

Leadership in speciality chemicals

Yule Catto & Co plc Interim Report
for the six months ended 30 June 2005



YULE
CATTO

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Highlights

- Total revenue increased by 6% to £290.8m, (2004: £274.5m)
- Profit before taxation* £17.9m, (2004: £17.1m)
- Earnings per share* of 8.2p, (2004: 7.7p)
- Interim dividend 3.7p, (2004: 5.5p)
- Strong volume growth in polymers
- Further improvement in pharma development infrastructure
- Modest increase in borrowings*

*Before special items, as defined in Section 9 Glossary of terms.

Results summary

Six months to 30 June	Notes:	Underlying performance ²		IFRS	
		2005 unaudited £'000	2004 unaudited £'000	2005 unaudited £'000	2004 unaudited £'000
Revenue		290,765	274,544	290,765	274,544
Ebitda	1	34,426	33,792	33,700	33,792
Profit from operations		24,677	23,664	24,677	23,664
Operating profit		24,677	23,664	23,951	23,664
Profit before taxation		17,944	17,066	18,334	17,990
Net borrowings		(191,057)	(183,327)	(190,424)	(184,373)
Free cash flow before dividends		(4,563)	(4,074)	(4,563)	(4,074)
Earnings per share		8.2p	7.7p	8.3p	8.4p
Dividend per share	3	3.7p	5.5p	3.7p	5.5p

Notes:

1. Earnings before interest, tax, depreciation and amortisation.
2. Underlying performance is before special items. (See glossary on page 17).
3. Interim dividend for 2005 of 3.7p per share will be paid on 18 November 2005 to members on the register at close of business on 21 October. Under IFRS this is not accrued in the financial statements.

Chairman's statement

Overview

Momentum has been sustained in the long-term development of the group, with strong volume growth in polymers, further improvement in the infrastructure to support the growing pipeline of pharmaceutical active ingredients and performance chemicals has seen improved profits as the restructuring of the division continues.

The inaugural financial statements prepared under International Financial Reporting Standards show an underlying profit before taxation of £17.9 million, 5% ahead of the corresponding period, together with a small increase in borrowings.

Review of Operations Polymer Chemicals

For much of last year the raw material environment was extremely difficult. Regular supply outages restricted availability, which was a significant constraint to volume growth, and the cost of monomers rose persistently which resulted in three consecutive reporting periods of margin decline. Against this background, we are pleased that in the first six months of 2005 raw materials have been more freely available, the rate of increase in monomer costs has reduced and selling prices have been successfully raised.

Turnover was £179.7 million, a growth of 17%. Whilst the divisional margin of 8.6% is at the same level as the second half of last year, there has been some improvement during the course of 2005 and we are better placed entering the second half of the year. That said, the price of oil is at an unprecedented level and any optimism remains tempered by caution regarding the continuing impact this may have on input costs and the global economy in general.

Overall volume of synthetic latex grew by 11% compared to the corresponding period last year. In Malaysia, production cycle times have been reduced by recently introduced process developments, thereby increasing capacity to support growing demand. The market for dipping latex in Asia remains strong which will necessitate further investment in reactor capacity. In Europe, activity in the carpet and construction sectors is solid and a re-entry to the paper market has been successful for speciality applications.

Emulsion resins have experienced more mixed markets. With raw materials more freely available, our operations have re-established their growth path in Europe, and in South Africa we have benefited from the commissioning of new reactor capacity, enabling new applications to be targeted. However, a slow down in the construction industry in Malaysia has been mirrored in our output; whilst in Saudi Arabia there has been a return to more normal activity in the market after spectacular growth last year.

Pharma & Fine Chemicals

Omeprazole continues to play an important part in our portfolio. Volume sales of active ingredient have held up across all regions, as the market continues to follow the typical generic pricing characteristics. This will be partially mitigated by process improvements but, inevitably, there will be an impact on margins. The immediate release version, launched by our customer in USA, has seen a slower than anticipated take up. However the introduction of new variants may improve the market appeal and create steady growth.

Other generics have enjoyed solid demand, assisted by terbinafine, an antifungal product, following patent expiry in various European countries. Patents in USA relating to zolpidem and venlafaxine fall away in late 2006/early 2007 which should provide further support for sales growth.

The contract manufacturing sector continues to be affected as our customers react to the slow down in approval of new chemical entities by reducing their outsourcing requirements and taking more production in-house. Nevertheless, we have been successful in winning new ethical contracts, whilst demonstrating an ongoing ability to develop new processes within an agreed timeframe.

Long term success for our Pharma activities will only be achieved through an extended pipeline of new product approvals. We have a clearly identified development programme, stretching over many years, and in support of these growth initiatives the construction of a new pilot plant in Italy and additional laboratory facilities in Spain have been completed. This provides the platform for an accelerated Drug Master File registration programme.

The flavour industry saw reduced demand as a result of continuing fallout from last year's poor summer, which is leading to increased price pressure in the supply chain. In fragrances, volumes are holding up and new cost saving initiatives are being introduced to counteract the upward trend in prices on petrochemical based raw materials.

Performance Chemicals

Divisional profit advanced by 10%, benefiting from a buoyant hair dye market, exciting developments in the use of photochromic dyes and growth in metal salts for flame retardant, catalyst and electronic applications. Activity in colour developers continues to offer good prospects as we expand the customer base and competitors indicate their intention to withdraw from the market.

Ultramarine pigment volume is in line with the corresponding period although there has been a shift in the customer base from North America to Asia, where prices tend to be more competitive and hence margins have come under pressure. Competition from overseas for sulphur derivatives appears to have stabilised, which combined with a lower cost base, has delivered better fortunes compared to the second half of last year.

The reshaping of the performance chemicals business has continued during the course of the year. In March we announced the sale of Brencliffe Limited for a cash consideration of £2.5 million; in July we confirmed the closure of the James Robinson facility in Huddersfield, UK; and in August we withdrew from the loss-making pigment dispersion sector, obtaining proceeds of £1.1 million. These initiatives are directed at delivering a more focussed, higher margin division and further restructuring is anticipated.

Borrowings

Net underlying borrowings saw their customary modest increase during the first six months of the year to £191.1 million. The normal seasonal increase in working capital has been inflated by higher raw material costs, which increase the unit carrying value. We continue to benefit short term from a reduced capital requirement which has assisted in the free cash outflow being held at £4.5 million, in line with last year. Careful cash control, combined with the usual reversal in working capital should provide some positive movement in the second half.

Dividend

We entered 2005 anticipating that input costs would moderate: this has not happened. Whilst the operational performance of the business has improved, continuing higher oil prices and reduced growth rates in the global economies cause the outlook to be far from clear. To preserve our ability to invest in growth initiatives and reduce debt during what remains an uncertain period, the Board believes it is prudent to rebalance the proportion of cash generation applied to the payment of dividends. Therefore, an interim dividend of 3.7 pence per share, being a reduction of 33 per cent against the same period last year, will be paid on 18 November to members on the register at close of business on 21 October. In the absence of unforeseen circumstances, we expect the dividend for the full year to be reduced by a similar ratio. It is the Board's intention that from this rebased level, the group will be able to resume its progressive dividend policy.

Outlook

Polymer division has the infrastructure in place to continue the volume growth seen in recent years. Monomer costs will trend upwards in the third quarter, supported by the continued increase in the price of oil, therefore, additional selling price rises will be pursued to maintain margin improvement. The pipeline for pharmaceutical active ingredients is strengthening and patents expiring in late 2006 and 2007 should provide additional sales. Thereafter, we have a development programme focused on new generics stretching for many years. Performance chemicals is being restructured to create a more focussed, higher margin division.

While concerns exist over the impact of a sustained high price of oil, management action already in place provides the opportunity for modest growth near term.

A E Richmond-Watson
8 September 2005

Consolidated income statement

for the six months ended 30 June 2005

Six months to 30 June	2005			2004 restated		
	Underlying performance £'000 unaudited	Special items £'000 unaudited	IFRS £'000 unaudited	Underlying performance £'000 unaudited	Special items £'000 unaudited	IFRS £'000 unaudited
Continuing operations						
Subsidiaries	284,983	–	284,983	268,821	–	268,821
Joint ventures	5,782	–	5,782	5,723	–	5,723
Revenue	290,765	–	290,765	274,544	–	274,544
Subsidiaries	24,151	–	24,151	22,935	–	22,935
Joint ventures	526	–	526	729	–	729
Profit from operations	24,677	–	24,677	23,664	–	23,664
Profit or loss impact arising from the sale or closure of an operation	–	(726)	(726)	–	–	–
Operating profit	24,677	(726)	23,951	23,664	–	23,664
Finance costs	(6,733)	1,116	(5,617)	(6,598)	924	(5,674)
Profit before taxation	17,944	390	18,334	17,066	924	17,990
Taxation	(5,563)	(265)	(5,828)	(5,303)	–	(5,303)
Profit for the six months	12,381	125	12,506	11,763	924	12,687
Profit attributable to minority interest	(523)	–	(523)	(571)	–	(571)
Profit attributable to equity shareholders	11,858	125	11,983	11,192	924	12,116
Earnings per share						
Basic	8.2p	0.1p	8.3p	7.7p	0.6p	8.4p
Diluted	8.1p	0.1p	8.2p	7.7p	0.6p	8.3p

Consolidated balance sheet

as at 30 June 2005

	30 June 2005 £'000 unaudited	30 June 2004 restated IFRS £'000 unaudited	31 December 2004 restated IFRS £'000 audited
Non-current assets			
Goodwill	172,443	172,983	172,443
Other intangible assets	748	828	773
Property, plant and equipment	142,731	149,016	148,729
Deferred tax assets	1,860	1,890	1,860
Investment in joint ventures	3,712	3,819	3,053
	321,494	328,536	326,858
Current assets			
Inventories	68,113	65,403	70,907
Trade and other receivables	122,786	108,493	109,517
Cash and cash equivalents	42,705	83,587	93,868
	283,604	257,483	274,292
Current liabilities			
Borrowings	(39,554)	(115,401)	(102,244)
Derivatives at fair value	(7,300)	(5,565)	(17,152)
Trade and other payables	(119,470)	(119,748)	(122,645)
Dividends	(11,440)	(11,150)	-
Taxation	(50,138)	(49,634)	(52,512)
	5,702	(44,015)	(20,261)
Net current assets			
Non-current liabilities			
Borrowings	(193,575)	(152,559)	(170,161)
Trade and other payables	(1,044)	(930)	(436)
Deferred tax	(13,482)	(11,372)	(14,279)
Post retirement benefits	(78,431)	(63,502)	(75,802)
	(286,532)	(228,363)	(260,678)
Net assets			
	40,664	56,158	45,919
Equity			
Share capital	14,480	14,480	14,480
Share premium	31,829	31,829	31,829
Capital redemption reserve	949	949	949
Hedging and translation reserve	(2,691)	(2,158)	(947)
Retained earnings	(8,503)	7,059	(4,798)
Equity attributable to equity shareholders	36,064	52,159	41,513
Minority interests	4,600	3,999	4,406
Total equity	40,664	56,158	45,919
Liabilities			
Cash and cash equivalents	42,705	83,587	93,868
Current borrowings	(39,554)	(115,401)	(102,244)
Non-current borrowings	(193,575)	(152,559)	(170,161)
Net borrowings	(190,424)	(184,373)	(178,537)
Add back special items	(633)	1,046	(9,104)
Net borrowings (underlying performance)	(191,057)	(183,327)	(187,641)

Consolidated cash flow

for the six months ended 30 June 2005

Six months to 30 June	2005		2004 restated	
	IFRS €'000 unaudited	IFRS €'000 unaudited	IFRS €'000 unaudited	IFRS €'000 unaudited
Operating				
Cash generated from operations		12,731		15,364
Interest paid		(6,566)		(7,250)
Total tax paid		(2,692)		(4,346)
Net cash inflow from operating activities		3,473		3,768
Investing				
Purchase of property, plant and equipment	(7,494)		(8,011)	
Sale of property, plant and equipment	47		61	
Net capital expenditure and financial investment		(7,447)		(7,950)
Purchase of businesses	-		(1,343)	
Sale of businesses	2,625		-	
Net cash impact of acquisitions and disposals		2,625		(1,343)
Dividends received from joint ventures		44		124
Net cash outflow from financing activities		(4,778)		(9,169)
Financing				
Dividends paid to minority interests		(633)		(16)
Purchase of own shares		(381)		(177)
Proceeds of short term borrowings		-		12,000
Proceeds/(repayment) of long term borrowings		14,943		(1,107)
Net cash inflow from financing activities		13,929		10,700
Increase in cash and cash equivalents during the year		12,624		5,299
Reconciliation of net cash flow from operating activities to movement in net borrowings				
Net cash inflow from operating activities		3,473		3,768
Add:				
Dividends received from joint ventures		44		124
Less:				
Net capital expenditure and financial investment		(7,447)		(7,950)
Dividends paid to minority interests		(633)		(16)
Free cash flow before dividends		(4,563)		(4,074)
Net cash impact of acquisitions and disposals		2,625		(1,343)
Purchase of own shares		(381)		(177)
Exchange movements		(1,097)		(457)
Movement in net borrowings (before special items)		(3,416)		(6,051)

Statement of changes in equity

for the six months ended 30 June 2005

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Hedging and translation reserve £'000	Retained earnings £'000	Minority interest £'000	Total £'000
Six months to 30 June							
At 31 December 2004	14,480	31,829	949	(947)	(4,798)	4,406	45,919
Retained profit for the six months	-	-	-	-	11,983	523	12,506
Dividends declared	-	-	-	-	(11,440)	(633)	(12,073)
Shares purchased by ESOP Trust	-	-	-	-	381	-	381
Amortisation of shares held for ESOP	-	-	-	-	(381)	-	(381)
Actuarial gains and losses	-	-	-	-	(4,248)	-	(4,248)
Exchange differences on translation of overseas operations	-	-	-	(1,744)	-	304	(1,440)
At 30 June 2005	14,480	31,829	949	(2,691)	(8,503)	4,600	40,664

Notes to the financial statements

1 Basis of preparation

The restated financial information has been prepared in accordance with all applicable IFRS and related interpretations in force at the date of this announcement. The issue of any new or revised standards, or the publishing of further interpretation guidance, could result in changes to the financial information presented in this document. In addition, as the financial community gains more experience, and best practice and interpretative guidance develop, there may be consequential changes to the methodologies and approaches used in preparing the financial information shown in this document.

A reconciliation of the 2004 comparatives included in these statements to their equivalents under UK GAAP is presented in section 6.

Further guidance on the impact of the application of IFRS on the Group's reported financial performance is given in a separate announcement issued today, which presents and explains the adjustments to 31 December 2004 in detail. This statement 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

2 Segmental analysis

Six months to 30 June	2005 IFRS €'000 unaudited	2004 IFRS €'000 unaudited
Revenue		
Polymer Chemicals	179,712	153,693
Pharma & Fine Chemicals	43,824	48,652
Performance Chemicals	67,229	72,199
	<u>290,765</u>	<u>274,544</u>
Operating profit		
Polymer Chemicals	15,380	13,658
Pharma & Fine Chemicals	7,040	7,964
Performance Chemicals	4,553	4,137
Unallocated corporate expenses	(2,296)	(2,095)
	<u>24,677</u>	<u>23,664</u>

3 Special items

These relate to the disposal of Brencliffe Ltd, the restructuring of Ditar Ridderkerk BV, and the 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.

Six months to 30 June	2005 IFRS €'000 unaudited	2004 IFRS €'000 unaudited
Profit or loss impact arising from the sale or closure of an operation		
Sale of Brencliffe Limited	347	–
Closure of Ditar Ridderkerk BV	(1,073)	–
	<u>(726)</u>	<u>–</u>
Mark to market adjustments in respect of cross currency and interest rate swaps	1,116	924
	<u>390</u>	<u>924</u>

4 Finance costs

	2005 UK GAAP £'000 unaudited	2005 IFRS £'000 unaudited	2004 UK GAAP £'000 unaudited	2004 IFRS £'000 unaudited
Six months to 30 June				
Interest payable	8,457	8,422	8,315	8,311
Interest receivable	(1,689)	(1,689)	(1,713)	(1,713)
Interest payable (net)	6,768	6,733	6,602	6,598
Fair value gains on interest rate swaps	–	(1,116)	–	(924)
Finance costs	6,768	5,617	6,602	5,674

5 Reconciliation of operating profit to cash generated from operating activities

	2005 £'000 unaudited	2004 £'000 unaudited
Six months to 30 June		
Reconciliation of profit from operations to cash generated from operating activities		
Profit from operations	24,677	23,664
Share of profits of joint ventures	(526)	(729)
	24,151	22,935
Depreciation and impairment charges	9,749	10,174
Cash impact of closures	(162)	–
Amortisation of own shares held for ESOP	381	177
Pension funding in excess of IAS19 charge	(1,728)	(1,208)
Unrealised exchange (gains)/losses	(1,338)	2,270
Decrease/(increase) in inventories	1,053	(156)
Increase in debtors	(14,732)	(13,185)
Decrease in creditors	(4,643)	(5,643)
Cash generated from operations	12,731	15,364

6 Further information

This statement 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

An interim dividend of 3.7p (5.5p) per share, totalling £5.3m, (£7.9m) has been declared 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 – 144.7m (144.4m).

Notes to the financial statements

continued

7 Reconciliation of UK GAAP to IFRS

7.1 Consolidated income statement for the six months ended 30 June 2004

Six months to 30 June	As reported under UK GAAP £'000 unaudited	Pensions £'000 unaudited	Goodwill and impairments £'000 unaudited	Net investment hedging £'000 unaudited	Financial instruments £'000 unaudited	Other £'000 unaudited	Restated under IFRS £'000 unaudited
Continuing operations							
Subsidiaries	268,821	–	–	–	–	–	268,821
Joint ventures	5,723	–	–	–	–	–	5,723
Revenue	274,544	–	–	–	–	–	274,544
Subsidiaries	23,123	1,208	955	(2,270)	–	(81)	22,935
Joint ventures	799	–	–	–	–	(70)	729
Profit from operations	23,922	1,208	955	(2,270)	–	(151)	23,664
Amortisation of goodwill	(7,734)	–	7,734	–	–	–	–
Operating profit	16,188	1,208	8,689	(2,270)	–	(151)	23,664
Finance costs	(6,602)	–	–	–	924	4	(5,674)
Profit before taxation	9,586	1,208	8,689	(2,270)	924	(147)	17,990
Taxation	(5,369)	–	–	–	–	66	(5,303)
Profit for the six months	4,217	1,208	8,689	(2,270)	924	(81)	12,687
Profit attributable to minority interest	(571)	–	–	–	–	–	(571)
Profit attributable to equity shareholders	3,646	1,208	8,689	(2,270)	924	(81)	12,116
Profit before taxation and special items	17,320	1,208	955	(2,270)	–	(147)	17,066
Earnings per share							
Basic	2.5p						8.4p
Before special items	7.9p						7.7p

7.2 Consolidated balance sheet as at 30 June 2004

	As reported under UK GAAP £'000 unaudited	Pensions £'000 unaudited	Goodwill and impairments £'000 unaudited	Financial instruments £'000 unaudited	Other £'000 unaudited	Reclassifi- cations £'000 unaudited	Restated under IFRS £'000 unaudited
Non-current assets							
Goodwill	224,087	-	(51,104)	-	-	-	172,983
Other intangible assets	-	-	-	-	828	-	828
Property, plant and equipment	166,700	-	(11,789)	(3,966)	(1,929)	-	149,016
Deferred tax assets	-	1,890	-	-	-	-	1,890
Financial assets	32	-	-	-	(32)	-	-
Investments in joint ventures	3,819	-	-	-	-	-	3,819
	394,638	1,890	(62,893)	(3,966)	(1,133)	-	328,536
Current assets							
Inventories	65,731	-	-	-	(328)	-	65,403
Trade and other receivables	110,426	-	-	-	(1,933)	-	108,493
Cash and cash equivalents	10,425	-	-	-	-	73,162	83,587
	186,582	-	-	-	(2,261)	73,162	257,483
Current liabilities							
Borrowings	(42,239)	-	-	-	-	(73,162)	(115,401)
Derivatives at fair value	-	-	-	(5,565)	-	-	(5,565)
Trade and other payables	(120,857)	-	-	157	952	-	(119,748)
Dividends	(19,055)	-	-	-	7,905	-	(11,150)
Taxation	(39,055)	-	-	-	(10,579)	-	(49,634)
Net current assets	(34,624)	-	-	(5,408)	(3,983)	-	(44,015)
Non-current liabilities							
Borrowings	(151,513)	-	-	(1,046)	-	-	(152,559)
Trade and other payables	(80)	-	-	-	(850)	-	(930)
Provisions	(26,004)	3,972	-	-	22,032	-	-
Deferred tax	-	-	-	-	(11,372)	-	(11,372)
Post retirement benefits	-	(63,502)	-	-	-	-	(63,502)
	(177,597)	(59,530)	-	(1,046)	9,810	-	(228,363)
Net assets	182,417	(57,640)	(62,893)	(10,420)	4,694	-	56,158
Share capital	14,480	-	-	-	-	-	14,480
Share premium	31,829	-	-	-	-	-	31,829
Capital redemption reserve	949	-	-	-	-	-	949
Revaluation reserve	2,520	-	-	-	(2,520)	-	-
Hedging and translation reserve	-	-	-	(2,158)	-	-	(2,158)
Retained earnings	128,640	(57,640)	(62,893)	(8,262)	7,214	-	7,059
Equity attributable to equity shareholders							
	178,418	(57,640)	(62,893)	(10,420)	4,694	-	52,159
Minority interests	3,999	-	-	-	-	-	3,999
Total equity	182,417	(57,640)	(62,893)	(10,420)	4,694	-	56,158
Net borrowings	(183,327)	-	-	(1,046)	-	-	(184,373)

Notes to the financial statements

continued

7.3 Consolidated balance sheet as at transition, 1 January 2004

	As reported under UK GAAP £'000 audited	Pensions £'000 audited	Goodwill and impairments £'000 audited	Financial instruments £'000 audited	Dividends £'000 audited	Other £'000 audited	Reclassi- fications £'000 audited	Restated under IFRS £'000 audited
Non-current assets								
Goodwill	231,821	-	(58,838)	-	-	-	-	172,983
Intangible assets	-	-	-	-	-	782	-	782
Property, plant and equipment	175,067	-	(12,744)	-	-	(6,113)	-	156,210
Deferred tax assets	-	-	-	-	-	5,490	-	5,490
Financial assets	38	-	-	-	-	(38)	-	-
Investment in joint ventures	3,252	-	-	-	-	-	-	3,252
	410,178	-	(71,582)	-	-	121	-	338,717
Current assets								
Inventories	66,947	-	-	-	-	(328)	-	66,619
Trade and other receivables	100,182	-	-	-	-	(2,005)	-	98,177
Cash and cash equivalents	9,856	-	-	-	-	-	79,987	89,843
	176,985	-	-	-	-	(2,333)	79,987	254,639
Current liabilities								
Borrowings	(34,271)	-	-	-	-	-	(79,987)	(114,258)
Derivatives at fair value	-	-	-	(4,595)	-	-	-	(4,595)
Trade and other payables	(127,695)	-	-	232	11,150	(24)	-	(127,487)
Dividends	(11,150)	-	-	-	-	-	-	-
Taxation	(43,271)	-	-	-	-	-	(10,579)	(53,850)
Net current assets	(39,402)	-	-	(4,363)	11,150	(2,357)	(10,579)	(45,551)
Non-current liabilities								
Borrowings	(152,861)	-	-	(3,009)	-	-	-	(155,870)
Trade and other payables	(594)	-	-	-	-	(175)	(87)	(856)
Provisions	(26,757)	4,133	-	-	-	34,582	(11,958)	-
Deferred tax	-	-	-	-	-	(34,582)	22,624	(11,958)
Post retirement benefits	-	(80,400)	-	-	-	-	-	(80,400)
	(180,212)	(76,267)	-	(3,009)	-	(175)	10,579	(249,084)
Net assets	190,564	(76,267)	(71,582)	(7,372)	11,150	(2,411)	-	44,082
Share capital	14,480	-	-	-	-	-	-	14,480
Share premium	31,829	-	-	-	-	-	-	31,829
Capital redemption reserve	949	-	-	-	-	-	-	949
Revaluation reserve	2,525	-	-	-	-	(2,525)	-	-
Hedging and translation reserve	-	-	-	-	-	-	-	-
Retained earnings	137,337	(76,267)	(71,582)	(7,372)	11,150	114	-	(6,620)
Equity attributable to equity shareholders								
	187,120	(76,267)	(71,582)	(7,372)	11,150	(2,411)	-	40,638
Minority interests	3,444	-	-	-	-	-	-	3,444
Total equity	190,564	(76,267)	(71,582)	(7,372)	11,150	(2,411)	-	44,082
Net borrowings	(177,276)	-	-	(3,009)	-	-	-	(180,285)

8 Changes to accounting policies resulting from the implementation of IFRS

All accounting policies not detailed below remain consistent with their application under UK GAAP.

8.1 Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities 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. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

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.

8.2 Revenue

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.

8.3 Finance costs

Finance costs of debt are recognised in the income statement 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 32 / 39.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

8.4 Goodwill

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

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.

Notes to the financial statements

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8.5 Intangible assets

Research and development

Research expenditure, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is charged to income in the year in which it is incurred. Internal development expenditure, whereby research findings are applied to a plan for the production of new or substantially improved products or processes, is charged to the income statement in the year in which it is incurred unless it meets the recognition criteria of IAS 38 'Intangible Assets'. Measurement and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives. Intangible assets relating to products in development are subject to impairment testing at each balance sheet date or earlier upon indication of impairment. Any impairment losses are written off immediately to income.

Computer software

Acquired computer software licences covering a period of greater than one year are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

8.6 Impairment of intangible assets

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. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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 (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.

8.7 Debt

Borrowings 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 income statement 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.

8.8 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.

8.9 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.

8.10 Deferred taxation

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.

8.11 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.

Financial instruments are recorded initially at cost. Subsequent measurement depends on the designation of the instrument as either: (i) a hedge of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (ii) a hedge of highly probable forecast transactions (cash flow hedge);

(i) Fair value hedge

Changes in the fair value of derivatives, for example interest rate swaps and foreign exchange contracts, that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Where derivative instruments do not qualify for hedge accounting changes in their fair value are recognised immediately in the income statement.

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8.12 Retirement benefit costs

The costs of contributions to the group's pension schemes and of augmenting existing pensions are charged to the income statement on a systematic basis over the expected period of benefits from employees' service.

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.

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the benefits become vested.

The retirement benefit scheme recognised in the balance sheet represents the present value of the defined benefit scheme obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

8.13 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. There is no change in the treatment for options granted before 7 November 2002.

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.

Glossary of terms

9 Glossary of terms

Operating profit	Operating profit represents profit before finance costs and taxation.
Profit from operations	Profit from operations represents profit before non-recurring items, financing costs, and taxation. When referring to UK GAAP values, profit from operations is also stated before amortisation of goodwill.
Non-recurring items	Non-recurring items are defined as: <ul style="list-style-type: none">• 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	<p>The following are disclosed separately as special items in order to provide a clearer indication of the Group's underlying performance:</p> <ul style="list-style-type: none">• 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;• Revaluation of USD loan notes from the rate of the related cross currency swaps to the year end rate; and• 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. <p>When referring to UK GAAP numbers, special items also includes amortisation of goodwill.</p>
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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