 pence each	–	–

Ordinary shares carry no right to fixed income.

As permitted by the Companies Act 2006, the Company removed references to authorised share capital from its articles of association at the annual general meeting on 6 May 2010. This change took effect from 6 May 2010.

Notes to the Company financial statements continued
31 December 2010

11 Share capital continued
As at 31 December 2010 the following options were outstanding:

Executive share options	Number	Option price
Exercisable between 2010-2012	2,194	(a)
Exercisable between 2011-2018	1,018,471	(a)
Exercisable between 2012-2019	4,364,415	(a)
Exercisable between 2013-2020	1,132,673	(a)

(a) options granted under the Performance Share Plan and the Longer-Term Deferred Bonus Plan with a total exercise price of £55.

12 Share premium and reserves

	Share premium £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2010	33,034	824	949	72,021	106,828
Profit for the year	–	–	–	38,913	38,913
Dividends	–	–	–	(2,913)	(2,913)
Retained profit for the year	–	–	–	36,000	36,000
Share-based payments	–	–	–	500	500
Revaluation depreciation	–	(2)	–	–	(2)
At 31 December 2010	**33,034**	**822**	**949**	**108,521**	**143,326**

13 Related party transactions
There were no related party transactions during the year (2009 none).

14 Guarantees and other financial commitments
The Company has given guarantees amounting to £18,782,000 (2009 £18,309,000) 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 £14,213,000 (2009 £6,972,000).

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 £56,458,000 at 31 December 2010.

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 2006 and updated to 31 December 2010 by a qualified actuary. The major assumptions used by the actuary were:

	2010	2009	2008	2007	2006
Rate of increase in salaries	**N/A**	3.00%	2.60%	3.10%	3.30%
Rate of increase in pensions in payment	**3.25%**	3.00%	2.50%	2.50%	2.50%
Rate of increase in pension in deferment	**2.25%**	3.00%	2.50%	2.50%	2.50%
Discount rate	**5.40%**	5.70%	6.50%	5.90%	5.20%
Inflation assumption	**3.25%**	3.00%	2.60%	3.10%	2.80%

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:

	2010 %	2010 £'000	2009 %	2009 £'000	2008 %	2008 £'000	2007 %	2007 £'000	2006 %	2006 £'000
Equities	7.70	110,702	8.00	113,673	9.00	90,541	8.00	148,747	7.90	155,121
Bonds	5.40	60,829	5.70	54,243	6.70	47,614	5.17	44,925	4.92	36,316
Property	7.70	10,480	–	–	–	–	–	–	–	–
Cash	2.00	12,011	2.00	3,899	4.25	438	4.25	1,953	4.25	–
Total fair value of assets		194,022		171,815		138,593		195,625		191,437
Present value of scheme liabilities		(250,180)		(241,475)		(205,721)		(228,966)		(260,425)
Deficit in the scheme		(56,158)		(69,660)		(67,128)		(33,341)		(68,988)
Related deferred tax asset		–		–		–		–		–
Net pension liability		(56,158)		(69,660)		(67,128)		(33,341)		(68,988)

Contributions from the sponsoring companies are expected to be £9,600,000 in 2011.

Analysis of the amount that would have been charged to operating profit under FRS 17

	2010 £'000	2009 £'000
Current service cost	607	1,493
	607	1,493

Analysis of the amount that would have been charged to net finance income under FRS 17

	2010 £'000	2009 £'000
Expected return on pension scheme assets	(12,296)	(11,393)
Interest on pension scheme liabilities	13,450	13,068
	1,154	1,675

Analysis of the actuarial (loss)/gain that would have been recognised in the statement of total recognised gains and losses

	2010 £'000	2009 £'000
Actual return less expected return on pension scheme assets	7,576	21,209
Experience gains and losses arising on the scheme liabilities	(6,500)	(32,753)
	1,076	(11,544)

History of experience gains and losses

	2010	2009	2008	2007	2006
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	7,576	21,209	(64,742)	(5,891)	13,800
Percentage of scheme assets (%)	3.90	12.34	(46.71)	(3.01)	7.21
Experience (losses)/gains on scheme liabilities:					
Amount (£'000)	(6,500)	(32,753)	25,273	25,872	(30,988)
Percentage of the present value of scheme liabilities (%)	(2.60)	(13.56)	12.29	11.30	(11.90)
Total actuarial (losses)/gains recognised in the statement of total recognised gains and losses:					
Amount (£'000)	1,076	(11,544)	(39,469)	19,981	(17,188)
Percentage of the present value of scheme liabilities (%)	0.43	(4.78)	(19.19)	8.73	(6.61)

16 Share-based payments

For details of share-based payments please refer to note 34 to the consolidated financial statements on page 71.

Principal subsidiaries and joint ventures

Operating companies	Country of incorporation and operation	Effective Group interest in equity %
Arkem (Pty) Ltd	South Africa	50#
Distributor of speciality chemicals and allied products		
Synthomer Middle East Company	Saudi Arabia	49#
Synthetic resin emulsions		
Revertex Chemicals (Pty) Ltd	South Africa	100
Synthetic resin and emulsions and allied products		
Revertex (Malaysia) Sdn Bhd	Malaysia	70
Synthetic resin and emulsions, natural rubber latices, plasticers and allied products		
Synthomer BV	Netherlands	100
Compounds of synthetic rubber latices		
Synthomer GmbH	Germany	100
Synthetic rubber latices and related compounds		
Synthomer Ltd	England	100*
Synthetic rubber latices and emulsions		
Synthomer SA	Belgium	100
Compounds, dispersions and adhesives		
Synthomer SAE	Egypt	88
Compounds of synthetic and natural rubber latices		
Synthomer Sdn Bhd	Malaysia	100
Synthetic rubber latices and related compounds		
Synthomer Vietnam Co. Ltd	Vietnam	60
Synthetic adhesives		
Union Quimico Farmaceutica SA (UQUIFA)	Spain	100
Pharmaceutical actives and intermediates		
Uquifa Mexico S.A.C.V.	Mexico	100
Pharmaceutical actives and intermediates		
William Blythe Ltd	England	100
Inorganic chemicals		
Holding companies		
Holiday Chemical Holdings	England	100
Yule Catto International SA	France	100
Yule Catto BV	Netherlands	100
Yule Catto Financing Ltd	Ireland	100
Yule Catto Holdings GmbH	Germany	100
Yule Catto International Ltd	England	100*
Yule Catto Spain SL	Spain	100
Yule Catto Nederland BV	Netherlands	100

Joint ventures
* Shares held by Yule Catto & Co plc

Five year financial summary

Underlying performance (a)		2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Total sales		645,791	532,162	591,081	503,533	476,216
EBITDA	(b)	69,503	64,092	56,961	54,585	53,056
Operating profit	(c)	54,885	49,416	41,694	41,165	40,270
Finance costs		(7,840)	(9,869)	(10,502)	(11,497)	(11,443)
Profit before taxation		47,045	39,547	31,192	29,668	28,827
Basic earnings per share	(f) (g)	16.2p	13.3p	11.2p	10.0p	8.6p
Dividends per share	(f)	2.6p	N/A	2.6p	6.2p	6.0p
Dividend cover	(f)	6.2	N/A	4.4	1.6	1.4
Net borrowings	(e)	(63,370)	(88,038)	(135,482)	(170,831)	(166,271)
Free cash flow before dividends	(d)	9,825	39,001	7,781	14,012	8,479
Capital expenditure		10,592	8,687	17,707	16,994	18,468

IFRS – continuing operations		2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Total sales		651,480	543,398	602,153	512,925	485,137
EBITDA	(b)	69,503	64,092	56,961	54,585	53,056
Operating profit	(c)	63,006	21,406	40,786	41,032	22,533
Finance costs		(5,195)	(14,270)	(1,887)	(7,050)	(7,825)
Profit before taxation		57,811	7,136	38,899	33,982	14,708
Basic earnings per share	(f) (g)	22.0p	2.6p	14.3p	11.5p	1.7p
Dividends per share	(f)	2.6p	N/A	2.6p	6.2p	6.0p
Dividend cover	(f)	8.5	N/A	5.5	1.9	0.3
Net borrowings	(e)	(76,044)	(97,646)	(161,448)	(150,341)	(150,656)
Free cash flow before dividends	(d)	9,825	39,001	7,781	14,012	8,479
Capital expenditure		10,592	8,687	17,707	16,994	18,468

(a) As presented in the consolidated income statement on page 36.
(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 40 to 45.
(d) As shown with the consolidated cash flow statement on page 39.
(e) As defined in note 2 to the Financial Statements and derived in note 30.
(f) As restated see note 37.
(g) As restated see note 12.

Notice of meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the Manor of Groves Hotel, High Wych, Sawbridgeworth, Hertfordshire, CM21 0JU on Thursday 12 May 2011 at 2.30 pm for the following purposes:

Resolutions 12, 13 and 14 will be proposed as special resolutions. All other resolutions will be proposed as ordinary resolutions.

Ordinary business

1. To receive and adopt the report of the Directors and audited financial statements for the year ended 31 December 2010.

2. To consider the recommendation of the Directors as to a final dividend for the year ended 31 December 2010 and if thought fit to declare a final dividend accordingly.

3. To approve the report of the Board on Directors' remuneration for the year ended 31 December 2010.

4. To re-elect as a director the Hon. A G Catto.

5. To re-elect as a director Dato' Lee Hau Hian.

6. To re-elect as a director Dr A A Dobbie.

7. To re-elect as a director Mr J K Maiden.

8. To re-elect as a director Mr D C Blackwood.

9. To reappoint Deloitte LLP as auditors of the Company to hold office until the conclusion of the next Annual General Meeting at which accounts are laid before the Company.

10. To authorise the Directors to determine the remuneration of the auditors.

Special business

11. To resolve that the authority conferred on the Directors by Article 5.2 of the Company's Articles of Association be renewed for the period ending at the end of the Annual General Meeting in 2012 or on 30 June 2012, whichever is the earlier, and for such period the Section 551 Amount shall be £11,329,358. Such authority shall be in substitution for all previous authorities pursuant to Section 551 of the Companies Act 2006.

12. To resolve that subject to the passing of Resolution 11 above, the power conferred on the Directors by Article 5.3 of the Company's Articles be renewed for the period referred to in such Resolution and for such period the Section 561 Amount shall be £1,699,403. Such authority shall be in substitution for all previous powers pursuant to Section 561 of the Companies Act 2006.

13. That the Company be unconditionally and generally authorised for the purpose of Section 701 of the Companies Act 2006 ('the Act') to make market purchases (as defined in Section 693(4) of the Act) of ordinary shares of 10p each in the capital of the Company provided that:

    a) the maximum number of shares which may be purchased is 33,988,076;

    b) the minimum price which may be paid for each share is 10p (exclusive of expenses);

    c) the maximum price which may be paid for a share is an amount equal to 105% of the average of the closing middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such share is contracted to be purchased (exclusive of expenses); and

    d) this authority shall expire at the conclusion of the next Annual General Meeting of the Company or, if earlier, 15 months after the passing of this Resolution (except in relation to the purchase of shares the contract for which was concluded before the expiry of such authority and which might be executed wholly or partly after such expiry) unless such authority is renewed prior to such time.

14. That a general meeting other than an Annual General Meeting may be called on not less than 14 clear days' notice.

By order of the Board

R Atkinson
Secretary
9 March 2011

Registered office:
Temple Fields
Central Road
Harlow
Essex
CM20 2BH

Registered in England and Wales number 98381

Notes to the Notice of meeting

1. Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a shareholder of the Company. A proxy form which may be used to make such appointment and give proxy instructions accompanies this notice.

2. To be valid any proxy form or other instrument appointing a proxy must be received by post or (during normal business hours only) by hand at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY or at the electronic address provided in the proxy form, in each case no later than 48 hours before the time appointed for holding the meeting or any adjourned meeting.

3. The return of a completed proxy form, other such instrument or any CREST Proxy Instruction (as described in paragraph 9 below) will not prevent a shareholder attending the Annual General Meeting and voting in person if he/she wishes to do so.

4. Any person to whom this notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a 'Nominated Person') may, under an agreement between him/her and the shareholder by whom he/she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

5. The statement of the rights of shareholders in relation to the appointment of proxies in paragraphs 1 and 2 above does not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by shareholders of the Company.

6. To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), Shareholders must be registered in the Register of Members of the Company at close of business on Tuesday 10 May 2011 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the Register of Members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

7. The Company's capital consists of 339,880,769 ordinary shares with voting rights.

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

9. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID 3RA50) by the latest time(s) for the receipt of proxy appointments specified in Note 2. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

10. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

12. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

13. Under Section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that Section have the right to require the company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or

    (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with Section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

14. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.

15. A copy of this notice, and other information required by Section 311A of the Companies Act 2006, can be found at www.yulecatto.com.

Designed and produced by The College www.thecollege.uk.com

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