

# Yule Catto & Co plc

## Preliminary Results for the year ended 31 December 2006

*Good progress has been made in the long-term development of the Group*

### HIGHLIGHTS

- Group revenue £551.7m (2005: £556.1m)
- Underlying total sales\* increased by 8% to £557.4m, (2005: £516.5m)
- Profit before taxation\* £31.5m, (2005: £34.4m)
- Earnings per share\* of 14.7p, (2005: 16.7p)
- Dividend increased by 3% to 9.3p per share (2005: 9.0p)
- Profit attributable to equity shareholders of the parent £3.4m (2005: £21.9m)
- Strong volume growth in polymers
- Seven pharmaceutical drug master file registrations in the year

\* Before special items, as defined in notes 1 and 9

Anthony Richmond-Watson, Chairman, comments:

**“Underlying profit before taxation reduced to £31.5 million as a result of the difficulties in our Performance Chemical businesses. As we look to 2007, 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.”**

7 March 2007

### ENQUIRIES:

#### YULE CATTO

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**RESULTS SUMMARY**

	Underlying performance <sup>(a)</sup>		IFRS	
	2006 £'000 audited	2005 £'000 audited	2006 £'000 audited	2005 £'000 audited
<b>Year to 31 December</b>				
Total sales	557,357	516,458	565,786	568,707
EBITDA (b)	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
Earnings per share	14.7p	16.7p	2.4p	15.1p
Dividend per share (c)	9.3p	9.0p	9.3p	9.0p
Net borrowings (d)	166,271	165,591	150,656	171,266
Free cash flow before dividends (e)	8,479	19,786	8,479	19,786

Notes:

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

(a) Underlying performance is before special items. (See notes 1 and 9).

(b) Earnings before interest, tax, non-recurring items, depreciation and amortisation. (See note 6).

(c) Final dividend from 2006 of 5.5p per share will be paid on 4 July 2007 to members on the register at close of business on 1 June 2007. Under IFRS this liability is not accrued in the financial statements.

(d) As reconciled at the bottom of the balance sheet.

(e) As shown within the cash flow statement.

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**BUSINESS REVIEW**

**CHAIRMAN'S STATEMENT**

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**  
Chairman

**7 March 2007**

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**BUSINESS REVIEW (cont'd)**

**CHIEF EXECUTIVE'S REPORT**

**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 recover fully 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 been previously 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.

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**BUSINESS REVIEW (cont'd) - CHIEF EXECUTIVE'S REPORT**

**Polymer Division**

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.

**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.

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**BUSINESS REVIEW (cont'd) - CHIEF EXECUTIVE'S REPORT**

**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.

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.

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**BUSINESS REVIEW (cont'd) - CHIEF EXECUTIVE'S REPORT**

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 pigment, 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.

Within William Blythe, we announced our planned exit from the SO<sub>2</sub> business at the end of 2005. Implicit in this decision was the closure of our site at Hapton and the relocation of non-SO<sub>2</sub> 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.

**ADRIAN WHITFIELD**  
**Chief Executive**

**7 March 2007**

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**BUSINESS REVIEW (cont'd)**

**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 & 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.

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 in note 9). 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

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**BUSINESS REVIEW (cont'd) - FINANCIAL REVIEW**

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.

**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 material 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.

**SEAN CUMMINS**  
**Finance Director**

**7 March 2007**

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**CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

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

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**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2006**

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

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**CONSOLIDATED CASH FLOW FOR THE YEAR ENDED 31 DECEMBER 2006**

Year to 31 December	Notes	2006		2005	
		£'000 audited	£'000 audited	£'000 audited	£'000 audited
<b>Operating</b>					
Cash generated from operations	5		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)
<b>Net cash inflow from operating activities</b>			<u>25,720</u>		<u>35,341</u>
<b>Investing</b>					
Dividends received from joint ventures			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		3,660		18,858	
Net cash impact of acquisitions and disposals			3,660		18,858
<b>Net cash (outflow)/inflow from investing activities</b>			<u>(11,884)</u>		<u>4,702</u>
<b>Financing</b>					
Equity dividends paid			(13,251)		(16,796)
Dividends paid to minority interests			(1,697)		(1,399)
Purchase of own shares			(246)		(369)
Issue of shares			1,291		-
Proceeds/(repayment) of non-current borrowings			154		(5,033)
<b>Net cash outflow from financing activities</b>			<u>(13,749)</u>		<u>(23,597)</u>
<b>Increase in cash and bank overdrafts during the year</b>			<u>87</u>		<u>16,446</u>
Comprised of:					
Cash and cash equivalents			23,160		(46,623)
Bank overdrafts			(23,073)		63,069
			<u>87</u>		<u>16,446</u>

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**Reconciliation of net cash flow from operating activities to movement in net borrowings**

	<u>2006</u>	<u>2005</u>
	£'000	£'000
	audited	audited
<b>Net cash inflow from operating activities</b>	25,720	35,341
Add back: dividends received from joint ventures	1,385	130
Less: net capital expenditure and financial investment	(16,929)	(14,286)
Less: dividends paid to minority interests	(1,697)	(1,399)
<b>Free cash flow before dividends</b>	<u>8,479</u>	<u>19,786</u>
Net cash impact of acquisitions and disposals	3,660	18,858
Purchase of own shares	(246)	(369)
Issue of shares	1,291	-
Equity dividends paid	(13,251)	(16,796)
Exchange movements	(613)	571
<b>Movement in net borrowings (underlying performance)</b>	<u>(680)</u>	<u>22,050</u>

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

	<u>2006</u>			<u>2005</u>		
	Minority interests	Equity holders of the parent	Total	Minority interests	Equity holders of the parent	Total
	£'000 audited	£'000 audited	£'000 audited	£'000 audited	£'000 audited	£'000 audited
<b>Year to 31 December</b>						
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
<b>Total recognised income/(expenditure) for the period</b>	<u>1,048</u>	<u>(18,423)</u>	<u>(17,375)</u>	<u>1,713</u>	<u>25,727</u>	<u>27,440</u>

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**1 Consolidated income statement analysis**

Note	2006 Continuing operations			2005 Continuing operations			
	Underlying performance	Special items	IFRS	Underlying performance	Special items	IFRS	
	£'000 audited	£'000 audited	£'000 audited	£'000 audited	£'000 audited	£'000 audited	
	Group revenue	543,226	8,429	551,655	503,802	52,249	556,051
	Share of joint ventures' revenue	14,131	-	14,131	12,656	-	12,656
	<b>Total sales</b>	<b>557,357</b>	<b>8,429</b>	<b>565,786</b>	<b>516,458</b>	<b>52,249</b>	<b>568,707</b>
	Group revenue	543,226	8,429	551,655	503,802	52,249	556,051
	Company and subsidiaries before impairments	41,888	(1,809)	40,079	45,327	7	45,334
	Impairment of non-current assets	-	(19,699)	(19,699)	-	-	-
	Company and subsidiaries	41,888	(21,508)	20,380	45,327	7	45,334
	Share of joint ventures	1,071	-	1,071	859	-	859
	<b>Operating profit/(loss)</b>	<b>42,959</b>	<b>(21,508)</b>	<b>21,451</b>	<b>46,186</b>	<b>7</b>	<b>46,193</b>
	Finance costs	(11,443)	3,618	(7,825)	(11,741)	(2,421)	(14,162)
	<b>Profit/(loss) before taxation</b>	<b>31,516</b>	<b>(17,890)</b>	<b>13,626</b>	<b>34,445</b>	<b>(2,414)</b>	<b>32,031</b>
	Taxation	(8,820)	(35)	(8,855)	(9,148)	150	(8,998)
	<b>Profit/(loss) for the year</b>	<b>22,696</b>	<b>(17,925)</b>	<b>4,771</b>	<b>25,297</b>	<b>(2,264)</b>	<b>23,033</b>
	Profit attributable to minority interests	1,344	-	1,344	1,180	-	1,180
	Profit attributable to equity holders of the parent	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	14.67p	(12.32)p	2.35p	16.66p	(1.56)p	15.10p
	Diluted	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 3, Reabrook Limited was sold during the year, however this sale does not satisfy the criteria of IFRS 5 to be treated as discontinued operations.

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**Special items**

The special items disclosed are made up as follows:

	2006	2005
Note	Special items £'000 audited	Special items £'000 audited
<b>Total sales</b>		
Revenue of operations sold or closed during the year	8,429	52,249
<b>Operating profit/(loss)</b>		
Operating profit/(loss) of operations sold or closed during the year	117	(129)
Profit or loss arising from the sale or closure of operations	3 (1,926)	136
Impairment of non-current assets	(19,699)	-
	<u>(21,508)</u>	<u>7</u>
<b>Finance costs</b>		
Fair value adjustment	4 3,618	(2,421)
<b>Taxation</b>		
Taxation on operating profit/(loss) of businesses sold or closed during the year	(35)	-
Taxation on profit or loss arising from the sale or closure of operations	-	150
	<u>(35)</u>	<u>150</u>

**2 Segmental analysis**

	2006			2005		
	Underlying performance £'000 audited	Special items £'000 audited	IFRS £'000 audited	Underlying performance £'000 audited	Special items £'000 audited	IFRS £'000 audited
<b>Year to 31 December</b>						
<b>Total sales by activity</b>						
Polymer Chemicals	399,084	-	399,084	364,770	-	364,770
Pharma & Fine Chemicals	88,479	-	88,479	82,170	-	82,170
Performance Chemicals	69,794	8,429	78,223	69,518	52,249	121,767
	<u>557,357</u>	<u>8,429</u>	<u>565,786</u>	<u>516,458</u>	<u>52,249</u>	<u>568,707</u>
<b>Operating profit by activity</b>						
Polymer Chemicals	38,749	-	38,749	34,159	(1,276)	32,883
Pharma & Fine Chemicals	9,455	-	9,455	10,903	-	10,903
Performance Chemicals	(358)	(21,508)	(21,866)	5,806	1,283	7,089
Unallocated corporate expenses	(4,887)	-	(4,887)	(4,682)	-	(4,682)
	<u>42,959</u>	<u>(21,508)</u>	<u>21,451</u>	<u>46,186</u>	<u>7</u>	<u>46,193</u>

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	<u>2006</u>	<u>2005</u>
	£'000	£'000
	audited	audited
<b>Total sales by destination</b>		
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
	<u>565,786</u>	<u>568,707</u>

**3 Profit or loss arising from the sale or closure of an operation**

	<u>2006</u>	<u>2005</u>
	£'000	£'000
	audited	audited
<b>Year to 31 December</b>		
Sale of Brencliffe Limited	198	347
Sale of Holliday Dispersions Ltd and SA	485	(1,974)
Sale of Autoclenz Limited	699	13,614
Restructuring of James Robinson Limited	235	(4,813)
Restructuring of William Blythe Limited	336	(5,762)
Restructuring of Ditar Ridderkerk BV	-	(1,276)
Sale of Reabrook Limited	(3,994)	-
Releases from provisions created prior to 2005	115	-
	<u>(1,926)</u>	<u>136</u>

The shares of Reabrook Limited were sold on 5 June 2006.

**4 Finance costs**

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.

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**5 Reconciliation of operating profit to cash generated from operations**

	<u>2006</u>	<u>2005</u>
Year to 31 December	£'000 audited	£'000 audited
<b>Reconciliation of operating profit to cash generated from operations</b>		
<b>Operating profit</b>	21,451	46,193
Less: share of profits of joint ventures	(1,071)	(859)
	<u>20,380</u>	<u>45,334</u>
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 IAS 19 charge	(3,181)	(2,992)
Increase/(decrease) in trade and other payables	10,547	(1,050)
Unrealised exchange gains	(274)	(2,703)
	<u>46,376</u>	<u>57,791</u>
<b>Cash generated from operations</b>	<u>46,376</u>	<u>57,791</u>

**6 Reconciliation of EBITDA**

	<u>2006</u>		<u>2005</u>	
	Underlying £'000 audited	IFRS £'000 audited	Underlying £'000 audited	IFRS £'000 audited
<b>Year to 31 December</b>				
<b>Operating profit</b>	42,959	21,451	46,186	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	227	307	307
Add back: depreciation	18,086	18,086	18,984	18,984
<b>EBITDA</b>	<u>61,272</u>	<u>61,272</u>	<u>65,477</u>	<u>65,477</u>

**7 Dividends**

	<u>2006</u>	<u>2005</u>
	Pence per share audited	Pence per share audited
Interim	3.8	3.7
Final	5.5	5.3
<b>Total</b>	<u>9.3</u>	<u>9.0</u>

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.

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**8 Further information**

The financial information set out above does not comprise the company's statutory accounts. It has been derived from the Group's audited accounts for the year ended 31 December 2006, which will be delivered to the Registrar of Companies following the Annual General Meeting. The auditors' report was unqualified and did not contain any statement under section 237 (2) or (3) of the Companies Act 1985. While the financial information included in this preliminary announcement has been computed in accordance with International Financial Accounting Standards (IFRS), this announcement itself does not contain sufficient information to comply with IFRS. The company expects to publish full financial statements that comply with IFRS, a copy of which will be posted to the shareholders, on 16 April 2007.

The financial statements were approved by the Board of Directors on 7 March 2007.

The accounting policies used to prepare these accounts are the same as those used in the preparation of the Group's audited accounts for the year ended 31 December 2005, which has been delivered to the Registrar of Companies. Copies can be obtained by the public from the company's registered office Temple Fields, Harlow, Essex, CM20 2BH, or on the company website [www.yulecatto.com](http://www.yulecatto.com).

A final dividend of 5.5p (2005: 5.3p) per share, totalling £8.0m, (2005: £7.7m) has been recommended by the directors.

Earnings per ordinary share are based on the attributable profit for the period and the weighted average number of shares in issue during the period – 145.5m (2005: 144.7m).

**9 Glossary of terms**

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.
EBITDA	EBITDA is calculated as operating profit before depreciation, amortisation and non-recurring items.
Operating profit	Operating profit represents profit before finance costs and taxation.
Non-recurring items	Non-recurring items are defined as: <ul style="list-style-type: none"><li>• <i>Profit or loss impact arising from the sale or closure of an operation;</i></li><li>• <i>Impairment of non-current assets; and</i></li><li>• <i>Other non-operating or one-off items.</i></li></ul>
Special items	The following are disclosed separately as special items in order to provide a clearer indication of the Group's underlying performance: <ul style="list-style-type: none"><li>• <i>Non-recurring items;</i></li><li>• <i>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;</i></li><li>• <i>Revaluation of USD loan notes from the rate of the related cross currency swaps to the year end rate.</i></li></ul>
Free cash flow	Free cash flow represents cash flow before cash impact of acquisitions and disposals, purchase of own shares, equity dividends paid and exchange movements.

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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.