
YULE CATTO & CO PLC
ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2006

Being part of all our lives

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WEDNESDAY



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COMPANIES HOUSE

FINANCIAL HIGHLIGHTS

TOTAL SALES*

£557.4m

* underlying performance

EARNINGS PER SHARE*

14.7p

**LONG TERM DEVELOPMENT PLANS
CONTINUE TO BE IMPLEMENTED.
GOOD PROGRESS WITHIN POLYMERS
AND PHARMACHEM.**

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PROFIT BEFORE TAXATION*

£31.5m

INCREASE IN DIVIDEND PER SHARE

3.3%

	Underlying performance ^(a)		IFRS	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Total sales ^(b)	557,357	516,458	565,786	568,707
EBITDA ^(c)	61,272	65,477	61,272	65,477
Operating profit	42,959	46,186	21,451	46,193
Profit before taxation	31,516	34,445	13,626	32,031
Profit attributable to equity holders of the parent	21,352	24,117	3,427	21,853
Earnings per share	14.7p	16.7p	2.4p	15.1p
Dividends per share ^(d)	9.3p	9.0p	9.3p	9.0p
Net borrowings	166,271	165,591	150,656	171,266
Cash generated from operations	46,376	57,791	46,376	57,791
Free cash flow before dividends ^(e)	8,479	19,786	8,479	19,786

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 defined in note 2

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

(c) As defined in the accounting policies at note 2 and reconciled at note 34

(d) Dividends comprise an interim dividend paid during the year and a final dividend proposed at the year end. See note 11

(e) As shown within the consolidated cash flow statement on page 33

GROUP OVERVIEW

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 textiles
- Paper
- Adhesives
- PVC manufacture

PHARMA AND FINE CHEMICALS

Key Products

- Generic and ethical pharmaceutical actives
- Development and manufacture of clinical phase compounds
- Flavour and fragrance ingredients

Markets

- Generic and ethical drug manufacture
- Generic drugs
- Food ingredients
- Fragrances
- Toiletries
- Detergents

PERFORMANCE CHEMICALS

Key Products

- Ultramarine pigments
- Photochromic dyes
- Hair dyes
- Iodine and metal salts

Markets

- Plastics
- Ophthalmic
- Timber treatment
- Photographic
- Cosmetics
- Catalyst pre-cursors

Principal subsidiaries and joint ventures as listed on pages 71 to 72

TOTAL SALES BY DESTINATION

as derived from note 4 to the financial statements on page 40

- 1 UK 17.4%
- 2 Other Europe 40.1%
- 3 Asia 22.6%
- 4 Rest of World 19.9%

DIVIDEND PER SHARE

9.3p

TOTAL SALES BY ORIGIN

as derived from note 4 to the financial statements on page 40

- 1 UK 41.9%
- 2 Other Europe 41.7%
- 3 Asia 9.6%
- 4 Rest of World 6.8%

UNDERLYING BORROWINGS STEADY AT

£166.3m

Locations

- 1 Cuernavaca – Uquifa Mexico S A C V
- 2 Durban – Revertex Chemical (Pty) Ltd
- 3 Damman – Synthomer Middle East Ltd
- 4 Vapi – James Robinson India (pvt) Ltd
- 5 Kluang – Revertex Malaysia & Synthomer Sdn Bhd
- 6 Klang – Revertex Finewaters Sdn Bhd
- 7 Bangkok – Revertex (Thailand) Ltd
- 8 Guangzhou – Yule Catto Asia Ltd
- 9 Hartlepool – Oxford Chemicals Ltd
- 10 Accrington – William Blythe Ltd
- 11 Batley – Synthomer Ltd
- 12 Hull – Holiday Pigments Ltd
- 13 Huddersfield – James Robinson Ltd
- 14 Ossett – Synthomer Ltd
- 15 Stallingborough – Synthomer Ltd
- 16 Harlow – Synthomer Ltd
- 17 Langelsheim – Synthomer GmbH
- 18 Barneveld – PFW Aroma Chemicals BV
- 19 Oss – Synthomer BV
- 20 Hasselt – Synthomer Hasselt BV
- 21 Comines – Holiday Pigments SA
- 22 Mouscron – Synthomer SA
- 23 Dieburg – James Robinson GmbH
- 24 Milan – Uquifa Italia SpA
- 25 Lliça de Vall – Uquifa SA
- 26 Barcelona – Holiday Chemicals Espana SA & Uquifa SA
- 27 Sant Celoni – Uquifa SA

THROUGHOUT 2006 WE CONTINUED TO IMPLEMENT OUR PLANS FOR THE LONG TERM DEVELOPMENT OF THE GROUP.

Throughout 2006 we continued to implement our plans for the long-term development of the Group. Our water-based Polymer business delivered another solid performance with strong volume and profit growth despite rapidly rising raw material prices and supply shortages. This performance confirms our strategy of geographical expansion around our existing business hubs and focusing on market sectors where our product technology and manufacturing capabilities give us real competitive advantage. Our Pharmaceutical business continued to increase the range of generic and ethical products that it plans to manufacture by registering further drug master files in the year. The Performance Chemicals businesses had a difficult year. As previously announced, we implemented plans to restructure significantly these businesses to reduce costs and focus on market segments offering better margins and growth. Overall, underlying profit before taxation reduced to £31.5 million as a result of the difficulties in our Performance Chemicals businesses.

The directors recommend a final dividend of 5.5 pence a share, which would make the full payment for the year 9.3 pence (2005 9.0 pence a share), an increase of 3.3%. Subject to shareholders' approval, the dividend will be paid on 4 July to members on the register at close of business on 1 June.

We strive to improve the working conditions and safety of our employees everywhere and have set a target for 2007 to reduce levels of Lost Time Accidents. We are also fully committed to the principles of sustainable development and have made significant progress against all of the 10-year targets contained in this programme.

This has not been an easy year and, on behalf of the directors and shareholders, I would like to thank all our employees everywhere for their commitment in their contribution towards the company's success. In August Adrian Whitfield succeeded Alex Walker as chief executive. Michael Peagram and Peter Welch have indicated that they will not be standing for re-election to the Board, having completed nine years as non-executive directors. We thank all three for their contribution to the Company. The search for replacement independent non-executive directors is in hand.

Outlook

In our principal Polymers business we will continue to expand our European customer base and are building on our success in Asia, where we plan to increase latex capacity during the year. Despite continuing high raw material prices, we are optimistic that our Polymer business will once again deliver strong results. Our Pharmaceutical division continues to develop new generic products for future filing but will again be without the full benefit of a major new release this year. The remedial measures taken in the Performance Chemicals businesses should lead to improvement in this division's results.

Anthony Richmond-Watson
7 March 2007

MANY OF OUR BUSINESSES HAVE MADE GOOD PROGRESS AND WE ENTER 2007 WITH OPTIMISM FOR THE YEAR AHEAD.

OVERVIEW

2006 was a year which saw the Group continue to face issues which have persisted for a number of years, in particular rapidly increasing raw material prices and Far Eastern competition. Despite this, many of our businesses have made good progress and we enter 2007 with optimism for the year ahead.

Polymers (72% of underlying total sales) grew sales volumes by 5.5% and underlying operating profit by 13%. This was achieved in an environment of limited monomer supplies and volatile pricing.

Pharmaceuticals and Fine Chemicals (16% of underlying total sales) grew sales in excess of 7%, but suffered a further margin squeeze resulting in profitability declining circa 13%. These reduced margins were, in part, a reflection of the normal pattern of price erosion within the generic drugs market, but were compounded by our inability to fully recover raw material price increases within our Fine Chemicals businesses. Our programme of increasing our generic drugs pipeline made good progress with a further seven drug master files registered.

Performance Chemicals (12% of underlying total sales) have suffered over several years from aggressive competition and sub-optimal assets. During 2006 we implemented planned rationalisation within two of these businesses. External supply problems severely impacted the performance of the third business. As a consequence, sales were flat but underlying operating profit declined by £6.2 million.

The Group completed or committed to a number of strategically important projects within the year.

- Following another year of strong growth for Nitrile Latex products, the Group confirmed its commitment to a further expansion of the facility in Kluang, Malaysia. This site is well located to provide reliable supply to major glove manufacturers. Market growth for synthetic gloves remains strong and the investment confirms our intent to remain as a market leading supplier.

- A key facet of the Group's strategy remains increased sales of its products into Continental Europe. To support this growth the facility in Mouscron had previously been expanded to allow the manufacture of Dispersion products. This capacity is now full and we have committed to a further 50% increase to be commissioned late 2007.
- We commissioned our new high containment pilot plant in Uquifa, Italy. This plant was built in cooperation with a major customer and is currently manufacturing product for their use. This facility broadens the range of products able to be manufactured by Uquifa and enhances our capability to carry out new product research for our customers, especially in the field of high potency compounds and cytotoxic research.
- Following a very successful first 18 months for our representative office in Guangzhou, China, we have decided to upgrade the capabilities of this facility through the establishment of a locally recognised trading company. We anticipate all the necessary approvals for this to be completed by mid-2007.

We continue to review under-performing assets for opportunities to release funds for more productive use. During the year, Reabrook was sold to its management for a potential total consideration of £4.3 million.

Good cash management remains a key priority for the Group and year end borrowings remain at prior year levels, although capital expenditure has increased modestly.

POLYMER

We operate 13 factories within four geographical regions: Europe, Pacific Rim, Middle East and South Africa.

13.4%

INCREASE IN DIVISIONAL OPERATING PROFIT

SALES

DIVISIONAL OPERATING PROFIT

POLYMER CHEMICALS

We operate 13 factories within four geographical regions Europe, Pacific Rim, Middle East and South Africa. Core products are water-based Polymers – both dispersions and latices, polyvinyl alcohol/acetate and a number of more specialised products

2006 was another good year for our Polymer businesses, characterised by strong volume growth, double digit profit growth and enhanced margins. These excellent results were achieved against a background of restricted monomer availability, volatile prices and restructuring within some of our core markets

Metrics of particular note include

- Sales up 9%
- Underlying profit growth of 13%
- Record dispersion volumes up by 12%
- Latex volumes up by 7%
- Record liquid polybutadiene sales up by 11%

Milestones included our Mouscron facility reaching its nominal capacity, the launch of a "second generation" nitrile rubber latex with enhanced mechanical properties to support our glove customers in their goal to improve "feel" without jeopardising strength, and the commissioning of a new large scale dispersion reactor within our Dammam, Saudi Arabia joint venture, which increases both the capacity and the range of products able to be manufactured. Following encouragement from existing customers and a thorough marketing review, we inaugurated Synthomer LLC in Powell, Ohio. This will act as a sales office for our existing product range in North America with product initially being exported from our European facilities, but subsequently using product manufactured locally

In the UK we have approved and subsequently commissioned an expansion of our liquid polybutadiene capacity. This range of speciality products has grown strongly over recent years and we anticipate this continuing for the foreseeable future

As we move into 2007, monomer availability and pricing remain difficult despite the fall in the price of oil since its peak in August. Additional global monomer capacity is scheduled to commission in 2008, hopefully alleviating the current tight supply. Until this happens we will remain vigilant in passing on cost increases and look to maintain or expand overall margins through new product development and ongoing business development

Synthetic Latex

European markets continue to restructure, in part due to the relatively high cost of labour and compliance costs, but also because off-shore manufacture becomes more financially attractive as indigenous markets develop. This has led to a number of our core markets reducing in size and/or location. Despite this difficult environment, our factories remain at or close to capacity. Our ongoing drive to maintain competitiveness has identified opportunities to increase capacity further, on a cost effective basis, as well as improve overall efficiency

The nitrile glove market continues to grow strongly and we have maintained our market leading position. We expect that the current extension of the plant, to provide a 33% increase in capacity, will be commissioned during Q2 2007. Further expansion is planned for 2008

POLYMER

33% increase in nitrile capacity to be commissioned in 2007.

RECORD DISPERSION VOLUMES UP

SALES

DIVISIONAL OPERATING PROFIT

12%

Dispersions

As to be expected, market conditions vary significantly between geographies. However, we retained our market leading positions in the UK, Saudi Arabia, South Africa and Malaysia. We enjoyed record dispersion volumes in 2006, 12% ahead of 2005. These volumes were driven by strong growth in Europe, the Middle East and Malaysia, in all cases customer relationships, good business development and ongoing new product development were key to underpinning this achievement.

Specialities

The Group manufactures a variety of speciality polymer chemicals, including

Polyvinyl Alcohol We are one of the world's leading suppliers of low hydrolysis polyvinyl alcohol supplied in particular into the PVC industry. 2006 was another excellent year for the business with sales volumes to the PVC industry 12% ahead. We have now broadened our product range to include additional grades. To support the ongoing development of this business, our core facility will be de-bottlenecked in 2007.

Liquid Polybutadiene 2006 was a record year for the business, with volumes 11% ahead of prior year and overall margins improved. We believe the business retains the ability for ongoing growth in the medium term and have invested in increasing capacity during 2006.

Alkyds/Resins/Adhesives These businesses are based in Malaysia supplying both the domestic market and exporting within the region. This year has held mixed fortunes with erratic raw material availability and pricing eroding margins, whilst a competitive market place and customer restructuring impacted a number of longer-term relationships. Despite these difficulties, the businesses performed creditably with our adhesives business achieving record profitability and being well positioned for further growth in 2007.

PHARMA AND FINE CHEMICALS

Uquifa manufactures both generic and ethical active pharmaceutical ingredients through four production units in Spain (2), Italy and Mexico. Our customers are typically finished dosage formulators with the majority of sales being within Europe and North America.

We operate two fine chemical businesses – Oxford Chemicals producing flavours for the food ingredient industry, and PFW supplying aroma chemicals for use in a variety of fragrances.

2006 was a solid year for our Pharmachem businesses with underlying sales advancing 9%, supporting steady profitability. As is normal for the industry, generic prices continued to erode as competition increases post launch, but we had good success in mitigating this through our well-established product development pipeline and our ongoing focus on maximising efficiencies and optimising costs. Wherever possible, we protect margins by registering our intellectual property.

A key strategy in the future development of this business is to build an increasingly broad customer base and to be involved in "early stage" research and manufacturing for our customers. Our laboratories and pilot plants were fully loaded for a significant proportion of 2006 with an ongoing flow of new contracts. The completion and commissioning of our new high containment pilot plant in Italy further increases our breadth of capability in terms of both chemistry and the nature of products able to be manufactured. We believe cytotoxic products will become of increasing interest to pharmaceutical companies in the coming years.

PHARMA

The completion and commissioning of our new high containment pilot plant in Italy further increases our breadth of capability.

9%

ADVANCE IN PHARMACHEM SALES

SALES

DIVISIONAL OPERATING PROFIT*

* underlying performance

The constant rationalisation of the customer base and changing buying trends amongst the world's major healthcare organisations present both challenges and opportunities. Generic omeprazole sales continue to develop well as its efficacy and cost effectiveness are understood in comparison with other proton pump inhibitor products. During the year our Spanish plants received approval to produce enteric coated omeprazole pellets and this product will be rolled out to all our European based customers during 2007.

The next product due to come off patent, for which we hold a drug master file (DMF), is zolpidem which, due to a late paediatric extension, will happen in mid-2007. We have already supplied launch quantities of the product and anticipate some re-ordering within 2007.

Our DMF programme continued apace with seven new registrations achieved during the year. We now have a work programme stretching several years ahead and anticipate being able to register approximately six products a year for the foreseeable future.

Our Fine Chemicals businesses had a difficult year, with rapidly escalating raw material prices and a highly competitive market place. Both businesses were able to grow sales through their business development initiatives and excellent product development. However, neither business was able to fully recover increased raw material costs. Oxford Chemicals launched a range of natural molecule products following strong demand from its customers and, although small scale, these 'novel' products have been well received. PFW reached its installed capacity for isojasmonate and we have commenced a de-bottlenecking exercise to double capacity.

PERFORMANCE CHEMICALS

There are three businesses in this Division – Holliday Pigments, James Robinson and William Blythe – providing ultramarine pigments, hair and photochromic dyes and iodine and metal salts respectively.

2006 has been a difficult year for our Performance Chemicals businesses. All hold excellent market positions but have suffered from strong competition and increasing operating costs. As previously announced, we embarked on a restructuring programme within both William Blythe and James Robinson, in both cases closing a UK site to reduce costs and refocus the business on product areas with more attractive margins and growth. We hope to release for sale both of these sites by the end of Q2 2007. As also announced, we experienced severe operating problems within the UK facility of Holliday Pigments caused by the variation of a low level ingredient of our raw material. Although these supply issues were rectified early in Q3, the operational issues during the first half of the year caused premature failures to several key pieces of plant in the second half of the year resulting in the annual shutdown being advanced and extended to allow remedial work to be carried out. As a consequence of these problems, sales and profitability were significantly reduced. The plant has subsequently been re-commissioned satisfactorily. We are currently evaluating a number of options to improve the contribution from this business.

PHARMA

Seven new drug master files registered during 2006.

TOTAL SALES INCREASED BY 8% TO £557.4 MILLION, DRIVEN BY STRONG VOLUME GROWTH IN BOTH POLYMERS AND PHARMA AND FINE CHEMICALS.

Within William Blythe, we announced our planned exit from the SO₂ business at the end of 2005. Implicit in this decision was the closure of our site at Hapton and the relocation of non-SO₂ related production to the sister site at Church. Sales volumes for continuing operations grew by 10% and gross margin by 6%. This performance was achieved despite large increases in the prices of many of our key raw materials. Excluding restructuring costs, the company's profitability has improved and ongoing product and business development opportunities offer the ability for further progress in 2007.

James Robinson also announced the closure of its UK site, with manufacturing being relocated to its German and Indian facilities. The head office, research and development and global sales will remain UK based, operating from newly constructed premises.

The business won The Queen's Award for Enterprise in the Innovation category for the development of photochromic dyes. This area remains of strong strategic interest and one in which we have been successful in patenting a number of developments. Usage remains predominantly in the ophthalmic market, but we continue to develop options for security applications.

Following the agreement of a long-term supply contract with one of our existing customers, we successfully commissioned plant in India for the production of an increased range of fuel markers.

After several years of restructuring in the hair dyes market with the associated focus on cost/price reduction, it is pleasing to see several customers actively progressing new products. In other product areas trading was subdued as several customers restructured and the photographic market continued to contract due to the growth in digital imagery.

FINANCIAL REVIEW

Income Statement – Underlying Performance

Total sales increased by 8% to £557.4 million, driven by strong volume growth in both Polymers and Pharma and Fine Chemicals. Turnover is predominately within Europe with 57% of sales going to this region, however we continue to make progress in other parts of the world, in particular Asia, assisted by ongoing investment in the Malaysian facility.

Movements in foreign currency exchange rates can affect the value of transactions made by the Group and the translation of results from overseas subsidiaries. With regard to the former, the primary exposure is to the US Dollar which during the period weakened compared to sterling, particularly towards the year-end, causing a loss of £0.6 million. The latter is mainly influenced by the Euro, with the Malaysian Ringgit and South African Rand becoming more significant, resulting in a small negative impact.

Average borrowings for the period were 7% lower than 2005 which has been reflected in a reduced interest charge of £11.4 million. Although world interest rates have drifted up during the year, a large proportion of the Group's exposure is hedged, which has softened the consequences.

The tax rate of 28.0% reflects the benefits of pioneer status on our investment in Malaysia and the settlement of some prior year tax positions.

Profit attributable to minority interests has increased to £1.3 million due to the success of the Revertex operations in the Far East, which has a 30% shareholding external to the Group.

PERFORMANCE

James Robinson won The Queen's Award for Enterprise in the Innovation category for the development of photochromic dyes.

The resultant underlying earnings per share of 14.7 pence is a year-on-year decline of 12%. A final dividend of 5.5 pence per share has been proposed by the Board, which would take the full year payout to 9.3 pence, an increase of 3.3%. Dividend cover is 1.6 times.

Income Statement – Special Items

To provide a clearer indication of the Group's underlying performance, it is necessary to highlight, and separately disclose, a number of special items, (which are defined on page 39)

The significant issues in the year include,

- Turnover, operating profit and the taxation impact arising from the sale of Reabrook Limited and the closure of the sulphur dioxide business
- As a result of the 2006 operating loss within Performance Chemicals division together with the near-term trading outlook, we have reassessed the appropriate carrying value of the associated fixed assets and concluded that, prudently, this should be reduced by £20 million. There are a number of initiatives to improve the operational performance and there may be scope in the future to revalue the assets upwards if we become more confident that the profit recovery is sustainable
- We utilise various cross currency and interest rate swaps for hedging purposes, which involve maturities of up to twelve 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 is segregated from the underlying performance

Pension

In the main UK defined benefit pension fund, strong global financial markets, combined with a high proportion of plan assets being in equities, have contributed to investment returns of 15.2% in the year. However, changes in actuarial assumptions, including increased mortality rates, had a more pronounced impact on the calculation of liabilities, resulting in the net pension liability in the balance sheet at 31 December 2006 increasing to £69.3 million.

The pension scheme is undergoing a triennial valuation, effective 31 March 2006. We are working with the trustees to determine the actuarial position at that date, together with the schedule of contributions necessary to recover the deficit. In addition, in common with many UK companies, there is recognition that in a world of longer life expectancy and low interest rates, the cost of providing pension benefits must be contained. Therefore, we are in a consultation process with employees to review the benefits package. Both exercises are being conducted in tandem and should be concluded during 2007.

FINANCIAL REVIEW

Average borrowings for the period were 7% lower than 2005 which has been reflected in a reduced interest charge of £11.4 million.

Borrowings

Net underlying borrowings, adjusted for the mark to market of derivatives, are similar to last year at £166.3 million

Following a number of years of lower capital requirement, as anticipated, the cash applied to fixed asset expenditure has increased in the year as we invest in a number of exciting growth initiatives. The largest project was the next phase of expanding the Malaysia nitrile facility. A similar level of investment in 2007 will be directed at further capacity expansion and various upgrades in process efficiency.

Overall, the programme of restructuring the Performance Chemicals division is expected to be broadly cash neutral, however the timing of critical events has initially resulted in a cash outflow of £6.1 million in 2006, with proceeds from land sales anticipated in 2007. After the balance sheet date, we exchanged contracts to sell the vacant Huddersfield site and the Hapton land should follow later in the year.

In a period of rising raw materials cost, combined with good volume growth in many of our businesses, upward pressure on working capital becomes more acute. A renewed focus in this area has contained the increase to £3.9 million.

Free cash flow was struck at £8.5 million. Positive contributions towards cash generation also include the sale of Reabrook Limited in June, delivering proceeds of £3.7 million, and £1.3 million from the issue of ordinary shares to satisfy save-as-you-earn share options which matured in February 2006.

IFRS

Group revenue was broadly in line with the corresponding period at £551.7 million. Profit before taxation of £13.6 million was lower than the 2005 figure of £32.0 million principally as a result of the special items discussed above. Net borrowings are £150.7 million which includes a positive swing of £21.3 million in relation to the mark to market of relevant financial instruments.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Policy Commitments

Since the 1990's Yule Catto has been a signatory to the global chemical industry's Responsible Care® programme. In 2005, this commitment was significantly extended by the Board's commitment to the principles and practice of Sustainable Development (SD). The Board implemented this by a review of policies, the outcome of which was reported in the 2005 Annual Report. During 2006

- The policy commitments given in the 2005 Annual Report have been carried forward and encompass the group's SD objectives
- At the same time, policies now encompass both the social and the employment objectives of SD
- Group audits have been extended to cover the new policy areas
- Ongoing review of group audits has shown that more standards will be required at a group level to ensure that the SD programme is realised in all operating companies

Under the group SD programme – and to support individual businesses – 2006 saw a start on the production of more detailed corporate standards in a number of areas. We expect to extend this process in 2007 to cover key SD and safety, health and environment (SHE) areas

As the review against individual targets set out below shows, the group has made significant progress against all of our 10-year SD targets. Yule Catto remains a member of the FTSE4Good® index

Overall leadership of the Group's SHE programme lies with the Group Chief Executive, working with the Director of Group Human Resources and the Group SHE Manager. However, primary responsibility for implementation of Group policy and for day-to-day SHE performance remains with the operational management of our businesses on each site

Sustainable Development Management**Planning, reporting and review**

All sites are required to review their operations and identify key SD issues for the site. These issues are then addressed in the annual SHE improvement plan. Progress with that plan is reported to the Group SHE department on an annual basis, with the managing director of each business unit certifying the progress made with the plan during the year.

Monthly reports are prepared for the Executive Committee and quarterly reports prepared for the Board, on current SHE and SD performance and key SD issues.

Auditing

Performance of group companies is assured by a system of corporate SHE audits which cover the range of SD issues, including social issues and employment. The audit process will be reviewed in early 2007 to give a better indication of areas which require attention from local management and to ensure the group's attention is drawn to areas of potential concern.

Sustainable development performance management

Yule Catto operates a performance management system for its senior managers, which ties appropriate parts of their remuneration to the achievement of key SHE performance targets. These targets encompass the improvement of SHE performance and also include the group's key SD objectives – energy use and water consumption. Many Group companies cascade these targets down to site level to ensure all staff are engaged in the process of SD performance improvement.

Stakeholder engagement

Yule Catto encourages subsidiary companies to engage with their local communities, their business partners and – naturally – their workforce on SHE and SD issues. Group policy is for all sites to have a site SHE committee with trade union involvement, where relevant. At a Group level, the Chief Executive and the Finance Director discuss corporate governance and SD with key investors and other interested parties. Any significant issues raised are then discussed at subsequent Board meetings to ensure that they are properly dealt with.

Social Responsibility**Managing human resources**

Our SD programme has now been fully implemented and the group and all of its subsidiaries are committed to operating in a socially responsible manner. The previous auditing programme has been revised and extended to reflect our SD commitment and all sites will now be audited to ensure that their employment practices, business conduct and ethical behaviour are in line with the companies' stated policies.

Managing Safety, Health and Environment

Protecting human wellbeing and the environment is a key business issue in Yule Catto. Two principal management processes are employed across the group:

- Accident and Incident Management System (AIMS), which also encompasses near-miss reporting. This system is used by management across the group to identify root causes to enable us to learn lessons and improve. During 2006, this system has been significantly modified and at the year end all companies moved to a common system of classification of accidents and incidents. This will facilitate sharing the lessons learned from accidents and give better year-on-year tracking of progress against SHE targets.

CORPORATE SOCIAL RESPONSIBILITY

Revertex South Africa recorded 1,000,000 man hours without a lost time accident.

- Monthly measurement of key performance indicators, which are used to prepare management information reports. These reports are discussed at all levels of management in the company and form the first item on the agenda of the monthly meeting of the Executive Committee. The monthly reports are drawn together to give a quarterly report to the Yule Catto Board.

In common with much of the global chemical industry, we use the rate of "Over 3-day lost time accidents" (RLTAs) per 100,000 hours worked as a headline measure of health & safety performance. Despite excellent performance at the majority of locations – notably South Africa which recorded 1,000,000 hours without a lost time accident – for the first time since reporting has been undertaken, the rate across group companies rose slightly in 2006. None the less the year was still the second best in Yule Catto's history. The accidents were concentrated at a small number of sites and management attention and action, at all levels up to the Executive Committee, was focused in this area to reinvigorate the group's performance. The fruits of this were seen in the final quarter when the RLTA rate was 0.27, the best of the year. The Group executive have set a challenging improvement target for 2007.

("Over 3-day lost time accidents" are defined in the UK RIDDOR regulations 1995. 100,000 hours represents, very broadly, a working lifetime.)

LOST TIME ACCIDENT FREQUENCY RATES

The number of serious safety incidents remains at a low level

REPORTABLE SAFETY INCIDENTS

Protecting Our Assets

Process safety and operational risk management
Group losses from fire or process safety incidents remain at a low level as do indirect losses due to business

Insurance

In partnership with our global insurers, periodic risk audits are carried out with SHE personnel, at group and local level. The recommendations from the audits are then discussed with the site and at group level to validate their practicability and cost effectiveness. This partnership and the resultant transparency to the insurance market, has put the company in good standing for its global risk insurance.

Managing Our Products Safely

Product stewardship

Product stewardship is an essential part of our commitment to SD and covers the complete supply chain, from raw materials to the use of our finished products. We carry out audits of our suppliers, especially where the materials are hazardous, and provide safety data for our products, even when this is not required by legislation. The aim of the EU's REACH (see below) regulation is a much higher level of product stewardship for all companies and all products placed on the European Market. Yule Catto is actively involved in putting these principles into place.

EU chemicals policy (REACH)

The EU's Registration, Evaluation and Authorisation of Chemicals regulation (REACH) was agreed in December 2006. It represents the biggest change in chemical regulation ever and will be subject to a phase-in period until 1 December 2008. During the phase-in period, all chemicals currently in use will be required to be pre-registered, or must be withdrawn from the EU market. All chemicals must then be assessed over the following 11 years, to demonstrate that their use does not cause significant damage either to human health or to the environment. To ensure that as little animal testing as possible is carried out, the regulation requires chemical companies to share data, much of which has hitherto been regarded as commercially confidential.

Group companies have already seen a rise in the number of enquiries being received about product safety and product use. This will increase as REACH comes into force. The new chemical risk assessments will require knowledge of the uses and conditions of use of all chemicals. To assist in handling the data required, Group IT and Group SHE departments have been cooperating to build appropriate software.

Although the REACH regulation is finalised, many of the "details" of its operation (for example chemical risk assessments) have been left to the REACH Implementation Protocols, which should be published in the first half of 2007. The Executive Committee is developing an approach which will achieve compliance with the regulations as cost-effectively as possible.

Social Responsibility

Managing Our Environmental Responsibilities

Our Approach

Group wide targets set against core environmental criteria were established in 2005 based on the UK Chemical Industry Association's SD principles. Challenging site specific reduction targets were agreed with each manufacturing site in order that their combined performance met the overall corporate environmental objectives.

We have made good progress against all the group's SD targets during 2006 which is the first full year since the targets were set. The targets are all set and reported on a per production tonne basis and the following graphs show that progress is ahead of target on all of the measures adopted.

Environmental Performance

Energy

Global energy prices increased significantly during 2006 and provided further impetus to our drive for improved energy efficiency. Our performance during 2006 was very pleasing and we will be striving to maintain this level of improvement during 2007.

ENERGY CONSUMPTION

Global Warming

Energy consumption comprises the major part of the group's global warming burden, the level of release has reduced considerably as a result of energy efficiency improvements but it is pleasing to report that we are also reducing other sources of global warming gases.

GLOBAL WARMING BURDEN

CORPORATE SOCIAL RESPONSIBILITY

Hazardous waste disposal halved in 2006.

Water use

Projects to reduce water use during 2006 successfully reversed the adverse trend of the previous 2 years

WATER CONSUMPTION

Atmospheric acidification burden

The group's companies managed a further 6% reduction in the amount of acid gases released during 2006. This reduction emphasises the environmental benefits which are accruing from the installation of "state of the art" acid gas emission control systems at our ultramarine factories. These businesses now operate at Best Available Technology (BAT) Standards, removing 99.5% of the acidic gases.

ATMOSPHERIC ACIDIFICATION BURDEN

Hazardous waste disposal

Hazardous waste disposal was halved in 2006 despite the ever-tighter classification of waste as hazardous and two sites in the UK moving towards closure, a process which usually leads to significant arisings of hazardous waste. This is an excellent reflection of the waste minimisation projects that group businesses are undertaking, it is anticipated that these projects will continue to give improving yields, more recycling and less waste.

HAZARDOUS WASTE DISPOSED TO LAND

Environmental incidents

The group's environmental performance showed a small increase in the number of reportable environmental incidents in 2006. All of the incidents were investigated to basic causes using the AIMS system and causal factors analysis. Corrective actions have been put in place to prevent recurrence and further initiatives are being put in place in order to further improve our performance.

REPORTABLE ENVIRONMENTAL INCIDENTS

CORPORATE SOCIAL RESPONSIBILITY

Our ultramarine factories operate at Best Available Technology standards, removing 99.5% of acidic gases.

Executive Directors

A M Whitfield – Chief Executive
Joined the group and appointed to the Board on 1 March 2006
He assumed the role of Chief Executive on 17 August 2006
Prior to appointment he was Chief Executive of the plastics division of D S Smith Plc Age 45

S V Cummins – Finance Director
Joined the group in 1999 He was appointed to the Board in 2000 and is Finance Director Age 44

Non-Executive Directors

A E Richmond-Watson – Chairman
Joined the Board in 1978 and was appointed Chairman in May 2000 He is the Deputy Chairman of Melrose Resources plc and was Deputy Chairman of Morgan Grenfell Group plc from 1989 until retirement in 1996 He is a member of the Institute of Chartered Accountants of Scotland Age 65

Dr M J Peagram – Deputy Chairman
Joined the Board in 1998 as Deputy Chairman and was formerly Chairman of Holiday Chemical Holdings PLC Age 63

The Hon A G Catto⁴
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 54

R H Hunting¹²
Joined the Board in 2000 He is Chairman of Hunting PLC Age 60

Dato' Lee Hau Hian⁴
Joined the Board in 1993 and stood down in 2000 to become an Alternate Director He re-joined the Board in 2002 He is a Director of Kuala Lumpur Kepong Bhd and Batu Kawan Bhd Age 53

Dato' Lee Oi Hian⁴
Joined the Board in 1981 He is Chairman of Kuala Lumpur Kepong Bhd and a Director of Batu Kawan Bhd Age 56

P J Welch¹²³
Joined the Board in 1998 He has been a Director of a number of listed companies He is a member of the Institute of Chartered Accountants of England and Wales Age 67

C J Williams¹³
Joined the Board in December 2005 He was one of the most senior executives at SCA, a leading producer of packaging and hygiene products, until retirement in 2005 He is the Non-executive Chairman of Clondalkin Group and sits on the boards of Turkcell, Graham Packaging and Lecta Age 65

P S Wood¹²³⁴ – Senior Independent Director
Joined the Board in 2001 He was Chief Executive of The BSS Group plc until retirement at the end of 2005 and is Chairman of White Young Green plc and a Non-executive director of RPC Group plc and Grafton Group plc He is a member of the Institute of Chartered Accountants of England and Wales Age 59

- 1 Member of Audit Committee
- 2 Member of Nomination Committee
- 3 Member of Remuneration Committee
- 4 Standing for re-election at 2007 AGM

Registered office

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

Secretary

Richard Atkinson

Bankers

ABN Amro Bank NV
Banca Nazionale del Lavoro SpA
Banca Popolare Italiana
Banco de Sabadell SA
Barclays Bank PLC
Crédit Industriel et Commercial
Fortis Bank (Nederland) NV
HSBC Bank plc
The Royal Bank of Scotland plc

Merchant bankers

Merrill Lynch International

Stockbrokers

Merrill Lynch International

Registrars

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

Auditors

Deloitte & Touche LLP

Solicitors

Linklaters
Hammonds
Pinsent Masons

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31 DECEMBER 2006

The directors submit their annual report and the audited financial statements for the year ended 31 December 2006

Results and dividends

Profit attributable to shareholders for the year was £3,427,000

The interim dividend of 3 8p per share was paid on 17 November 2006. The directors recommend a final dividend of 5 5p per share payable on 4 July 2007 to those shareholders registered at the close of business on 1 June 2007. 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 6 to 12.

Disposals

Reabrook Limited was sold on 5 June 2006.

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 17. All directors served throughout the year apart from Mr A M Whitfield who was appointed on 1 March 2006.

The Hon. A G Catto, Dato' Lee Oi Hian, Dato' Lee Hau Hian and Mr P S Wood retire by rotation and will be seeking re-election at the forthcoming Annual General Meeting. Dr M J Peagram and Mr P J Welch also retire on 5 April and at the forthcoming Annual General Meeting respectively and will not be seeking re-election.

None of the directors seeking re-election has a service contract.

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 23 to 28.

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 309A and 309B of the Companies Act 1985 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

During 2006 859,269 ordinary shares were issued under the savings related share option scheme. The total consideration for shares issued was £1,291,047 of which £1,205,120 was taken to share premium. A total of 42,267 shares were purchased on the open market on behalf of shareholders who elected to participate in the Dividend Reinvestment Plan.

Substantial shareholdings

Other than the shareholdings disclosed as directors' interests in the Remuneration Report as at 23 February 2007, the following substantial interests (3% or more) in the company's ordinary share capital have been notified to the company.

	Ordinary shares number	Per cent of ordinary shares in issue
Kuala Lumpur Kepong Berhad	27,414,414	18.82

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 2007 Annual General Meeting, to make market purchases of not more than 14,560,846 of the company's ordinary shares in accordance with the terms of the special resolution passed at the 2006 Annual General Meeting. A resolution will be tabled at the 2007 Annual General Meeting to give the company general authority to make market purchases of not more than 14,566,318 of the company's ordinary shares.

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.

Grants of options under the Savings-Related Share Option Scheme approved by shareholders at the 1999 Annual General Meeting have been made in November 2000 and October 2002, offering United Kingdom employees a convenient, tax effective and economical way to save and acquire shares in the company.

Two longer term share incentive plans for directors and senior executives were introduced in 2002 and 2006 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 United Kingdom 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 2006 were 32 days (2005 30 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 £92,000 (2005 £93,000). 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 30 and 61. This confirmation is given and should be interpreted in accordance with s234ZA of the Companies Act 1985.

Auditors

A resolution to re-appoint Deloitte & Touche 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 noon on Thursday 17 May 2007 at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR.

By Order of the Board

R Atkinson

Secretary

7 March 2007



CORPORATE GOVERNANCE

This compliance statement is produced in relation to the Combined Code on Corporate Governance ("the Code") which was published in July 2003 by the Financial Reporting Council

Statement of Compliance

The company considers that it has complied throughout the financial year ended 31 December 2006 with the provisions set out in Section 1 of the Code

Application of the Code

The main and supporting 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 comprises two executive directors and nine non-executive directors. The roles of Chairman and Chief Executive are clearly divided between Mr A E Richmond-Watson 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 commerce.

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, acquisitions and disposals and the prosecution, defence and settlement of litigation.

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

Arrangements are made each year for the Board to visit 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 Director of Group Human Resources and the Company Secretary) 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.

Board membership and balance

The Chairman, Deputy Chairman, Chief Executive and senior independent director are identified on page 17. The chairmen and members of the Audit, Nomination and Remuneration committees are identified below.

The Board met on four occasions in 2006. All Board and Committee meetings were fully attended during 2006 except for the Board meeting held in May when the Hon A G Catto was unable to attend and the Audit Committee meetings held in March and June when Mr R H Hunting was unable to attend.

The Board considers the following non-executive directors to be independent in accordance with the provisions of the Code: Mr R H Hunting, Dr M J Peagram, Mr P J Welch, Mr C J Williams and Mr P S Wood. Notwithstanding Dr M J Peagram's previous executive positions with Holliday Chemical Holdings PLC (which the group acquired in 1998) and his shareholding in the company he is, after careful consideration and assessment of his performance, regarded as entirely independent in character and judgement.

Dr M J Peagram and Mr P J Welch will retire from the Board on 5 April and at the 2007 Annual General Meeting respectively after nine years' service each. The Board, on the advice of the Nomination Committee and assisted by recruitment consultants, aims to appoint two replacement independent non-executive directors with skills akin to those of the retiring directors. The process is in hand.

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 September 2006 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 December 2006 to evaluate the performance of the Chairman, taking into account the views of the executive directors,
- 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 December 2006.

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 so that he fully understands the issues and concerns of major shareholders. The Chairman 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

The Audit Committee comprises Mr P J Welch (Chairman), Mr R H Hunting, Mr P S Wood and Mr C J Williams who all served on the Committee throughout 2006. Both Mr Welch and Mr Wood are considered by the Board to have "recent and relevant financial experience" for the purposes of Provision C 3.1 of the Code. The Committee has established a detailed remit regarding the application of financial reporting and internal control principles. 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 includes the review of the cost 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.

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 2006. Details of audit and non-audit fees paid to them in 2006 are set out in note 6 on page 43. Non-audit fees principally relate to taxation advice. The Board accepts the Committee's recommendation that the current auditors be proposed for re-appointment at the forthcoming Annual General Meeting.

The Committee met formally four times during 2006 and 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 reviewed its remit and, with the approval of the Board, extended its scope.

Nomination Committee

The Nomination Committee comprises Mr R H Hunting (Chairman), Mr P J Welch and Mr P S Wood who served throughout 2006. 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. Recruitment consultants have been appointed to assist the Committee in seeking suitable non-executive director candidates to replace Dr Peagram and Mr Welch. The Nomination Committee held two formal meetings during 2006 and a number of informal discussions associated with the foregoing recruitment process.

Remuneration Committee

All matters relating to the Remuneration Committee and remuneration are covered in the Remuneration Report, set out on pages 23 to 28.

Accountability

An explanation of the directors' responsibility for preparing the financial statements, their report that the business is a going concern and their statement as to disclosure of information to the auditors are set out on pages 29 and 19 respectively. Statements by the auditors about their reporting responsibilities are set out on pages 30 and 61 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.

CORPORATE GOVERNANCE CONTINUED

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 2006 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 2006

The nature of the risks identified as a result of this process during the year primarily relate to matters of an operational nature and the most significant of those which faced the group in 2006 are reviewed in the reports of the Chairman, Chief Executive and Group Finance Director

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 13 to 16 reviews the group's performance in this connection in 2006

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 system includes 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,
- 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,
- 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

Social, environmental and ethical matters

In October 2001 the Association of British Insurers (ABI) published guidelines on socially responsible investment which take the form of disclosure principles that institutional investors would expect to see in the annual report of listed companies. These guidelines require statements on the extent to which social, ethical and environmental 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. Towards the end of January 2007 the ABI issued a revised version of its guidelines, to which the company has been unable to respond in this report but which the Board has under consideration

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 13 to 16 incorporates the ABI guidelines and includes a report on the initiatives the company has adopted regarding sustainable development

Social and ethical matters

The Board does not regard social and ethical matters as a distinct subject for special review. The company's system of internal control does, however, by virtue of its approach to risk identification, cover 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. 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 who are charged with its communication throughout their businesses. A compliance procedure has been initiated in 2007 involving annual certification by the senior management of each operating company. A report is made to the Audit Committee annually on the code and the company's whistleblowing procedure

The following report complies with the Directors' Remuneration Report Regulations 2002 and satisfies the requirements of the Listing Rules of the Financial Services Authority and the Combined Code on Corporate Governance which was published in July 2003 by the Financial Reporting Council

Remuneration Committee

The Remuneration Committee comprises Mr P S Wood (Chairman), Mr P J Welch and Mr C J Williams, who all served on the Committee throughout 2006. 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 Monks Partnership ("Monks") and the Chief Executive. With the approval of the Remuneration Committee, Monks was retained by the company and during the year provided general executive remuneration advice for salary review purposes, specific remuneration advice on long term incentives and bonus plans and trends on executive remuneration and benchmarking information on non-executive director fees. The Board as a whole determines the remuneration of the non-executive directors, including members of the Remuneration Committee. The Remuneration Committee met four times during 2006 and each meeting was fully attended by the Committee's members.

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 carried out in December 2006 with the assistance of advice provided by Monks, the previous review having been carried out in 2003. As a result of the 2006 review it was concluded that non-executive director fees were below market rates and should be brought up to just under the median level for comparable companies. It was also concluded that the additional responsibilities and time commitment required of the members and chairmen of the Board's committees should be reflected in fee arrangements. Accordingly the Board resolved to increase non-executive director fees with effect from 1 January 2007 from £26,000 pa to £30,000 pa for those who do not sit on a committee. Fees for non-executive directors who do sit on a committee were increased to £33,000 with fees for committee chairmen increasing to £36,000. The Remuneration Committee determined that the fees payable to the Chairman be increased from £100,000 to £110,000 pa with effect from 1 January 2007. The fee payable to the Deputy Chairman was left unchanged at £33,000.

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 2006 was and continues to be for 2007 and subsequent years 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. For this purpose, the Committee uses data provided by external independent surveys relevant to the industry or sector in which each Yule Catto subsidiary operates. 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.

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 executive directors this review is conducted with the assistance of an annual independent survey of salaries at UK industrial and service companies with a similar profile to the company in terms of overseas operations, turnover and market capitalisation. The survey presents market guidelines for basic pay and increases in basic salaries for executive directors in the UK during the previous twelve months. The Committee then uses this information to recommend basic salaries for the executive directors in line with the Board's policy of awarding for good performance a basic salary of approximately the market median for companies of a similar size and complexity. 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 annual cash bonuses and membership of one of two shareholder approved longer term incentive plans (the "Share Plans").

• Annual cash bonuses

The annual cash bonus payment for the executive directors is an amount equal to a percentage of basic pay calculated by reference to the annual growth in the company's basic earnings per share for underlying performance (EPS) after taking account of the annual rise in the rate of headline inflation (RPI). For the maximum bonus to be awarded EPS growth must exceed RPI plus 10%. For the minimum bonus to be awarded EPS growth must exceed RPI plus 2.5%. The percentage of basic pay which will be awarded for performance between these points is calculated on a straight line basis with no bonus being awarded if EPS growth is RPI plus 2.5% or less. For 2006 the maximum and minimum percentage of basic pay awardable to the executive directors was 50% and 5% respectively.

For divisional chief executives, managing directors of subsidiary companies and senior head office employees the annual cash bonus payments are based on appropriate combinations of profit, cash flow and safety and environmental targets and personal business objectives. In 2006 the bonuses were subject to limits of 40%, 35% and 30% of basic pay respectively.

The structures of the bonuses and awards under it were reviewed in 2006 by the Remuneration Committee and as a result for 2007 the maximum percentage of basic pay awardable will rise to 60% and 80% for the Finance Director and Chief Executive respectively with other elements of the bonus arrangement to remain unchanged. For divisional chief executives and managing directors of subsidiary companies a working capital component has been included in bonus targets for 2007 with the maximum bonus payable increased to 60% and 50% of basic pay respectively. For senior head office employees the maximum cash bonus payable will increase to 40% of basic pay.

DIRECTORS' REMUNERATION REPORT CONTINUED

- Share plans

The Share Plans comprise the Performance Share Plan (the "Performance Plan") and the Yule Catto Deferred Bonus Plan 2006 (the "Deferred Plan")

The Performance Plan was introduced in 2002 following shareholder approval at that year's Annual General Meeting and covers the executive directors, divisional chief executives and senior head office employees. 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. For awards made from 2002 to 2005 performance conditions related to growth in earnings per share over a three year period. Following review by the Remuneration Committee and shareholder approval the earnings per share based performance conditions were replaced by performance conditions related to relative and absolute growth in total shareholder return. These conditions were chosen in order to better align the interests of the participants in the Performance Plan with shareholders. Details of performance conditions are set out at pages 27 to 28. For awards to be made in 2007 the minimum performance required for absolute growth in total shareholder return for the vesting of 25% of the shares subject to an award will be increased from RPI plus 7.69% over the three year performance period to RPI plus 9.27%. An award which vests in accordance with the former and current 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. In order to further align the interests of the executive directors and shareholders the Remuneration Committee introduced share ownership requirements in connection with the Performance Plan for executive directors in 2006 requiring the retention of a percentage of the shares acquired under the Performance Plan until such time as ordinary shares in the company have been built up to a level equivalent in value to their annual basic salary. In addition the rules of the Performance Plan have been amended in relation to future grants of awards so as to comply with the current ABI executive remuneration guidelines regarding vesting on a change of control.

The Deferred Plan covers managing directors of subsidiary companies and was introduced following approval at the 2006 Annual General Meeting to replace an expired plan. An award takes the form of a deferred bonus structured as a deferred right to acquire shares in the company which can be exercised for a nominal price after three years. The value of shares subject to an award is determined by reference to sustained growth in the profit before tax (set at a minimum of 5% per annum) of the company or subsidiary for which the participant works by reference to a base year determined at the date of grant. The value of shares subject to an award may not exceed 30% of any participant's basic salary in any year.

During 2006 418,225 shares and 8,758 shares were awarded under the Performance Plan and the Longer Term Deferred Bonus Plan (being the predecessor plan to the Deferred Plan) respectively.

As a result of the obligation on the company to prepare its consolidated accounts in accordance with International Financial Reporting Standards (IFRS) from 1 January 2005 adjusted earnings per share figures for 2006 cannot be produced on a consistent basis for the purposes of comparison with adjusted earnings per share figures for 2003 as required under the terms of awards made under the Performance Share Plan in 2004. The Remuneration Committee has concluded that the company's financial performance in 2006 compared with that for 2003 was such that it did not give rise to any possibility that the awards made in 2004 would have vested if consistent earnings per share information for 2006 had been available.

For the awards made under the Performance Share Plan in 2005 the Remuneration Committee decided that as the results of the group for the year ended 31 December 2004 have been converted onto an audited IFRS basis that basic earnings per share for underlying performance should replace adjusted earnings per share for the purposes of comparing performance in 2004 with that for 2007.

Executive directors are entitled to participate in grants of options made under the company's Savings-Related Share Option Scheme as and when these are made.

- Pension arrangements

Mr S V Cummins is a member of the company pension scheme. His spouse is eligible for a widow's pension and the payment of a lump sum in the event of death in service. To the extent that his benefits from the company scheme are restricted by Inland Revenue limits, payments are made to enable him to make his own arrangements. Mr A M Whitfield is not a member of the company pension scheme and receives payments from the company to enable him to make his 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. No elements of remuneration other than basic salary are pensionable. Payments were made to Mr Whitfield during the year of £75,000 and £50,000 in respect of relocation expenses and compensation for loss of vested options with his former employer respectively.

- Service contracts

No director other than Mr A M Whitfield and Mr S V Cummins has a service contract. Mr Cummins' service contract comprises a letter of appointment dated 21 June 1999, has no unexpired term, provides for a notice period of one year and makes no provision for pre-determined compensation on termination. 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 A Walker retired from the company without compensation during the year on reaching his contractual retirement age of 60. His service contract comprised a letter of appointment dated 10 April 1986 (as subsequently amended), had no unexpired term, provided for a notice period of one year and made 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 17. 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 20.

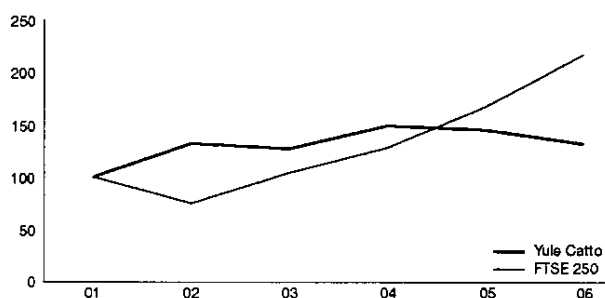
- Non-executive directorships held by the executive directors

The executive directors do not hold any non-executive directorships.

- 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 and is considered to be the most appropriate index against which to make a comparison.

YULE CATTO TOTAL SHAREHOLDER RETURN VERSUS
FTSE 250 TOTAL RETURN (CUMULATIVE) YEARS ENDED
31 DECEMBER



AGM approval

The directors' remuneration report has been submitted to the 2007 Annual General Meeting for approval.

DIRECTORS' REMUNERATION REPORT CONTINUED

Audited Information Directors' Remuneration

	2006 £'000	2005 £'000
Emoluments		
The total amounts for directors' remuneration and other benefits were		
Emoluments	1,270	1,305
Pensions to former directors	–	1
	1,270	1,306

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

	Base Salary 2006 £	Bonuses 2006 £	Benefits 2006 £	Total 2006 £	Total 2005 £
A M Whitfield (from 01/03/06)	250,000	–	16,559	266,559	–
A Walker – Highest paid director	272,333	–	16,111	288,444	631,651
S V Cummins	252,000	–	22,733	274,733	373,757

In addition to the above, A M Whitfield received £75,000 in respect of relocation expenses and £50,000 in compensation for loss of benefits due from his previous employer

Pension arrangements

A M Whitfield is not a member of the company's defined benefit pension scheme, the Yule Catto Group Retirement Benefits Scheme. To fund his pension arrangements, he received a payment of £50,000 (2005 £nil)

A Walker and S V Cummins are members of the Yule Catto Group Retirement Benefits Scheme. The accrued entitlement, the amount that would be paid each year on retirement based on service to the end of the current year, for each director is shown below

	Accrued pension at 01/01/06 £	Increase in accrued pension excluding inflation £	Inflation £	Accrued pension at 31/12/06 £
A Walker	271,294	3,353	12,020	286,667
S V Cummins	10,537	1,558	467	12,562

The following table sets out the transfer value of each director's accrued benefits under the scheme, calculated in accordance with Guidance note GN11 published by the Institute of Actuaries and the Faculty of Actuaries

	Transfer value at 01/01/06 £	Increase in transfer value during the year £	Directors' contributions during the year £	Transfer value at 31/12/06 £
A Walker	5,376,142	710,443	5,733	6,092,318
S V Cummins	105,299	12,214	2,157	119,670

The pension benefits of S V Cummins, through membership of the Yule Catto Group Retirement Benefits Scheme, are restricted by the Inland Revenue's Pensionable Earnings Cap. To fund his pension arrangements above this limit he received a payment of £50,400 (2005 £48,000)

Directors' fees

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

	2006 £	2005 £
A E Richmond-Watson – Chairman	100,000	100,000
The Hon A G Catto	26,000	26,000
Dato' Lee Hau Hian	26,000	26,000
Dato' Lee Oi Hian	26,000	26,000
R H Hunting	26,000	26,000
G Montezemolo	–	10,833
Dr M J Peagram	33,000	33,000
P J Welch	26,000	26,000
C J Williams	26,000	1,350
P S Wood	26,000	26,000
	315,000	301,183

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

Fees in respect of the services of C J Williams were paid to Colin Williams Consulting

Shareholdings

Given below are details of the interests of the directors in the share capital of the company at 31 December 2006 and 31 December 2005

	Ordinary shares		Options	
	2006	2005	2006	2005
The Hon A G Catto	1,187,170	1,345,577		
	4,020,806*	4,020,806*		
S V Cummins	79,117	59,117	284,684	284,120
R H Hunting	6,000	6,000		
Dato' Lee Hau Hian	10,613	10,613		
Dato' Lee Oi Hian	27,248	27,248		
Dr M J Peagram	5,178,502	5,178,502		
A E Richmond-Watson	798,647	798,647		
	159,632*	159,632*		
P J Welch	86,827	86,827		
A M Whitfield	6,000	n/a	124,352	n/a
C J Williams	Nil	Nil		
P S Wood	2,500	2,500		

* Non beneficial interest

Between 31 December 2006 and 23 February 2007 there were no changes in the directors' holdings

Executive and savings-related options

	At 01/01/06		Number of options during the year			At 31/12/06	Exercise price	Market price at date of exercise	Potential pre-tax gain at date of exercise £	Notional value £	Exercise period
			Granted	Lapsed	Exercised						
A M Whitfield	n/a	(d) (ii)	124,352	-	-	124,352	-	-	-	288,497	2009-2016
						124,352					
S V Cummins	7,200	(a)	-	-	7,200	-	150 Op	278 25p	9,234	-	
	17,647	(b)	-	-	17,647	-	-	286 5p	50,559	-	
	79,044	(c)	-	79,044	-	-	-	-	-	-	
	92,975	(d) (i)	-	-	-	92,975	-	-	-	215,702	2007-2014
	2,448	(a)	-	-	-	2,448	261 Op	-	-	Nil	2009-2010
	84,806	(d) (ii)	-	-	-	84,806	-	-	-	196,750	2008-2015
	-	(d) (iii)	104,455	-	-	104,455	-	-	-	242,336	2009-2016
	284,120					284,684					

(a) Options granted under the Yule Catto Employee Savings-Related Share Option Scheme

(b) Options granted under the Longer Term Performance Share Plan at 300 pence (total exercise price) conditional upon a performance target that has been achieved

(c) Options granted under the Yule Catto Performance Share Plan at 200 pence (total exercise price) which have lapsed due to failure to meet a performance target

(d) Options granted under the Yule Catto Performance Share Plan at 200 pence (total exercise price) conditional upon a performance target that has still to be achieved. Performance targets are as follows

- (i) For awards made in 2004 an award was to vest in respect of 100% of the shares only if the company's adjusted earnings per share over a three year period ended on 31 December 2006 had increased by more than the annual rise in RPI plus 6% per annum compound compared with the company's adjusted earnings per share for the year ended 31 December 2003 of 27 6p reduced by 7 6p to take account of the fact that the company's results in 2003 were boosted by the launch of generic Omeprazole in the USA. The award was not to vest in respect of any shares unless the company's adjusted earnings per share over the same period had increased from 20 Op by at least the annual rise in RPI plus 3% per annum compound at which point the award was to vest in respect of 30% of the shares under the award. The proportion of the award which was to vest for an increase in the company's earnings per share over the same period between these points was to be calculated on a straight line basis.

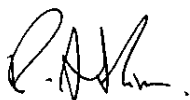
As a result of the adoption of IFRS an adjusted earnings per share figure for the year ended 31 December 2006 calculated on a consistent basis with that for the year ended 31 December 2003 was not available. The Remuneration Committee has addressed this issue in the manner described in the body of this Remuneration Report.

DIRECTORS' INTERESTS CONTINUED

- (ii) For awards made in 2005 an award will vest in respect of 100% of the shares only if the company's basic earnings per share for underlying performance over a three year period ending on 31 December 2007 has increased by more than the annual rise in RPI plus 6% per annum compound compared with the company's basic earnings per share for underlying performance for the year ended 31 December 2004 of 13.9p (with basic earnings per share for underlying performance to be calculated on a consistent basis under IFRS). The award will not vest in respect of any shares unless the company's earnings per share over the same period has increased by at least the annual rise in RPI plus 3% per annum compound at which point the award will vest in respect of 30% of the shares under the award. The proportion of the award which will vest for an increase in the company's earnings per share over the same period between these points will be calculated on a straight line basis.
- (iii) For awards made in 2006 an award will vest in respect of 50% of the shares only if the company's total shareholder return (TSR) over a three year period, ending on 31 December 2008 has increased 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. If growth in the company's TSR is equal to the rise in RPI plus 7.69% over the three year performance period 25% of the shares subject to the award will vest. Performance between these points will result in between 25% to 50% of the shares vesting on a straight line basis with lesser performance resulting in no part of the 50% of the shares vesting. Vesting of the other 50% of the shares subject to an award will be based on the growth in the Company's TSR compared with the growth of the FTSE 250 total return index over the same three year period. If the company's TSR exceeds the FTSE 250 total return index by 7.69% or more over the three year period 50% of the shares subject to an award will vest. If growth in the company's TSR is equal to the FTSE 250 over the three year performance period 5% of the shares subject to the award will vest. Performance between these points will result in between 5% to 50% of the shares vesting on a straight line basis, with lesser performance resulting in no part of the 50% of the shares vesting.

The notional value of unexercised share options is based on the mid-market price of a share on 29 December 2006 of 232 pence. During the year the market price ranged between 198.5 pence and 299 pence.

By Order of the Board
R Atkinson
Secretary
7 March 2007



Financial statements, including adoption of going concern basis

The directors are responsible for preparing the Annual Report and the financial statements. The directors have chosen to prepare accounts for the group in accordance with International Financial Reporting Standards (IFRS) and for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In the case of UK GAAP accounts, the directors are required to prepare financial statements for each financial year which 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

In the case of IFRS accounts, International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's Framework for the preparation and presentation of Financial Statements. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to

- 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 International Financial Reporting Standards is 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
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a directors' report and directors' remuneration report which comply with the requirements of the Companies Act 1985.

Other matters

The directors are responsible for the maintenance and integrity of the company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

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 2006 which comprise the Consolidated Income Statement, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes 1 to 34. These consolidated financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Yule Catto & Co plc for the year ended 31 December 2006.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the group financial statements give a true and fair view, whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review that is cross referred from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended,
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation,
- the part of the directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the group financial statements.

Separate opinion in relation to IFRSs

As explained in Note 2 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Cambridge, United Kingdom
7 March 2007

Deloitte & Touche LLP

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

30/31

	Note	2006 Continuing operations		2005 Continuing operations	
		£'000	£'000	£'000	£'000
Group revenue	4,5		551,655		556,051
Share of joint ventures' revenue	4,5		14,131		12,656
Total sales			565,786		568,707
Group revenue			551,655		556,051
Company and subsidiaries before impairments	3,5		40,079		45,334
Impairment of non current assets	3,4		(19,699)		-
Company and subsidiaries			20,380		45,334
Share of joint ventures	3,5		1,071		859
Operating profit	3,5		21,451		46,193
Interest payable	8	(13,564)		(15,424)	
Interest receivable		2,121		3,683	
		(11,443)		(11,741)	
Fair value adjustment	8	3,618		(2,421)	
Finance costs			(7,825)		(14,162)
Profit before taxation			13,626		32,031
Taxation	9		(8,855)		(8,998)
Profit for the year			4,771		23,033
Profit attributable to minority interests			1,344		1,180
Profit attributable to equity holders of the parent			3,427		21,853
			4,771		23,033
Earnings per share					
- Basic	12		2.4p		15.1p
- Diluted	12		2.3p		14.9p

Consolidated Balance Sheet

31 December 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Goodwill	14	172 443	172 443
Other intangible assets	15	439	815
Property, plant and equipment	16	110 167	140 064
Deferred tax assets	9	1 179	2 531
Investment in joint ventures	17	3 300	4 064
		<u>287 528</u>	<u>319 917</u>
Current assets			
Inventories	18	66 080	66 495
Trade and other receivables	19	105 166	103 244
Cash and cash equivalents		<u>65 917</u>	<u>46 027</u>
		<u>237 163</u>	<u>215 766</u>
Current liabilities			
Borrowings	20	(57 802)	(37 385)
Trade and other payables	22	(124 892)	(129 523)
Current tax liability	9	(52 100)	(53 050)
Derivatives at fair value	21	(22 336)	(4 312)
		<u>(19 967)</u>	<u>(8 504)</u>
Net current liabilities			
		<u>(19 967)</u>	<u>(8 504)</u>
Non-current liabilities			
Borrowings	20	(158 771)	(179 908)
Trade and other payables	22	(372)	(306)
Deferred tax liability	9	(6 316)	(6 056)
Post retirement benefit obligations	23	(77 884)	(69 637)
		<u>(243 343)</u>	<u>(255 907)</u>
Net assets		<u>24 218</u>	<u>55 506</u>
Equity			
Called up share capital	24	14 566	14 480
Share premium	25	33 034	31 829
Capital redemption reserve	25	949	949
Hedging and translation reserve	25	(7 371)	(481)
Retained earnings	25	(21 031)	4 009
Equity attributable to equity holders of the parent		<u>20 147</u>	<u>50 786</u>
Minority interests	25	4 071	4 720
Total equity		<u>24 218</u>	<u>55 506</u>
Analysis of net borrowings			
Cash and cash equivalents	20	65 917	46 027
Current borrowings	20	(57 802)	(37 385)
Non-current borrowings	20	(158 771)	(179 908)
Net borrowings		<u>(150 656)</u>	<u>(171 266)</u>
Add back special items	20	(15,615)	5,675
Net borrowings (underlying performance)		<u>(166 271)</u>	<u>(165 591)</u>

The financial statements were approved by the Board of Directors and authorised for issue on 7 March 2007. They are signed on its behalf by

A M Whitfield

SV Cummins

M Whitfield *SV Cummins*

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

32/33

	Note	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Operating					
Cash generated from operations	26		46,376		57,791
Interest received		2,121		3,683	
Interest paid		(13,581)		(15,095)	
Net interest paid			(11,460)		(11,412)
UK corporation tax paid		-		(74)	
Overseas corporate tax paid		(9,196)		(10,964)	
Total tax paid			(9,196)		(11,038)
Net cash inflow from operating activities			25,720		35,341
Investing					
Dividends received from joint ventures	17		1,385		130
Purchase of property, plant and equipment		(18,468)		(14,331)	
Sale of property, plant and equipment		1,539		45	
Net capital expenditure and financial investment			(16,929)		(14,286)
Sale of businesses	27	3,660		18,858	
Net cash impact of acquisitions and disposals			3,660		18,858
Net cash (outflow)/inflow from investing activities			(11,884)		4,702
Financing					
Equity dividends paid	11		(13,251)		(16,796)
Dividends paid to minority interests	25		(1,697)		(1,399)
Purchase of own shares			(246)		(369)
Issue of shares			1,291		-
Proceeds/(repayment) of non current borrowings	28		154		(5,033)
Net cash outflow from financing activities			(13,749)		(23,597)
Increase in cash and bank overdrafts during the year			87		16,446
Comprised of					
Cash and cash equivalents	28		23,160		(46,623)
Bank overdrafts	28		(23,073)		63,069
			87		16,446
Reconciliation of net cash flow from operating activities to movement in net borrowings					
Net cash inflow from operating activities			25,720		35,341
Add back dividends received from joint ventures	17		1,385		130
Less net capital expenditure and financial investment			(16,929)		(14,286)
Less dividends paid to minority interests	25		(1,697)		(1,399)
Free cash flow before dividends			8,479		19,786
Net cash impact of acquisitions and disposals	27		3,660		18,858
Purchase of own shares	25		(246)		(369)
Issue of shares	25		1,291		-
Equity dividends paid	11		(13,251)		(16,796)
Exchange movements			(613)		571
Movement in net borrowings (underlying performance)			(680)		22,050

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE **FOR THE YEAR ENDED 31 DECEMBER 2006**

	2006			2005		
	Minority interests £'000	Equity holders of the parent £'000	Total £'000	Minority interests £'000	Equity holders of the parent £'000	Total £'000
Actuarial gains and losses	–	(13,551)	(13,551)	–	3,442	3,442
Tax on items recognised directly in equity	–	(1,409)	(1,409)	–	(34)	(34)
Exchange differences	(296)	(6,890)	(7,186)	533	466	999
Profit for the year	1,344	3,427	4,771	1,180	21,853	23,033
Total recognised income/(expenditure) for the period	1,048	(18,423)	(17,375)	1,713	25,727	27,440

1 General information

Yule Catto & Co plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 17.

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.

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

IFRS 7 Financial instruments disclosures
IFRS 8 Operating segments
IFRIC 7 Applying the restatement approach under IAS 29
IFRIC 8 Scope of IFRS 2
IFRIC 9 Reassessment of embedded derivatives
IFRIC 10 Interim financial reporting and impairment
IFRIC 11 IFRS 2 group and treasury share transactions
IFRIC 12 Service concession arrangements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional disclosures on capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

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. The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss 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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

2 Significant accounting policies continued

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 using 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

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

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

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

Equity instruments

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

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

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant 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

2 Significant accounting policies continued

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 acquisition before the date of transition to IFRSs as sterling-denominated assets and liabilities.

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 substantially 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.

Retirement benefit costs

The costs of defined benefit 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.

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 profit or loss and are presented in the statement of recognised income and expense.

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 and services 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 2005.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

2 Significant accounting policies continued

Definitions

Total sales

Total sales represent the total of revenue from Yule Catto and 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 non-recurring items

Non-recurring items

Non-recurring items includes those items that are not directly or indirectly associated with the Group's trading performance, which need to be separately disclosed in order to enable improved understanding of the accounts by users

Non-recurring items are defined as

- Profit or loss impact arising from the sale or closure of an operation,
- Impairment of non current assets, and
- Other non-operating or one-off items

Special items

The following are disclosed separately in note 3 as special items in order to provide a clearer indication of the Group's underlying performance

Non-recurring items,

- 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, and
- Revaluation of US Dollar loan notes from the rate of the related cross currency swaps to the year end rate

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

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts to be recognised in the financial statements (apart from those involving estimations, which are dealt with below)

Impairment of goodwill

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 carrying amount of goodwill at the balance sheet date was £172.4 million after an impairment loss of £58.9 million was recognised during the transition to IFRS in 2004. Details of the impairment loss calculation are provided in note 14.

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 23.

3 Consolidated income statement analysis

	Note	2006 Continuing operations			2005 Continuing operations		
		Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
Group revenue	4	543,226	8,429	551,655	503,802	52,249	556,051
Share of joint ventures' revenue	4	14,131	–	14,131	12,656	–	12,656
Total sales		557,357	8,429	565,786	516,458	52,249	568,707
Group revenue		543,226	8,429	551,655	503,802	52,249	556,051
Company and subsidiaries before impairments	4	41,888	(1,809)	40,079	45,327	7	45,334
Impairment of non current assets	4	–	(19,699)	(19,699)	–	–	–
Company and subsidiaries Share of joint ventures	4	41,888	(21,508)	20,380	45,327	7	45,334
		1,071	–	1,071	859	–	859
Operating profit/(loss)		42,959	(21,508)	21,451	46,186	7	46,193
Finance costs	8	(11,443)	3,618	(7,825)	(11,741)	(2,421)	(14,162)
Profit/(loss) before taxation		31,516	(17,890)	13,626	34,445	(2,414)	32,031
Taxation	9	(8,820)	(35)	(8,855)	(9,148)	150	(8,998)
Profit/(loss) for the year		22,696	(17,925)	4,771	25,297	(2,264)	23,033
Profit attributable to minority interests	25	1,344	–	1,344	1,180	–	1,180
Profit attributable to equity holders of the parent	25	21,352	(17,925)	3,427	24,117	(2,264)	21,853
		22,696	(17,925)	4,771	25,297	(2,264)	23,033
Earnings per share – Basic	12	14.67p	(12.32)p	2.35p	16.66p	(1.56)p	15.10p
– Diluted	12	14.58p	(12.24)p	2.34p	16.47p	(1.54)p	14.93p

Discontinued operations

There are no discontinued operations. As detailed in note 7, Reabrook Limited was sold during the year, however this company does not satisfy the criteria of IFRS 5 to be treated as a discontinued operation.

Special items

The special items disclosed above are made up as follows:

	Note	Special items 2006 £'000	Special items 2005 £'000
Total sales			
Revenue of operations sold or closed during the year		8,429	52,249
Operating profit/(loss)			
Operating profit/(loss) of operations sold or closed during the year		117	(129)
Profit or loss arising from the sale or closure of operations	7	(1,926)	136
Impairment of non current assets		(19,699)	–
		(21,508)	7
Finance costs			
Fair value adjustment	8	3,618	(2,421)
Taxation			
Taxation on operating profit/(loss) of operations sold or closed during the year		(35)	–
Taxation on profit or loss arising from the sale or closure of operations		–	150
		(35)	150

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

3 Consolidated income statement analysis continued

Impairment of non current assets

The impairment of non current assets relates to the downward revaluation of the tangible and intangible fixed assets of Holiday Pigments Limited and William Blythe Limited, following a review of their future profitability. Both companies are within the Performance Chemicals division.

Revaluation of non current assets

		£'000
Property, plant and equipment	Holiday Pigments Limited	(12,868)
Property, plant and equipment	William Blythe Limited	(6,616)
		(19,484)
Other intangible assets	William Blythe Limited	(215)
		(19,699)

4 Segmental analysis

Primary format

	Total sales			Profit		
	Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
2006						
Analysis by activity						
Continuing activity						
Polymer Chemicals	384,953	-	384,953	37,678	-	37,678
Share of Polymer joint ventures	14,131	-	14,131	1,071	-	1,071
	399,084	-	399,084	38,749	-	38,749
Pharma and Fine Chemicals	88,479	-	88,479	9,455	-	9,455
Performance Chemicals	69,794	8,429	78,223	(358)	(21,508)	(21,866)
Total sales	557,357	8,429	565,786			
Divisional operating profit				47,846	(21,508)	26,338
Unallocated corporate expenses				(4,887)	-	(4,887)
Operating profit				42,959	(21,508)	21,451

	Total sales			Profit		
	Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
2005						
Analysis by activity						
Continuing activity						
Polymer Chemicals	352,114	-	352,114	33,300	(1,276)	32,024
Share of Polymer joint ventures	12,656	-	12,656	859	-	859
	364,770	-	364,770	34,159	(1,276)	32,883
Pharma and Fine Chemicals	82,170	-	82,170	10,903	-	10,903
Performance Chemicals	69,518	52,249	121,767	5,806	1,283	7,089
Total sales	516,458	52,249	568,707			
Divisional operating profit				50,868	7	50,875
Unallocated corporate expenses				(4,682)	-	(4,682)
Operating profit				46,186	7	46,193

Special items

	2006			2005		
	Polymer Chemicals £'000	Performance Chemicals £'000	Total £'000	Polymer Chemicals £'000	Performance Chemicals £'000	Total £'000
Revenue of businesses sold or closed during the year	-	8,429	8,429	-	52,249	52,249
Operating profit/(loss) of businesses sold or closed during the year	-	117	117	-	(129)	(129)
Profit or loss arising from the sale or closure of operations	-	(1,926)	(1,926)	(1,276)	1,412	136
Impairment of non current assets	-	(19,699)	(19,699)	-	-	-
	-	(21,508)	(21,508)	(1,276)	1,283	7

4 Segmental analysis continued

	Total assets £'000	Total liabilities £'000	Capital expenditure £'000	Depreciation and amortisation £'000
2006				
Analysis by activity				
Continuing activity				
Polymer Chemicals	147,891	(109,147)	(8,179)	(6,733)
Share of Polymer joint ventures	7,453	(3,381)	(105)	(198)
	155,344	(112,528)	(8,284)	(6,931)
Pharma and Fine Chemicals	77,425	(26,017)	(5,532)	(5,934)
Performance Chemicals	41,975	(46,473)	(4,286)	(4,756)
	274,744	(185,018)	(18,102)	(17,621)
Holding companies	11,587	(98,882)	(96)	(692)
	286,331	(283,900)	(18,198)	(18,313)
Goodwill (see note 14)	172,443			
Net borrowings		(150,656)		
	458,774	(434,556)		
Net assets		24,218		
2005				
Analysis by activity				
Continuing activity				
Polymer Chemicals	154,130	(104,689)	(3,565)	(8,162)
Share of Polymer joint ventures	7,013	(2,569)	(360)	(183)
	161,143	(107,258)	(3,925)	(8,345)
Pharma and Fine Chemicals	73,881	(27,564)	(6,331)	(5,710)
Performance Chemicals	76,666	(58,937)	(2,680)	(4,818)
	311,690	(193,759)	(12,936)	(18,873)
Holding companies	5,523	(69,125)	(79)	(418)
	317,213	(262,884)	(13,015)	(19,291)
Goodwill (see note 14)	172,443			
Net borrowings		(171,266)		
	489,656	(434,150)		
Net assets		55,506		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

4 Segmental analysis continued Secondary format

	Total sales		Segment net assets		Capital expenditure	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Analysis by region of operation						
United Kingdom	237,217	204,756	(87,758)	(18,022)	5,498	3,160
Other Europe	235,738	219,375	46,549	27,419	7,435	7,249
Asia	54,404	104,275	33,907	33,471	4,201	1,476
Rest of World	38,427	40,301	9,733	11,461	1,064	1,130
	565,786	568,707	2,431	54,329	18,198	13,015
Goodwill			172,443	172,443		
Net borrowings			(150,656)	(171,266)		
Net assets			24,218	55,506		

	2006 £'000	2005 £'000
Analysis of total sales by destination		
United Kingdom	98,203	123,767
Other Europe	227,158	228,641
Asia	128,003	115,204
Africa and Middle East	54,005	49,120
Rest of World	58,417	51,975
	565,786	568,707

Inter-segmental sales

In addition to the amounts included above, inter-segmental sales of £2,545,000 (2005 £2,861,000) were made as set out below
These sales were eliminated on consolidation

2006	Polymer Chemicals £'000	Pharma and Fine Chemicals £'000	Performance Chemicals £'000	Total £'000
Polymer Chemicals	-	-	-	-
Pharma and Fine Chemicals	-	-	511	511
Performance Chemicals	-	2,034	-	2,034
Total	-	2,034	511	2,545

2005	Polymer Chemicals £'000	Pharma and Fine Chemicals £'000	Performance Chemicals £'000	Total £'000
Polymer Chemicals	-	-	10	10
Pharma and Fine Chemicals	-	-	589	589
Performance Chemicals	-	2,262	-	2,262
Total	-	2,262	599	2,861

5 Operating profit

	Company and subsidiaries 2006 £'000	Joint ventures 2006 £'000	Total 2006 £'000	Company and subsidiaries 2005 £'000	Joint ventures 2005 £'000	Total 2005 £'000
Total sales	551,655	14,131	565,786	556,051	12,656	568,707
Cost of sales	(436,290)	(11,607)	(447,897)	(433,335)	(10,437)	(443,772)
Gross profit	115,365	2,524	117,889	122,716	2,219	124,935
Distribution costs	(42,873)	(628)	(43,501)	(46,723)	(545)	(47,268)
Administrative expenses	(52,112)	(825)	(52,937)	(30,659)	(815)	(31,474)
Operating profit	20,380	1,071	21,451	45,334	859	46,193

	2006 £'000	2005 £'000
Operating profit is stated after charging/(crediting) the following		
Depreciation	18,086	18,984
Amortisation	227	307
Hire of plant and equipment	1,439	1,393
Other lease rentals	2,832	3,442
Research and development expenditure	10,495	10,521
Loss or (profit) arising from the sale or closure of operations	1,926	(136)

6 Auditors' remuneration

	2006 £'000	2005 £'000
Fees payable to the company's auditors for		
– audit of the company's annual accounts	7	7
– audit of the Group's IFRS restatement	–	175
Fees payable to the company's auditors and their associates for		
– audit of the company's subsidiaries pursuant to legislation	478	511
Total audit fees	485	693
Tax services	79	479
Other services	–	31
Total non-audit fees	79	510

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

7 Profit or loss arising from the sale or closure of operations

	2006 £'000	2005 £'000
Profit or loss arising from the sale or closure of operations		
Sale of Brencliffe Ltd	198	347
Sale of Holiday Dispersions Ltd and SA	485	(1,974)
Sale of Autoclenz Ltd	699	13,614
Restructuring of Ditar Ridderkerk BV	–	(1,276)
Restructuring of James Robinson Ltd	235	(4,813)
Restructuring of William Blythe Ltd	336	(5,762)
Sale of Reabrook Limited	(3,994)	–
Releases from provisions created prior to 2005	115	–
	(1,926)	136

The shares of Reabrook Limited were sold on 5 June 2006

In each case, assets retained that cannot be sold are written off, and an impairment loss recognised in respect of their previous carrying amount. To the extent that workers are not redeployed, termination terms are agreed

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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8 Finance costs

	2006 £'000	2005 £'000
Interest payable on bank loans and overdrafts	9,227	11,028
Interest payable on other loans	4,337	4,396
	13,564	15,424
Less interest receivable	(2,121)	(3,683)
Net interest payable	11,443	11,741
Fair value adjustment	(3,618)	2,421
Total finance costs	7,825	14,162

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 and deferred taxation

	2006 £'000	2005 £'000
Current tax		
UK corporation tax	–	10,236
Overseas taxation	8,553	7,144
	8,553	17,380
Tax on special items	35	(150)
Tax charge for the year	8,588	17,230
Deferred tax		
Origination and reversal of temporary differences	267	(8,232)
Total tax on profit before taxation	8,855	8,998

UK corporation tax is calculated at 30% (2005 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Reconciliation of tax expense to profit before taxation

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

	2006 £'000	2005 £'000
Profit before taxation	13,626	32,031
Tax on profit before taxation at standard UK corporation tax rate of 30% (2005 30%)	4,088	9,609
Effects of:		
Expenses not deductible for tax purposes	6,702	956
Tax incentives	(1,165)	(1,216)
Net utilisation of tax losses	(459)	(162)
Higher tax rates on overseas earnings	10	69
Tax effect on share of results of joint ventures	(321)	(258)
Tax charge for year	8,855	8,998

	2006 £'000	2005 £'000
Tax charges to equity		
Current tax charge on items recognised directly in equity	(1,409)	(34)

	2006 £'000	2005 £'000
Current tax liabilities		
Current tax liabilities	(52,100)	(53,050)

9 Current and deferred taxation continued

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

2006	Accelerated tax depreciation £'000	Other £'000	Total £'000
At 1 January	(4,428)	(1,628)	(6,056)
Charged to income statement	(659)	335	(324)
Disposal	(162)	(2)	(164)
Exchange adjustment	215	13	228
At 31 December	(5,034)	(1,282)	(6,316)

Deferred tax assets

2006	Pensions £'000	Other £'000	Total £'000
At 1 January	2,531	-	2,531
Credited to income statement	57	-	57
Charged through reserves	(1,409)	-	(1,409)
At 31 December	1,179	-	1,179

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax provision at 31 December 2006 is as follows.

Net deferred tax asset/(liability)

	Total £'000
At 31 December 2006	(5,137)
At 31 December 2005	(3,525)

Deferred tax asset not recognised

Deferred tax has not been recognised where it has been assumed that the deferred tax asset is not recoverable. The amounts of deferred tax not recognised at the balance sheet dates are as follows.

	2006 £'000	2005 £'000
UK pension liability	20,786	17,280
Tax losses	5,107	4,355
Accelerated capital allowances	11,781	293
Other timing differences	2,780	-
Deferred tax not recognised	40,454	21,928

Deferred tax on unremitted overseas earnings

The estimated deferred tax relating to the retained profits held within subsidiary group companies and not yet remitted, excluding any mitigation through use of loss relief, double taxation credits and other reliefs is as follows.

	2006 £'000	2005 £'000
Deferred tax on unremitted overseas earnings	68,243	57,033

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries, associates and joint ventures was £68.8 million (2005 £57.0 million). Calculation of the potential deferred tax liability has not been undertaken as the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. If the temporary differences were to reverse in the future, it is probable that the majority of the potential tax liability would be covered by tax credits in respect of tax paid locally.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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10 Profit attributable to equity shareholders

	2006 £'000	2005 £'000
UK GAAP basis*		
Attributable to Yule Catto & Co plc	2,466	140,815

As permitted by section 230 of the Companies Act 1985 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 and Co plc's accounts under UK GAAP

11 Dividends

	2006 £'000	2005 £'000
Ordinary		
– prior year final of 5.3 pence per share (2004 7.9 pence)	7,670	11,440
– interim of 3.8 pence per share (2005 3.7 pence)	5,581	5,356
	13,251	16,796
– proposed final of 5.5 pence per share (2005 5.3 pence)	8,011	7,670

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

	2006 £'000	2005 £'000
Earnings	3,427	21,853
Earnings per share	2.4p	15.1p
Diluted earnings per share	2.3p	14.9p

Earnings per share are calculated using the weighted average number of shares in issue during the year of 145,535,000 (2005 144,718,000)

Diluted earnings per share are calculated using the weighted average number of shares in issue in the year as adjusted for share options of 146,469,000 (2005 146,411,000)

13 Employees

	2006 Number	2005 Number
The average monthly number of employees during the year by activity was		
Polymer Chemicals	1,439	1,397
Pharma & Fine Chemicals	461	592
Performance Chemicals	696	909
Holding companies	42	42
	2,638	2,940
Share of joint ventures	117	111
	2,755	3,051
	2006 £000	2005 £000
The aggregate remuneration of all group employees comprised		
Wages and salaries	59,109	67,970
Social security costs	9,421	10,406
Post retirement benefit obligations	3,887	5,283
	72,417	83,659

14 Goodwill

	2006 £'000
Cost	
At 1 January and 31 December	309,371
Accumulated impairment losses	
At 1 January and 31 December	136,928
Net book value	
At 1 January and 31 December	172,443

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired

Impairments to goodwill of £nil (2005 £nil) have been expensed in the income statement and £58,838,000 has been written off to reserves on transition to International Financial Reporting Standards following an evaluation of the carrying values of the acquired subsidiaries in accordance with the provisions of IAS 36 'Impairment of Assets'

Cash generating units ("CGU") comprise primarily acquired entities monitored at business unit level. The exception is where management monitor a cash generating unit across similar businesses as a whole or components of businesses largely independent of other parts of that business

The allocation of the carrying value of goodwill is represented below

Operating Company	31 December 2004 Net book value	Impairments during the year	31 December 2005 Net book value	Impairments during the year	31 December 2006 Net book value
Polymer					
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
	86,730	–	86,730	–	86,730
Pharmachem					
UQUIFA Spain SA	61,713	–	61,713	–	61,713
UQUIFA Italia SpA	–	–	–	–	–
UQUIFA Mexico SACV	5,172	–	5,172	–	5,172
	66,885	–	66,885	–	66,885
Performance					
Holliday Chemical Espana SA	97	–	97	–	97
Holliday Dyes & Chemicals Ltd	–	–	–	–	–
Holliday Encres SA	–	–	–	–	–
Holliday France SA	136	–	136	–	136
Holliday Pigments Ltd and SA	14,977	–	14,977	–	14,977
James Robinson GmbH	3,382	–	3,382	–	3,382
James Robinson Ltd	–	–	–	–	–
William Blythe Ltd	–	–	–	–	–
Other	236	–	236	–	236
	18,828	–	18,828	–	18,828
Total	172,443	–	172,443	–	172,443

In compiling the above table, the recoverable amounts for the CGUs are determined from value in use calculations, based upon audited discounted cash flows. The key assumptions for the discounted cash flow calculations are those regarding the discount rate, profit and growth rate. Management estimates pre-tax discount rates that reflect current market assessments of the time value of money and the risks specific to each CGU. Discount rates of 8.0 – 10.0% have been used. The profit used in the cash flows for the first five years is derived from management forecasts, for years 6 to 10 a growth rate is applied. The profit for year 10 is then assumed to apply without further growth into perpetuity. Growth rates of between 2.5 and 5.0% have been used, representing management's best estimate of each CGU's circumstances, and these do not exceed average long term growth rates for the markets concerned.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

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 or valuation			
At 1 January 2006	6,483	215	6,698
Exchange adjustments	(192)	–	(192)
Additions	183	–	183
Disposals	(439)	–	(439)
At 31 December 2006	6,035	215	6,250
Accumulated amortisation and impairment			
At 1 January 2006	5,883	–	5,883
Exchange adjustments	(119)	–	(119)
Amortisation charge for the year	227	–	227
Impairment of non current assets (see note 3)	–	215	215
Disposals	(395)	–	(395)
At 31 December 2006	5,596	215	5,811
Net book value			
At 31 December 2006	439	–	439

The impairment of other intangible assets is discussed in more detail in note 3

	Software £'000	Environmental licences £'000	Total £'000
Cost or valuation			
At 1 January 2005	6,367	141	6,508
Exchange adjustments	67	–	67
Additions	321	74	395
Disposals	(272)	–	(272)
At 31 December 2005	6,483	215	6,698
Accumulated amortisation and impairment			
At 1 January 2005	5,735	–	5,735
Exchange adjustments	69	–	69
Amortisation charge for the year	307	–	307
Disposals	(228)	–	(228)
At 31 December 2005	5,883	–	5,883
Net book value			
At 31 December 2005	600	215	815

16 Property, plant and equipment

	Land and buildings			Plant and equipment £'000	Total £'000
	Freeholds £'000	Leaseholds Long £'000	Short £'000		
Cost or valuation					
At 1 January 2006	69,733	4,837	473	342,532	417,575
Exchange adjustments	(2,354)	(19)	–	(7,970)	(10,343)
Additions	295	–	–	17,720	18,015
Reclassifications	(336)	–	336	–	–
Disposals	(7,153)	–	–	(8,854)	(16,007)
At 31 December 2006	60,185	4,818	809	343,428	409,240
Accumulated depreciation and impairment					
At 1 January 2006	24,859	1,862	187	250,603	277,511
Exchange adjustments	(860)	(1)	–	(5,311)	(6,172)
Depreciation charge for the year	1,570	126	5	16,385	18,086
Impairment of non current assets (see note 3)	3,762	–	–	15,722	19,484
Reclassifications	152	–	(152)	–	–
Disposals	(2,285)	–	–	(7,551)	(9,836)
At 31 December 2006	27,198	1,987	40	269,848	299,073
Net book value					
At 31 December 2006	32,987	2,831	769	73,580	110,167

The impairment of property plant and equipment is discussed in more detail in note 3

	Land and buildings			Plant and equipment £'000	Total £'000
	Freeholds £'000	Leaseholds Long £'000	Short £'000		
Cost or valuation					
At 1 January 2005	71,077	4,807	453	362,640	438,977
Exchange adjustments	181	18	20	334	553
Additions	1,335	12	–	11,273	12,620
Disposals	(2,860)	–	–	(31,715)	(34,575)
At 31 December 2005	69,733	4,837	473	342,532	417,575
Accumulated depreciation and impairment					
At 1 January 2005	26,299	1,780	78	262,091	290,248
Exchange adjustments	(273)	2	29	(1,028)	(1,270)
Depreciation charge for the year	1,511	125	80	17,268	18,984
Disposals	(2,678)	(45)	–	(27,728)	(30,451)
At 31 December 2005	24,859	1,862	187	250,603	277,511
Net book value					
At 31 December 2005	44,874	2,975	286	91,929	140,064

Freehold land amounting to £9,357,000 (2005 £9,833,000) has not been depreciated

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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17 Investment in joint ventures

	2006 £'000	2006 £'000	2005 £'000	2005 £'000
At 1 January				
Share of non current assets		1,251		948
Share of current assets		5,837		5,262
Share of non current liabilities		—		—
Share of current liabilities		(3,024)		(3,157)
		4,064		3,053
Share of income	14,131		12,656	
Share of expenses	(12,938)		(11,686)	
	1,193		970	
Tax	(122)		(111)	
Dividends paid during the year	(1,385)		(130)	
Exchange adjustments	(450)		282	
Retained (loss)/profit	(764)		1,011	
At 31 December				
Share of non current assets		1,012		1,251
Share of current assets		6,516		5,837
Share of non current liabilities		—		—
Share of current liabilities		(4,228)		(3,024)
		3,300		4,064

There are no significant contingent liabilities to which the Group is exposed, nor does the Group have any significant contingent liabilities, in relation to its interest in the joint ventures

A list of principal subsidiary undertakings and joint ventures is given on page 71

18 Inventories

	2006 £'000	2005 £'000
Group		
Raw materials and consumables	21,068	23,619
Work in progress	5,808	1,858
Finished goods	39,204	41,018
	66,080	66,495

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

19 Trade and other receivables

	2006 £'000	2005 £'000
Trade receivables	95,176	91,578
Amounts owed by joint ventures	147	73
Other receivables	6,008	6,220
Prepayments and accrued income	3,835	5,373
	105,166	103,244

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

Credit risk

Amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. The Group has no significant concentration of credit risk, with exposure spread over a large number of customers. An allowance has been made for estimated irrecoverable amounts from the sale of goods of £1,949,000 (2005 £2,505,000)

20 Borrowings

	2006 £'000	2005 £'000
Current borrowings		
Bank loans		
Bank loans and overdrafts	57,802	37,385
	57,802	37,385
Non current borrowings		
Bank loans		
Unsecured £60 million revolving credit facility expiring 2009	-	-
Other loans		
\$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010*	75,596	87,344
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010*	15,000	15,000
\$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012	21,949	24,988
\$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014	35,731	40,679
\$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016	11,229	12,784
	159,505	180,795
Less capitalised costs	(734)	(887)
	158,771	179,908

* These notes are repayable in three equal tranches on 8 September 2008, 2009 and 2010

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 2006, the Group had available £60 million (2005 £60 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met

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

Analysis of borrowings at carrying value by currency

	Sterling £'000	US Dollar £'000	Euro £'000	Other £'000	Total £'000
31 December 2006					
Bank loans and overdrafts	14,127	3,472	35,754	4,449	57,802
Loan notes	15,000	144,505	-	-	159,505
Capitalised costs	(734)	-	-	-	(734)
	28,393	147,977	35,754	4,449	216,573
Cash and cash equivalents					(65,917)
Net borrowings					150,656
Add back special item					15,615
Net borrowings (underlying performance)					166,271
31 December 2005					
Bank loans and overdrafts	11,181	3,708	19,034	3,462	37,385
Loan notes	15,000	165,795	-	-	180,795
Capitalised costs	(887)	-	-	-	(887)
	25,294	169,503	19,034	3,462	217,293
Cash and cash equivalents					(46,027)
Net borrowings					171,266
Add back special item					(5,675)
Net borrowings (underlying performance)					165,591

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 UK GAAP

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

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. Yule Catto & Co plc's policy is to finance itself using a mixture of equity and debt instruments.

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.

The main risks arising from the group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

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 (2005 none).

Liquidity risk

The objective of the company 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 £60 million which expires in November 2009. This credit facility was negotiated in November 2004.

Unsecured loan notes totalling approximately £175 million raised from the US private placement market in 1999 and 2004. With maturity between 2008 and 2016, these loan notes provide the group's long term requirements. Please see note 20 for further details.

Fair values

	31 December 2006		31 December 2005	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Interest rate swaps	–	2,138	–	5,751
Cross-currency swaps	–	20,198	(2,249)	810
	–	22,336	(2,249)	6,561
Net fair value		22,336		4,312

A review of all contracts for embedded derivatives identified none that were required to be accounted for separately.

Impact on income statement

Changes in the fair value of derivative contracts amounting to £3,618,002 have been credited to the income statement in the year (2005 charge of £2,420,691). 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 and as such were accounted for as hedges under UK GAAP.

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.

Set out below is a comparison by category of book values and fair values of the group's financial liabilities.

21 Financial instruments continued

	Carrying values at 31 December		Fair values at 31 December	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Fair value of non current borrowings				
Loan notes	158,771	179,908	178,319	174,999
Fair value of other financial assets and liabilities				
Short term borrowings	57,802	37,385	57,802	37,385
Derivatives at fair value	22,336	4,312	22,336	4,312
Trade and other payables	125,264	129,829	125,264	129,829
Trade and other receivables	(105,166)	(103,244)	(105,166)	(103,244)
Cash and cash equivalents	(65,917)	(46,027)	(65,917)	(46,027)
	34,319	22,255	34,319	22,255
Total net financial liabilities at fair value	193,090	202,163	212,638	197,254

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 approximate to book value.

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 2006 was

	Floating rate borrowings 2006 £'000	Fixed rate borrowings 2006 £'000	Total borrowings 2006 £'000	Floating rate borrowings 2005 £'000	Fixed rate borrowings 2005 £'000	Total borrowings 2005 £'000
Sterling	53,513	135,000	188,513	30,414	155,000	185,414
Euro	35,754	-	35,754	3,708	-	3,708
US Dollar	3,472	-	3,472	2,516	16,518	19,034
Other	4,449	-	4,449	3,462	-	3,462
	97,188	135,000	232,188	40,100	171,518	211,618
Cash and cash equivalents			(65,917)			(46,027)
Net borrowings (underlying performance)			166,271			165,591

The effective interest rate for the year was 6.6% (2005 6.7%)

22 Trade and other payables

	2006 £'000	2005 £'000
Amount due within one year		
Trade creditors	83,513	77,063
Amounts due to joint ventures	-	203
Other creditors	24,109	27,334
Accruals and deferred income	17,270	24,923
	124,892	129,523
Amount due in greater than one year		
Other creditors	372	306
	125,264	129,829

Accruals and deferred income includes £1,029,000 (2005 £8,011,000) in respect of the restructuring costs of Ditar Ridderkerk BV, James Robinson Ltd & William Blythe Ltd.

Average trade creditor days in 2006 was 68 (2005 69). 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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23 Post retirement benefit obligations

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

	2006			2005			2004			2003		
	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Defined benefit	2,200	676	2,876	4,000	226	4,226	4,700	217	4,917	5,100	952	6,052
Defined contribution	299	712	1,011	347	710	1,057	338	636	974	265	743	1,008
	2,499	1,388	3,887	4,347	936	5,283	5,038	853	5,891	5,365	1,695	7,060

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

	2006			2005			2004			2003		
	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total	UK	Overseas	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Present value of funded defined benefit obligations	(260,425)	(16,615)	(277,040)	(225,000)	(16,233)	(241,233)	(203,800)	(14,297)	(218,097)	(191,100)	(14,000)	(205,100)
Fair value of scheme assets	191,137	8,019	199,156	167,400	4,196	171,596	138,500	3,795	142,295	121,100	3,600	124,700
Post retirement benefit obligations	(69,288)	(8,596)	(77,884)	(57,600)	(12,037)	(69,637)	(65,300)	(10,502)	(75,802)	(70,000)	(10,400)	(80,400)

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.

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 at 6 April 2003 and updated to 31 December 2006 by a qualified actuary.

The major assumptions used by the actuary were

	2006	2005	2004	2003
Rate of increase in salaries	3.30%	3.50%	3.60%	3.50%
Rate of increase in pensions in payment	2.50%	2.50%	2.50%	2.50%
Discount rate	5.20%	4.90%	5.40%	5.50%
Rates of return on plan assets	6.95%	7.21%	7.26%	7.26%
Inflation assumption	2.80%	2.50%	2.60%	2.50%

Amount charged to operating profit

	2006	2005
	£'000	£'000
Current service cost	3,200	3,200
Gain on settlements and curtailments	(300)	-
Expected return on plan assets	(11,500)	(10,100)
Interest cost relating to pension scheme liabilities	10,800	10,900
	2,200	4,000

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

	2006	2005
	£'000	£'000
Actual return less expected return on pension scheme assets	13,800	17,200
Experience gains and losses arising on the scheme liabilities	-	(12,100)
Changes in assumptions underlying the present value of the scheme liabilities	(30,988)	-
	(17,188)	5,100

23 Post retirement benefit obligations continued

History of experience gains and losses

	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets				
Amount (£'000)	13,800	17,200	8,300	12,300
Percentage of scheme assets	7.22%	10.27%	5.99%	10.10%
Experience losses on scheme liabilities				
Amount (£'000)	-	(12,100)	(5,500)	(26,300)
Percentage of the present value of scheme liabilities	0.00%	(5.38)%	(2.70)%	(13.80)%
Total actuarial gains/(losses) recognised in the statement of recognised income and expense				
Amount (£'000)	(17,188)	5,100	2,800	(14,000)
Percentage of the present value of scheme liabilities	6.61%	2.27%	1.37%	(7.30)%

The actual return on plan assets was £25,400,000 (2005 £27,300,000)

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

	2006 £'000	2005 £'000
At 1 January	(225,000)	(203,800)
Current service cost	(3,200)	(3,200)
Interest cost	(10,800)	(10,900)
Contributions from scheme members	(900)	(1,190)
Actuarial losses	(30,988)	(12,100)
Benefits paid	10,163	6,190
Gains on settlements and curtailments	300	-
Net liability at 31 December	(260,425)	(225,000)

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

	2006 £'000	2005 £'000
At 1 January	167,400	138,500
Expected return on scheme assets	11,500	10,100
Actuarial gains	13,800	17,200
Contributions from sponsoring companies	7,700	6,600
Contributions from scheme members	900	1,190
Benefits paid	(10,163)	(6,190)
Net assets at 31 December	191,137	167,400

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

	2006 %	2006 £'000	2005 %	2005 £'000	2004 %	2004 £'000	2003 %	2003 £'000
Equities	7.90	154,821	7.50	134,900	7.75	110,000	7.75	97,700
Bonds	4.92	36,316	4.63	31,800	5.13	27,600	5.25	22,600
Cash	-	-	4.00	700	4.00	900	4.00	800
Total fair value of assets		191,137		167,400		138,500		121,100
Present value of scheme liabilities		(260,425)		(225,000)		(203,800)		(191,100)
Post retirement benefit obligations		(69,288)		(57,600)		(65,300)		(70,000)

The contribution rate for 2006 was 37.9% of pensionable earnings and the agreed contribution for next year is 37.9% of pensionable earnings

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 2006. The major assumptions do not differ significantly from those disclosed above in relation to the UK pension schemes.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

23 Post retirement benefit obligations continued

Amount charged to operating profit

	2006 £'000	2005 £'000
Current service cost	474	373
Past service cost	—	—
Expected return on plan assets	(244)	(186)
Interest cost relating to pension scheme liabilities	707	672
Exchange movements	(261)	(633)
	676	226

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

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	(166)	42
Experience gains and losses arising on the scheme liabilities	118	281
Changes in assumptions underlying the present value of the scheme liabilities	3,685	(1,981)
	3,637	(1,658)

The actual return on plan assets was £144,000 (2005 £228,000)

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

	2006 £'000	2005 £'000
Net liability at 1 January	(12,037)	(10,502)
Total expense as detailed above	(676)	(226)
Contributions made	480	349
Actuarial gain/(loss)	3,637	(1,658)
Net liability at 31 December	(8,596)	(12,037)

24 Share capital

	2006 £'000	2005 £'000
Authorised		
219,111,230 (2005 185,000,000) ordinary shares of 10 pence each	21,911	18,500
Nil (2005 588,877) 11 5% cumulative redeemable preference shares	—	—
1999-2003 of £1 each – cancelled 18 May 2006	—	589
Nil (2005 34,111,230) unclassified shares of 10 pence each – converted to ordinary shares 18 May 2006	—	3,411
	21,911	22,500
Issued and fully paid		
145,663,187 (2005 144,803,918) ordinary shares	14,566	14,480

Ordinary shares carry no right to fixed income

The issue of shares in the year is discussed in the Report of the Directors on page 18 to 19

Share options

As at 31 December 2006 the following options were outstanding

Executive share options	Number	Option price
Exercisable between 2006–2007	25,055	222.7p
Exercisable between 2006–2008	10,273	(a)
Exercisable between 2006–2010	1,884	(a)
Exercisable between 2007–2014	265,508	(a)
Exercisable between 2008–2012	5,784	(a)
Exercisable between 2008–2015	240,104	(a)
Exercisable between 2009–2013	6,706	(a)
Exercisable between 2009–2016	418,225	(a)
SAYE options	Number	Option price
Exercisable between 2007–2009	333,980	261.0p

(a) options granted under the Longer Term Performance Share Plan, Performance Share Plan and the Longer Term Deferred Bonus Plan with a total exercise price of £60

25 Changes in equity

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Minority interest £'000	Retained earnings £'000	Total £'000
At 1 January 2006	14,480	31,829	949	-	(481)	4,720	4,009	55,506
Profit for the year	-	-	-	-	-	1,344	3,427	4,771
Actuarial gains and losses	-	-	-	-	-	-	(13,551)	(13,551)
Tax on items recognised directly in equity	-	-	-	-	-	-	(1,409)	(1,409)
Exchange differences on translation of overseas operations	-	-	-	-	(7,558)	(296)	-	(7,854)
Net investment hedging	-	-	-	-	668	-	-	668
Total recognised (expenditure)/ income for the period	-	-	-	-	(6,890)	1,048	(11,533)	(17,375)
Dividends paid	-	-	-	-	-	(1,697)	(13,251)	(14,948)
Shares purchased by ESOP Trust	-	-	-	246	-	-	-	246
Share based payments	-	-	-	(246)	-	-	(256)	(502)
Issue of shares	86	1,205	-	-	-	-	-	1,291
At 31 December 2006	14,566	33,034	949	-	(7,371)	4,071	(21,031)	24,218

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Own shares £'000	Hedging and translation reserve £'000	Minority interest £'000	Retained earnings £'000	Total £'000
At 1 January 2005	14,480	31,829	949	-	(947)	4,406	(4,798)	45,919
Profit for the year	-	-	-	-	-	1,180	21,853	23,033
Actuarial gains and losses	-	-	-	-	-	-	3,442	3,442
Tax on items recognised directly in equity	-	-	-	-	-	-	(34)	(34)
Exchange differences on translation of overseas operations	-	-	-	-	2,458	533	-	2,991
Net investment hedging	-	-	-	-	(1,992)	-	-	(1,992)
Total recognised income for the period	-	-	-	-	466	1,713	25,261	27,440
Dividends paid	-	-	-	-	-	(1,399)	(16,796)	(18,195)
Shares purchased by ESOP Trust	-	-	-	369	-	-	-	369
Share based payments	-	-	-	(369)	-	-	342	(27)
At 31 December 2005	14,480	31,829	949	-	(481)	4,720	4,009	55,506

26 Reconciliation of operating profit to cash generated from operations

	2006 £'000	2005 £'000
Operating profit	21,451	46,193
Less share of profits of joint ventures	(1,071)	(859)
	20,380	45,334
Impairment of non current assets	19,699	-
Depreciation and amortisation	18,313	19,291
Profit or loss arising from the sale or closure of operations	1,926	(136)
Cash impact of termination of businesses	(6,096)	(761)
Profit on sale of fixed assets	(794)	(73)
Share based payments	299	711
(Increase)/decrease in inventories	(3,947)	1,550
Increase in trade and other receivables	(10,496)	(1,380)
Pension funding in excess of IAS19 charge	(3,181)	(2,992)
Increase/(decrease) in trade and other payables	10,547	(1,050)
Unrealised exchange gains	(274)	(2,703)
Cash generated from operations	46,376	57,791

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

27 Disposal of subsidiary

As referred to in the Chairman's statement, the group disposed of the following interests in group companies during 2006

Company name	Date of sale	Purchaser	Division	Sale type
Reabrook Limited	5 June 2006	Third party trade	Performance Chemicals	Shares

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

	Reabrook Ltd £'000
Property, plant and equipment	5,395
Inventories	2,189
Trade and other receivables	3,797
Net borrowing	(3,849)
Deferred tax liability	155
Corporation tax liability	(41)
Trade and other payables	(3,841)
Loss on disposal	(3,994)
Costs of disposal	(189)
Satisfied by	
Cash	(189)
Net cash inflow arising on disposal	
Cash consideration	—
Net borrowing disposed of	3,849
	3,849
Less costs of disposal	(189)
	3,660

The impact of these disposals on the Group's results in the current and prior periods is disclosed in note 3

28 Analysis of changes in net borrowings

	1 January 2006 £'000	Cash inflows/ (outflows) £'000	Exchange and other movements £'000	31 December 2006 £'000
Cash and cash equivalents	46,027	23,160	(3,270)	65,917
Current borrowings	(37,385)	(23,073)	2,656	(57,802)
Non current borrowings	(179,908)	(154)	21,291	(158,771)
Net borrowings	(171,266)	(67)	20,677	(150,656)
Add back special item	5,675			(15,615)
Net borrowings (underlying performance)	(165,591)			(166,271)

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

29 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

	2006 £'000	2005 £'000
Short term employee benefits	2,563	2,559
Post retirement benefit obligations	833	1,412
Share based payments	1,009	1,095
	4,405	5,066

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

30 Commitments

	2006 £'000	2005 £'000
Capital expenditure authorised but not provided for in the accounts		
Contracted	3,680	23,086
	2006 £'000	2005 £'000
Commitments under operating leases are as follows		
Payments under operating leases which fall due		
Within 1 year	3,244	3,718
Between 2 and 5 years	8,215	8,081
After 5 years	45,112	41,075
	56,571	52,874

31 Contingent assets, contingent liabilities and guarantees

Guarantees of the parent company in respect of bank and other facilities of subsidiaries and joint ventures totalled £14,049,000 (2005 £13,218,000)

Other guarantees and contingent liabilities of the group amount to £1,363,000 (2005 £1,624,000)

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

32 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 2006	Weighted av exercise price (£) 2006	Options 2005	Weighted av exercise price (£) 2005
Outstanding at 1 January	1,347,254	1.889	1,565,174	1.897
Exercised during the period	(862,917)	1.508	(73,163)	1.613
Expired during the period	(150,357)	2.478	(144,757)	2.117
Outstanding at 31 December	333,980	1.889	1,347,254	1.889
Exercisable at 31 December	-	-	-	-

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.

For options outstanding as at 31 December 2006, the exercise price is £2.61, and the weighted average remaining contractual life was 1.7 years (2005 1.3 years).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

32 Share based payments continued

Executive share option schemes

Details of the share option schemes available to senior management are included in the Remuneration Report on pages 23 to 28

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 2006	Weighted av exercise price (£) 2006	Options 2005	Weighted av exercise price (£) 2005
Outstanding at 1 January	1,322,258	0.372	1,566,132	0.372
Granted during the period	426,983	–	397,305	–
Exercised during the period	(128,493)	0.411	(356,583)	1.112
Lapsed during the period	(647,209)	0.028	(284,596)	0.193
Outstanding at 31 December	973,539	0.057	1,322,258	0.372
Exercisable at 31 December	12,157		163,361	

For options outstanding as at 31 December 2006, the exercise price ranged from £nil to £2.23 and the weighted average remaining contractual life was 4.7 years (2005 7.9 years)

Yule Catto Employee Benefit Trust

The company established a Trust, the Yule Catto Employee Benefit Trust, on 17 July 1996 to distribute shares to employees enabling the obligations under the Yule Catto Longer Term Performance Share Plan and the Yule Catto Longer Term Deferred Bonus Plan to be met. The Trust is managed by the RBC Trustees (Guernsey) Limited, an independent company located in Guernsey. At 31 December 2006, the Trust held 24,161 (2005 47,960) ordinary shares in the company with a market value of £56,000 (2005 £79,000). The dividends on these shares have been waived. All of the shares are under option. Costs are amortised over the life of the plans.

33 Share price information

The middle market value of the listed ordinary shares at 31 December 2006 was 232.0 pence. During the year, the market price ranged between 299.0 pence and 198.5 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 09060 034567.

34 Reconciliation of EBITDA

	Underlying performance		IFRS	
	2006	2005	2006	2005
Operating profit	42,959	46,186	21,451	46,193
Less: profit or loss arising from the sale or closure of operations	–	–	(117)	129
Less: operating profit or loss of businesses sold or closed during the year	–	–	1,926	(136)
Add back: impairment of non current assets	–	–	19,699	–
Add back: amortisation	227	307	227	307
Add back: depreciation	18,086	18,984	18,086	18,984
EBITDA	61,272	65,477	61,272	65,477

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF YULE CATTO & CO PLC

60/61

We have audited the parent company financial statements of Yule Catto & Co plc for the year ended 31 December 2006 which comprise the Balance Sheet and the related notes 1 to 17. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Yule Catto & Co plc for the year ended 31 December 2006 and on the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Financial Review that is cross referred from the business review sections of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited parent company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

Opinion

In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006,
- the parent company financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the parent company financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Cambridge, United Kingdom
7 March 2007

Balance Sheet - Yule Catto and Co plc

31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible fixed assets	6	2,578	2,647
Investments	7	134,262	134,252
		<u>136,840</u>	<u>136,899</u>
Current assets			
Debtors	8	286,318	277,412
Cash at bank and in hand		221	1,318
		<u>286,539</u>	<u>278,730</u>
Creditors			
- due within one year			
Borrowings	9	(39,324)	(17,788)
Other creditors	11	(9,702)	(10,879)
Derivatives at fair value	10	(22,336)	(4,312)
		<u>215,177</u>	<u>245,751</u>
Net current assets			
		<u>352,017</u>	<u>382,650</u>
Total assets less current liabilities			
Creditors			
- due after more than one year	9	(158,771)	(179,908)
Borrowings			
		<u>193,246</u>	<u>202,742</u>
Net assets			
		<u>193,246</u>	<u>202,742</u>
Capital and reserves			
Called up share capital	12	14,566	14,480
Share premium	13	33,034	31,829
Revaluation reserve	13	830	832
Capital redemption reserve	13	949	949
Profit and loss account	13	143,867	154,652
		<u>193,246</u>	<u>202,742</u>
Analysis of net borrowings			
Cash at bank and in hand		221	1,318
Borrowings due in less than one year		(39,324)	(17,788)
Borrowings due after more than one year		(158,771)	(179,908)
Net borrowings		<u>(197,874)</u>	<u>(196,378)</u>
Add back special item		(15,615)	5,675
Net borrowings (underlying performance)	9	<u>(213,489)</u>	<u>(190,703)</u>

The accompanying notes form an integral part of these balance sheets

Approved on 7 March 2007

A Whitfield

Directors

S V Cummins

Signature

31 DECEMBER 2006

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 using 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 group 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 substantially enacted by the balance sheet date.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the 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, as set out in note 10.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

2 Auditors' remuneration

The audit fee of Yule Catto and Co plc amounted to £6,500 (2005 £6,500)

3 Employees

	2006 Number	2005 Number
The average monthly number of employees during the year was	31	32
	2006 £'000	2005 £'000
The aggregate remuneration of all company employees comprised		
Wages and salaries	2,522	2,292
Social security costs	303	267
Post retirement benefits	496	694
	3,321	3,253

4 (Loss)/profit attributable to equity shareholders

	2006 £'000	2005 £'000
UK GAAP basis*		
Attributable to Yule Catto & Co plc	2,466	140,815

As permitted by section 230 of the Companies Act 1985 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 and Co plc's accounts under UK GAAP

5 Dividends

	2006 £'000	2005 £'000
Ordinary – prior year final of 7.9 pence per share (2004 7.9 pence)	7,670	11,440
– interim of 3.8 pence per share (2005 3.7 pence)	5,581	5,356
	13,251	16,796
– proposed final of 5.5 pence per share (2005 5.3 pence)	8,011	7,670

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		Plant and equipment £'000	Total £'000
	Freeholds £'000	Long leaseholds £'000		
Cost or valuation				
At 1 January 2006	2,777	89	1,784	4,650
Additions	–	–	94	94
Disposals	–	–	(446)	(446)
At 31 December 2006	2,777	89	1,432	4,298
At cost	12	–	1,432	1,444
At professional valuation in 1985	2,765	89	–	2,854
	2,777	89	1,432	4,298
Depreciation				
At 1 January 2006	410	39	1,554	2,003
Charge for the year	20	2	124	146
Eliminated on disposals	–	–	(429)	(429)
At 31 December 2006	430	41	1,249	1,720
Net book value				
At 31 December 2006	2,347	48	183	2,578
Net book value				
At 31 December 2005	2,367	50	230	2,647

Properties included at valuation would have been stated on a historical cost basis at cost of £1,877,000 (2005 £1,877,000) and depreciation of £369,000 (2005 £352,000)

Freehold land amounting to £1,781,000 (2005 £1,781,000) has not been depreciated

7 Investments

	Subsidiaries £'000	Joint ventures £'000	Other investments £'000	Total £'000
Cost				
At 1 January 2006	135,062	500	74	135,636
Additions	-	-	46	46
Disposals	-	-	(74)	(74)
At 31 December 2006	135,062	500	46	135,608
Provisions				
At 1 January 2006	1,118	220	46	1,384
Amortisation	-	-	8	8
Disposals	-	-	(46)	(46)
At 31 December 2006	1,118	220	8	1,346
Net book value				
At 31 December 2006	133,944	280	38	134,262
Net book value				
At 31 December 2005	133,944	280	28	134,252

Details of the principal group companies are given on pages 71 to 72

8 Debtors

	2006 £'000	2005 £'000
Amounts owed by subsidiaries	282,817	270,587
Other debtors	584	772
Prepayments and accrued income	94	132
Corporate tax	2,823	5,921
	286,318	277,412

9 Borrowings

	2006 £'000	2005 £'000
Current borrowings		
Bank loans		
Bank loans and overdrafts	39,324	17,788
	39,324	17,788
Non current borrowings		
Bank loans		
Unsecured £60 million revolving credit facility expiring 2009	-	-
Other loans		
\$136,000,000 7.66% Guaranteed Senior Unsecured Notes due 8 September 2010*	75,596	87,344
£15,000,000 6.99% Guaranteed Senior Unsecured Notes due 8 September 2010*	15,000	15,000
\$43,000,000 5.55% Guaranteed Senior Unsecured Notes due 2 September 2012	21,949	24,988
\$70,000,000 5.78% Guaranteed Senior Unsecured Notes due 2 September 2014	35,731	40,679
\$22,000,000 5.98% Guaranteed Senior Unsecured Notes due 2 September 2016	11,229	12,784
	159,505	180,795
Less capitalised costs	(734)	(887)
	158,771	179,908

* These notes are repayable in three equal tranches on 8 September 2008, 2009 and 2010

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 2006, the Company had available £60 million (2005 £60 million) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

9 Borrowings continued

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	Total £'000
31 December 2006				
Bank loans and overdrafts	7,533	2,688	29,103	39,324
Loan notes	15,000	144,505	–	159,505
Capitalised costs	(734)	–	–	(734)
	21,799	147,193	29,103	198,095
Cash and cash equivalents				(221)
Net borrowings				197,874
Add back special item*				15,615
Net borrowings (underlying performance)				213,489
31 December 2005				
Bank loans and overdrafts	68	2,687	15,033	17,788
Loan notes	15,000	165,795	–	180,795
Capitalised costs	(887)	–	–	(887)
	14,181	168,482	15,033	197,696
Cash and cash equivalents				(1,318)
Net borrowings				196,378
Add back special item*				(5,675)
Net borrowings (underlying performance)				190,703

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 Financial instruments

The company'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. Yule Catto & Co plc's policy is to finance itself using a mixture of equity and debt instruments.

The company'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 company also uses interest rate swaps, currency swaps and forward foreign currency contracts to manage the interest rate and currency risks arising from the company's operations and its sources of finance.

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

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The company finances its operations through a mixture of retained profits, loan notes and bank borrowings. The company 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 company's exposure to interest rate fluctuations.

Foreign currency risk

The company 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 company hedges currency transaction exposures at the point of confirmed order, using forward foreign exchange contracts. The company's policy is, where practicable, to hedge all exposures on monetary assets and liabilities. Consequently, there are no material currency exposures to disclose (2005 none).

Liquidity risk

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

10 Financial instruments continued

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

A committed syndicated bank revolving credit facility of £60 million which expires in November 2009. This credit facility was negotiated in November 2004.

Unsecured loan notes totalling approximately £175 million raised from the US private placement market in 1999 and 2004. With maturity between 2008 and 2016, these loan notes provide the group's long term requirements. Please see note 9 for further details.

	31 December 2006		31 December 2005	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Fair values				
Interest rate swaps	-	2,138	-	5,751
Cross-currency swaps	-	20,198	(2,249)	810
	-	22,336	(2,249)	6,561
Net fair value		22,336		4,312

A review of all contracts for embedded derivatives identified none that were required to be accounted for separately.

Impact on profit and loss account

Changes in the fair value of derivative contracts amounting to £3,618,002 have been credited to the income statement in the year (2005 charge of £2,420,691).

Hedge accounting

The company 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 and as such were accounted for as hedges under previous UK GAAP. The company has reviewed the requirements necessary to permit the application of hedge accounting under FRS 26. It has concluded that the costs involved in meeting these requirements cannot be justified and therefore FRS 26 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.

Set out below is a comparison by category of book values and fair values of the group's financial liabilities.

	Carrying values at 31 December		Fair values at 31 December	
	2006 £'000	2005 £'000	2006 £'000	2005 £'000
Fair value of non current borrowings				
Loan notes	158,771	179,908	178,319	174,999
Fair value of other financial assets and liabilities				
Short-term borrowings	39,324	17,788	39,324	17,788
Derivatives at fair value	22,336	4,312	22,336	4,312
Trade and other payables	9,702	10,879	9,702	10,879
Trade and other receivables	(286,318)	(277,412)	(286,318)	(277,412)
Cash and cash equivalents	(221)	(1,318)	(221)	(1,318)
	(215,177)	(245,751)	(215,177)	(245,751)
Total net financial liabilities at fair value	(56,406)	(65,843)	(36,858)	(70,752)

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 approximate to book value.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

10 Financial instruments continued

Interest rate risk profile

Financial liabilities

After taking into account the various interest rate and currency swaps entered into by the company the currency and interest rate exposure of the company as at 31 December 2006 was

	Floating rate borrowings 2006 £'000	Fixed rate borrowings 2006 £'000	Total borrowings 2006 £'000	Floating rate borrowings 2005 £'000	Fixed rate borrowings 2005 £'000	Total borrowings 2005 £'000
Sterling	46,919	135,000	181,919	19,301	155,000	174,301
US Dollar	2,688	–	2,688	2,687	–	2,687
Euro	29,103	–	29,103	(1,485)	16,518	15,033
	78,710	135,000	213,710	20,503	171,518	192,021
Cash and cash equivalents			(221)			(1,318)
Net borrowings (underlying performance)			213,489			190,703

The effective interest rate for the year was 6.6% (2005 6.5%)

11 Other creditors

	2006 £'000	2005 £'000
Amount due within one year		
Trade creditors	695	1,334
Corporate tax	–	–
Other taxation and social security	128	144
Other creditors	2,125	2,998
Accruals and deferred income	6,754	6,403
	9,702	10,879

12 Share capital

	2006 £'000	2005 £'000
Authorised		
219,111,230 (2005 185,000,000) ordinary shares of 10 pence each	21,911	18,500
Nil (2005 588,877) 11.5% cumulative redeemable preference shares		
1999-2003 of £1 each – cancelled 18 May 06	–	589
Nil (2005 34,111,230) unclassified shares of 10 pence each – converted to ordinary shares 18 May 06	–	3,411
	21,911	22,500
Issued and fully paid		
145,663,187 ordinary shares (2005 144,803,918)	14,566	14,480

Share options

As at 31 December 2006 the following options were outstanding

Executive share options	Number	Option price
Exercisable between 2006 – 2007	25,055	222.7p
Exercisable between 2006 – 2008	10,273	(a)
Exercisable between 2006 – 2010	1,884	(a)
Exercisable between 2007 – 2014	265,508	(a)
Exercisable between 2008 – 2012	5,784	(a)
Exercisable between 2008 – 2015	240,104	(a)
Exercisable between 2009 – 2013	6,706	(a)
Exercisable between 2009 – 2016	418,225	(a)
SAYE options		
Exercisable between 2007 – 2009	333,980	261.0p

(a) options granted under the Longer Term Performance Share Plan and the Longer Term Deferred Bonus Plan with a total exercise price of £60

13 Share premium and reserves

	Share premium £'000	Revaluation reserve £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2006	31,829	832	949	154,652	188,262
Profit for the year	-	-	-	2,466	2,466
Dividends	-	-	-	(13,251)	(13,251)
Retained loss for the year	-	-	-	(10,785)	(10,785)
Issue of shares	1,205	-	-	-	1,205
Revaluation depreciation	-	(2)	-	-	(2)
At 31 December 2006	33,034	830	949	143,867	178,680

14 Related party transactions

There were no related party transactions during the year (2005 none)

15 Guarantees and other financial commitments

The company has given guarantees amounting to £14,049,000 (2005 £13,218,000) in respect of bank and other facilities of subsidiaries and joint ventures

The company has, in the normal course of business, entered into guarantees and counter-indemnities in respect of performance bonds, relating to the contracts of subsidiaries

16 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

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 £2,087,000 (2005 £641,000)

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 show a net pension liability of £69,288,000 at 31 December 2006

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 at 6 April 2003 and updated to 31 December 2006 by a qualified actuary

The major assumptions used by the actuary were

	2006	2005	2004	2003
Rate of increase in salaries	3.30%	3.50%	3.60%	3.50%
Rate of increase in pensions in payment	2.50%	2.50%	2.50%	2.50%
Discount rate	5.20%	4.90%	5.40%	5.50%
Inflation assumption	2.80%	2.50%	2.60%	2.50%

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

31 DECEMBER 2006

16 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

	2006 %	2006 £'000	2005 %	2005 £'000	2004 %	2004 £'000	2003 %	2003 £'000
Equities	7.90	154,821	7.50	135,200	7.75	110,300	7.75	98,000
Bonds	4.92	36,316	4.63	31,800	5.13	27,600	5.25	22,600
Cash	–	–	4.00	700	4.00	900	4.00	800
Total fair value of assets		191,137		167,700		138,800		121,400
Present value of scheme liabilities		(260,425)		(225,000)		(203,800)		(191,100)
Deficit in the scheme		(69,288)		(57,300)		(65,000)		(69,700)
Related deferred tax asset		–		–		–		3,600
Net pension liability		(69,288)		(57,300)		(65,000)		(66,100)

The contribution rate for 2006 was 37.9% of pensionable earnings and the agreed contribution for next year is 37.9% of pensionable earnings

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

	2006 £'000	2005 £'000
Current service cost	3,200	3,200
Gain on settlements and curtailments	(300)	–
	2,900	3,200

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

	2006 £'000	2005 £'000
Expected return on pension scheme assets	(11,500)	(10,100)
Interest on pension scheme liabilities	10,800	10,900
	(700)	800

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

	2006 £'000	2005 £'000
Actual return less expected return on pension scheme assets	13,800	17,200
Experience gains and losses arising on the scheme liabilities	–	(12,100)
Changes in assumptions underlying the present value of the scheme liabilities	(30,988)	–
	(17,188)	5,100

History of experience gains and losses

	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets				
Amount (£'000)	13,800	17,200	8,300	12,300
Percentage of scheme assets	7.22%	10.27%	5.99%	10.10%
Experience losses on scheme liabilities				
Amount (£'000)	–	(12,100)	(5,500)	(27,800)
Percentage of the present value of scheme liabilities	0.00%	(5.38)%	(2.70)%	(14.50)%
Total actuarial (losses)/gains recognised in the statement of total recognised gains and losses				
Amount (£'000)	(17,188)	5,100	2,800	(14,000)
Percentage of the present value of scheme liabilities	6.61%	2.27%	1.37%	(7.30)%

17 Share based payments

For details of share based payments please refer to note 32 to the consolidated financial statements, on page 59 to 60

Operating Companies	Country of incorporation and operation	Effective Group interest in equity %
Arkem (Pty) Ltd <i>Distributor of speciality chemicals and allied products</i>	South Africa	50#
Holliday Chemical Espana SA <i>Sales agent and distributor</i>	Spain	100
Holliday France SA <i>Sales agent and distributor</i>	France	100
Holliday Pigments Ltd <i>Ultramarine pigments</i>	England	100
Holliday Pigments SA <i>Ultramarine pigments</i>	France	100
James Robinson GmbH <i>Fine chemicals</i>	Germany	100
James Robinson India (Pvt) Ltd <i>Fine chemicals intermediates</i>	India	66
James Robinson Ltd <i>Fine chemicals</i>	England	100
Oxford Chemicals Ltd <i>Flavour chemicals</i>	England	100
PFW Aroma Chemicals BV <i>Fragrance chemicals</i>	Netherlands	100
Revertex Chemicals (Pty) Ltd <i>Synthetic resin emulsions and allied products</i>	South Africa	100
Revertex Finewaters Sdn Bhd <i>Adhesives</i>	Malaysia	63
Revertex-KA Latex (India) Private Ltd <i>Natural rubber latices</i>	India	50#
Revertex (Malaysia) Sdn Bhd <i>Synthetic resins and emulsions, natural rubber latices, plasticisers and allied products</i>	Malaysia	70
Revertex (Thailand) Ltd <i>Compounds of natural rubber latex</i>	Thailand	35

* Shares held by Yule Catto & Co plc

Joint ventures

PRINCIPAL SUBSIDIARIES AND JOINT VENTURES CONTINUED

	Country of incorporation and operation	Effective Group interest in equity %
Operating Companies continued		
Synthomer BV	Netherlands	100
<i>Compounds of synthetic rubber latices</i>		
Synthomer GmbH	Germany	100
<i>Synthetic rubber latices and related compounds</i>		
Synthomer Hasselt BV	Netherlands	100
<i>Compounds of synthetic rubber latices</i>		
Synthomer Ltd	England	100*
<i>Synthetic rubber latices and emulsions</i>		
Synthomer Middle East Ltd	Saudi Arabia	49#
<i>Synthetic resin emulsions</i>		
Synthomer SA	Belgium	100
<i>Compounds, dispersions and adhesives</i>		
Synthomer Sdn Bhd	Malaysia	100
<i>Synthetic rubber latices and related compounds</i>		
Union Quimico Farmaceutica SA (UQUIFA)	Spain	100
<i>Pharmaceutical actives and intermediates</i>		
Uquifa Italia SpA	Italy	100
<i>Pharmaceutical actives and intermediates</i>		
Uquifa Mexico S A C V	Mexico	100
<i>Pharmaceutical actives and intermediates</i>		
William Blythe Ltd	England	100
<i>Inorganic chemicals</i>		
Holding Companies		
Dimex Ltd	England	100*
Holliday Chemical Holdings	England	100
Holliday International SA	France	100
Temple Fields 522 Ltd	England	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

* Shares held by Yule Catto & Co plc

Joint ventures

FIVE YEAR FINANCIAL SUMMARY

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	IFRS (underlying performance) ^(a)			UK GAAP		
	2006 £'000	2005 £'000	2004 £'000	2004 £'000	2003 £'000	2002 £'000
Total sales	557,357	516,458	503,121	549,444	550,114	510,778
EBITDA ^(b)	61,272	65,477	65,614	66,871	96,474	87,360
Operating profit ^(c)	42,959	46,186	45,088	43,961	73,432	66,689
Finance costs	(11,443)	(11,741)	(12,930)	(12,950)	(13,518)	(14,127)
Profit before taxation	31,516	34,445	32,158	31,011	59,914	52,562
Earnings per share ^(d)	14 7p	16 7p	13 9p	13 9p	27 6p	23 9p
Dividends per share	9 3p	9 0p	13 4p	13 4p	13 0p	12 5p
Dividend cover	1 6	1 9	1 0	1 0	2 1	1 9
Net borrowings ^(e)	(166,271)	(165,591)	(187,641)	(187,641)	(177,276)	(211,191)
Free cash flow before dividends ^(e)	8,479	19,786	13,344	13,344	62,979	29,803
Capital expenditure	18,468	14,331	16,920	16,920	21,734	20,862

(a) As presented in note 3 to the Financial Statements on page 39

(b) As defined in the accounting policies at note 2 and derived in note 34

(c) As defined in note 2 to the Financial Statements on pages 35 to 38

(d) Under UK GAAP this figure is adjusted to exclude amortisation

(e) As shown with the consolidated cash flow statement on page 33

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of the Company will be held at Saddlers' Hall, 40 Gutter Lane, London EC2V 6BR on Thursday, 17 May 2007 at 12 noon for the following purposes

Ordinary business

- 1 To receive and adopt the report of the Directors and audited financial statements for the year ended 31 December 2006
- 2 To consider the recommendation of the Directors as to a final dividend for the year ended 31 December 2006 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 2006
- 4 To re-elect as a director the Hon A G Catto who retires as a director by rotation
- 5 To re-elect as a director Dato' Lee Hau Hian who retires as a director by rotation
- 6 To re-elect as a director Dato' Lee Oi Hian who retires as a director by rotation
- 7 To re-elect as a director Mr P S Wood who retires as a director by rotation
- 8 To re-appoint Deloitte & Touche 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
- 9 To authorise the Directors to determine the remuneration of the auditors

Special business

To consider, and if thought fit, to pass the following Resolutions, Resolution 10 being proposed as an Ordinary Resolution and Resolutions 11, 12 and 13 being proposed as Special Resolutions

- 10 That
 - (i) the authority conferred on the Directors by paragraph 9 2 of Article 9 of the Company's Articles of Association be renewed for the period ending on the date of the Annual General Meeting in 2008 or on 17 August, 2008, whichever is the earlier, and for such period the Section 80 Amount shall be £4,855,439, and
 - (ii) such authority shall be in substitution for all previous authorities pursuant to Section 80 of the Companies Act 1985 which are hereby revoked, without prejudice to any allotment of securities prior to the date of this Resolution (or thereafter pursuant to any offer or agreement made prior thereto)
- 11 That
 - (i) subject to the passing of Resolution 10 set out in the notice of Annual General Meeting dated 7 March, 2007, the power conferred on the Directors by paragraph 9 3 of Article 9 of the Company's Articles of Association be renewed for the period referred to in such Resolution and for such period the Section 89 Amount shall be £728,315, and

- (ii) such authority shall be in substitution for all previous powers pursuant to Section 89 of the Companies Act 1985 which are hereby revoked, without prejudice to any allotment or sale of securities prior to the date of this Resolution (or thereafter pursuant to any offer or agreement made prior thereto)

- 12 That the Company be unconditionally and generally authorised for the purpose of Section 166 of the Companies Act 1985 ("the Act") to make market purchases (as defined in Section 163 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 14,566,318
 - 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
- 13 That paragraph 8(A) of Clause 4 of the Company's Memorandum of Association be amended by the deletion of the words "or auditors"

By order of the Board

R Atkinson
Secretary
7 March 2007
Temple Fields
Harlow
Essex
CM20 2BH

Notes

- (i) A member of the Company entitled to attend and vote at the above meeting may appoint one or more proxies to attend and, on a poll, to vote in his stead. A proxy need not also be a member of the Company
- (ii) A copy of the register of the Directors' interests in the equity share capital of the Company will be available for inspection during normal business hours at the registered office of the Company from the date of this notice until the date of the Annual General Meeting and at the place of the meeting itself from 15 minutes before it is held until its conclusion
- (iii) A form of proxy is enclosed which, to be valid, must be completed and deposited with Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FB not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting. The completion and return of a form of proxy will not prevent a member who wishes to do so from attending and voting in person
- (iv) The Company pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 specifies that only those holders of ordinary shares registered in the Register of Members of the Company at 11pm on Tuesday 15 May 2007 shall be entitled to attend and vote at the aforesaid Annual General Meeting in respect of such number of shares registered in their name at that time. Changes to entries on the register of members after 11pm on Tuesday 15 May 2007 shall be disregarded in determining the rights of any person to attend or vote at the meeting

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