Morgan Stanley

MORGAN STANLEY RESEARCH EUROPE

Morgan Stanley & Co. International plc+

Paul R Walsh
Paul.R.Walsh@morganstanley.com
+44 (0)20 7425 4182

Peter J Mackey
Peter.Mackey@morganstanley.com
+44 (0)20 7425 4657

Amy L Walker
Amy.Walker@morganstanley.com
+44 (0)20 7425 0640

March 14, 2011

Stock Rating
Overweight

Industry View
In-Line

Yule Catto

Buying Opportunity After >3 Points Taken Off 2011e PE

What's Changed

2011e MW EPS	**From 14.0p to 15.2p (+8.6%)**

YULC's share price has fallen by >14% since the release of its FY '10 results. This appears to have been driven by fears over cost inflation and margin pressure in Polymer Chemicals. However, we are raising '11e MW EPS by >8%, due to the earlier than expected closure of the PolymerLatex acquisition. More than 3 PE points have been wiped off YULC's 2011 valuation in 3 days; this is too much in our view, and we see this as an ideal buying opportunity.

Raising 2011e MW EPS by >8%, price target maintained at 285p: With Polymer Chemicals EBIT in line, Pharma below expectations, and Impact Chemicals ahead, our underlying forecasts remain largely unchanged. However, YULC has now said closure of the PL deal will occur on 31st March, 2011. This is two months earlier than our previous base case estimates, and the effect of this additional income from PL drives our current year EPS upgrade. With longer-term estimates unchanged, our price target remains 285p, implying c.44% upside to the current share price.

Cost inflation clearly an issue, but largely manageable, in our view: We fully expect YULC to see further margin pressure in Polymer Chemicals as a result of cost inflation. However, this does not imply poor pricing power. EBITDA per tonne will be largely protected in our view, and we argue absolute cost inflation will be mitigated. Since YULC's current CEO joined in 2006, despite constantly rising costs, EBITDA per tonne looks to have actually risen by c.40%.

A deeply discounted and attractive valuation: Generating a pro forma 2012e post tax ROIC of 14.5%, with a FcF yield rising to 9.4% by 2013e and offering investors a 2011-15e CAGR in EPS of c.16%, we think YULC's 2012e PE of 8.3x is extremely attractive.

Key Ratios and Statistics

Reuters: YULC.L Bloomberg: YULC LN
Chemicals / United Kingdom

Price target	**285p**
Shr price, close (Mar 9, 2011)	195p
52-Week Range	245-104p
Mkt cap, curr (mn)	£663
Net debt (12/11e) (mn)*	£219
EV, curr (mn)*	£732

***** = GAAP or approximated based on GAAP

Fiscal Year ending	12/10	12/11e	12/12e	12/13e
Revenue (£mn)**	627	1,066	1,259	1,318
EBITDA (£mn)**	70	119	161	183
EBIT (£mn)**	55	89	125	145
EPS (p)**	25.2	15.2	23.6	28.4
ModelWare EPS (p)	**25.2**	**15.2**	**23.6**	**28.4**
Prior EPS (p)**	23.9	14.0	23.5	28.0
Consensus EPS (p)§	**17.1**	**17.3**	**21.8**	**24.2**
P/E**	8.0	12.8	8.3	6.9
EV/revenue*	0.6	0.8	0.7	0.6
EV/EBITDA**	5.2	7.5	5.4	4.5
EV/EBIT**	6.6	10.0	7.0	5.7
Div per shr (p)	4.0	3.1	3.7	4.7
Div yld (%)	2.0	1.6	1.9	2.4
FCF yld ratio (%)**	15.5	(4.2)	5.3	9.4
Net debt (£mn)*	63	219	195	152
Net debt/EBITDA**	0.9	1.8	1.2	0.8
RNOA (%)**	23.0	27.0	14.8	16.2
ROE (%)**	64.0	43.4	22.4	23.4

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).
****** = Based on consensus methodology
§ = Consensus data is provided by FactSet Estimates.
***** = GAAP or approximated based on GAAP
e = Morgan Stanley Research estimates

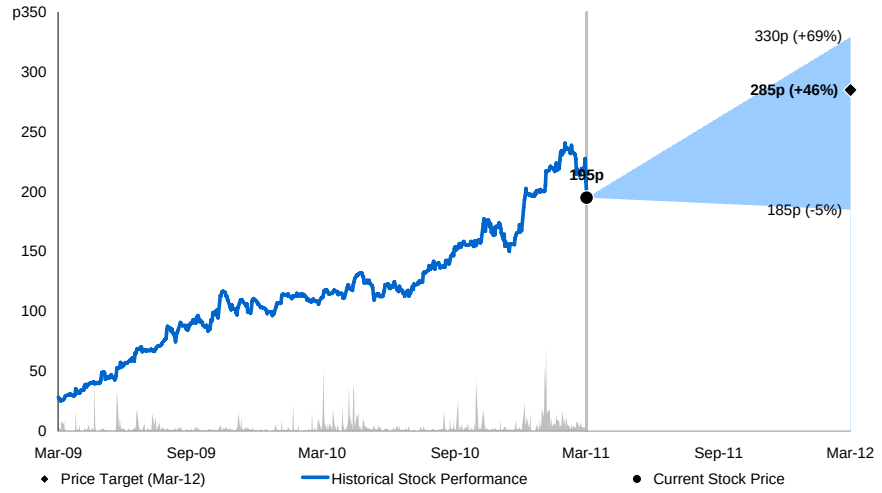
Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

+= Analysts employed by non-U.S. affiliates are not registered with FINRA, may not be associated persons of the member and may not be subject to NASD/NYSE restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

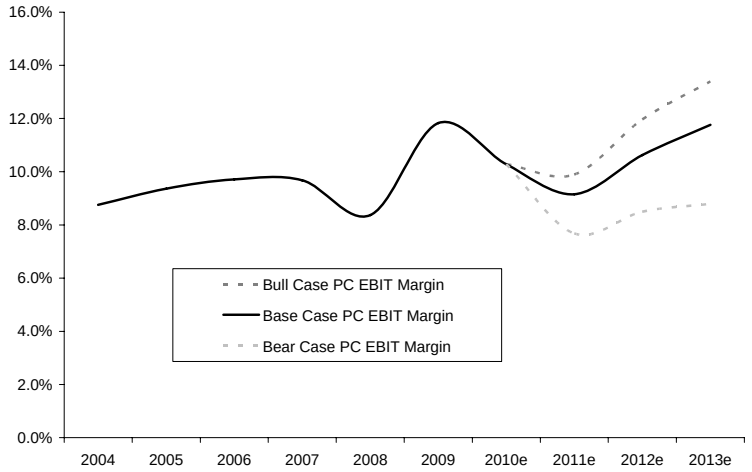
Risk-Reward Snapshot: Yule Catto (YULC.L, 195p, OW, PT 285p)

Value extraction from PolymerLatex now the key to unlocking value



Price Target 285p		Based on a blended average of our DCF (WACC 8.0%, t-growth 2.0%), residual income, dividend discount (CoE 9.2%, t-growth 7.4%) and target multiple models.
Bull Case 330p	10.2x Bull Case 12e EPS 32.5p	**Peak margins return.** Peak margins return in underlying Polymer Chemicals (c.14%) and PL synergies hit £30m, which leads to an EPS of >32p by 2012e. We would ascribe a 10.2x PE multiple.
Base Case 285p	12.1x Base Case 11e EPS 23.6p	**Steady progress, PL synergies hit £20m.** Rising input costs continue to weigh on PC margin, but integration of PL sees £20m of synergies delivered.
Bear Case 185p	9.2x Bear Case 12e EPS 20.1p	**Double-dip, margins trough once more, synergies fail.** Underlying PC EBIT margin declines to 10.0%, PL synergies fully passed on to customers. Bear case EPS of 20.1p by 2012e.

Polymer Chemicals EBITDA margin contingent on PL synergies



Source: Morgan Stanley, FactSet; e=Morgan Stanley Research estimates

Investment Thesis

- Restructuring is paying dividends (both cost cutting and asset disposals), with more to come. (William Blythe in Impact Chemicals)
- Margin resilience in Polymer Chemicals has been proven once more in a severe downturn, with recovery potential not currently in the price.
- Yule Catto's market positions in Polymer Chemicals are stronger than the equity market thinks, especially post the PL acquisition.
- £20m of PL synergies are conservative at just 4% of target sales.
- A highly compelling valuation – stock is trading on a 2012e PER of 8.3x, making it the cheapest of the UK chemical companies.

Key Value Drivers

- Fluctuations in key raw materials, comprising styrene, acrylonitrile, butadiene and VAM
- Pricing & volumes in Polymer Chemicals given the division accounts for >90% of group EBIT (especially post PL integration)
- The value of sterling against key currencies like the US dollar and euro
- New product launches in Pharma Chemicals, although the current pipeline looks fairly thin

Potential Catalysts

- Disposal of William Blythe (2011)
- Potential solution for Pharma division
- Moderation in petrochemical raw material prices
- Dividend payment greater than the 5p currently earmarked for 2010e
- April/May, 2011 – Q1 trading update
- September, 2011 – PL site visit (TBC)

Yule Catto's shares oversold post FY 2010 results, in our view

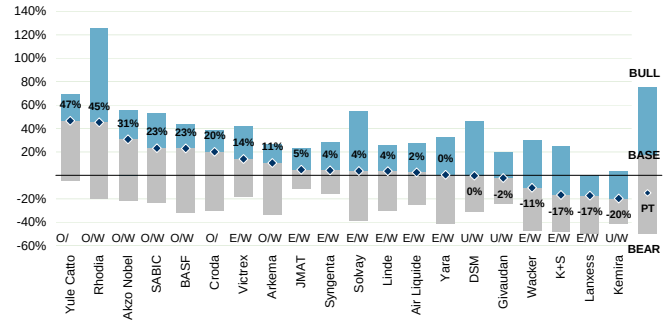
Summary & Conclusions

Following Yule Catto's FY 2010 results, the company's share price has declined >14% in 3 days. Combined with the fact that we are increasing our 2011e MW EPS by >8% (reflecting an additional 2 months of PL contribution with the deal completing earlier than we had expected), YULC has seen a >3 point decline in its 2011e PE (from 16.3x to 12.8x currently).

We believe the shares have been materially oversold, and given the strong share price performance over the past 24 months, we see this as an excellent buying opportunity. We see base case upside of 46%, with our bull case suggesting 69% upside to the current share price. We believe this offers investors an attractive risk/reward profile, with just 6% downside to our bear case scenario.

Exhibit 1

Yule Catto – best in sector base case upside



Source: Morgan Stanley Research estimates

Addressing concerns over raw material cost inflation

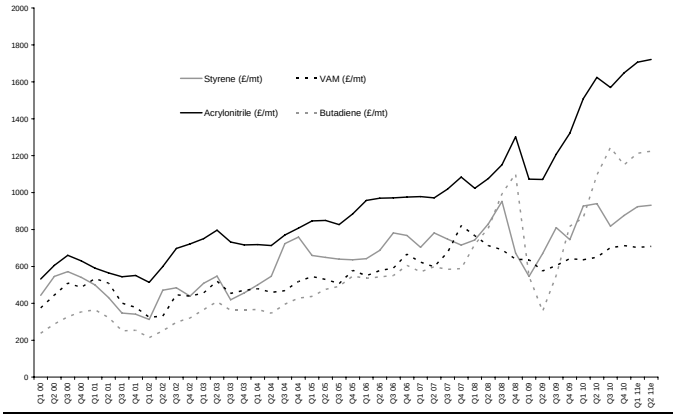
Our analysis suggests that Yule Catto had to contend with raw material cost inflation of up to 45% in certain key petrochemical inputs in 2010. The most aggressive moves were seen in butadiene, where 2010 saw spot prices almost double against the prior year. Whilst VAM was relatively stable (+14% YoY), 30-40% increases were also reported in styrene and acrylonitrile.

To manage this, the company achieved FY 2010 price increases of c.19%. We were always expecting to see a decline in margin in Polymer Chemicals in H2 2010 as a result of cost inflation, and we fully expect a further contraction in 2011e. With selling contracts that typically extend to a quarter (although this is being shortened) and raw material contracts being increasingly signed on a monthly basis, there is clearly a window of exposure to margin pressure in an inflationary environment similar to the one currently being experienced.

However, over a 12 month period, we would expect Yule Catto to largely protect EBITDA per tonne.

Exhibit 2

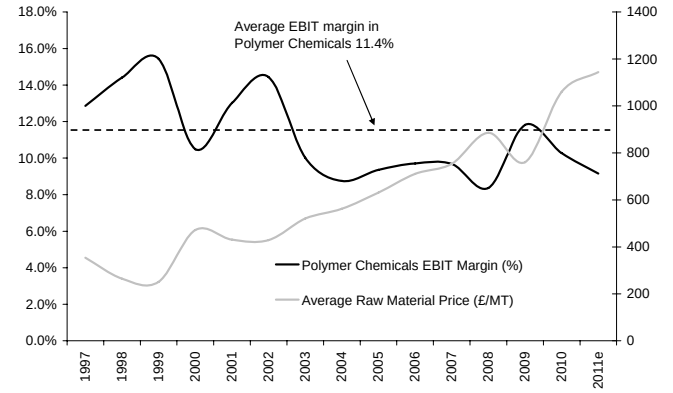
Key raw material prices continue to rise



Source: Company data, Morgan Stanley Research, Datastream; e=MS Research estimates

Exhibit 3

Raw material price escalation will lead to lower EBIT margins near-term



Source: Company data, Morgan Stanley Research; e = Morgan Stanley Research estimates

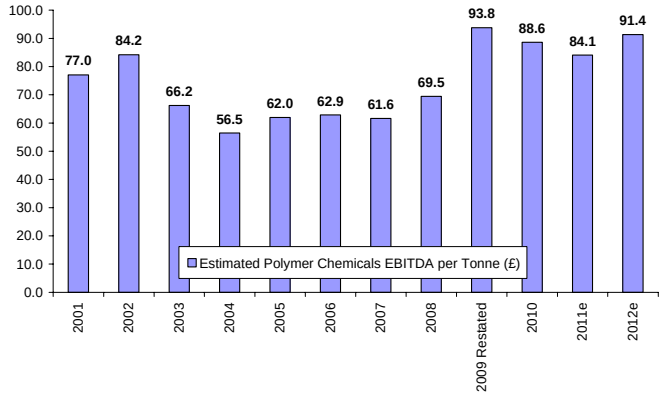
We do not believe pricing power can be defined in margin stability alone. The process of announcing price increases to offset the absolute impact of cost inflation is really the key, in our view. This essentially translates into protecting EBITDA per tonne.

Our analysis on Yule Catto's EBITDA per tonne suggests that since the current management team took over running Yule Catto (CEO Adrian Whitfield joined in 2006), the company has delivered an EBITDA per tonne increase of c.40%.

Our analysis is based on Yule Catto's previously disclosed volume data for its Latex and Dispersions activities. To arrive at a Polymer Chemicals divisional volume estimate, we simply took Latex and Dispersions as a percentage of divisional sales, and used that as a basis to gross up to divisional volumes. This clearly leaves margin for error, but should act as a reasonable proxy for profit per tonne analysis in Polymer Chemicals.

Exhibit 4

Polymer Chemicals – EBITDA per tonne (£) progression



Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Whilst 2010 saw a small decline in estimated EBITDA per tonne, the trend continues to be positive. Importantly, the question will be where divisional PC margin, and EBITDA per tonne, accelerate to once we see a moderation in raw material cost inflation. It is noteworthy that 2009 saw a step change in profitability, which synchs with material cost deflation. This implies Yule Catto gives back price increases at a far slower rate when costs are deflating.

Price increases are being announced to recover cost inflation

PolymerLatex has issued a number of press releases already suggesting its selling prices are rising:

- On 4th Jan 2011, PL announced it was raising global prices for acrylic and styrene-acrylic dispersions by up to €100/mt (effective 15th Jan 2011).
- On 4th Jan 2011, price increases were announced for its range of styrene-butadiene based specialty products (PSBR +€70/mt, XSBR +€80/mt, HS-SBR €60/mt) with effect from 15th Jan 2011.
- On 6th Jan 2011, PL said it was raising prices for its range of chloroprene latex by €200/mt, effective 15th Jan 2011.
- On 10th Jan 2011, price increases of 8% (effective 16th Jan 2011) were announced covering styrene-butadienem lattices for the paper and carpet markets.
- On 14th Jan 2011, PL said it was increasing prices by 5% (effective 1st Feb, 2011) for its NBR latex product range.
- On 16th Feb 2011, PL announced a worldwide 6% price increase for its NBR latex product range, effective 1st March.
- On 4th March 2011, price increases (see below) were announced across a range of products.

Exhibit 5

PolymerLatex price increases announced in March

Product	Price Increase
HS-SBR	+€200/mt
CR	+€180/mt
XSBR	+€150/mt
PSBR	+€140/mt
NBR	+€130/mt
ABS	+€120/mt

Source: Company data, Morgan Stanley Research

- On 4th March 2011, styrene-butadiene price increases of 5% to the paper and carpet markets were announced with immediate effect.
- On 8th March 2011, acrylic and styrene-acrylic dispersion prices were raised €150/mt, effective 1st April 2011.
- On 8th March 2011, a further $160/mt price increase was announced worldwide for NBR latex products, effective 1st April 2011.

Exhibit 6

Base case forecasts for PolymerLatex revenue growth and Polymer Chemicals

	2011e	2012e	2013e
Volume (%)	4.0/4.0	3.0/6.0	4.0/4.0
Price (%)	5.0/4.0	0.0/1.0	0.0/1.6
Currency (%)	-1.0/-1.0	0.0/0.0	0.0/0.0

Source: Morgan Stanley Research estimates

Yule Catto's valuation: one of the most attractive within UK Chemicals

Price target methodologies and risks
Our price target of 285p implies >40% upside from the current share price and is based on the average of four valuation methodologies:

1. Our DCF analysis implies a target of 290p, and is based on a WACC of 8.0% and terminal growth rate of 2.0%

2. Our residual income analysis implies a target of 284p, based on the same assumptions as our DCF

3. Our DDM model implies a target of 285p, and is based on a CoE of 9.2%; and

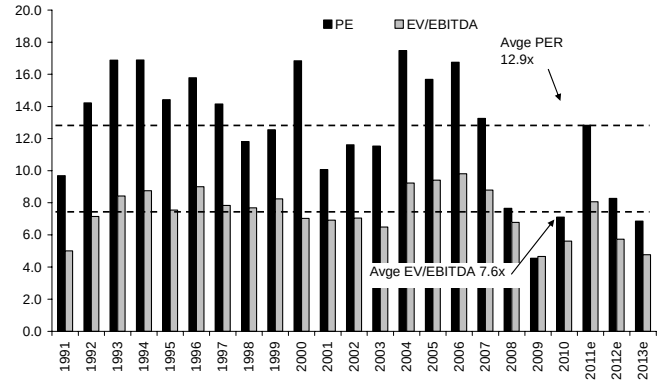
4. Our target multiple analysis, which implies a fair value of 283p, and is based on Yule Catto's shares trading on a 2012e PE of 12x (a discount of c10% to the historical average of 13.3x, reflecting the reduction in margins reported across the Pharma division)

Upside risks include: better than expected net debt reduction, further gains from a weaker sterling, a better than expected recovery in volumes in Polymer Chemicals, a second wave of raw material price deflation, the disposal of William Blythe, increased synergies on the PL acquisition (along with better pricing power and volume growth opportunities) and an over-delivery on cost savings in Polymers and Pharma.

Downside risks include: a strengthening British pound, rising input costs, increasing competition, further price deflation in Pharma, a failure to exit William Blythe, a failure to hold onto cost savings from the PL acquisition, and a double dip downwards in underlying demand.

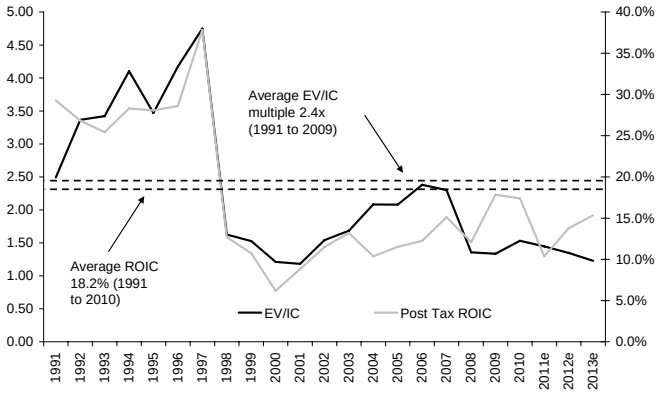
Morgan Stanley is acting as financial advisor to PolymerLatex Deutschland Beteiligungsgesellschaft mbH ("PolymerLatex") in relation to the proposed sale of PolymerLatex to Yule Catto & Co. plc as announced on 13 December 2010. PolymerLatex has agreed to pay fees to Morgan Stanley for its financial services. Please refer to the notes at the end of the report.

Exhibit 7
Yule Catto's PE & EV/EBITDA look low vs history



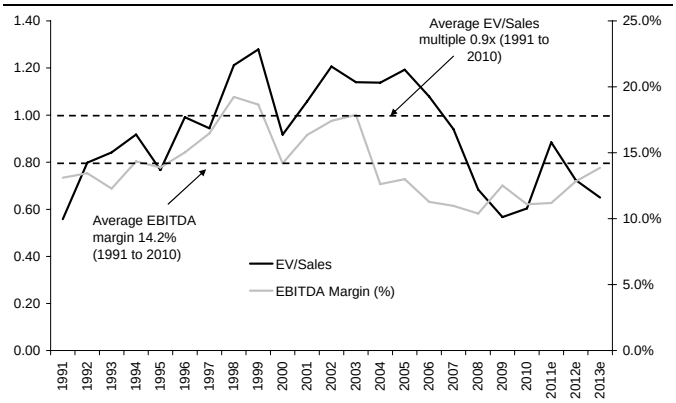
Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 8
Improvement in ROIC not fully discounted



Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 9
Yule Catto EV/Sales vs EBITDA margin



Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 10

Yule Catto's valuation attractive versus its pan-European chemical peers

	EV/revenue			EV/EBITDA			EV/net operating assets			Price to earnings			EBITDA margin (%)		
Company	**2010**	**2011e**	**2012e**	**2010**	**2011e**	**2012e**	**2010**	**2011e**	**2012e**	**2010**	**2011e**	**2012e**	**2010**	**2011e**	**2012e**
Akzo Nobel	0.86	0.78	0.73	6.3	5.8	5.2	1.19	1.17	1.12	12.7	11.6	10.7	13.6	13.5	13.9
BASF	1.09	0.91	0.82	6.0	5.3	4.7	1.93	1.84	1.75	10.4	9.4	8.6	18.0	17.2	17.4
Croda	2.56	2.19	2.04	11.1	9.8	8.8	3.69	3.29	3.10	16.8	14.6	12.9	23.1	22.4	23.2
DSM	0.81	0.83	0.77	6.3	5.9	5.2	1.33	1.24	1.16	14.5	12.9	11.5	12.9	14.1	14.8
Johnson Matthey	0.41	0.35	0.30	9.0	8.3	7.3	2.25	2.19	2.04	16.1	14.4	12.8	4.5	4.3	4.1
Kemira	0.89	0.79	0.76	6.9	6.0	5.7	1.20	1.08	1.04	14.4	13.4	13.0	12.9	13.2	13.1
LANXESS	0.89	0.82	0.79	6.7	7.0	6.3	2.04	1.71	1.58	11.8	13.1	11.4	13.1	11.8	12.5
Rhodia	0.88	0.68	0.60	5.5	4.2	3.7	2.39	2.02	1.85	9.9	6.2	5.4	16.1	16.1	16.3
Solvay	0.74	0.80	0.78	5.0	5.2	5.0	1.08	1.13	1.12	23.5	26.0	22.9	14.8	15.3	15.8
Victrex	5.14	4.65	4.20	11.5	9.9	8.9	6.18	5.91	5.28	18.4	15.3	13.8	44.9	47.1	47.1
Wacker Chemie	1.61	1.49	1.36	6.4	5.7	5.0	1.98	1.77	1.59	13.0	10.8	9.3	25.1	26.1	27.4
Yule Catto	**0.69**	**0.90**	**0.74**	**6.2**	**8.1**	**5.8**	**1.29**	**1.32**	**1.23**	**8.0**	**12.9**	**8.3**	**11.1**	**11.2**	**12.8**

Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Valuation Models

Exhibit 11

Yule Catto DCF Model

£m	2011e	2012e	2013e	2014e	T Year	CAGR
Polymer Chemicals	990	1179	1237	1219	1210	5.1%
Pharma Chemicals	64	65	67	68	69	2.0%
Impact Chemicals	33	35	36	36	37	3.0%
Group Sales	**1087**	**1279**	**1339**	**1323**	**1316**	**4.9%**
Polymer Chemicals	91	125	145	144	137	10.8%
EBIT Margin	*9.2%*	*10.6%*	*11.8%*	*11.8%*	*11.3%*	
Pharma Chemicals	5	5	5	5	6	3.7%
EBIT Margin	*7.5%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	
Impact Chemicals	4	4	4	4	4	3.0%
EBIT Margin	*11.8%*	*11.8%*	*11.8%*	*11.8%*	*11.8%*	
Other	-10	-10	-10	-10	-10	
Pension Adjustment	0	0	0	-1	-2	
Group EBIT	**89**	**125**	**145**	**143**	**135**	**10.9%**
EBIT Margin	*8.2%*	*9.8%*	*10.8%*	*10.8%*	*10.2%*	
Tax Rate	23.0%	24.0%	25.0%	27.0%	27.0%	
Tax	20	30	36	39	36	
NOPLAT	69	95	109	104	98	
D&A	30	37	38	38	39	
Gross FcF	**98**	**132**	**146**	**142**	**138**	**8.8%**
WC	-15	-14	-13	-11	-10	
Capex	-45	-40	-40	-40	-44	
Other	0	0	0	0	0	
Operating FcF	**38**	**78**	**93**	**91**	**1516**	

NPV of FcF	1273		**TV**	**1431**
Net Debt	288			
Implied Equity	985			
NoS	339.9			
DCF Value Per Share	**2.90**			
Current Share Price	1.98			
Upside/(Downside)	46.3%			
WACC	8.0%			
T-Growth Rate	2.0%			
		% of EV		
Net Debt 2011e	288	**30%**		
Equity	673	**70%**		
EV	961			
CoE	**9.2%**			
Risk Free Rate	6.0%			
Risk Premium	3.0%			
Beta	1.1			
CoD (post tax shield)	**5.3%**			
Risk Free Rate	5.0%			

Source: Morgan Stanley Research

Exhibit 12

Yule Catto RI Model

Yule Catto Residual Income Model £mn		2011e	2012e	2013e	2014e	T Year
EBITA		89.1	125.1	144.8	142.8	134.9
Tax Rate		23.0%	24.0%	25.0%	27.0%	27.0%
Taxes		-20.5	-30.0	-36.2	-38.5	-36.4
NOPLAT		68.6	95.1	108.6	104.2	98.5
NOA Start of Year		616	654	680	704	713
WACC		8.0%	8.0%	8.0%	8.0%	8.0%
Capital Charge		-49.5	-52.6	-54.6	-56.6	-57.3
EVA		19.1	42.5	53.9	47.6	740.6
RNOA		11.1%	14.5%	16.0%	14.8%	13.8%
NPV of EVA Streams	635.0				**T Value**	**699.4**
NOA Start of Year	616.4				**NPV T Value**	**439.9**
Total Implied EV	1251.5				**T Value Weight**	**35.2%**
Net Debt	288.0					
Equity Value	963.5					
Number of Shares (m)	339.9					
Implied Value Per Share (£)	**2.84**					
WACC	8.0%					
Terminal Growth	2.0%					
Implied Terminal Growth Rate	2.029%					
RONOA	14.0%					
NOPLAT	98.5					
FcF	84.2					

Source: Morgan Stanley Research

Exhibit 13

Yule Catto DDM Model

Yule Catto	*1*	*2*	*3*	*4*	*5*	*6*
Dividend Discount Model (Perpetual Growth)	**2011e**	**2012e**	**2013e**	**2014e**	**2015e**	**T Value**
Net Profit After MI	51.6	80.1	96.6	95.7	93.8	
Equity Book Value (Excl. MI)	366.3	424.9	502.3	574.9	639.6	
RoE	14%	19%	19%	17%	15%	
Total Dividend Cash Outflow	-10.5	-12.6	-15.8	-19.8	-25.7	
Dividend Payout (% Net Profit)	20.4%	15.8%	16.4%	20.6%	27.4%	
Dividend (Per Share)	3.1	3.7	4.7	5.8	7.6	452.4
CoE	9.2%	9.2%	9.2%	9.2%	9.2%	9.2%
Discount Factor	0.92	0.84	0.77	0.70	0.64	0.59
Discounted Dividend Cash Flows	**2.84**	**3.12**	**3.57**	**4.08**	**4.86**	**266.41**

Implied Dividend Growth	7.4%
Normalised Retention Ratio	44.5%
Normalised RoE	16.7%
DDM Model (Dividend Growth)	**285**
Current Share Price	198
Upside/(Downside)	43.9%

DCF	RI	DDM	Multiple	**AVG**
2.90	2.84	2.85	2.83	**2.85**

Source: Morgan Stanley Research

Financial Forecasts

Exhibit 14
Yule Catto – half yearly forecasts

£mln	H1 10	H2 10	FY 2010	H1 11e	H2 11e	FY 2011e
Segmental Sales						
Polymer Chemicals	278.8	273.2	552.0	447.3	542.9	990.2
Pharma Chemicals	33.8	29.1	62.9	33.0	31.2	64.2
Impact Chemicals	14.1	16.8	30.9	16.5	16.5	33.0
Group Sales	**326.7**	**319.1**	**645.8**	**496.8**	**590.6**	**1087.4**
Less Associates/JVs (Synthomer & Harco)	-9.7	-9.4	-19.0	-10.9	-10.9	-21.7
Reported Sales	**317.0**	**309.7**	**626.8**	**485.9**	**579.7**	**1065.6**
Sales Growth						
Polymer Chemicals (%)	28.4	20.7	21.4	60.4	98.7	79.4
Pharma Chemicals (%)	-5.3	-1.5	-3.6	-2.4	7.1	2.0
Impact Chemicals (%)	22.2	39.6	31.1	17.0	-1.4	7.0
Group Sales Growth (%)	**23.6**	**19.1**	**18.8**	**88.0**	**120.5**	**104.3**
Associates Sales Growth (%)	23.2	23.1	23.1	38.6	43.0	40.8
Reported Sales Growth (%)	**23.6**	**19.0**	**18.7**	**89.5**	**122.7**	**106.2**
Segmental EBITA pre restructuring						
Polymer Chemicals	29.2	27.6	56.7	38.5	52.1	90.6
Pharma Chemicals	3.0	1.5	4.5	2.8	2.0	4.8
Impact Chemicals	1.6	2.0	3.5	1.9	2.0	3.9
Holding Companies	-5.0	-4.8	-9.8	-4.9	-4.9	-9.8
Group EBITA	**28.7**	**26.2**	**54.9**	**38.3**	**51.2**	**89.5**
Segmental EBITA (pre restructuring) Margins						
Polymer Chemicals (%)	10.5	10.1	10.3	8.6	9.6	9.2
Pharma Chemicals (%)	8.8	5.1	7.1	8.5	6.5	7.5
Impact Chemicals (%)	11.2	11.7	11.5	11.8	11.8	11.8
Group EBITA Margin (%)	**8.8**	**8.2**	**8.5**	**7.7**	**8.7**	**8.2**
Amortisation of Goodwill	0.0	0.0	0.0	0.0	0.0	0.0
EBIT (pre restructuring)	28.7	26.2	54.9	38.3	51.2	89.5
Exceptionals	12.4	0.7	13.1	-17.4	-11.6	-29.0
Net Interest	-4.7	-3.2	-7.8	-10.4	-8.5	-18.9
PBT pre GW	**24.0**	**23.0**	**47.0**	**27.9**	**42.7**	**70.6**

Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 15

Yule Catto P&L Account

£mln	2010	2011e	2012e	2013e	2014e	2015e
Group Sales	**645.8**	**1087.4**	**1279.2**	**1339.1**	**1323.2**	**1316.4**
Less Associates/JVs (Synthomer & Harco)	-19.0	-21.7	-20.5	-21.4	-21.2	-21.1
Reported Sales	**626.8**	**1065.6**	**1258.7**	**1317.7**	**1302.0**	**1295.3**
Depreciation	-14.6	-29.8	-36.8	-37.5	-38.2	-39.5
Cost of Sales	-485.7	-829.2	-953.3	-985.6	-969.4	-961.7
Gross Profit	**126.5**	**206.6**	**268.6**	**294.6**	**294.4**	**294.2**
Gross Margin %	19.6	19.0	21.0	22.0	22.3	22.4
Distribution Costs	-46.0	-75.4	-92.4	-96.0	-96.6	-100.9
Research & Development Expense	-11.5	-18.8	-23.1	-24.0	-24.2	-25.2
General Administration Expense	-17.0	-27.9	-34.2	-35.5	-35.7	-37.3
Other Income	0.0	0.0	0.0	0.0	0.0	0.0
Associates/JVs	2.9	4.9	5.8	6.1	6.0	6.0
Total Operating Costs plus JVs	-71.6	-117.1	-143.9	-149.5	-150.5	-157.4
EBITDA	**69.5**	**119.3**	**161.5**	**182.7**	**182.1**	**176.3**
EBITDA Margin %	11.1	11.2	12.8	13.9	14.0	13.6
EBITA (Pre Exceptionals)	**54.9**	**89.5**	**124.7**	**145.1**	**143.9**	**136.8**
Margin %	8.5	8.2	9.7	10.8	10.9	10.4
EBITA (Post Exceptionals)	68.0	60.5	119.7	145.1	143.9	136.8
Margin %	10.5	5.6	9.4	10.8	10.9	10.4
EBIT (Pre Exceptionals)	**54.9**	**89.5**	**124.7**	**145.1**	**143.9**	**136.8**
Margin %	8.5	8.2	9.7	10.8	10.9	10.4
Interest Income	0.4	0.5	0.5	0.5	0.5	0.5
Rate %	1.2	1.2	1.2	1.2	1.2	1.2
Interest Expense	-8.3	-19.3	-16.2	-12.5	-8.8	-4.5
Rate %	8.3	7.6	7.0	6.7	6.5	5.0
Amortisation of GW	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	13.1	-29.0	-5.0	0.0	0.0	0.0
PBT (Pre GW & Exceptionals)	**47.0**	**70.6**	**108.9**	**133.1**	**135.5**	**132.8**
PBT (Post GW & Exceptionals)	60.1	41.6	103.9	133.1	135.5	132.8
Income & Trade Taxes	-9.1	-16.2	-26.1	-33.3	-36.6	-35.8
Tax Rate (%)	19.3	23.0	24.0	25.0	27.0	27.0
PAT (Pre GW & Exceptionals)	**37.9**	**54.4**	**82.8**	**99.8**	**98.9**	**96.9**
PAT (Post GW & Exceptionals)	51.0	25.4	77.8	99.8	98.9	96.9
Minority Interests	-1.3	-2.7	-2.7	-3.2	-3.2	-3.1
Net Profit (Pre GW & Exceptionals)	**36.6**	**51.6**	**80.1**	**96.6**	**95.7**	**93.8**
Net Profit (Post GW & Exceptionals)	49.7	22.6	75.1	96.6	95.7	93.8
Profit Attributable to Ord. Shareholders	**49.7**	**22.6**	**75.1**	**96.6**	**95.7**	**93.8**
Transfer to Reserves	**49.7**	**22.6**	**75.1**	**96.6**	**95.7**	**93.8**
EPS Classifications						
Ordinary Number of Shares (m)	145.6	339.9	339.9	339.9	339.9	339.9
Diluted Number of Shares (m)	145.6	339.9	339.9	339.9	339.9	339.9
Average Basic Shares Outstanding (m)	145.6	242.8	339.9	339.9	339.9	339.9
ModelWare EPS (Pre GW & Exceptionals)	**25.2**	**15.2**	**23.6**	**28.4**	**28.2**	**27.6**

Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 16

Yule Catto Balance Sheet Statement

£mln	2010	2011e	2012e	2013e	2014e	2015e
Current Assets						
Cash and Marketable Securities	36.2	36.2	36.2	36.2	36.2	36.2
Inventories	65.4	81.2	93.4	103.1	112.5	118.5
Trade Receivables	111.3	134.7	150.9	160.7	168.0	173.8
Fixed Assets						
Net Fixed Assets	102.6	493.2	496.4	498.9	500.7	505.2
Investments	3.7	8.7	14.5	20.6	26.6	32.5
Goodwill	124.0	124.0	124.0	124.0	124.0	124.0
Other Assets	23.3	23.3	23.3	23.3	23.3	23.3
Total Assets	**466.5**	**901.2**	**938.7**	**966.8**	**991.3**	**1013.5**
Short-Term Liabilities						
Short-Term Debt	9.9	9.9	9.9	9.9	9.9	9.9
Trade Payables	66.0	90.0	104.9	111.1	116.4	118.5
Taxes Payable	28.8	28.8	28.8	28.8	28.8	28.8
Other Current Liabilities	74.1	74.1	74.1	74.1	74.1	74.1
Long-Term Liabilities						
Long-Term Debt	89.7	245.3	221.5	178.1	124.7	80.2
Deferred Tax	6.7	6.7	6.7	6.7	6.7	6.7
Other Provisions (Post Retirement)	66.0	80.1	67.9	55.7	55.7	55.7
Other Liabilities	0.1	0.1	0.1	0.1	0.1	0.1
Total Liabilities	**341.2**	**534.9**	**513.8**	**464.5**	**416.4**	**373.9**
Net Current Assets	**287.8**	**698.5**	**721.1**	**742.9**	**762.1**	**782.3**
Capital & Reserves						
Called-up Share Capital	14.6	247.4	247.4	247.4	247.4	247.4
Reserves	104.4	109.9	165.8	240.0	309.4	370.9
Minority Interest	6.2	9.0	11.7	14.9	18.1	21.3
Shareholder's Funds	**125.2**	**366.3**	**424.9**	**502.3**	**574.9**	**639.6**
Balance	0.00	0.00	0.00	0.00	0.00	0.00
Total Equity & Liabilities	**466.5**	**901.2**	**938.7**	**966.8**	**991.3**	**1013.5**

Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 17

Yule Catto Cash Flow Statement

£mln	2010	2011e	2012e	2013e	2014e	2015e
Sources of Cash						
Pre Exceptional EBIT	54.9	89.5	124.7	145.1	143.9	136.8
Less Share of Associates	-2.9	-4.9	-5.8	-6.1	-6.0	-6.0
Depreciation	14.6	29.8	36.8	37.5	38.2	39.5
Amortisation	0.0	0.0	0.0	0.0	0.0	0.0
Profit (Loss) on Disposal of FA	0.0	0.0	0.0	0.0	0.0	0.0
Dividends from Associates	2.7	0.0	0.0	0.0	0.0	0.0
Exceptionals	-1.4	-29.0	-5.0	0.0	0.0	0.0
Total Sources of Cash	**67.8**	**85.4**	**150.7**	**176.6**	**176.1**	**170.3**
Uses of Cash						
Change in Stocks	*-8.4*	*-15.8*	*-12.2*	*-9.7*	*-9.4*	*-6.0*
Change in Debtors	*-14.2*	*-23.4*	*-16.3*	*-9.8*	*-7.3*	*-5.7*
Change in Creditors	*10.7*	*24.0*	*14.9*	*6.3*	*5.3*	*2.0*
Change in Working Capital	-11.9	-15.2	-13.6	-13.2	-11.4	-9.7
Capex	10.5	45.0	40.0	40.0	40.0	44.0
Maintenance Capex	*10.2*	*20.9*	*25.7*	*26.3*	*26.8*	*27.6*
Growth Capex	*0.3*	*24.1*	*14.3*	*13.7*	*13.2*	*16.4*
Equity Dividends	2.9	10.5	12.6	15.8	19.8	25.7
Minority Dividends	6.6	6.6	6.6	6.6	6.6	6.6
Total Dividends Paid	9.5	17.1	19.2	22.4	26.3	32.3
Tax	8.7	16.2	26.1	33.3	36.6	35.8
Net Interest	7.8	18.9	15.8	12.1	8.4	4.1
Additional Pension Payments	12.2	-14.1	12.2	12.2	0.0	0.0
Other/Currency	-1.9	0.0	0.0	0.0	0.0	0.0
Total Uses of Cash	**58.8**	**98.3**	**126.9**	**133.1**	**122.7**	**125.9**
Net Operating Cash Inflow (Outflow)	**9.0**	**-13.0**	**23.7**	**43.4**	**53.4**	**44.5**
Acquisitions	0.0	-375	0.0	0.0	0.0	0.0
Disposals	15.7	0.0	0.0	0.0	0.0	0.0
Issue of Ordinary Share Capital	0.0	233	0.0	0.0	0.0	0.0
Net Financing	**15.7**	**-142.6**	**0.0**	**0.0**	**0.0**	**0.0**
Net Cash Inflow (Outflow)	**24.7**	**-155.5**	**23.7**	**43.4**	**53.4**	**44.5**
Net Debt (Cash) Open	**88.0**	**63.4**	**218.9**	**195.2**	**151.7**	**98.4**
Net Debt (Cash) Close	**63.4**	**218.9**	**195.2**	**151.7**	**98.4**	**53.9**

Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 18

Divisional Sales, EBITDA and EBIT

£mln	2010	2011e	2012e	2013e	2014e	2015e
Segmental Sales						
Polymer Chemicals	552.0	990.2	1179.0	1236.6	1218.6	1209.7
Pharma Chemicals	62.9	64.2	65.5	66.8	68.1	69.5
Impact Chemicals	30.9	33.0	34.7	35.7	36.4	37.2
Total Sales	**645.8**	**1087.4**	**1279.2**	**1339.1**	**1323.2**	**1316.4**
Segmental Sales Growth (%)						
Polymer Chemicals (%)	21.4	79.4	19.1	4.9	-1.5	-0.7
Pharma Chemicals (%)	-3.6	2.0	2.0	2.0	2.0	2.0
Impact Chemicals (%)	31.1	7.0	5.0	3.0	2.0	2.0
Total Sales Growth (%)	**18.8**	**68.4**	**17.6**	**4.7**	**-1.2**	**-0.5**
Segmental Operating Profit						
Polymer Chemicals	56.7	90.6	125.2	145.4	144.0	136.7
Pharma Chemicals	4.5	4.8	5.2	5.3	5.4	5.6
Impact Chemicals	3.5	3.9	4.1	4.2	4.3	4.4
Holding Company Costs	-9.8	-9.8	-9.8	-9.8	-9.8	-9.8
Total Operating Profit	**54.9**	**89.5**	**124.7**	**145.1**	**143.9**	**136.8**
Segmental Operating Margin (%)						
Polymer Chemicals (%)	10.3	9.2	10.6	11.8	11.8	11.3
Pharma Chemicals (%)	7.1	7.5	8.0	8.0	8.0	8.0
Impact Chemicals (%)	11.5	11.8	11.8	11.8	11.8	11.8
Total Operating Margin (%)	**8.5**	**8.2**	**9.7**	**10.8**	**10.9**	**10.4**
Depreciation by Division						
Polymer Chemicals	9.6	24.7	31.6	32.2	32.8	33.9
Pharma Chemicals	4.5	4.6	4.7	4.8	4.9	5.0
Impact Chemicals	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.4	0.4	0.4	0.5	0.5	0.5
Total	**14.6**	**29.8**	**36.8**	**37.5**	**38.2**	**39.5**
Divisional EBITDA						
Polymer Chemicals	66.4	115.3	156.8	177.6	176.8	170.6
Pharma Chemicals	9.0	9.4	9.9	10.1	10.3	10.5
Impact Chemicals	3.6	4.0	4.2	4.3	4.4	4.5
Other	-9.4	-9.4	-9.4	-9.4	-9.4	-9.4
Total	**69.5**	**119.3**	**161.5**	**182.7**	**182.1**	**176.3**

Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

Exhibit 19

Polymer Chemicals (excluding PL) divisional P&L

£m	2010	2011e	2012e	2013e	2014e	2015e
Sales	**552.0**	**596.1**	**637.9**	**673.8**	**667.1**	**663.8**
Sales Growth (%)	24.5	8.0	7.0	5.6	-1.0	-0.5
Volume (%)		4.0	6.0	4.0	-2.0	-1.0
Price (%)		5.0	1.0	1.6	1.0	0.5
Currency (%)		-1.0	0.0	0.0	0.0	0.0
COGS	-442.7	-483.3	-513.7	-534.2	-531.6	-530.5
Raw Material Inflation (%)	31.4	9.2	6.3	4.0	-0.5	-0.2
Variable	-323.5	-359.4	-384.8	-400.2	-392.2	-388.2
Fixed	-119.2	-124.0	-128.9	-134.1	-139.5	-142.2
Fixed Cost Inflation (%)	4.1	4.0	4.0	4.0	4.0	2.0
Gross Profit	**109.3**	**112.8**	**124.2**	**139.6**	**135.5**	**133.3**
Gross Margin (%)	19.8	18.9	19.5	20.7	20.3	20.1
Operating Costs	-42.9	-43.8	-44.7	-45.6	-46.5	-47.4
Growth %	0.3	2.0	2.0	2.0	2.0	2.0
EBITDA	**66.4**	**69.0**	**79.5**	**94.0**	**89.0**	**85.9**
EBITDA Margin %	12.0	11.6	12.5	14.0	13.3	12.9
D&A	-9.6	-9.7	-9.8	-9.9	-10.0	-10.1
EBIT	**56.7**	**59.3**	**69.7**	**84.1**	**79.0**	**75.7**
EBIT Margin %	10.3	9.9	10.9	12.5	11.8	11.4

Source: Company data, Morgan Stanley Research; e=Morgan Stanley Research estimates

MORGAN STANLEY ModelWare	**Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations.** For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

Disclosure Section

Morgan Stanley & Co. International plc, authorized and regulated by Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. As used in this disclosure section, Morgan Stanley includes RMB Morgan Stanley (Proprietary) Limited, Morgan Stanley & Co International plc and its affiliates.
For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

Analyst Certification

The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report: Paul Walsh.
Unless otherwise stated, the individuals listed on the cover page of this report are research analysts.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important US Regulatory Disclosures on Subject Companies

As of February 28, 2011, Morgan Stanley beneficially owned 1% or more of a class of common equity securities of the following companies covered in Morgan Stanley Research: Akzo Nobel, BASF, DSM, K+S AG, Yara ASA, Yule Catto.
Within the last 12 months, Morgan Stanley has received compensation for investment banking services from Akzo Nobel, BASF, Clariant, DSM, K+S AG, LANXESS, Linde, Solvay.
In the next 3 months, Morgan Stanley expects to receive or intends to seek compensation for investment banking services from Air Liquide, Akzo Nobel, BASF, Clariant, Croda, DSM, Johnson Matthey, K+S AG, Kemira, LANXESS, Linde, SABIC, Solvay, Wacker Chemie, Yara ASA, Yule Catto.
Within the last 12 months, Morgan Stanley has received compensation for products and services other than investment banking services from Akzo Nobel, BASF, Clariant, DSM, K+S AG, LANXESS, Linde, Rhodia, SABIC, Solvay, Syngenta.
Within the last 12 months, Morgan Stanley has provided or is providing investment banking services to, or has an investment banking client relationship with, the following company: Air Liquide, Akzo Nobel, BASF, Clariant, Croda, DSM, Johnson Matthey, K+S AG, Kemira, LANXESS, Linde, SABIC, Solvay, Wacker Chemie, Yara ASA, Yule Catto.
Within the last 12 months, Morgan Stanley has either provided or is providing non-investment banking, securities-related services to and/or in the past has entered into an agreement to provide services or has a client relationship with the following company: Air Liquide, Akzo Nobel, Arkema S.A., BASF, Clariant, DSM, Johnson Matthey, K+S AG, LANXESS, Linde, Rhodia, SABIC, Solvay, Syngenta.
Morgan Stanley & Co. Incorporated makes a market in the securities of Syngenta.
Morgan Stanley & Co. International plc is a corporate broker to Croda.
The equity research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.
Morgan Stanley and its affiliates do business that relates to companies/instruments covered in Morgan Stanley Research, including market making, providing liquidity and specialized trading, risk arbitrage and other proprietary trading, fund management, commercial banking, extension of credit, investment services and investment banking. Morgan Stanley sells to and buys from customers the securities/instruments of companies covered in Morgan Stanley Research on a principal basis. Morgan Stanley may have a position in the debt of the Company or instruments discussed in this report.
Certain disclosures listed above are also for compliance with applicable regulations in non-US jurisdictions.

STOCK RATINGS

Morgan Stanley uses a relative rating system using terms such as Overweight, Equal-weight, Not-Rated or Underweight (see definitions below). Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold and sell. Investors should carefully read the definitions of all ratings used in Morgan Stanley Research. In addition, since Morgan Stanley Research contains more complete information concerning the analyst's views, investors should carefully read Morgan Stanley Research, in its entirety, and not infer the contents from the rating alone. In any case, ratings (or research) should not be used or relied upon as investment advice. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations.

Global Stock Ratings Distribution

(as of February 28, 2011)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1175	41%	463	45%	39%
Equal-weight/Hold	1219	42%	439	42%	36%
Not-Rated/Hold	120	4%	23	2%	19%
Underweight/Sell	380	13%	109	11%	29%
Total	2,894		1034		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

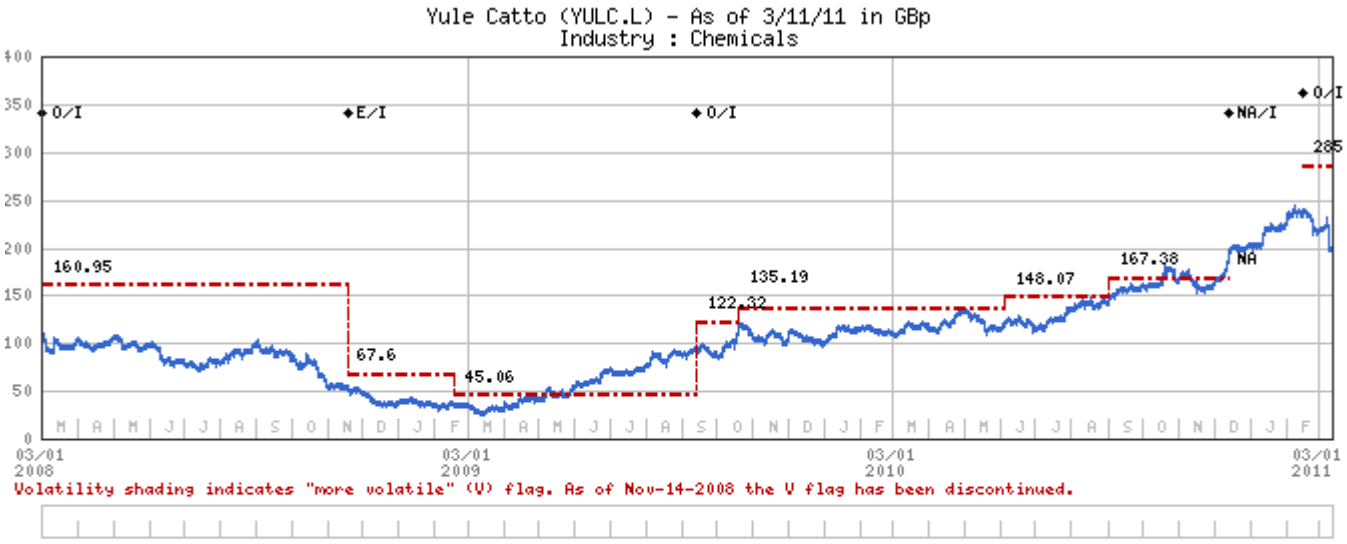
Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.
Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.
In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.
Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.
Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.
.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 3/1/08 : O/I; 11/18/08 : E/I; 9/14/09 : O/I; 12/13/10 : NA/I; 2/15/11 : O/I

Price Target History: 2/11/08 : 160.95; 11/18/08 : 67.6; 2/17/09 : 45.06; 9/14/09 : 122.32; 10/19/09 : 135.19; 6/4/10 : 148.07; 9/2/10 : 167.38; 12/13/10 : NA; 2/15/11 : 285

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
Stock and Industry Ratings (abbreviations below) appear as ◆ Stock Rating/Industry View
Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

Important Disclosures for Morgan Stanley Smith Barney LLC Customers

Citi Investment Research & Analysis (CIRA) research reports may be available about the companies or topics that are the subject of Morgan Stanley Research. Ask your Financial Advisor or use Research Center to view any available CIRA research reports in addition to Morgan Stanley research reports.

Important disclosures regarding the relationship between the companies that are the subject of Morgan Stanley Research and Morgan Stanley Smith Barney LLC, Morgan Stanley and Citigroup Global Markets Inc. or any of their affiliates, are available on the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.

For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.

Each Morgan Stanley Equity Research report is reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval is conducted by the same person who reviews the Equity Research report on behalf of Morgan Stanley. This could create a conflict of interest.

Other Important Disclosures

Morgan Stanley & Co. International PLC and its affiliates have a significant financial interest in the debt securities of Air Liquide, Akzo Nobel, Arkema S.A., BASF, Clariant, DSM, K+S AG, LANXESS, Linde, Rhodia, SABIC, Solvay, Syngenta.

Morgan Stanley produces an equity research product called a "Tactical Idea." Views contained in a "Tactical Idea" on a particular stock may be contrary to the recommendations or views expressed in research on the same stock. This may be the result of differing time horizons, methodologies, market events, or other factors. For all research available on a particular stock, please contact your sales representative or go to Client Link at www.morganstanley.com.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

The fixed income research analysts or strategists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts' or strategists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The "Important US Regulatory Disclosures on Subject Companies" section in Morgan Stanley Research lists all companies mentioned where Morgan Stanley owns 1% or more of a class of common equity securities of the companies. For all other companies mentioned in Morgan Stanley Research, Morgan Stanley may have an investment of less than 1% in securities/instruments or derivatives of securities/instruments of companies and may trade them in ways different from those discussed in Morgan Stanley Research. Employees of Morgan Stanley not involved in the preparation of Morgan Stanley Research may have investments in securities/instruments or derivatives of securities/instruments of companies mentioned and may trade them in ways different from those discussed in Morgan Stanley Research. Derivatives may be issued by Morgan Stanley or associated persons.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley Research personnel may participate in company events such as site visits and are generally prohibited from accepting payment by the company of associated expenses unless pre-approved by authorized members of Research management.

The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. Information on any securities/instruments issued by a company owned by the government of or incorporated in the PRC and listed in on the Stock Exchange of Hong Kong ("SEHK"), namely the H-shares, including the component company stocks of the Stock Exchange of Hong Kong ("SEHK")'s Hang Seng China Enterprise Index; or any securities/instruments issued by a company that is 30% or more directly- or indirectly-owned by the government of or a company incorporated in the PRC and traded on an exchange in Hong Kong or Macau, namely SEHK's Red Chip shares, including the component company of the SEHK's China-affiliated Corp Index is distributed only to Taiwan Securities Investment Trust Enterprises ("SITE"). The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments.

To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley Research is disseminated in Japan by Morgan Stanley MUFG Securities Co., Ltd.; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore, which accepts responsibility for its contents; in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Smith Barney Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Canada by Morgan Stanley Canada Limited, which has approved of, and has agreed to take responsibility for, the contents of Morgan Stanley Research in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. Incorporated, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized and regulated by the Financial Services Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Services Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

Morgan Stanley Bank AG currently acts as a designated sponsor for the following securities: Wacker Chemie.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages of any kind relating to such data. The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property of MSCI and S&P.

Morgan Stanley Research, or any portion thereof may not be reprinted, sold or redistributed without the written consent of Morgan Stanley.

Morgan Stanley Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities/instruments is available on request.

The Americas
1585 Broadway
New York, NY 10036-8293
United States
Tel: +1 (1) 212 761 4000

Europe
20 Bank Street, Canary Wharf
London E14 4AD
United Kingdom
Tel: +44 (0) 20 7 425 8000

Japan
4-20-3 Ebisu, Shibuya-ku
Tokyo 150-6008
Japan
Tel: +81 (0) 3 5424 5000

Asia/Pacific
1 Austin Road West
Kowloon
Hong Kong
Tel: +852 2848 5200

Industry Coverage:Chemicals

Company (Ticker)	Rating (as of)	Price* (03/10/2011)
Peter J Mackey		
Air Liquide (AIRP.PA)	E (12/10/2009)	€93.18
Clariant (CLN.VX)	++	SFr15.1
DSM (DSMN.AS)	U (03/04/2010)	€42.45
Kemira (KRA1V.HE)	U (07/29/2010)	€10.79
Linde (LING.DE)	E (11/04/2010)	€111.9
Rhodia (RHA.PA)	O (12/20/2010)	€20.23
Solvay (SOLB.BR)	E (04/09/2009)	€82.6
Wacker Chemie (WCHG.DE)	E (05/20/2010)	€132.3
Amy L Walker		
Arkema S.A. (AKE.PA)	O (09/30/2010)	€56.71
Paul R Walsh		
Akzo Nobel (AKZO.AS)	O (04/03/2008)	€47.94
BASF (BASFn.DE)	O (07/30/2009)	€58.73
Croda (CRDA.L)	O (08/31/2006)	1,590p
Johnson Matthey (JMAT.L)	E (09/14/2009)	1,830p
K+S AG (SDFG.DE)	E (01/14/2010)	€54.24
LANXESS (LXSG.DE)	E (07/16/2010)	€53.15
SABIC (2010.SE)	O (05/26/2009)	SAR101.5
Syngenta (SYNN.VX)	E (04/14/2010)	SFr300
Victrex (VCTX.L)	E (06/04/2010)	1,313p
Yara ASA (YAR.OL)	E (09/02/2010)	NKr267.9
Yule Catto (YULC.L)	O (02/15/2011)	197p

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

© 2011 Morgan Stanley