Yule Catto & Co. plc
Acquisition of Polymer Latex

13 December 2010

Yule Catto today announces that it has entered into an agreement to acquire the entire issued share capital of PolymerLatex for a total transaction value of €443 million (£376 million). Yule Catto further announces a 4 for 3 rights issue to raise gross proceeds of approximately £225 million (the "Rights Issue").

Highlights

- The PolymerLatex Group, headquartered in Germany, is an established player in the development, production and distribution of emulsion polymer products.

- The Acquisition of PolymerLatex is a compelling, transformational opportunity for Yule Catto to acquire a leading emulsion polymers franchise, giving Yule Catto increased scale and market share, a broader product offering and an improved new product pipeline.

- Specifically, the Directors believe that the Acquisition of PolymerLatex delivers a number of strategic benefits to Yule Catto, including:

  — building Yule Catto's position in the xSBR latex market by adding European manufacturing assets, new end markets and applications development capabilities, enabling Yule Catto to compete more effectively in this market segment;
  — providing Yule Catto with access to additional modern, purpose-built nitrile latex capacity in Malaysia, offering the opportunity to expand Yule Catto's product offering in the growing synthetic latex protective gloves market. The PolymerLatex Group's manufacturing facilities in Malaysia also offer growth opportunities for Yule Catto in xSBR in the Asian market; and
  — providing Yule Catto with access to additional manufacturing process expertise, research and development and technical service capabilities.

- In addition, the Directors believe that the Acquisition will help to accelerate Yule Catto's strategy of growing its Polymer Chemicals division in attractive emerging markets, where Yule Catto's technology, new product development and manufacturing capabilities give it a strong market position.

- The Directors believe that the Enlarged Group will be able to achieve annual cost synergies of at least £20 million, the majority of which are expected to be achieved through efficiency improvements within the manufacturing operations and the selling, general and administrative functions of the Enlarged Group. The Board expects to benefit from around 30 per cent. of these synergies in 2011, with the full benefit of the synergies being realised in 2012 and beyond.

  It is expected that the cost of realising these synergies will be approximately £20 million, of which the significant majority would be incurred in 2011, with the remainder being incurred in 2012. In addition the Board expects to make additional capital expenditure of approximately £23 million to realise these synergies with this additional initial cost being offset by expected capital expenditure savings during the first three years of ownership.

- The total transaction value of €443 million (£376 million) is made up of €157 million (£133 million) to acquire the entire issued share capital of PolymerLatex and the assumption of

the PolymerLatex Group's existing net indebtedness of €286 million (£243 million). In addition, the Enlarged Group will continue to fund the PolymerLatex Group's unfunded pension liability, estimated at €31 million (£26 million) as at 31 December 2009. For the six months to 30 June 2010, the PolymerLatex Group's underlying sales were €279.6 million and underlying EBITDA was €33.8 million. In the year ended 31 December 2009, the PolymerLatex Group achieved underlying sales of €386.7 million and underlying EBITDA of €54.6 million.

- Yule Catto proposes to fund the Acquisition and associated fees and expenses from a combination of:-
  - a Rights Issue of New Ordinary Shares at a price of 116 pence per share on the basis of 4 New Ordinary Shares for every 3 Existing Ordinary Shares, raising gross proceeds of approximately £225 million; and
  - New Credit Facilities comprising a euro denominated £150 million 3 year term loan facility and a £60 million 3-year multicurrency revolving credit facility (of which £15 million will be drawn down for the purposes of funding the Acquisition).

Commenting on today's announcement, Adrian Whitfield, Chief Executive of Yule Catto, said:

"The acquisition of PolymerLatex represents a transformational opportunity for Yule Catto. It creates a group with increased scale, an enhanced product portfolio, stronger market positions and greater efficiencies, all of which provide a foundation from which to grow and compete more effectively in a consolidating emulsion polymers market. At the same time, it supports our long-term strategy by providing a stronger platform and the necessary cash generation to accelerate our growth in emerging markets. With meaningful potential synergies, it is a financially attractive deal which is expected to be accretive to earnings from the first year of ownership and significantly accretive thereafter."

Background to and reasons for the Acquisition

Over the past four years, Yule Catto has undergone a significant internal restructuring focused on gross margin improvement, cost reductions, improved cash generation and portfolio realignment. Yule Catto divested several non-core assets to focus primarily on its Polymer Chemicals division, particularly its emulsion polymers product lines. As a result, the core business of Yule Catto is now the Polymer Chemicals division, which accounted for over 80 per cent. of revenues and almost 90 per cent. of divisional operating profits in 2009.

Over the same period, the emulsion polymers sector in which Yule Catto and PolymerLatex operate has undergone a period of consolidation, which has resulted in production capacity rationalisation and allowed the sector to enjoy relatively stable and resilient financial performance despite a challenging global economic environment.

In the context of the Company's strategic focus on the polymers sector, Yule Catto identified PolymerLatex as a potential strategic acquisition some time ago. PolymerLatex is a leading global player in latex products operating through a network of well invested facilities in Europe and Asia. The Directors believe that the Acquisition at this time presents a compelling opportunity with a strong strategic, operational and financial rationale.

The PolymerLatex Group's portfolio of well-located operational plants complements Yule Catto's existing operations and the Directors believe that the Enlarged Group will benefit from the experience and contribution of the employees of the PolymerLatex Group who will join the Enlarged Group. The Directors believe that the addition of new products and technology will facilitate growth in traditional Yule Catto and PolymerLatex products as well as enabling diversification into new products and end-markets through the combined product and application development capability of the Enlarged Group. Overall, the Acquisition adds further scale and diversity to the Company's current specialty offering.

Specifically, the Directors believe that the Acquisition delivers a number of strategic benefits to Yule Catto, including:

- building Yule Catto's position in the xSBR latex market by adding European manufacturing assets, new end-markets and applications development capabilities, enabling Yule Catto to compete more effectively in this market segment;
- providing Yule Catto with access to additional modern, purpose-built nitrile latex capacity in Malaysia. This offers the opportunity to expand Yule Catto's product offering in the growing synthetic latex protective gloves market. The PolymerLatex Group's manufacturing facilities in Malaysia also offer growth opportunities for Yule Catto in xSBR in the Asian market; and
- providing Yule Catto with access to additional manufacturing process expertise, research and development and technical service capabilities.

The Directors believe that the Acquisition will help to accelerate the Company's strategy of growing its Polymer Chemicals division in attractive emerging markets, where PolymerLatex's technology, new product development and manufacturing capabilities will strengthen its market position. The Directors intend that the expected improved cash flow profile of the Enlarged Group will be used to fund organic growth opportunities in emerging markets. The Directors believe that the Acquisition will allow Yule Catto to achieve its previously stated emerging market objectives more quickly, while also increasing the scale and efficiency of its core European operations.

Overall, the Directors believe that the Acquisition is a transformational opportunity that 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, while investing in new products and capacity in emerging markets.

The Board believes that the Enlarged Group will be able to achieve annual cost synergies of at least £20 million. The Board expects to benefit from around 30 per cent. of these synergies in 2011, with the full benefit of the synergies being realised in 2012 and beyond. It is expected that the cost of realising synergies will be approximately £20 million, of which the significant majority would be incurred in 2011, with the remainder being incurred in 2012. In addition the Board expects to make additional capital expenditure of approximately £23 million to realise these synergies with this additional initial cost expected to be offset by expected capital expenditure savings during the first three years of ownership.

These statements of estimated cost savings relate to future actions and circumstances which by their nature involve risks, uncertainties, contingencies and other factors. As a result, the cost savings referred to may not be achieved, or those achieved may be materially different from those estimated.

Strategy of the Enlarged Group

The Directors' strategic priorities following the Acquisition and integration of the PolymerLatex business will continue to be focused on geographical expansion around the existing platform of the Enlarged Group, with a particular focus on further enhancing the Group's presence in Asia. The Directors intend that the Enlarged Group can use the anticipated additional free cash flow generated from the Acquisition to fund organic growth opportunities in emerging markets. With an improving demand environment, the Directors expect to invest in further manufacturing capacity in nitrile and xSBR in Asia in order to meet this rising demand.

In Europe, strategic priorities following the Acquisition will be focused on delivering the targeted synergies. Furthermore, the Directors plan to focus efforts on implementing a comprehensive integration plan which will combine best practices from both Yule Catto and PolymerLatex to lower production cost, enhance customer service and further strengthen the Enlarged Group's new product pipeline.

Overview of the PolymerLatex Group

The PolymerLatex Group is an established player in the development, production and distribution of emulsion polymer products. It is headquartered in Germany and operates with manufacturing facilities in Marl (Germany), Worms (Germany), Filago (Italy) and Johor Bahru (Malaysia), a tolling arrangement in Dubai and a joint venture manufacturing facility in Oulu (Finland). PolymerLatex is currently owned by funds advised by TowerBrook.

The PolymerLatex Group has a diverse product portfolio and operates through six industry teams which are aligned with their respective market segments: Paper, Carpet, Foam, Construction & Paints, Protective Gloves and Functional Polymers (Textiles and Adhesives).

The PolymerLatex Group gross assets as at 31 December 2009 (the most recent date for which audited financial statements for the PolymerLatex Group have been prepared), were €393.8 million and the underlying loss before tax attributable to those assets, for the year ended 31 December 2009, was €20.4 million. In the year ended 31 December 2009, the PolymerLatex Group achieved underlying sales of €386.7 million and underlying EBITDA of €54.6 million. For the six months to 30 June 2010, underlying sales were €279.6 million and underlying EBITDA was €33.8 million, which represented a strong performance. These figures have been prepared in accordance with Yule Catto's accounting policies. An accountants' report on the PolymerLatex Group covering the three years ended 31 December 2009 restated into IFRS will be available in the Prospectus.

Financing the Acquisition

The Acquisition and associated fees and expenses will be funded from a combination of:

- A Rights Issue of New Ordinary Shares at a price of 116 pence per share on the basis of 4 New Ordinary Shares for every 3 Existing Ordinary Shares. Up to 194,217,582 New Ordinary Shares will be issued, raising gross proceeds of approximately £225 million; and
- New Credit Facilities comprising a euro denominated £150 million 3 year term loan facility and a £60 million 3 year multicurrency revolving credit facility (of which £15 million will be drawn down for the purposes of funding the Acquisition).

Financial Impact of the Acquisition and the Rights Issue

The Directors expect the Acquisition to be accretive to earnings per share in 2011 and significantly accretive thereafter with a return on investment exceeding the Enlarged Group's weighted average cost of capital for the year ended 31 December 2011. The Board's expectation is based upon an assumed acquisition completion date of 1 January 2011 and does not take into account any exceptional restructuring costs. Shareholders should note that completion of the Acquisition is subject to certain conditions, including competition clearances, and is expected to occur within four months from the date of this Announcement.

The Directors believe that the Enlarged Group's balance sheet will remain robust, with an estimated
£45 million of liquidity in the form of cash and facilities remaining available to draw down at Completion, and believe that it will provide the flexibility to execute both Yule Catto's existing planned investment programme and that of the Enlarged Group.

The Rights Issue will result in dilution of 57.1 per cent. if existing Shareholders do not take up their rights under the Rights Issue.

The Rights Issue is conditional, amongst other things, upon the passing of the Resolutions, Admission, and the Underwriting Agreement having become unconditional in all respects (other than conditions referring to Admission) and not having been terminated in accordance with its terms prior to Admission.

The Rights Issue is not conditional on Completion. However if, before Admission, the Acquisition Agreement has been terminated or the conditions to the Acquisition cease to be capable of satisfaction, the Rights Issue will not proceed.

Principal terms of the Acquisition

The Acquisition values the PolymerLatex Group at €443 million (£376 million), such amount to be satisfied by the repayment on Completion of all third party indebtedness of the PolymerLatex Group, estimated to be €286 million (£243 million) (the "Net Debt Settlement Amount"), and the balance, estimated to be €157 million (£133 million), (the "Equity Value Amount") being the cash consideration payable for the issued share capital of PolymerLatex. The Equity Value Amount is subject to adjustment in the event that there is a shortfall or excess in the working capital of the PolymerLatex Group at Completion or in the event that there is an increase or decrease in the Net Debt Settlement Amount. The Enlarged Group will continue to fund the PolymerLatex Group's unfunded pension liability, which, as at 31 December 2009, was estimated at €31 million (£26 million).

Completion under the Acquisition Agreement is conditional upon:

- resolutions being passed by Shareholders approving, inter alia, the Acquisition and the Rights Issue;
- Admission becoming effective;
- relevant competition clearances in connection with the Acquisition being obtained;
- there not having occurred a material adverse change in the PolymerLatex Group's business prior to Completion.

In the event that such conditions are not satisfied within six months of the date of the Acquisition Agreement, the Acquisition Agreement will terminate with immediate effect. The Prospectus will contain a more detailed summary of the principal terms of the Acquisition.

Costs for the transaction total approximately £14 million, comprising £6.2 million underwriting commission and commission payable to KLK, bank loan arrangement fees of £3.2 million and other fees (advisory, accounting, legal and consulting) of £4.6 million.

agreed, subject to the terms and conditions of the Underwriting Agreement, to underwrite the Underwritten Shares (being all of the New Ordinary Shares other than the New Ordinary Shares which are the subject of the KLK Irrevocable Undertaking).

Application has been made to the UK Listing Authority for the New Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for the New Ordinary Shares to be admitted to trading on its main market for listed securities. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence on the London Stock Exchange, nil paid, at 8 a.m. on 31 December 2010.

The latest time and date for acceptance and payment in full of the New Ordinary Shares will be 11 a.m. on 17 January 2011.

Based on the Closing Price of 260 pence per share and the proposed Issue Price of 116 pence for each New Ordinary Share, the theoretical ex-rights price of an Ordinary Share is 178 pence.

Further details of the Rights Issue will be set out in the Prospectus to be published in due course.

Use of proceeds of the Rights Issue

The proceeds of the Rights Issue, which are fully underwritten (save for subscription proceeds from the take up of New Ordinary Shares pursuant to the KLK Irrevocable Undertaking), will be used to fund part of the consideration for the Acquisition and repayment of part of the existing debt of the PolymerLatex Group.

In the event that the Rights Issue proceeds but Completion does not take place, the Directors intend to return substantially all of the net proceeds of the Rights Issue to Shareholders within a reasonable period of time. The Company would seek to return these proceeds in as tax efficient a manner as possible for all Shareholders but certain Shareholders, including some Overseas Shareholders and individuals, may suffer a tax charge on any repayment and, accordingly, their financial position may be adversely affected.

Final Dividend and Future Dividend Policy

The New Ordinary Shares will carry the entitlement to all future dividend payments made by the Company, including any final dividend for the 2010 financial year.

The Board has previously committed that the 2010 full year dividend would be no less than 5.0 pence per Ordinary Share. The Company paid an interim dividend of 2.0 pence per Ordinary Share on 11 November 2010. The Board intends that the total aggregate cash amount paid in dividends for 2010 will be in line with its previous commitment. However, due to the enlarged number of shares that will be in issue as a result of the Rights Issue at the time it is paid, the 2010 final dividend per Ordinary Share will be diluted accordingly.

Following completion of the Acquisition and Rights Issue, the Board intends to pursue a progressive dividend policy. This will reflect the effect of the anticipated synergies and the longer term growth profile of the Group, while also taking into account the organic growth opportunities in which the Group expects to invest, in particular in emerging markets.

All future dividend payments will be subject to the Company having sufficient distributable reserves and profits available for the purpose and will take into account the Group's cash flows, debt repayments and the need to maintain an appropriate level of dividend cover.

Current trading and prospects of Yule Catto and PolymerLatex

Yule Catto

In the six months to 30 June 2010, underlying total sales, as compared to the same period in the prior financial year, increased by 24 per cent. Underlying operating profit before tax for the same six month period increased by 19 per cent.

The increase in total sales was mainly driven by strong performance in the Polymer Chemicals division, which represented 86 per cent. of divisional operating profit. Trading since June 2010 has been in line with management expectations.

PolymerLatex

The PolymerLatex Group saw strong trading throughout the first six months of 2010, with underlying total sales of €279.6 million and underlying EBITDA of €33.8 million. This was driven by volume increases and higher unit cash margins. Management believes that, since 30 June 2010, the PolymerLatex Group's trading performance has continued in line with these trends.