

# Low & Bonar

Performance materials engineered  
to help build your business

Delivering **growth**

**We are an international business to business performance materials group.**

**We design and manufacture components which add value to and improve the performance of our customers' products by engineering a wide range of polymers using our own technologies to create yarns, fibres, industrial and coated fabrics and composite materials.**

**We sell globally and manufacture in Europe, North America, the Middle East and China.**

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*Front cover image: MTX Flashguard® sun protection fabric, reinforced with polyester yarns for added strength and coated with special acrylic paint to resist decay.*

Bonar Technical Yarns  
carpet yarns.

## Our Financial Performance

### Another year of substantial profit growth, well positioned for further progress

- Revenue up 13% to £388.7m (2010: £344.6m)
- Profit before tax\* up 26% to £23.4m (2010: £18.6m)
- Operating margin\* increased to 7.9% (2010: 7.5%)
- Return on capital improved to 16.8% (2010: 15.2%)

\* Continuing operations before tax, amortisation and non-recurring items.

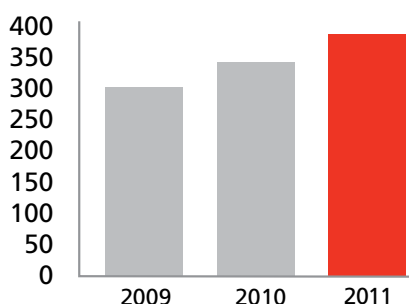
### Strong and flexible financial position

- Increased capital expenditure to expand production capacity
- Funding in place to support further investment

### Full year dividend increased to 2.1p (2010: 1.6p)

#### Sales\*

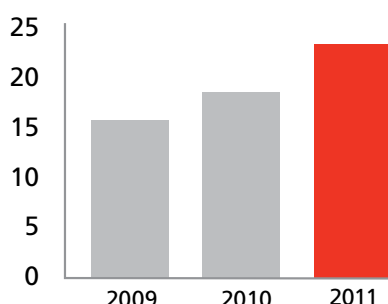
**up 13% at £388.7m**  
(2010: £344.6m)



\* Continuing operations.

#### Profit\*

**up 26% at £23.4m**  
(2010: £18.6m)



\* Continuing operations before tax, amortisation and non-recurring items.

## Operational Highlights

### Significant growth in sales

- Sales volumes increased by 6%
- Increased contribution from high-growth emerging markets
- Successful product innovation, with a record 15.8% of sales from new products

### Continued improvement in operating margins

- Operating margins grew despite tougher raw material prices
- Successful pass through of higher input costs
- Yarns business now profitable with further benefits from restructuring expected in 2012
- New initiatives in procurement and operating efficiencies to augment margin progress

## Business Review

# Our Values

### Freedom to operate

We empower our talented people to take initiative, to think and act for themselves.

### Accountability

We accept our individual and team responsibilities and we meet our commitments and take responsibility for our performance in all our decisions and actions.

### Innovation

We innovate in everything we do from products to processes and in our organisations to create value for our stakeholders.

### Integrity

We maintain the highest ethical standards wherever we operate. We will ensure the health and safety of all our people and minimise our impact on the environment.

### Open communication

We encourage and are committed to communicating in an open, honest and timely way.

# Our Divisions

## Performance Technical Textiles



Our Performance Technical Textiles division serves the civil engineering, carpet manufacturing, leisure, construction and industrial sectors.

### Companies

- Bonar Technical Fabrics** – Belgium
- Geo-Tiptex** – Hungary
- Bonar Technical Yarns** – UK and Belgium
- Colbond** – Netherlands
- Yihua Bonar** – China
- Bonar Emirates Technical Yarns** – UAE
- ADFIL** – UK

### Manufacturing facilities

- Belgium** – Zele and Lokeren
- Netherlands** – Arnhem and Emmen
- Germany** – Obernburg
- UK** – Dundee
- Hungary** – Tiszaújváros
- USA** – Asheville, NC
- China** – Yizheng
- UAE** – Abu Dhabi

### Performance Technical Textiles products

- Woven and non-woven geotextiles
- Speciality geosynthetics
- Construction fibres
- Primary backing for carpet tiles and broadloom carpets
- Horticulture screens and groundcovers
- Roofing components for commercial and residential property

### Sales

2011	<b>£269.3m</b>
2010	£239.2m
2009	£212.3m

### Operating profit\*

2011	<b>£23.1m</b>
2010	£19.1m
2009	£17.1m

\* Continuing operations before amortisation and non-recurring items.

## Technical Coated Fabrics



Our Technical Coated Fabrics business serves the architecture, transport, leisure, print and industrial sectors.

### Companies

- Mehler Texnologies (MTX)** – Germany
- 17 sales offices and warehouses throughout the world

### Manufacturing facilities

- Germany** – Hückelhoven and Fulda
- Czech Republic** – Lomnice

### Technical Coated Fabrics products

- Architectural fabrics for permanent and temporary building structures
- Trailer side curtains and transport protection
- Printable fabrics for large format advertising
- Coated fabrics for storage and containment
- Coated fabrics for sunshading, boat, pool, camping and sports

### Sales

2011	<b>£119.4m</b>
2010	£105.4m
2009	£92.5m

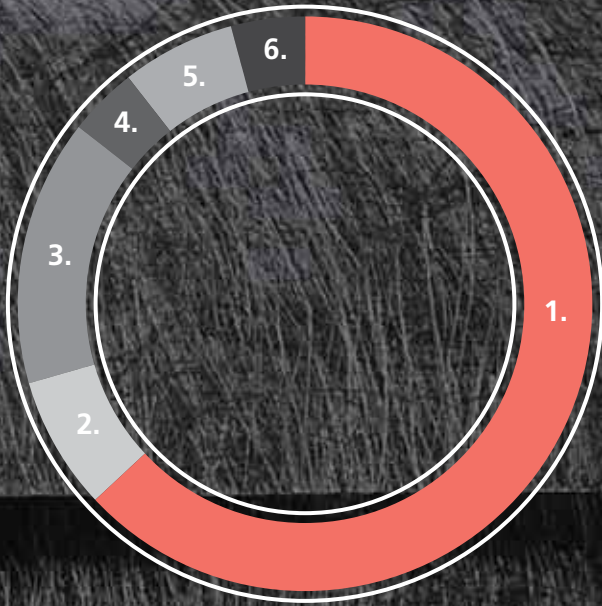
### Operating profit\*

2011	<b>£10.7m</b>
2010	£9.7m
2009	£8.0m

\* Continuing operations before amortisation and non-recurring items.

## Business Review

## Our Revenue by Destination



## Revenue by destination 2011

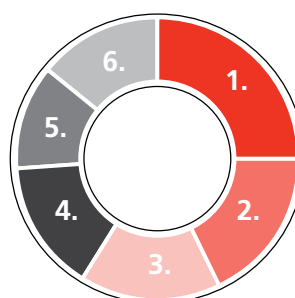
1. Western Europe	63%
2. Eastern Europe	8%
3. North America	15%
4. Middle East	4%
5. Asia	6%
6. Rest of World	4%

## Emerging markets

Global trends in infrastructure spending and urbanisation, which are largely taking place in emerging markets, are creating significant growth opportunities in civil engineering, flooring and niche building products. Our joint venture in Saudi Arabia will service the Middle East and Indian subcontinent, and we are assessing options to develop our business further in Latin America and Asia.



# Our Markets



Revenue by end market 2011

1. Civil Engineering	25%
2. Flooring	18%
3. Industrial	16%
4. Building Products	15%
5. Leisure	12%
6. Transport	14%

Markets	Growth Drivers
<p><b>1. Civil Engineering</b></p> <p>A wide range of products used in major infrastructure projects including road and rail building, land reclamation and coastal defence. Woven and non-woven geotextiles have a wide range of uses including separation and filtration, membrane protection in landfills and reservoirs and for erosion control on riverbanks and coastlines. Speciality geosynthetics for erosion control, drainage, soil reinforcement and stabilisation and soil consolidation. Construction fibres used in concrete to reduce shrinkage and settlement cracking and as an alternative to steel mesh reinforcement of concrete.</p>	<ul style="list-style-type: none"> <li>• Global infrastructure spend</li> <li>• Regulation</li> <li>• Urbanisation</li> </ul>
<p><b>2. Flooring</b></p> <p>A range of high-performance primary backings for tufted carpet tiles, broadloom carpets and cushioned vinyl flooring.</p>	<ul style="list-style-type: none"> <li>• Tile substitution for wall to wall</li> <li>• Asia commercial property</li> </ul>
<p><b>3. Industrial</b></p> <p>A wide range of products into multiple application areas including screens and groundcover products in the professional horticulture market to improve yield and reduce energy consumption in the production of food, plants and cut flowers. Printable fabrics for large format prints used in large area outdoor and indoor advertising and smaller fabrics for point of sale displays. Coated fabrics for storage and containment, with application areas ranging from waste water, biogas, food and oil.</p>	<ul style="list-style-type: none"> <li>• Efficient agricultural production</li> <li>• Outdoor advertising trends</li> <li>• Mining</li> <li>• Clean air</li> </ul>
<p><b>4. Building Products</b></p> <p>A range of products in niche application areas of the commercial and residential building market. Specialist architectural coated fabrics used as membranes for roofing, in frame-supported industrial, event and sports halls, and marquees for leisure and business events. Roofing and flooring products based on both three-dimensional monofilament mats, composites and non-wovens with a variety of applications, including metal roof ventilation, subsurface drainage for green roofs, hard floor sound control and reinforcement for waterproof bituminous roofing membranes.</p>	<ul style="list-style-type: none"> <li>• 'Green' products</li> <li>• Architectural trends</li> <li>• Cost-saving initiatives</li> <li>• Functionality requirements</li> </ul>
<p><b>5. Leisure</b></p> <p>A diverse range of products for the sports and leisure sector. Monofilament and fibrillated synthetic yarns used in the construction of artificial grass for sports and landscaping applications. Coated fabric product range used in a variety of application areas, including sunshading, boat and pool, camping and sports.</p>	<ul style="list-style-type: none"> <li>• Substitution of natural grass with artificial grass</li> </ul>
<p><b>6. Transport</b></p> <p>Products used in both heavy and light vehicle manufacture. Primary and secondary non-woven backings for moulded car carpets and option mats, also used as reinforcement and carrier substrates in hood liners, trunk liners, door panels, package trays and car seats or as support media for cabin air filters. Tarpaulins which are highly resilient and weatherproof and used in transport applications including trailer side curtain manufacture and transport protection in air, road, rail and sea freight.</p>	<ul style="list-style-type: none"> <li>• European road haulage</li> <li>• Global premium-brand automotive production</li> </ul>

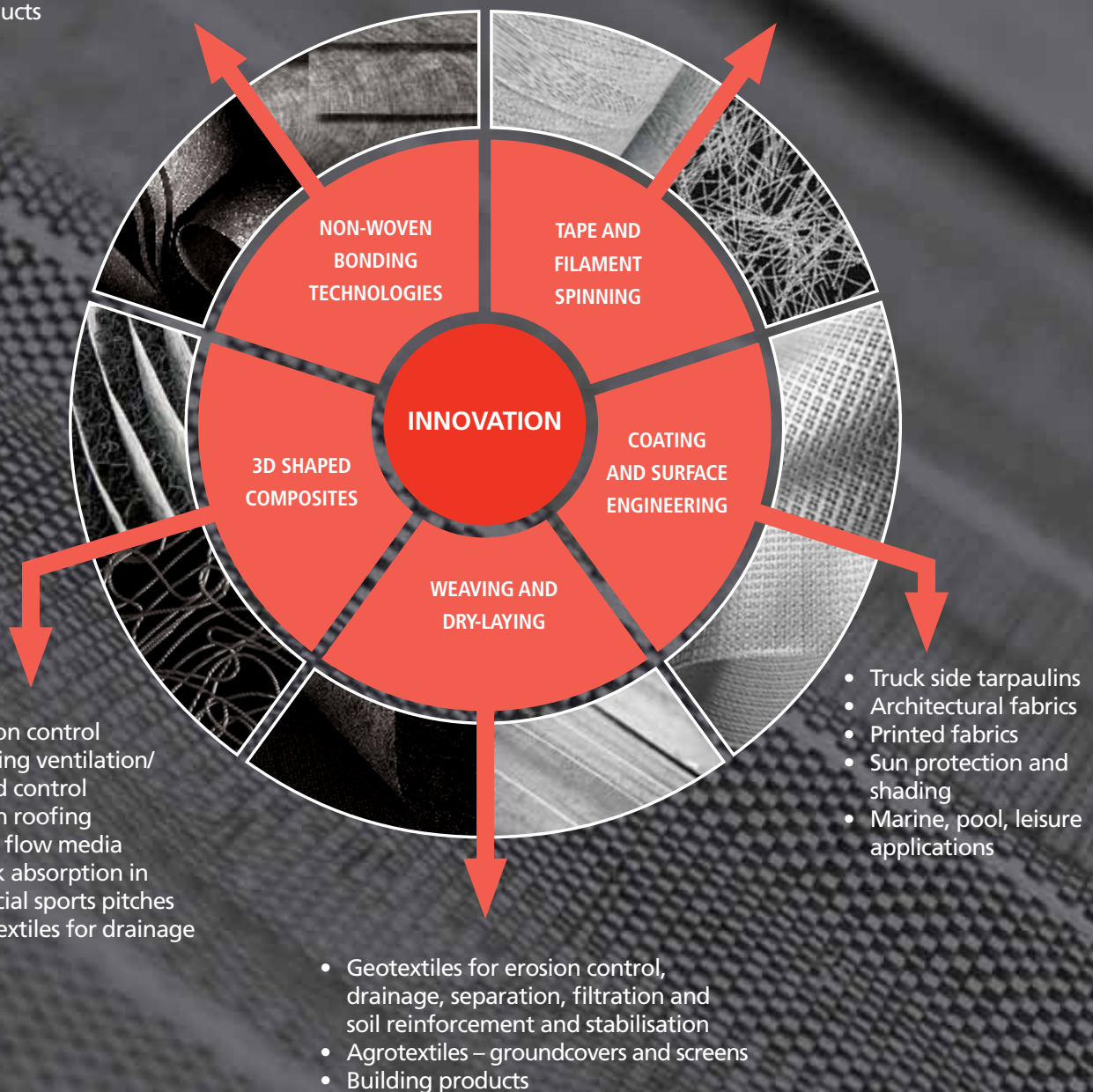
## Business Review

# Our Business Model

## Competitive advantage through technologies and innovation

- Speciality backing for flooring products and premium car carpets
- Geotextiles for erosion control, drainage, separation, filtration and soil reinforcement and stabilisation
- Filtration support medium
- Carriers for commercial roofing products

- Woven carpet backing yarns
- Artificial grass yarns
- Construction fibres



Duracover, a biodegradable groundcover fabric produced from renewable sources by Bonar Technical Fabrics.



## Innovative design and manufacture of components to meet specific customer needs

Our manufacturing processes begin with the sourcing of widely available polymers, including polypropylene, polyethylene, polyester and nylon, and formulating these using speciality additives and colours which help determine performance, aesthetics and processing efficiencies.

These proprietary polymer formulations are subsequently processed using our broad range of proprietary technologies, and are tailored to enable the final product to deliver the desired performance characteristics.

Our end product may be a speciality yarn, fabric or a composite material. They are typically components which are important determinants of the performance and/or efficiency of our customer's final product or process.

Innovation lies at the heart of all we do. We commit significant resources to capture development ideas from our customers and the markets they operate in. We have teams of technical specialists and development engineers, who convert these ideas into new products with the desired performance effects. Once proven, our operations teams take over to industrialise the process. We use an outstanding innovative process to leverage our broad range of technology platforms to create products which make a real difference to our customers. This is our core skill and how we sustain competitive advantage, improve market share and enhance margins.

## Business Review

# Building an innovative performance materials business

### Focusing on where the growth is

We seek to accelerate our expansion into markets which have the opportunity to grow faster than the global average.

Geographically these include Asia, the Middle East, the Indian subcontinent and South America, where industrialisation, urbanisation, and high infrastructure expenditure are driving growth. We also target global markets where they are supported by strong long-term growth trends such as increasing demand for food, water conservation, increasing regulation and environmental sustainability.

### Excelling in innovation

Our leading position in niche industrial markets is based on the innovative design and manufacture of components to meet specific customer needs. We work closely with our customers to create products that add real value to their business, by helping their manufacturing processes become more efficient, adding functionality to their products or by improving their environmental sustainability.

## Key Performance Indicators

### Geographic sales expansion



The percentage of sales made to customers located outside of Western Europe and North America.

### Innovation



The percentage of sales made from products launched in the last three years.

### Driving efficiencies

We strive to ensure our product offering is underpinned by cost and efficiency leadership. Improvements in productivity and working capital efficiency, particularly in our Yarns business and our Technical Coated Fabrics segment, will be coupled with group-wide initiatives to invest in our organisational capability and to leverage our expertise in manufacturing, procurement and health and safety to build the foundations of a global business.

### Complementary M&A

We will complement our organic growth strategies with 'bolt-on' M&A which either accelerates our exposure to emerging markets or gives us access to new technologies or products in existing markets.

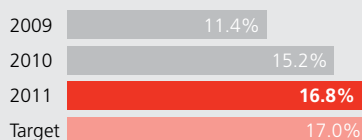
Photo courtesy of Toucan-T.

### Operating margins



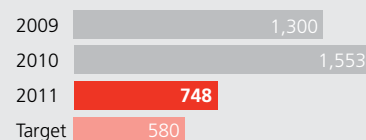
Operating profit before amortisation and non-recurring items as a percentage of sales.

### Asset efficiency



Operating profit before amortisation and non-recurring items as a percentage of operating capital (property, plant and equipment, trade working capital and prepayments and accruals).

### Health and safety



The number of accidents that result in absences of three or more days, per 100,000 employees.

## Business Review

### Chairman's Statement

I am delighted to report another year of significant profit growth and progress for the Group.

Profit before tax, amortisation and non-recurring items rose 26% to £23.4m (2010: £18.6m) on revenues ahead by 13% at £388.7m. Sales volumes were up 6% on last year and reflect strong fundamental growth drivers, increasing contribution from new products and emerging markets supported by a further recovery in some of the Group's heartland markets, albeit to a much lesser extent this year. Operating margins improved to 7.9% (2010: 7.5%) despite severe raw material price inflation for most of the year. I am also pleased to report that, as a result of decisive actions, the Yarns business returned to profitability even though the demand for artificial grass yarns was depressed in its main markets.

Earnings per share increased by 35% based on profit before amortisation and non-recurring items aided by a lower tax rate of 25% (2010: 31%) which now includes tax benefits associated with innovation. Statutory profit before tax from continuing operations was £23.4m (2010: £10.2m) with non-recurring income of £5.7m (2010: £1.6m losses), which principally relates to changes in the Group's UK defined benefit pension scheme, offsetting a £5.7m charge for amortisation (2010: £6.8m).

#### Results highlights Continuing operations

	2011	2010
Revenue	<b>£388.7m</b>	£344.6m
Operating margin*	<b>7.9%</b>	7.5%
Profit before tax*	<b>£23.4m</b>	£18.6m
Basic earnings per share*	<b>6.0p</b>	4.4p
Profit before tax (statutory)	<b>£23.4m</b>	£10.2m
Full year dividend per share	<b>2.1p</b>	1.6p
Total net debt**	<b>£85.3m</b>	£77.9m
Return on capital employed	<b>16.8%</b>	15.2%

\* Before amortisation and non-recurring items.

\*\* Including debt-related derivatives in 2010.

Further commentary on these results and the divisional performances is contained in the Business Review.

#### Investing for further growth

During the year, the Group has made further investments in management initiatives to drive profitable growth.

The Group continues to focus on innovation to augment sales growth and improve margins in Western European and North American markets. A number of new products were successfully launched during the year and the product development pipeline continues to improve. A record 15.8% (2010: 14.3%) of sales came from new products developed in the last three years, close to our medium-term target.

The Group invested £12.1m (2010: £6.7m) in property, plant and equipment during the year to support volume growth in key markets and has already approved £7.9m of spend for 2012. In addition, the Group is investing in a joint venture, Bonar Natpet, with National Petrochemical Industrial Company (NATPET) in Saudi Arabia which will design, manufacture and sell geotextile products for the fast growing civil engineering markets in the Middle East and the Indian subcontinent. The Group is also

actively looking for investment opportunities in Latin America and Asia to support international sales growth and further access higher growth emerging markets.

The Group has made significant investments to enhance its organisational capability and structure. New appointments have been made within sales, marketing, operations and procurement to accelerate business development activities and margin improvement. This will continue into 2012. There has also been an increased focus on health and safety aligned to the Group's commitment to have zero work place accidents.

#### Increased dividend

Taking into account these excellent results and our confidence in the future prospects of the Group, the Board is recommending a final dividend of 1.4 pence per share (2010: 1.1 pence), increasing the full year dividend to 2.1 pence per share (2010: 1.6 pence). Subject to shareholders' approval at the Annual General Meeting in March, the dividend will be paid on 19 April 2012 to members registered as of 23 March 2012. The proposed full year dividend is covered 2.8 times by earnings before amortisation and non-recurring items.

#### People

On 1 October 2011, I was pleased to invite John Sheldrick to join the Board as a non-executive director. John was Group Finance Director of Johnson Matthey plc from 1995 until his retirement in 2009 and is a non-executive director of GKN plc and Fenner PLC and a former non-executive director of API Group PLC. John's extensive financial experience will be of great value to the Board and the Audit Committee as will his background in international manufacturing as the Group pursues profitable growth through globalisation and product and process innovation.

On 28 February 2012, Chris Littmoden will be stepping down as a non-executive director of the Company after seven years. I would like to take this opportunity to thank Chris for his valuable contribution to the Board during a period of significant change.

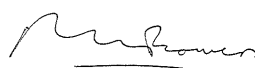
As always, it is my pleasure to acknowledge the skills and dedication of employees throughout the Group who have once again delivered an exceptional performance. Their skills, and the strength of the management team, are the real assets of the Group.

#### Outlook

These are excellent results during a period that has seen significant raw material inflation and macro-economic challenges within Europe and further demonstrate the quality of our business and its growth prospects.

The Group is targeting markets with strong fundamental growth drivers and continues to invest in a range of initiatives to sustain profitable growth through innovation, increased emerging market exposure and efficiency improvements.

The Group's good trading momentum has continued into the new year and the Board remains confident that the Group is well-positioned to make further progress towards our stated targets.



**Martin Flower**  
7 February 2012

These are excellent results during a period that has seen significant raw material inflation and macro-economic challenges and further demonstrate the quality of our business and its growth prospects.



**Martin Flower**  
Chairman

Bonar Yarns TX Pro,  
Durham Archery and Tennis Club  
(installed by SIS).

## Business Review

### Performance Review

Low & Bonar PLC is an international performance materials group using proprietary technologies to engineer polymers for a wide range of applications in niche industrial markets.

#### Significant growth in sales

Revenues from external customers	2011 £m	2010 £m	
Performance Technical Textiles	<b>269.3</b>	239.2	+13%
Technical Coated Fabrics	<b>119.4</b>	105.4	+13%
	<b>388.7</b>	344.6	+13%

It is pleasing to report a second consecutive year of strong sales growth despite a weaker macro-economic climate and a lower contribution from recovering markets within Europe. The impact of changes in foreign exchange rates was minimal. In the first half of the year, against undemanding comparatives, sales grew by 17%. In the second half of the year sales were 9% ahead of a tougher comparative which had been 14% higher than our 2009 performance. Trading momentum in the fourth quarter was good although the third quarter was impacted by a much weaker than usual peak season for artificial grass yarns and margin optimisation actions within the Technical Coated Fabrics division. Volumes for the year increased by 6% and average prices were 7% higher as increasing raw material costs were gradually passed on to our customers and the quality of our sales mix continued to improve.

Strong fundamental growth drivers in our key markets were supported by a growing contribution from our internal growth initiatives. Sales in our civil engineering and flooring markets improved by 20% and 18% respectively. Our geographic focus and product leadership continues to enable us to increase market share and benefit from the growth of carpet tiles within the flooring market and the significant infrastructure investment taking place in newly industrialising regions. There was an equally strong performance in our transport segment which benefited from a partial recovery in the trailer market in the first half of the year and the growth of premium car brands in Asia. Sales in our building product and industrial sectors experienced solid growth in lacklustre markets which have not materially improved following the effects of the global financial crisis. In our leisure segment, a weak artificial grass yarn market was responsible for a 6% decline in sales.

The continued focus on product innovation to drive market share gain and increase margins has yielded record returns this year. Sales from recently developed products climbed to 15.8% (2010: 14.3%), close to our medium-term target of 16.0%. We remain committed to creating excellence in innovation and delivering components which add real value to our customers' businesses. Sales growth was augmented by another strong performance in geographies outside of our heartland Western European and North American markets. Sales in the Middle East grew by almost a third with Eastern Europe up 18% and Asia up 14%. The weakness in the artificial grass market adversely impacted the overall proportion of non-heartland sales, nevertheless this ratio improved again to 21.8% from 21.1% last year.

#### Operating margins continue to improve

Operating margins increased to 7.9% (2010: 7.5%). The first stage in the restructuring of our underperforming Yarns business was successfully completed following the closure of our Ostend manufacturing site and the transfer of assets to our new facility in Abu Dhabi. This step was instrumental in restoring profitability to the business and made an important contribution to the improvement in the Group's operating margin. We expect additional benefits from the restructuring during 2012.

The biggest challenge throughout the year has been managing margins in extremely challenging raw material polymer markets. Cost inflation was very high throughout the first half of the year. This abated during the third quarter as polyolefin prices began to soften which helped mitigate the ongoing increases in other key polymers. During the course of the final quarter, and for the first time in two and a half years, aggregate raw material costs declined. In the year as a whole raw material polymer inflation amounted to some £22m. Sales prices were regularly increased during the year with over £21m being recovered from our customers. The successful pass through of higher input costs has enabled the Group to grow operating margins again and demonstrates the overall strength of our market positions and product propositions.

# Building a global business

## Joint Venture in the Middle East



Our new joint venture with NATPET is currently building a new manufacturing plant to design, manufacture and sell geotextile products for the fast-growing civil engineering markets in the Middle East and the Indian subcontinent. The plant will benefit from a long-term supply agreement with NATPET and be located at a site near their polypropylene production facility in Yanbu, western Saudi Arabia.

We have a 50% equity interest and shared operational control of the venture with NATPET, and we expect it to be operational in the fourth quarter of 2012.

Bonar Yarns' MN RELAX, with Coolgrass® technology, synthetic turf landscaping at the Rock in Rio concert park, Rio de Janeiro (installed by Sportlink).

**The Group is well positioned to push ahead with its growth initiatives and is confident about making further progress in 2012.**



**Steve Good**  
Group Chief Executive



**Mike Holt**  
Group Finance Director

## Business Review

### Performance Review *continued*

During the year we continued to reinvest part of our margin growth in initiatives to help secure medium-term sales growth and margin expansion. A new Group-wide procurement function has been established to secure the benefits of scale and to share our expertise across all businesses. The quality and reach of our sales and marketing organisation has also been improved following a number of new appointments.

#### On track to achieve targets

At the start of 2010 the Group set out a number of explicit growth and efficiency targets which we believed to be achievable in the medium term. The targets are set out below.

	Target %	2011 %	2010 %	2009 %
Sales outside heartland markets	25.0	<b>21.8</b>	21.1	20.4
New product sales	16.0	<b>15.8</b>	14.3	13.8
Operating margin	10.0	<b>7.9</b>	7.5	7.3
Return on capital	17.0	<b>16.8</b>	15.2	11.4

The Group made a good start in 2010 and has accelerated progress in 2011. Over the last two years sales and profit before tax have grown by 28% and 48% respectively with operating margins growing by 60bps. The commitment to improve innovation and increase the Group's exposure to emerging markets is bearing fruit although much remains to be done to excel in both areas. Strong operating cash conversion during this period of significant growth has allowed the Group to fund investments in key growth initiatives, reinstate dividends, and reduce total net debt by some £18m. We continue to operate within our target total debt to EBITDA range of 1.5 to 2.0 times ending the current year at 1.9 times with a much simplified, flexible and longer-term debt structure. Return on capital employed has also improved to reach 16.8% at the end of this year.

#### Confident of further progress

During the year the Group has taken actions and made investments to drive profitable growth. The level of capital expenditure was increased this year to support anticipated growth in our key markets. Capacity was added to our flooring business in Europe and China with investments approved to upgrade and extend capacity in the USA during 2012. In civil engineering our Saudi Arabian geotextile joint venture is expected to be operational in the fourth quarter of 2012 and will provide much needed capacity to service a fast growing market in the Middle East region. The investments made in people and structure, particularly in procurement, operations, sales and marketing functions, will further support progress. In addition we have committed significant resources to assess market entry options in Latin America and Asia where we are currently under-represented. This will continue to be a focus for 2012 as the Group seeks to develop and establish solid foundations from which to build a global business.

The Group is well positioned to push ahead with its growth initiatives and is confident about making further progress in 2012. We have the opportunity, ambition, and the resolve to develop a truly global, innovative performance materials business.



# Efficiency

## Colbondrain accelerates land reclamation

Colbond supplied over one million metres of Colbondrain CX1000 to build a vertical drain at a major land reclamation project in Rostock on Germany's Baltic coast. Water must be drained thoroughly from the underground soil in a reclamation area in order for the reclaimed land to support buildings. It can take up to five years for the water to drain away naturally, but Colbondrain reduced this to five months, saving time and money.



The roof of Poznan's Miejski Stadium, built for the Euro 2012 football championships, was created using 52,000m<sup>2</sup> of MTX's VALMEX® FR1400 MEHATOP F architectural membranes.

## Business Review

### Performance Technical Textiles Division

Our Performance Technical Textiles division (comprising Colbond, Bonar Technical Fabrics, Bonar Yarns and Yihua Bonar) supplies products such as geosynthetics, artificial grass yarns, carpet tile backing, agrotextiles and construction fibres to the civil engineering, flooring, leisure, industrial and construction sectors.

	2011	2010
Revenue	<b>£269.3m</b>	£239.2m
Operating profit*	<b>£23.1m</b>	£19.1m
Operating margin*	<b>8.6%</b>	8.0%

\* Before amortisation and non-recurring items.

Sales were 13% higher than last year and were not materially affected by changes in foreign exchange rates. Operating margins increased 60bps to 8.6%. The year on year margin progression was stronger in the second half following the restructuring of the Yarns business and the success in securing higher selling prices to offset raw material inflation. Raw material costs increased significantly in the first half of the year but in the second half of the year began to stabilise, albeit at a high level.

Our civil engineering business grew strongly again. Sales increased by 20% driven by robust growth and market share gain in heartland markets and continued progress in emerging markets. Heartland sales growth benefited from an undemanding first quarter comparative which had been affected by adverse weather in 2010. Sales growth continued throughout the year with good performances in our core German, French, Benelux and Scandinavian regions. Activities in tunnelling projects and good progress made in structural fibres for concrete reinforcement were highlights. In emerging markets the Middle East grew strongly in advance of commissioning our joint venture manufacturing plant in Saudi Arabia. China also increased significantly albeit from a small base.

Sales in our Flooring business also grew strongly again, advancing 18% this year. In Europe and the USA sales continue to benefit from positive substitution effects which assisted our speciality tile backings as they take a larger share of the total floor coverings market. The launch of new products to sustain product leadership in this segment continues to augment performance and our focus on Asia led to a 31% sales increase in the region. The transport sector also experienced robust sales growth. Sales in Europe were strong with USA activity somewhat slower. We continue to benefit from our leading position in the premium automotive brands and their success in penetrating Asian markets. Sales of our traditional building products posted solid growth in lacklustre markets which have yet to materially recover in either the commercial or residential sectors.

The development of our 'green' product range to address this growing trend was pleasing. Growth returned to our agrotextiles business, driven by an improved product range and development of sales into new territories; however, activity levels in the important Dutch market have yet to recover. The sales performance of our artificial grass yarn business was disappointing. Markets, as anticipated, were weaker than last year due to public funding constraints reducing demand in the dominant European and US markets. Product availability during our Yarns restructuring project was also a contributory factor.

The division also progressed well towards the Group's two internal growth initiatives. Sales outside of our heartland increased to 20.2% (2010: 19.6%) and sales from recently developed products advanced to 15.5% (2010: 14.2%). In order to accelerate progress in establishing a global business a number of projects are being undertaken to assess entry options in Asia and Latin America. There were important contributions to the improvement in sales from new products across all sectors including innovations in new structural fibres in concrete reinforcement, improved yarns for sports and landscaping applications, the development of "Face to Face", a unique US tile backing product, and new flame retardant products for industrial greenhouses. The new product pipeline is very healthy and focused on products which deliver improved sustainability, functionality and efficiency features.

The Yarns restructuring project was successfully completed on time, on budget, delivered the anticipated cost savings and returned the Yarns business to profitability. The closure of the Ostend site during the year now enables the business to operate from a much lower manufacturing cost base. In parallel, investments are being made to enhance the product range and to pursue our strategy of being the yarn supplier of choice to the independent grass tufter. In 2012 we expect to make further progress in both our product offering and manufacturing efficiencies.

Investment projects to expand capacities for flooring products in China and Europe were successfully commissioned during the year. These will be augmented in 2012 with the upgrade and expansion of capacity in the USA. Our joint venture in Saudi Arabia is progressing well and we should be manufacturing in this important growth region before the end of the 2012. The building is under construction and key equipment items have been ordered.

There has been an enhanced focus across the Group on improving our health and safety performance with the aim of being 'best in class' and having a 'zero tolerance' approach to any workplace accidents. The division has made good progress this year significantly reducing its lost time accident rate and successfully progressing site based improvement programs. This progress will continue to be underpinned by committed and visible leadership in this area.

The division is well positioned to grow, with innovative products in its attractive heartland markets and is accelerating its exposure to emerging markets which have significant growth opportunities for its existing products and technologies.

# Solutions

## Concrete mattresses stabilise the banks of the Danube

Bonar Technical Fabrics supplied a 1.5km concrete mattress as a solution to serious riverbank erosion along a remote section of the Danube in Ukraine. The mattress consists of upper and lower layers of woven fabric which are fixed together, laid in place and pumped full of concrete. It is easy to transport, easy to install and reinforces the slopes both above and below the waterline.



Bonar Technical Fabrics geotextiles used in drainage trench project, Portugal.

Revenue

**£269.3m**

(2010: £239.2m)

Operating profit\*

**£23.1m**

(2010: £19.1m)

Operating margin\*

**8.6%**

(2010: 8.0%)

## Business Review

### Technical Coated Fabrics Division

Our Technical Coated Fabrics division, essentially consisting of Mehler Technologies, supplies products such as side curtains for lorry trailers, advertising banners, tensioned structures, awnings, marquees and tarpaulins to the print, architectural and transport markets.

	2011	2010
Revenue	<b>£119.4m</b>	£105.4m
Operating profit*	<b>£10.7m</b>	£9.7m
Operating margin*	<b>9.0%</b>	9.2%

\* Before amortisation and non-recurring items.

Sales increased by 13% in the year and were not materially affected by changes in exchange rates. Volumes were 7% higher than 2010, but were flat during the second half as the business focused on increasing margins. Margins improved in the second half but were 20bps lower at 9.0% for the full year as the division was slower to recover the full extent of raw material cost increases from its customers. The division also reinvested part of its margin growth in enhancing organisational capability to accelerate progress on growth and efficiency initiatives.

#### Revenue

**£119.4m**

(2010: £105.4m)

#### Operating profit\*

**£10.7m**

(2010: £9.7m)

#### Operating margin\*

**9.0%**

(2010: 9.2%)

During the first half of the year sales in the trailer market continued to recover well, however in the second half progress slowed. Our permanent and semi-permanent architectural membranes for building applications grew strongly in both heartland and emerging markets. In Europe important reference projects were secured and this was augmented by a continuation of the impressive development of sales in the Middle East. The industrial segment also performed well with good growth in mining and tunnelling applications. Sales in both the leisure and print segments were subdued. Strong growth with new leisure ranges in Eastern Europe was outweighed by a weaker Italian market where 'bottom-slicing' of unattractive business also contributed. Increased Asian competition in the lower end of the print market restricted growth in Europe, with improvements in the USA compensating.

Divisional sales outside of the heartland grew by 17% with good progress in Eastern Europe and the Middle East. The proportion of non-heartland sales increased to 25.3% (2010: 24.5%) and there was an improved contribution from recently developed products which this year amounted to 16.4% (2010: 14.6%) of total sales. New products in the boat and leisure markets and improved architectural membranes contributed. A large proportion of our development activities are focused on the architectural membrane markets with projects to extend the lifespan, functionality and recyclability of these products being important drivers of future growth.

The division has also made significant improvements in the management of health and safety and delivered a much improved performance this year. Progress has also been made in improving operating efficiencies and the division has a number of ongoing projects which can accelerate this progress. In addition there are benefits to come from projects which are focused on improving sales margin management and customer service levels. These 'self help' projects will be the important drivers of short-term value creation for the division.

# Resilience

## Mehler fabrics installed in Spaceport dome

The Operations Centre at Spaceport America, New Mexico, the world's first private space port, incorporates Mehler Technologies' VALMEX® FR 1400 MEHATOP within the roof of its 100m-diameter dome. Mehler's weather-proof and impermeable architectural membrane acts as the roof mould and substrate, protecting the reinforcement bars below and providing a stiffened surface to support the exterior concrete layer.



MTX's POLYMAR® sports 8102 sportmatte: a lightweight coated anti-skid fabric for the manufacture of exercise mats and cushions.

## Business Review

## Financial Review

### Consolidated income statement

The key items in the consolidated income statement are further highlighted in the sections below.

#### Pre-tax profit

Profit before tax, amortisation and non-recurring items from continuing operations increased by 26% to £23.4m (2010: £18.6m), reflecting a £4.8m increase in operating profits to £30.6m (2010: £25.8m). Interest costs were unchanged in total at £7.2m (2010: £7.2m) as notional interest on pension liabilities fell to £1.2m (2010: £2.3m) and borrowing costs increased to £6.0m (2010: £4.9m) as a result of higher rates following the refinancing during 2010. Statutory profit before tax was £23.4m (2010: £10.2m), with a net non-recurring credit of £5.7m (2010: £1.6m loss) offsetting a £5.7m charge for amortisation (2010: £6.8m).

	Revenue £m	Pre-tax profit* £m
2010	£344.6m	£18.6m
FX movements	–	£0.1m
Underlying improvement	£44.1m	£4.7m
<b>2011</b>	<b>£388.7m</b>	<b>£23.4m</b>

\* Continuing operations before amortisation and non-recurring items.

#### Non-recurring items

A net non-recurring credit of £5.7m arose from continuing operations during the year. In February 2011, the UK pension scheme was closed to future accrual and following the changes to link statutory indexation to CPI, deferred members have been notified of the switch from RPI to CPI in calculating their future pension increases. As a result of these actions, a non-recurring credit of £6.0m has been recorded in the income statement. During the year, the Group has incurred £0.3m of set-up costs in respect of its joint venture in Saudi Arabia.

The Group also received a 25% reduction on appeal of the €12.24m fine imposed by the European Commission in 2005 for infringing Article 81 of the European Community Treaty in connection with a cartel relating to industrial bags, a market the Group exited in 1997 following the sale of its Belgian packaging business. The reimbursement, including interest and net of associated legal costs, totalled £2.2m and has been treated as a non-recurring credit within discontinued items. The reimbursement was received in December 2011.

### Taxation

The overall tax charge on the profit before tax was £4.2m (2010: £3.8m). The tax charge on profit from continuing operations before amortisation and non-recurring items was unchanged at £5.8m as increased profits were mitigated by a lower overall tax rate of 25% (2010: 31%). The lower rate reflects the benefit of 'Innovation Box' credits in the Netherlands for profits derived from innovation and includes a prior year adjustment equivalent to 2%. The underlying tax rate for 2012 is expected to be around 27%. Cash payments of £7.6m this year (2010: £3.3m) included £3.0m relating to 2007.

The Group operates internationally and is subject to tax in many differing jurisdictions. As a consequence, the Group is routinely subject to tax audits and examinations which, by their nature, can take a considerable period to conclude. Provision is made for known issues based on management's interpretation of country specific legislation and the likely outcome of negotiation or litigation. The Group believes that it has a duty to shareholders to seek to minimise its tax burden but to do so in a manner which is consistent with its commercial objectives and meets its legal obligations and ethical standards. The Group has regard for the intention of the legislation concerned rather than just the wording itself. The Group is committed to building open relationships with tax authorities and to following a policy of full disclosure in order to effect the timely settlement of its tax affairs and to remove uncertainty in its business transactions. Where appropriate, the Group enters into consultation with tax authorities to help shape proposed legislation and future tax policy.

Applicable statutory corporate tax rates in our major operating territories were:

UK	26.7%
Germany	30.0%
Belgium	34.0%
Czech Republic	19.0%
Netherlands	25.0%
USA	38.5%

# Progress

## Significant progress on financial KPIs

- A second successive year of significant profit growth
- Return on capital close to target of 17%
- Gearing maintained at 1.9 times and expected to reduce in the coming year
- Further progress in working capital management; target of sub-20% trade working capital/sales expected to be met in 2012
- Flexible funding facilities committed until at least 2015

## Business Review

### Financial Review *continued*

#### Cash

Overall net debt increased to £85.3m from £77.9m as a result of increased capital expenditure, investment in Bonar Natpet and the restructuring of the Yarns business. Although improvements in working capital efficiency were made during the year, the percentage of trade working capital reducing from 22% last year (2009: 28%) to 21% of revenues, the amount of cash invested in working capital at year end increased by £11.1m due to both volume growth and higher prices. The Group's return on operating capital employed further improved during the year to 16.8% (2010: 15.2%). The Group also simplified its debt structure during the year settling in full all remaining debt related derivatives which amounted to £16.9m (2010: partial settlement of £9.3m).

The analysis of the Group's total external debt is as follows:

	2011 £m	2010 £m
Cash and cash equivalents	20.9	11.6
Total bank debt	(106.2)	(73.6)
Net bank debt	(85.3)	(62.0)
Net derivative liabilities	–	(15.9)
Total external debt	(85.3)	(77.9)

The gearing ratio of total external debt to EBITDA was marginally better at 1.9 times (2010: 2.0 times).

#### Treasury management

The Group finances its operations through a mixture of shareholders' funds, bank borrowings and operating leases. The Group operates centralised treasury management over its financial risks within a strong control environment. The Group uses various financial instruments in order to manage the exposures that arise from its operations. It is the Group's policy not to trade financial instruments or to engage in speculative transactions. All funding is properly recognised on the balance sheet. The Board has approved the treasury policy and receives regular reports on compliance. The objectives of the Group's treasury policy are summarised as follows:

**To meet the liquidity requirements of the Group cost effectively.** The Group aims to maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium-term funding needs and to minimise the level of surplus cash balances. The Group operates a conservative investment policy and short-term deposits are placed with highly-rated counterparties.

#### To deliver the funding demands of the business at low cost.

The Group funding requirements are largely driven by capital expenditure and acquisition activity. In September 2010, the Group borrowed €45m through a private placement with Pricoa Capital Group. The funding is unsecured and is repayable in September 2016. The coupon rate is 5.9% per annum and is fixed for the term of the loan. In December 2010, the Group refinanced its committed banking facilities. The Group now has a €130m committed loan facility with a syndicate of five leading banks. The facility is unsecured and is committed through to February 2015. The interest rate is variable: the margin over LIBOR (or, in the case of borrowings in Euro, EURIBOR) varies according to the ratio of net debt to EBITDA and is 1.9% at the current and intended range of operations.

Both the private placement and the new committed loan facility require the Group to operate with an interest cover of at least 3 times and for net debt not to exceed 3 times EBITDA on a 12-month rolling basis. For the year ended 30 November 2011, interest cover was 5.2 times (2010: 5.2 times) and net debt:EBITDA was 1.9 times (2010: 2.0 times including derivative liabilities). The medium-term aim of the Group is to operate with net debt:EBITDA of between 1.5 and 2.0 times.

#### To provide reasonable protection against interest rate and foreign currency volatility.

The Group's strategy seeks a balance between fixed and floating rate borrowings, to achieve a reasonable effective interest rate whilst protecting the Group against material adverse changes in interest rates over the medium-term. At 30 November 2011, the Group had fixed the interest rates of £38.5m (2010: £79.4m) of debt representing 36% (2010: 89%) of its total gross external debt, the decrease in the year relating to the settlement of debt-related derivatives and the refinancing agreed in December 2010.

The Group is exposed to movements in exchange rates for both foreign currency transactions and the translation of net assets and income statements of foreign subsidiaries. The Group regards its interest in overseas subsidiary companies as long-term investments and manages its translational exposures through the matching of assets and liabilities where possible. The private placement and the bank refinancing have provided a much better matching. The matching will be reviewed regularly and appropriate risk mitigation performed where necessary. The Group has exposure to a number of foreign currencies. The most significant transactional currency exposure is Euro/US Dollar.



### To develop and maintain strong and stable banking relationships.

Strong working relationships are maintained with a core group of high-quality banks whose geographical span of operations closely aligns with that of the Group. Five of these banks (The Royal Bank of Scotland, Barclays Corporate, KBC, ING and Comerica Bank) participated in the new €130m loan facility.

### Pensions

The charges for pensions are calculated in accordance with the requirement of IAS 19 Employee Benefits. During the year the Group's UK defined benefit scheme continued to adopt a lower risk investment strategy in which the interest rate and inflation risks were more closely hedged and the exposure to equities reduced to around 22% of the scheme's assets (2010: 25%). The UK scheme deficit has fallen to £6.1m (2010: £17.9m), principally due to non-recurring credits of £6.0m arising from the change in indexation legislation and the closure of the scheme to future accrual, and additional cash contributions from the Group of £3.0m (2010: £3.0m). The deficit in the Group's overseas schemes in Belgium, Germany and the USA was unchanged at £8.1m (2010: £8.1m).

### Acquisitions

During the year the Group has advanced £1.7m towards its 50/50 joint venture, Bonar Natpet, in Saudi Arabia with NATPET. In total, the Group's initial equity investment will be £5.4m. As noted above, non-recurring start-up costs of £0.3m have been incurred. The joint venture is expected to be operational in the final quarter of 2012. There have been no other acquisitions and no disposals in the period.

### Foreign exchange rates

The key foreign exchange rates used by the Group are:

	Year end		Average	
	2011	2010	2011	2010
Euro	<b>1.17</b>	1.20	<b>1.15</b>	1.16
US Dollar	<b>1.57</b>	1.56	<b>1.61</b>	1.55

### Accounting standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. There were no changes to IFRS which significantly affected the Group's financial statements.

A summary of the applicable changes and full details of accounting policies are provided on pages 57 to 63.

### Share price

During the year, the Company's share price increased by 6% from 42.3 pence to 44.8 pence, compared to a 9% decrease in the FTSE Small Cap index. The Company's shares ranged in price from 42.3 pence to 77.0 pence and averaged 57.4 pence during the year. The average number of shares in issue was 287.9m (2010: 287.9m).



**Steve Good**  
7 February 2012



**Mike Holt**  
7 February 2012

## Business Review

### Principal Risks and Uncertainties

The Group has an established risk management framework which is designed to identify, evaluate and manage the risks and uncertainties facing the Group. Within this framework we classify risks into four distinct categories according to their potential impact upon the Group:

**Strategic** – risks impacting long-term strategic objectives.

**Operational** – risks arising during day-to-day activities which if not managed could impact upon the running of the business.

**Financial** – risks impacting directly upon the finances of the business.

**Compliance** – risks relating to legal and regulatory sanctions and damage to goodwill arising from failure to comply with applicable laws and regulations.

Strategic risk	Mitigation
<p><b>Global economic activity</b></p> <p>The Group may be adversely affected by global economic conditions, particularly in its principal markets in mainland Europe and North America. The current depressed global economy and the volatility of international markets could result in reduced levels of demand for the Group's products, a greater risk of debtors defaulting on payment terms and a higher risk of inventory obsolescence.</p>	<p>Local operating management are responsible for monitoring their own markets and are empowered to respond quickly to changing conditions. Production costs may be quickly flexed to balance production with demand, including the use of short-time working arrangements where available. Further actions, such as reducing the Group's cost base and cancelling or delaying capital investment plans, are available to allow continued profitability in the face of a sustained reduction in volumes.</p> <p>The Group has a broad base of customers and no single customer represents more than 3% of total revenue. Group policies ensure customers are given an appropriate level of credit based on their trading history and financial status, and a prudent approach is adopted towards credit control. Credit insurance is used where available.</p>
<p><b>Growth strategy</b></p> <p>The Board believes that growth, both organic and through acquisitions, is a fundamental part of its strategy for the Group. The Board reviews such growth opportunities on an ongoing basis and its acquisition strategy is based on appropriate acquisition targets being available and on acquired companies being integrated rapidly and successfully into the Group.</p>	<p>The current focus of the Group is on profitable, cash generative organic growth supplemented by acquisition where appropriate.</p> <p>The senior management team is experienced and has successfully executed and integrated several acquisitions in the past.</p> <p>Acquisitions would be made subject to clearly defined criteria in existing or adjacent segments whose products and technologies are well understood, and only after extensive pre-acquisition due diligence. Acquisition proposals are supported by a detailed post-acquisition integration plan that is rigorously managed through to completion.</p>
<p><b>Organic growth and competition</b></p> <p>The markets in which the Group operates are mature and highly competitive with respect to price, geographic distinction, functionality, brand recognition and the effectiveness of sales and marketing.</p>	<p>The Group has chosen to operate in attractive niche markets within the technical textile industry, using proprietary technology to manufacture products which are important determinants of the performance and/or efficiency of our customers' final product or process.</p> <p>Significant resources are dedicated to developing and maintaining strong relationships with our customers, and to developing new and innovative products which meet their precise needs.</p> <p>The Board believes that these factors maintain its strong competitive position.</p>

<b>Operational risk</b>	<b>Mitigation</b>
<p><b>Business continuity</b></p> <p>The occurrence of major operational problems could have a material adverse effect on the Group.</p>	<p>The Group has business continuity measures in place to minimise the impact of any disruption to its operations. These are supported by regular site visits from the Group Risk Manager and internal audit. Where appropriate, risks are partially transferred through insurance programmes.</p>
<p><b>Raw material pricing</b></p> <p>The Group's profitability can be affected by the purchase price of its key raw materials and its ability to reflect any changes through its selling prices. The Group's main raw materials are polypropylene, polyester, nylon, polyethylene and PVC. The prices of these raw materials are volatile, and they are influenced ultimately by oil prices and the balance of supply and demand for each polymer.</p>	<p>The Group has a good level of expertise in polymer purchasing and uses a number of suppliers to ensure a balance between competitive pricing and continuity of supply.</p> <p>The Group's focus on operating efficiencies and the strength of its product propositions has in the past allowed the effect of raw material cost increases to be successfully mitigated.</p>
<p><b>Employees</b></p> <p>The Group is reliant on its ability to attract, develop and retain key employees.</p>	<p>Employee retention and development is a key feature in ensuring the continued success of the Group. Employees are recruited and regularly appraised against a formal job specification. Formal policies cover all material aspects of employment and we are committed to high standards of health and safety at work, effective communication with employees and employee development.</p>
<b>Financial risk</b>	<b>Mitigation</b>
<p><b>Funding risks</b></p> <p>The Group, like many other companies, is dependent on its ability to both service its existing debts and to access sufficient funding to refinance its liabilities when they fall due and to provide sufficient capital to finance its growth strategy.</p>	<p>The Group manages its capital to safeguard its ability to continue as a going concern, to optimise its capital structure and to provide sufficient liquidity to support its operations and the Board's strategic plans. The Group's borrowing requirements are continually being reforecast to ensure funding is in place to support its operations and growth plans. Compliance with the covenants associated with these facilities is closely monitored.</p>
<p><b>Treasury risks</b></p> <p>Foreign exchange is the most significant treasury risk for the Group. The reported value of profits earned by the Group's overseas entities is sensitive to the strength of Sterling, particularly against the Euro and, to a lesser extent, the US Dollar. The Group is exposed to a lesser extent to other treasury risks such as interest rate risk and counterparty credit risk. These financial risks are discussed more fully in Note 19 to the accounts.</p>	<p>Group policy ensures treasury activities are focused on the management of risk with high quality counterparties; no speculative transactions are undertaken. The Group uses financial instruments to manage the exposures that may arise from its business operations as a result of movements in financial markets.</p>
<p><b>Pension funding</b></p> <p>The Group may be required to increase its contributions into its defined benefit pension schemes to cover funding shortfalls. The funding may be affected by poor investment performance of pension fund investments, changes in the discount rate applied and longer life expectancy of members.</p>	<p>The Group's main UK scheme is closed to new members and to future benefit accrual; and assumptions, including funding rates, are set in line with the actuaries' recommendations. Regular dialogue takes place with pension fund trustees and the Board regularly discusses pension fund strategy.</p>
<b>Compliance risk</b>	<b>Mitigation</b>
<p><b>Laws and regulations</b></p> <p>The Group's operations are subject to a wide range of laws and regulations, including employment, environmental and health and safety legislation, along with product liability and contractual risks.</p>	<p>The Group's policy manuals ensure all applicable legal and regulatory requirements are met or exceeded in all territories in which it operates, and ongoing programmes and systems monitor compliance and provide training for relevant employees.</p> <p>Product liability risks are managed through stringent quality control procedures covering review of goods on receipt and prior to despatch and all manufacturing processes. Insurance cover, appropriate for the nature of the Group's business and its size, is maintained. The Group also seeks to minimise risks through its terms and conditions of trading.</p>

## Business Review

# Corporate Responsibility Report

Corporate responsibility is at the heart of Low & Bonar business values and we recognise that many of our stakeholders, from site neighbours and employees through to customers and investors, have rising expectations of our corporate responsibility commitment and performance. Whilst each of our business values has a corporate responsibility context, it is our value of integrity, which we describe as “... *maintaining the highest ethical standards wherever we operate. We will ensure the health and safety of all our people and minimise our impact on the environment*”, through which we bring corporate responsibility into our day-to-day business operations.

There is already a great deal of valuable activity being undertaken within all of our businesses and across our manufacturing sites. However, we have identified and agreed the need to do more, and in a more focused manner, and we strive to become “best in class” in all of our activities.

### Environment

Environmental management is an important area of focus for the Group. We recognise that we have an environmental impact through our use of raw materials, our manufacturing processes and our products. We continually seek to improve in all aspects of our environmental management and regard compliance with environmental regulation as the minimum standard to be achieved.

Our businesses play a key role in environmental management and their environmental impacts are specific to their manufacturing processes and locations as well as their product portfolios. Each business has local environmental policies and improvement plans in place to support the Group environmental policy, and environmental performance metrics form an integral part of management information. This information, along with close customer communication, has supported the development of a number of environmental initiatives, especially with respect to product development.

### Divisional environmental overview

Mehler Technologies is operating its “Eco-care” programme to demonstrate its commitment to environmental issues. The programme has been designed to bring the responsible management of energy and resources, sustainable materials and recycling of coated textiles under one all-embracing label. The Eco-care concept accompanies products throughout their life cycle, including incorporation of ecological criteria in the selection of raw materials, the use of less environmentally harmful production processes, the use of recyclable packaging materials and participation in the development of recycling systems. More information and a brochure on Eco-care can be found at [www.mehler-technologies.com/EN/technologies/eco-care.php](http://www.mehler-technologies.com/EN/technologies/eco-care.php).

Bonar Technical Fabrics focuses its efforts on the use of ‘green’ energy, the reduction of energy use and emissions, the replacement of virgin raw materials by recycled ones where possible and the minimisation of waste. BTF has been certified

to the Environmental Management Systems ISO 14001:2004 Certificate since 1998, and recertification was successfully completed in 2011. More information can be found at [www.bonartf.com/en/x/108/hse-management](http://www.bonartf.com/en/x/108/hse-management).

Colbond is seeking to further develop its leading position in the use of recycled and sustainable raw materials, optimise its manufacturing technologies in order to further reduce the consumption of energy, and is seeking opportunities to switch to clean and renewable energy sources. It is also actively pursuing redirection of waste streams into reuse and recycling alternatives with the elimination of waste as the ultimate goal. Colbond seeks to provide the most ecologically benign product lines available for customers’ applications and to develop solutions that promote environmentally sustainable products within its core markets.

### Low & Bonar products

The Group is proud of its many performance material products, which, as well as providing excellent quality and value, often support our customers in reducing the environmental footprint within their supply chain.

### Alternative energy infrastructure

Alternative energy is becoming increasingly important, with biogas being a good example. Materials like biogas are highly volatile and explosive, and they must be stored in containers that offer maximum safety. Flexible VALMEX® enviro pro gas tanks, manufactured by Mehler Technologies, are ideally suited to this application due to their special fabric design achieving satisfaction of the strict safety standards. Further details can be found at [www.mehler-technologies.com/EN/products/environment/index.php](http://www.mehler-technologies.com/EN/products/environment/index.php).

### Groundcover materials

Many Bonar Technical Fabrics products are used in applications that support environmental protection. Examples include energy saving screens, weed controlling groundcovers (which reduce or eliminate the need for pesticides), as well as soil stabilising and filtering geotextiles which provide protection against soil erosion and contamination. An important recent addition to our sustainable product range is Duracover. Whilst groundcovers have been commonly used for many years for landscaping and gardening, they were originally made primarily out of polypropylene. For several years, however, awareness had been growing that a more sustainable product was required. In 2010, BTF’s researchers made a breakthrough with the invention of Duracover, a 100% bio-based textile/compostable groundcover earning a 4-star certificate from AIB Vinçotte.<sup>1</sup>

### Artificial grass

Bonar Yarns is a leading manufacturer of artificial grass yarns. The use of artificial grass reduces customer water consumption, along with consequent reductions in energy use and other emissions related to water production. Artificial grass also allows the end user to eliminate completely the use of fossil fuels for lawn or pitch maintenance and to avoid the harmful dispersion of fertilisers and herbicides into the environment.

<sup>1</sup> Worldwide AIB Vinçotte provides more than 130 specialised and independent inspection, monitoring and certification services, analyses and tests for the most wide ranging applications in the field of electricity, hoisting apparatus, pressure equipment, civil engineering, safety in the work place, environmental protection and radiant protection.

# Responsibility

## Colbond's high-performance sustainable carpet backing

Colback® Green is a range of high performance primary backings developed to enhance the environmental sustainability of the carpet industry.

All Colback® Green non-wovens are made from 100% sustainable raw material, containing post-consumer recycled polyester and polyamide-6 generated from carpet waste. Cutting-edge polymer engineering added to intensive in-house R&D form the foundations of Colback® Green primary carpet backings, which bring the same high performance as virgin content.



## Business Review

# Corporate Responsibility Report *continued*

### Green Building infrastructure materials

Colbond has recognised the importance of "Green Building" design and that LEED<sup>2</sup> Certification of buildings is becoming increasingly beneficial. A selection of Colbond's products provide an important aid to architects, landscape architects and engineers to help their buildings achieve LEED Certification. The most common ways Colbond's products are used to support LEED Certification include green roofs, compliance with minimum energy performance criteria and optimisation of energy performance. It is estimated that Colbond's products can help some customers to achieve 19 LEED points to support their goal of sustainable buildings and sites.

### Raw material usage

Raw material usage is an important impact for all manufacturing businesses. Sourcing and the efficient use of raw material, including, where possible, the use of previously used or recycled material, remain important environmental management activities.

Colbond last year announced the launch of Colback® Green, a high performance carpet backing made of 100% sustainable raw materials. It contains post-consumer recycled polyester and polyamide-6 generated from carpet waste and creates the first recycling loop for the face side of carpet tiles and broadloom carpet.

Colbond has also increased the use of recycled materials in its Colbondrain® range of products during the year. This is a pre-fabricated vertical drain for accelerating soil consolidation in civil engineering projects which has a patented high performance drainage core made of polyolefin from recycled bottles, caps and labels. Colbond also offers EnkaRetain & Drain® a drainage, protection and insulation layer developed to suit the demands of the growing North American green roof market, with a composite made from post-industrial recycled polypropylene.

Meanwhile Mehler Technologies is now selling 1.5 million square metres per annum of coated fabric based on recycled material.

### Energy management and the use of renewable energy

Energy use is a key manufacturing impact for Low & Bonar, as well as a significant cost. The Group's businesses continually review opportunities to reduce energy use and review the balance of renewable energy in their energy mix.

All electrical consumption across our manufacturing sites in Belgium, equivalent to 6,494 tonnes of CO<sub>2</sub> in 2011, is 100% sourced from renewable green energy sources such as wind, geothermal and hydro power, substantially reducing the company's environmental footprint. Since 2008 Bonar Technical Fabrics has also been working with an energy audit organisation established under the framework of the Kyoto Protocol. BTF's non-woven and woven production site has been screened for its energy consumption and all significant energy uses in the plant were measured separately, enabling us to take targeted measures where necessary. As a result, the CO<sub>2</sub> emission per ton produced has been significantly reduced and further efforts are ongoing. The energy savings plan for the site was last audited externally in 2010.

A project has been initiated at Colbond's production facility in Arnhem to divide a bonding drum into separate hot and cold sections to produce natural gas savings. The reduction in energy consumption in the standby phase of a fleece line with an 'eco' button is under development to reduce consumption of gas and electricity.

In Asheville, USA, a number of energy management projects have been implemented, including the redirection of heat from a thermal bonding machine to provide building heat in winter months, the installation of a small steam boiler, so that larger boilers do not need to be run when demand is low, and the installation of new controls on air compressors, to better match output to demand. Overall, between 2008 and 2011, specific energy consumption has been reduced by 15%.

### Waste reduction

Waste generation is also a key environmental impact of our business, as well as a cost, and a waste hierarchy process which starts with avoiding waste production through to reuse and recycle is being adopted throughout our operations.

At MTX, the recycling of PVC waste is key to environmental performance, and MTX is a member of and financially supporting:

<http://www.pvc-partner.com/>  
<http://www.aktion-pvc-recycling.de/>  
<http://www.vinyl2010.org/>

In seeking to minimise waste for customers, Colbond is taking advantage of its two-step Colback® manufacturing process which allows production of tailor-made widths. The Detection Cut Compensate (DCC) system on the Colback® fleecing lines reduces length waste.

In Asheville, USA, several waste management projects have been completed. Approximately 10,000 wooden pallets have been diverted from landfill annually by sending them for rebuilding or conversion to energy, and approximately 1,200 polymer super-sacks have been diverted annually from landfill, by re-selling them to a polymer recycler.

### Water

Water usage is not a significant environmental impact for the Group due to the nature of our manufacturing operations. However, as an important resource, water usage is tracked and monitored by Group companies.

Waste water management is an important environmental impact for the business, and several improvement projects have been undertaken recently. A programme to separate rainwater from waste water has been completed in Belgium, and a project at Colbond's site in Asheville, USA, reduced pollutants in waste water to a level below regulatory limits, so that the site is no longer required to operate under a special industrial permit.

2 LEED certification is a recognised standard for measuring building sustainability. The LEED green building rating system, developed and administered by the U.S. Green Building Council, is designed to promote design and construction practices that increase profitability while reducing the negative environmental impacts of buildings and improving occupant health and well-being.

### Planned environmental activities for 2012

During 2011, it was agreed that new Group environmental performance metrics will be introduced in 2012 to help us better understand our performance and to support goal setting for our businesses. It has also been agreed that during 2012 we will review our Group environmental policy so that we can better communicate our environmental goals and aspirations to our stakeholders.

### Management of health and safety

The health and safety of our employees and others who may be affected by the Group's operations, remains a key management responsibility. Our health and safety efforts have been redoubled this year following two fatal accidents last year. We continue to aim for continuous improvement both in our health and safety performance and in our arrangements for managing health and safety.

In the year to 30 November 2011, the Group recorded an accident rate<sup>3</sup> of 748, compared to a rate of 1,553 in 2010. This performance represents both a significant improvement over last year's performance and also good progress towards the recently set interim Group accident rate benchmark of 580 or less, to be reached by 2013. Our current performance compares well to the EU manufacturing sector's accident rate of 3,656<sup>4</sup>, based on the same definition of accident rate used by Low & Bonar. However, we are clear that there remains much room for improvement.

A number of initiatives were implemented this year to bring about this improved performance, including the implementation of "Zero Accident" programmes in each business, bespoke to the needs and arrangements within each business.

### Technical Coated Fabrics

Across the Hückelhoven, Fulda and Lomnice sites:

- regular visits to all plants by the leadership team were introduced to identify health and safety improvement opportunities, with any actions being recorded and followed up;
- a health and safety communication and engagement programme has been established in which specific monthly safety topic discussions are led by the leadership team with all shifts; and
- the Hückelhoven and Fulda sites have voluntarily made contact with the local health and safety regulator, to obtain additional and independent views on improvement opportunities.

### Performance Technical Textiles

Across the Zele and Lokeren sites:

- a process called "Last Minute Risk Analysis" has been developed and implemented to focus on key inherent risks and risk control measures;
- a "Task Risk Analysis" programme was also completed, with risk improvement measures now targeted at tasks with an inherent risk score above a specified risk rating;
- based on detailed accident analysis, a programme of improved personal protective equipment specification has been introduced; and
- a training and behavioural safety programme will start in 2012.

Across the Asheville, Arnhem, Emmen, Obernburg, Dundee and Abu Dhabi sites:

- a programme to separate forklift and pedestrian traffic continues, with a hierarchy of controls to be implemented when full separation is not possible;
- following detailed accident analysis, a prevention of cuts scheme has been implemented primarily focusing on knives and scissors safety;
- risk assessments of machine/operator interactions, focusing primarily on those interactions that occur during non-standard operations, have been carried out to determine risk improvement opportunities; and
- a behavioural safety programme has been initiated with a "SafeStart" pilot system in Asheville.

The Group continues to work closely with its insurance risk surveyors and insurance brokers and underwriters, and recognises the important role played by these partners. Risk improvement recommendations made by risk surveyors as a result of site visits also provide valuable information to support risk improvement activities.

A number of other activities have taken place that are key to bringing about sustained improvement to Low & Bonar's health and safety management. This effort continues to be led by the Environmental, Health and Safety Committee, a sub-committee of the Risk Oversight Committee, and with the strong support of the executive management team and the Board of Directors. To this end, a Global Health and Safety Strategy has been developed by the Committee. The Strategy supports both our Zero Accident Goal and Best in Class aspirations, and will embed a strong and proactive health and safety culture across all aspects of our business. The cornerstones of the strategy encompass improvements to visible leadership, risk based management and health and safety competence and a broader range of metrics will be used to gauge performance.

<sup>3</sup> Number of accidents at work with more than 3 days' absence that occurred during the year per 100,000 employees.

<sup>4</sup> Based on European Commission Eurostat data for 2007, which is the most up-to-date information available, and currently classified as provisional.

## Governance

### Board of Directors



1	2	3
4	5	6
7		



**1. Martin Flower****Non-Executive Chairman (65)**

Appointed as a Non-Executive Director in January 2007. Chairman of Croda International Plc and a non-executive director of The Morgan Crucible Company plc. Previously he was Chief Executive of Coats plc, a company in which he spent his entire executive career having joined in 1968. Former deputy Chairman of Severn Trent Plc and formerly Chairman of Alpha Group plc. A member of the Remuneration and Nomination Committees. Mr Flower was appointed Chairman on 30 June 2010.

**2. Steve Good****Group Chief Executive (50)**

Appointed as a Director and Group Chief Executive in September 2009. Joined Low & Bonar in 2004, serving first as the Managing Director of its Plastics Division, until its sale in 2005, and then as Director of New Business helping to shape the Group's strategy. From 2006 to 2009, he was Managing Director of the Technical Textiles Division, which has been the sole business activity of Low & Bonar since the disposal of the Floors Division in 2008. Prior to joining Low & Bonar, he spent 10 years with Clariant (formerly BTP plc) in a variety of leadership positions managing international speciality chemical businesses. He is a chartered accountant and a member of the Nomination Committee.

**3. Mike Holt****Group Finance Director (51)**

Joined Low & Bonar as Group Finance Director in November 2010. A chartered accountant, he was previously Group Finance Director of Vp plc for six years and, prior to that, held a number of senior financial positions with Rolls-Royce Group plc within the UK, the USA and Hong Kong. He is a trustee and treasurer of Target Ovarian Cancer.

**4. Steve Hannam****Senior Non-Executive Director (62)**

Appointed as a Non-Executive Director in September 2002. Chairman of Devro plc. Formerly non-executive director with Clariant AG, Chairman of Aviagen International Inc., non-executive director of AZ Electronic Materials Services Limited and Group Chief Executive of BTP Chemicals plc. Senior Independent Non-Executive Director and a member of the Audit, Remuneration and Nomination Committees. Mr Hannam was also Chairman of the Audit Committee until 30 September 2011, and will chair the Remuneration Committee from 1 March 2012.

**5. Folkert Blaisse****Non-Executive Director (66)**

Appointed as a Non-Executive Director in January 2007. Chairman of Colbond between 2004 and 2006 until the business was acquired by Low & Bonar in July 2006. A director of Acordis Beheer BV, non-executive director of Finacor BV, non-executive director of the Rotterdam Eye Hospital and Chairman, Leiden University Fund. He was previously Chief Executive Officer of Acordis from 1999 to 2006 and, from 1971, held several senior roles at Akzo Nobel, culminating in his appointment in 1998 as Executive Board member of Akzo Nobel NV. A member of the Audit, Remuneration and Nomination Committees.

**6. Chris Littmoden****Non-Executive Director (68)**

Appointed as Non-Executive Director in February 2005. A chartered accountant, he was previously a main board director of Marks & Spencer PLC for eight years. Since leaving Marks & Spencer, he has held several non-executive positions. Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. Mr Littmoden will leave the Board on 28 February 2012.

**7. John Sheldrick****Non-Executive Director (62)**

Appointed as a Non-Executive Director on 1 October 2011. Mr Sheldrick was Group Finance Director of Johnson Matthey Plc from 1995 to 2009. Prior to joining Johnson Matthey in 1990, he was Group Treasurer of The BOC Group plc. He is also a non-executive director of GKN plc and Fenner PLC and a former non-executive director of API Group PLC. Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

## Governance

# Report of the Directors

The Directors present their report and the accounts of the Company and the Group for the year ended 30 November 2011.

### Principal activities

The Report of the Directors should be read in conjunction with the Business Review, which forms part of this report and contains details of the principal activities of the Group during the year and an indication of likely future developments.

### Business review

The Directors are required to set out in this report a fair review of the development of the business of the Group during the financial year ended 30 November 2011 and of the position of the Group at the end of that financial year together with a description of the principal risks and uncertainties facing the Group (known as a "Business Review"). The information that fulfils the requirements of the Business Review can be found on pages 1 to 29.

### Results and dividends

The Group's consolidated profit for the year attributable to equity holders of the Company was £21.0m (2010: £6.3m).

The Company paid an interim dividend for the year ended 30 November 2011 of 0.7 pence per share on 29 September 2011 to Ordinary Shareholders whose names appeared in the register at the close of business on 2 September 2011. The Directors recommend that a final dividend of 1.4p (2010: 1.1p) be paid on 19 April 2012 to Ordinary Shareholders on the register at close of business on 23 March 2012.

Dividends	2011	2010	% Increase
Interim	<b>0.7</b>	0.5	40%
Final	<b>1.4</b>	1.1	27%
<b>Total</b>	<b>2.1</b>	1.6	31%

### Directors

The present Directors of the Company are shown on pages 30 and 31. They all held office throughout the financial year under review, save for John Sheldrick, who was appointed as a Non-Executive Director on 1 October 2011.

The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its Directors. The Directors also have the benefit of the indemnity provision contained in the Company's Articles of Association. The Company has executed deeds of indemnity for the benefit of each Director of the Company in respect of liabilities which may attach to them in their capacity as Directors of the Company or of associated companies. These provisions, which are qualifying third party indemnity provisions as defined by section 234 of the Companies Act 2006, were entered into in June 2009 (September 2009 for Steve Good, November 2010 for Mike Holt and October 2011 for John Sheldrick) and are currently in force.

### Re-election of Directors

Steve Hannam retires by rotation and, being eligible, offers himself for reappointment. Mr Hannam's appointment may be terminated by either him or the Company giving six months' notice in writing. Mr Hannam was appointed as Non-Executive Director of the Company in September 2002 for an initial term of three years and was last reappointed in 2011 for a term of one year up to 31 August 2012. Mr Hannam's reappointment has taken into account his performance and commitment to the role, the need for progressive refreshing of the Board and the Company's overall corporate governance standards. The Board continues to believe that it benefits substantially from Mr Hannam's experience and expertise and notes that he is subject to annual re-election due to his long tenure on the Board. Further details regarding Mr Hannam's reappointment are set out on page 35 below.

Folkert Blaisse retires by rotation and, being eligible, offers himself for reappointment. Mr Blaisse was appointed as a Non-Executive Director of the Company in January 2007 for an initial term of three years and was reappointed in December 2009. Mr Blaisse's appointment may be terminated by either him or the Company giving six months' notice in writing.

Chris Littmoden is retiring and will leave the Board on 28 February 2011.

John Sheldrick was appointed in October 2011 and, in accordance with the Articles of Association and being eligible, offers himself for reappointment.

The Chairman confirms to shareholders that, following formal performance evaluation, the performance of each of the Directors proposed for reappointment continues to be effective and to demonstrate commitment to the role.

### Directors' interests

Directors' interests in shares and debentures of the Company are shown on page 46.

### Substantial interests

At the date of this report, the Company's register of substantial shareholdings showed the following interests in 3% or more of the Company's issued Ordinary Shares:

	No. of Ordinary Shares	% of Ordinary Shares
Aberforth Partners LLP	50,307,220	17.47%
Hermes Fund Managers Limited	29,051,062	10.09%
AXA S.A.	29,020,891	10.08%
Schroders PLC	26,535,592	9.22%
M&G Investment Management Ltd	25,452,045	8.84%
Standard Life Investments Ltd	15,458,356	5.37%
Legal & General Investment Management Ltd	10,284,563	3.57%

### Ordinary share capital

Details of the Company's issued share capital at 30 November 2011 and of options granted and shares issued pursuant to the Company's employee share option schemes and long-term incentive plans are shown in Note 23 to the accounts.

### Annual General Meeting

The Annual General Meeting will be held at The Cumberland Hotel, Great Cumberland Place, London W1C 1LZ on 29 March 2012 commencing at midday. The notice of meeting is contained in the separate booklet which is enclosed. The booklet contains the text of the resolutions to be proposed and explanatory notes concerning the proposals to authorise the Directors to allot relevant securities and to allot equity securities for cash other than on a pre-emptive basis.

### Going concern

Having reviewed the medium-term forecasts and compared the cash flow with available bank facilities, the Directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts.

### Employee involvement

The Group's overall policy is to keep employees informed on matters of concern to them and to encourage employee involvement. This policy is implemented in a wide variety of ways, which are reported on by the Group's businesses, including the regular publication of a company newsletter, "Your Low & Bonar", which is translated into the main languages of our employees at least twice a year, and regular meetings with employees' representatives.

### Payment of suppliers

The Company's policy and practice is to pay agreed invoices in accordance with the terms of payment agreed with suppliers at the time orders are placed.

### Charitable and political contributions

The Company made charitable donations totalling £15,000 in 2011 (2010: £10,000). No political donations were made during the year (2010: £nil).

### Essential contracts

The Company has a number of significant agreements, however the only agreements considered to be essential to the Group as a whole are its bank facilities and private placement notes, which include change of control provisions. In the event of a change in ownership of the Company, these provisions could result in renegotiation or withdrawal of the relevant facilities.

### Information to the auditor

The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and that each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### Auditor

KPMG Audit Plc have expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board



**Matthew Joy**  
Company Secretary  
7 February 2012

## Governance

### Corporate Governance



In my Chairman's Statement I have highlighted the priorities and main areas of focus for the Board during the last financial year. In this report, I am pleased to discuss more fully the work and operation of the Board and the framework of governance it deploys to lead and control the business and report on the Group's performance.

We are committed to maintaining high standards of corporate governance and to applying the principles of good governance as now set out in the UK Corporate Governance Code (the "Code") published by the FRC in June 2010 and which has been applicable to the Company from 1 December 2010. The Directors can confirm compliance throughout the year with the Code except in the following respect: Provision D.2.2 of the Code requires that the Remuneration Committee should have delegated responsibility for setting the remuneration of the Chairman. At Low & Bonar, the remuneration of the Chairman is determined by the Board based on the recommendation of the Remuneration Committee. This gives full transparency and allows the views of the Executive Directors to be taken into account.

#### The Board

The Group is controlled through its Board of Directors, which provides entrepreneurial leadership of the Group and is ultimately responsible for its long-term success. Our main objectives are to create value for shareholders, to set the Group's strategic objectives, to ensure that the necessary financial and human resources are made available to enable it to meet those objectives and to review executive management performance, all within a framework of prudent and effective controls which enable risk to be assessed and managed. The Board also sets the Group's values and standards and ensures that its obligations to shareholders and others are understood and met.

We have a formal schedule of reserved powers which we retain for Board decision-making on a range of key issues, including the formulation of Group strategy, the approval of the annual budget, the approval of reported financial statements and dividends, the approval of acquisitions, divestments and significant items of capital expenditure and the Group's risk management strategy.

I chair the Board. The Group Chief Executive is Steve Good and the Senior Independent Non-Executive Director is Steve Hannam.

Our current thoughts on the issue of diversity as it pertains to membership of the Board are given in the section dealing with the Nomination Committee on pages 37 to 38.

#### The roles of the Chairman and Group Chief Executive

My role and that of the Group Chief Executive are separate and clearly defined and were reassessed by the Board at the time that I became Chairman in 2010. I am responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of shareholders. The Group Chief Executive is responsible for leadership of the business and implementation of strategy.

#### Directors and Directors' independence

The Board currently comprises a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors, although Chris Littmoden will retire from the Board on 28 February 2012. The names of the Directors, together with their biographical details, are set out on pages 30 and 31. In determining the membership of the Board, we are mindful that it should be of sufficient size that the requirements of the business can be met and that changes to its composition and that of the committees can be managed without undue disruption, but should not be so large as to be unwieldy. I believe that our Board has the appropriate combination of executive and non-executive directors (and, in particular, independent non-executive directors) and that no individual or small group of individuals can dominate decision taking.

I am also concerned to ensure that the Board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively. This principle has been under active consideration in the year, leading to the appointment of John Sheldrick in October 2011. John has a great deal of experience as an executive and non-executive director in international manufacturing businesses and also brings a wealth of financial experience and expertise to the Board. He has taken over as Chairman of the Audit Committee from Steve Hannam, who has served in that role for some time. Chris Littmoden will leave the Board on 28 February 2012, and we have asked Steve Hannam to take over as Chairman of the Remuneration Committee in light of his considerable experience in remuneration matters, and the division of other responsibilities amongst the Non-Executive Directors.

The independent Non-Executive Directors challenge constructively and help develop proposals on strategy; and bring strong, independent judgement, knowledge and experience to the Board's deliberations. We believe that an effective balance of power and authority is maintained through the number and calibre of Non-Executive Directors. All Directors have access to the advice and services of the Company Secretary and Directors may take independent professional advice at the Company's expense.

Details of my professional commitments are included in my biography. The Board is satisfied that these are not such as to interfere with the performance of my duties for the Group, which are based around a commitment of at least one day and no more than two days per week.

The Chairman and the Non-Executive Directors are not employees of the Group.

The Board considers that Steve Hannam, Chris Littmoden, John Sheldrick and Folkert Blaisse, the Non-Executive Directors, are independent in character and judgement and we continue to monitor whether there are relationships or circumstances which are likely to affect, or could appear to affect, a Director's judgement. Although he has served on the Board for more than nine years, we continue to view Steve Hannam as independent in character and judgement. Steve is highly experienced in both relevant executive and non-executive roles and continues to offer a regular and substantive challenge to the Executive Directors on their strategy for and management of the business. Steve is asked to submit himself for re-election to the Board annually given his long tenure and we consider his continued membership of the Board rigorously. In light of the significant changes which the Board has undergone since late 2009, we continue to value his contribution (and the continuity which it brings) highly and, in the coming year, have asked him to change one of his key areas of focus by chairing the Remuneration Committee.

I ensure that the Non-Executive Directors meet without the Executive Directors present from time to time.

#### **Professional development and performance evaluation**

The Board has adopted a policy of providing appropriate training for all new Directors who have not previously received such training. A personal induction programme is provided for each new Director, depending on the experience and needs of the individual. On appointment, they receive information about the Group, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the principal Board and management committees, and the powers delegated to those committees, and the latest financial information about the Group. This is supplemented by visits to key locations and meetings with key senior executives. I work to ensure that the Directors continually update their skills and the knowledge and familiarity with the Group required to fulfill their role both on the Board and its committees and to make sure that the necessary resources for developing and updating Directors' knowledge and capabilities are made available. I encourage Directors to avail themselves of opportunities to meet our major shareholders.

The Board has established a process, led by me, for the annual evaluation of the performance of the Board and its principal committees. In previous years, a list of questions has been drawn up by me with the assistance of the Company Secretary which have provided a framework for the evaluation process during a meeting of the Board. Again this year, we considered the merits of using external assistance in connection with the evaluation but determined that it was not necessary to do so given the size of the Board, the good working practices and relationships which we have established over the years and the open and constructive way in which Directors express their views in relation to the operation of the Board on an ongoing basis. However, I did determine, in conjunction with the Group Chief Executive and the Company Secretary, that we would substantially refresh the Board's internal methodology for review to ensure that the process continued to be effective.

I have also reviewed the contribution of individual Directors, in conjunction with my colleagues as appropriate, to reassure

myself and the Board that each Director continues to contribute effectively and to demonstrate commitment to the role (including commitment of time for Board and committee meetings and any other duties). The Senior Independent Non-Executive Director leads the Non-Executive Directors in conducting my annual performance evaluation, taking into account the views of the Executive Directors.

#### **Information and meetings**

The Board meets regularly to review the performance of the Company and to formulate strategy and is supplied in advance of each meeting with an agenda and papers covering the financial and operating performance of the Group's businesses and other matters to be considered at the meeting. It is my goal to ensure that the information available to the Board is accurate, timely and clear. Executive management reports on a continuing basis against the Group's budget (set at the start of the financial year) and the quarterly forecasts for the year which are made three times a year. The Board also considers other key developments, such as the implementation of major projects. I encourage the Non-Executive Directors to seek clarification and amplification of information where necessary.

I set the agenda in discussion with executive management and the Company Secretary and consideration is given to ensuring that adequate time is available for discussion of all agenda items. The papers are supplemented by information specifically requested by the Directors from time to time. Other members of senior management attend the Board meetings from time to time to present to the Board on the performance of businesses within the Group. I also now arrange for the Board to meet at least twice a year in separate session to consider and approve the strategy for the Group so that adequate time can be given to this vital aspect of its role away from the normal business of monthly Board meetings. In 2011, these sessions have also considered the development of the organisation in light of the challenges posed by its strategy and goals. I also arrange for the Board to meet in more informal surroundings several times a year to discuss topics of interest and relevance to the Group and our external advisers are often invited to these sessions to offer their counsel.

The full Board had 10 scheduled meetings during the year and all Directors who served throughout the year attended each scheduled meeting, with the exception of Mr Hannam who was unable to attend one meeting. Only two meetings were held between the date of John Sheldrick's appointment and the end of the year, both of which he attended. I also encourage the Board to establish closer links with the Group's subsidiaries and their key executive management by visiting the Group's facilities and, in 2011, one of the Board meetings was held at the Group's manufacturing facility in Dundee and one at the facility in Hückelhoven, Germany. The scheduled Board meetings concentrate on strategy, financial and business performance. Additional meetings, including of certain ad hoc committees, were called during the year to deal with specific matters. I also encourage individual Non-Executive Directors to meet with executive management to ensure constructive relations between them and to continue to promote a culture of openness and debate and to improve the effectiveness of the contribution of our Non-Executive Directors as I believe that, to function

## Governance

### Corporate Governance *continued*

effectively, all Directors need appropriate knowledge of the Group and access to its operations and staff.

The Company Secretary is tasked with advising the Board on governance matters through me. I use the Board agenda to ensure that Directors, especially Non-Executive Directors, have access to independent professional advice at the Company's expense where we judge it necessary to discharge our responsibilities as Directors. In 2011, this included the Group's corporate finance, insurance, public relations, legal and pensions advisers attending Board meetings from time to time.

#### Conflicts

A director has a duty under the Companies Act 2006 (the "Act") to avoid a situation in which he has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the company. The Act allows directors of public companies to authorise conflicts and potential conflicts where the Articles of Association contain a provision to that effect and the Company's Articles of Association include such provisions. The Board considers each Director's conflicts or potential conflicts of interest. Only Directors that have no interest in the matter under consideration take the relevant decision. In addition, the Board considers each conflict situation separately on its particular facts; considers the conflict situation in conjunction with the rest of a Director's duties under the Act; keeps records and Board minutes of authorisations granted by Directors and the scope of any approvals given; and regularly reviews conflict authorisations (at least annually). In addition, the Directors are able to impose limits or conditions when giving authorisation if they think this is appropriate.

#### Committees

In accordance with the Code, the Board has established Audit, Remuneration and Nomination Committees. All of the committees have written terms of reference, approved by the Board. The terms of reference of the committees are available on the Company's website on the following link: <http://www.lowandbonar.com/investor-centre/corporate-governance.aspx>, or on request from the Company Secretary. The Board has also established a Risk Oversight Committee which is discussed in more detail on page 39.

The Board recognises the value of ensuring that committee membership is refreshed and that undue reliance is not placed on particular individuals in deciding chairmanship and membership of committees. Membership of our committees has been refreshed over the last two years and all of the main committees will have appointed new chairmen since July 2010 following Chris Littmoden's departure from the Board in February 2012.

We adhere to the principle that no one other than the committee chairman and members is entitled to be present at a meeting of the Nomination, Audit or Remuneration Committees, but others may attend at the invitation of the committee and our practice in this respect is addressed below.

#### Audit Committee

The Board has established formal and transparent arrangements for considering how they should apply the Group's corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor. This responsibility is primarily discharged through the Audit Committee.

The Audit Committee currently comprises John Sheldrick, Chairman of the Committee since his appointment to the Board in October 2011, Steve Hannam, Chairman of the Committee until Mr Sheldrick's appointment, Chris Littmoden and Folkert Blaisse. The Committee is made up entirely of independent Non-Executive Directors. The Committee collectively has the skills and experience required to fully discharge its duties, and has access to independent advice at the Group's expense. Mr Sheldrick is considered by the Board to have recent and relevant financial experience.

The Audit Committee meets at least three times a year. It is required to:

- monitor the integrity of the financial statements of the Company and the Group and any formal announcements relating to the Company and the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- review the Group's internal financial controls and to review the Group's internal control and risk management systems;
- monitor and review the effectiveness of the Group's internal audit function;
- make recommendations to the Board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

During the course of 2011, the Audit Committee was also delegated specific responsibility for certain key areas of risk management to support the Board's role in overseeing an enterprise-wide approach to risk identification, management and mitigation which included funding and capital, financial controls, evaluation and control of acquisitions, information, pensions and treasury matters.

The current overall tenure of the external auditor dates from 1975. Any decision to open the external audit to tender is taken on the recommendation of the Audit Committee. There are no contractual obligations that restrict the Company's current choice of external auditor.

Following a review by the Audit Committee, the Board is recommending the re-appointment of the external auditor to shareholders at the Annual General Meeting for a period of one year.

The Audit Committee is responsible for ensuring that an appropriate relationship between the Group and the external auditor is maintained, including reviewing non-audit services and fees. It has developed and implemented a policy on the supply of non-audit services by the external auditor to ensure their continued objectivity and independence, and we reviewed and updated this policy during the year. The Committee is satisfied that the provision by KPMG Audit Plc of non-audit services currently provided does not impair their independence or objectivity. The Audit Committee has approved the range of services that may be provided by KPMG Audit Plc. These include taxation compliance services, transaction due diligence and accountancy assistance on projects. Subject to approved authorisation limits, the services require prior authorisation from either the Group Finance Director, the Chairman of the Audit Committee or the full Audit Committee. The Committee is satisfied that the majority of the tax services supplied by KPMG Audit Plc during the year were compliance related or related principally to foreign advisory work that required a detailed understanding of the Group and which did not impair their independence.

The Audit Committee met on four occasions during 2011 and those meetings were attended by all of the Committee members, save that Mr Hannam missed one of the meetings and Mr Sheldrick attended only the one meeting held after his appointment. The meetings of the Committee coincide with key dates in the financial reporting and audit cycle. The external auditor, KPMG Audit Plc, and the Group Internal Auditor, who reports directly to the Audit Committee, attend all of the meetings.

The Chairman, Group Chief Executive and Group Finance Director also generally join at least part of Audit Committee meetings by invitation.

The Committee Chairman may call a meeting at the request of any member, the Company's external auditor or the Group Internal Auditor. The Audit Committee meets privately with the external auditor and the Group Internal Auditor at least once a year.

In 2011, the Audit Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon;
- reviewing the appropriateness of the Group's accounting policies;
- reviewing and approving the audit fee and reviewing non-audit fees payable to the Group's external auditor in accordance with the policy it has adopted;
- reviewing the external auditor's plan for the audit of the Group's accounts, which included key areas of extended scope work, key risks on the accounts, confirmations of auditor independence and the proposed audit fee;

- reviewing an annual report on the Group's system of internal control and its effectiveness and reporting to the Board on the results of the review;
- assisting the Board with overseeing an enterprise-wide approach to risk identification, management and mitigation;
- receiving regular reports from the Group Internal Auditor following operational audits; and
- reviewing the arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with the objective to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. This was felt to be necessary in light of the Group's implementation of procedures designed to combat corruption and bribery in light of new UK legislation in this field.

The Audit Committee is entitled to obtain, at the expense to the Company, such external advice as it sees fit on any matters falling within its terms of reference.

#### Remuneration Committee

The Remuneration Committee currently comprises the following Non-Executive Directors of the Company, all of whom are considered by the Board to be independent, with the exception of Martin Flower: Chris Littmoden (Chairman of the Remuneration Committee); Steve Hannam; Martin Flower; John Sheldrick and Folkert Blaisse. The Remuneration Committee met on three occasions during the year ended 30 November 2011 and those meetings were attended by all of the Committee members, save that Mr Sheldrick attended only the one meeting held after his appointment. Mr Hannam will become the Chairman of the Committee from 1 March 2012.

The Committee is responsible for recommending to the Board the Company's broad policy for executive remuneration, including both short-term and long-term incentive arrangements, and for reviewing and approving, at least annually, the entire remuneration packages of the Executive Directors and certain other senior executives of the Group. The Committee is also responsible for recommending the Chairman's remuneration to the Board. The Committee is entitled to obtain, at the expense of the Company, such external advice as it sees fit on any matters falling within its terms of reference.

Further information on the work of this Committee is given in the Directors' Report on Remuneration on pages 41 to 47.

#### Nomination Committee

The Nomination Committee comprises the Chairman, the Group Chief Executive and the four Non-Executive Directors. The Nomination Committee met on two occasions during the year ended 30 November 2011 and those meetings were attended by all of the Committee members at the relevant time.

The Committee, which is established with formal written terms of reference, is responsible for regularly reviewing the structure, size and composition of the Board and for making recommendations to the Board with regard to any changes, including recommending candidates for appointment as both

## Governance

### Corporate Governance *continued*

Executive and Non-Executive Directors. Appointments are discussed fully before a proposal is made to the Board and, as Chairman of the Committee, I am mindful that there should be a formal, rigorous and transparent procedure for the appointment of new Directors. The selection criteria are agreed by me in conjunction with my colleagues and we make use of independent recruitment consultants and the final appointment rests with the full Board.

As part of its review of non-executive succession and taking account of Chris Littmoden's retirement in 2012, the Committee identified the need for the recruitment of a new non-executive director and discussed the appropriate role specification and time commitment expected. It was agreed that this should include the requirement for recent and relevant financial expertise suitable for chairing the Audit Committee. An independent consultant was appointed to conduct the search and a long list of names was shared with Committee members. A number of short-listed candidates were interviewed by both the Chairman, the Group Chief Executive and Group Finance Director and a final short list was also seen by all of the other Directors.

The Board is mindful, in the context of the current focus on the value of gender diversity, of the Company's approach to the diversity of its management and of the representation of women in senior roles. During the appointment of Mr Sheldrick, a number of female candidates for the role were considered but Mr Sheldrick was appointed on merit as the best candidate for the role when judged against the specific criteria the Committee had set for that appointment. We have not set, and do not intend to set, a specific target for the number of female members of the Board and wish to continue to appoint the best candidate available to us for any particular role. However, in setting the criteria for selection of candidates, for both executive and non-executive roles, I am conscious that it is possible to inadvertently discourage the successful candidacy of women and we intend to bear this in mind for all future appointments and to continue to have regard to the benefits of diversity, including as to gender. We have requested of our search consultants that they provide a sufficient number of female candidates for any role. The Company is also now considering its approach to diversity more widely and is developing proposals for a formal diversity policy to allow it to establish guidance for progress in this area during 2012.

In the coming year, the Board and the Committee will be giving further detailed consideration to the organisation of the business in light of the further implementation of its strategy for growth outside its heartland markets, and the impact which this might have on plans for an orderly succession for appointments in senior management so that the Group continues to have the appropriate balance of skills and experience, and how this might, over time, allow it to augment and refresh membership of the Board.

In 2011, I also used the Nomination Committee to assist me in reviewing the training and development needs for each Director.

#### Relations with shareholders

I work to ensure that there is a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place. Whilst recognising that most shareholder contact is with the Group Chief Executive and Group Finance Director, I ensure that all Directors are made aware of major shareholders' issues and concerns in whatever ways are most practical and efficient. This includes meeting directly with our brokers and public relations advisers and receiving written reports from them, as well as through direct meetings with shareholders. The Board is also given copies of the reports on the Group written by analysts, of which there have been a much greater number in 2011 than recent years. It is also our practice to consider feedback from shareholders following results presentations. Our Non-Executive Directors have opportunities to meet with shareholders on request and, in 2012, I will encourage them to attend results presentations and investor days so that they have an opportunity to meet with key stakeholders in person.

The Company maintains good communications with its shareholders through its Interim and Annual Reports and through information posted on its website at [www.lowandbonar.com](http://www.lowandbonar.com). The Company holds regular meetings throughout the year with major shareholders, analysts and the financial press, in particular following the announcements of its interim and full year results. Visits for analysts and large shareholders are also arranged from time to time to operating units. I have met with a number of the Group's largest shareholders during the year to discuss governance and strategy with them.

The Company's Annual General Meeting is used as an opportunity to communicate with private investors. Shareholders attending the Annual General Meeting are invited to ask questions and to meet with the Directors informally after the meeting. I, as Chairman of the Board and Nomination Committee, Steve Hannam as Senior Independent Non-Executive Director and as Chairman of the Remuneration Committee, and John Sheldrick as Chairman of the Audit Committee, will answer questions, as appropriate, at the Annual General Meeting.

Shareholders are given the opportunity to vote separately on each proposal, including on the report and accounts. For each resolution, proxy appointment forms provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes for and against the resolution.

The numbers of proxy votes cast in respect of each resolution are announced after the resolution has been voted on by a show of hands. The Company ensures that all valid proxy appointments received for general meetings are properly recorded and counted by its registrar. For each resolution, where a vote has been taken on a show of hands, we ensure that the following information is given at the meeting and made available as soon as reasonably practicable on our website:

- the number of shares in respect of which proxy appointments have been validly made;



- the number of votes for the resolution;
- the number of votes against the resolution; and
- the number of shares in respect of which the vote was directed to be withheld.

Notice of the Annual General Meeting is sent to shareholders at least 20 working days prior to the date of the meeting.

### Internal control and risk management

The Directors acknowledge their responsibility for the systems of internal control within the Group. The purpose of these systems is to provide reasonable assurance as to the reliability of financial information and to maintain proper control over the income, expenditure, assets and liabilities of the Group. The Board has also reviewed in detail the areas of major risk that the Group faces in its operations. It has noted and is satisfied with the current control mechanisms and reporting lines that have been in place throughout the year. However, no system of control can provide absolute assurance against material misstatement or loss. In carrying out our review, the Directors have regard to what controls in our judgement are appropriate to the Group's businesses, to the materiality and the likelihood of the risks inherent in these businesses and to the relative costs and benefits of implementing specific controls.

In recognition of its responsibility for risk issues, the Board has reviewed the key risks associated with the business and will continue to do so as a regular agenda item at its meetings in the coming year. The Group also views the careful management of risk as a key management activity. Since 2010, the Group's work in the area of risk management has been facilitated by the Risk Oversight Committee. Its membership comprises the Group Chief Executive, the Group Finance Director (who chairs the Committee) and the other members of senior executive management, including the Deputy Group Finance Director, the Group Internal Auditor and the Head of Legal Affairs. Health and safety and environmental matters have been overseen by a sub-committee, known as the Environmental, Health and Safety Committee, which is chaired by the Group Health and Safety Director. In 2011, the Board considered again the work of the Committee and decided that formal responsibility for risk matters set out in the newly-revised Group Risk Register should be divided between the Board, the Audit Committee and the Risk Oversight Committee. The Board has primary responsibility for those risks broadly categorised as political risks, take-overs, funding and capital, acquisitions, the funding of pensions and investor relations. The Audit Committee has delegated responsibility for control of funding and capital, financial controls, evaluation and control of acquisitions, information, valuation and reporting in respect of pensions and treasury matters.

The Risk Oversight Committee has delegated responsibility for risks in the areas of health and safety, the environment, major physical or operational incidents, raw materials, product failure, new product development, competition, customers, human resources and regulatory and compliance issues. The Remuneration Committee considers risks associated with remuneration structures and advises the Board, the Audit Committee and the Risk Oversight Committee accordingly.

The Risk Oversight Committee meets at least three times a year and operates under formal terms of reference established by the Board and is committed to continuing to develop and embed risk management processes within the Group. The Risk Oversight Committee is specifically charged with developing Group management of, and policy towards, environmental, social and governance ("ESG") risks so that the Board may take account of their significance to the business of the Group in both the short and long term and to ensure that the Group has in place effective systems for managing and mitigating significant ESG risks, including appropriate key performance indicators. The work of all of the Board committees relating to risk management are discussed at full Board meetings on a regular basis in addition to the work undertaken by the Board on key risk issues. The Risk Oversight Committee receives reports from the Environmental, Health and Safety Committee and reports on relevant matters to the Board. The Group Health and Safety Director, who deals with health, safety and environmental issues, reports to the Risk Oversight Committee in his capacity as Chairman of the Environmental, Health and Safety Committee. The Group Internal Auditor has a direct reporting line to the Audit Committee and attends Audit Committee meetings by invitation.

In addition to the risk review process and the internal audit function, the Group operates within an established internal financial control framework, which can be described under three headings:

- Financial reporting. There is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reported against budget and revised forecasts for the year, which are prepared regularly.
- Operating unit controls. Financial controls and procedures, including information system controls, are detailed in the Group Policies and Procedures Manual. All operating units are required to confirm quarterly their compliance with policies and procedures set out in the manual (including those relating to health, safety and the environment), local laws and regulations and report any control weaknesses identified in the past year. Independent confirmation of compliance is obtained annually for selected operating units.
- Investment appraisal. The Group has clearly defined guidelines for capital expenditure which are also set out in the Group Policies and Procedures Manual. These include detailed appraisal and review procedures, levels of authority and post-completion audits. Where businesses are being acquired, detailed due diligence is undertaken in advance of acquisition.

The Company is committed to ensuring that all employees comply with all anti-trust legislation. To ensure that relevant employees are aware of the issues and receive the appropriate level of training and information, the Group has a personalised online anti-trust compliance training programme which all relevant personnel within the Group are required to complete on a regular basis.

The continued development and implementation of the risk management and internal control system across the Group has allowed the Directors to comply with the Code provisions on internal control in the course of the financial year ended 30 November 2011.

## Governance

### Corporate Governance *continued*

A key part of the work of the Risk Oversight Committee in 2011 has been ensuring that the Group has been able to respond adequately to the UK's Bribery Act 2010. The Committee oversaw an enterprise-wide risk assessment process and developed a detailed set of policies and procedures in response to the findings of that assessment. The Group values its reputation for ethical behaviour and for financial integrity and has a commitment to carry out business fairly, honestly and openly. We will not tolerate bribery in our dealings. It is illegal and harmful for business. Any involvement with improper inducements in order to secure business or gain any advantage for either any Group company or our employees reflects adversely on our image and reputation and undermines the confidence of our customers and other business partners in us. We seek to eliminate bribery in our business dealings by:

- setting out a clear anti-bribery policy;
- training all of our employees so that they can recognise and avoid the use of bribery by themselves and others;
- encouraging our employees to be vigilant and to report any suspicion of bribery through suitable channels of communication and ensuring sensitive information is treated appropriately;
- rigorously investigating instances of alleged bribery and assisting the police and other appropriate authorities in any resultant prosecution; and
- taking firm and vigorous action against any individual(s) involved in bribery.

## Directors' Report on Remuneration

The Remuneration Committee (the "Committee") has adopted the principles of good governance relating to directors' remuneration as set out in the Code. This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules made by the United Kingdom Listing Authority. These regulations require the Company's auditor to report on the "audited information" within the report and to state if this section of the report has been properly prepared in accordance with the regulations. This report has therefore been divided into separate sections for unaudited and audited information.

The report covers the remuneration policy for Directors and includes specific disclosures relating to Directors' emoluments, their shares and other interests. This remuneration report is being put to shareholders at the forthcoming Annual General Meeting for an advisory vote. The vote will be in respect of the remuneration policy and overall remuneration packages and will not be specific to individual levels of remuneration.

### Part 1: Unaudited Information 1. The Remuneration Committee

The Committee currently comprises the following Non-Executive Directors of the Company: Chris Littmoden, Chairman of the Committee; Folkert Blaisse; Martin Flower; John Sheldrick and Steve Hannam. John Sheldrick was appointed to the Committee on 1 October 2011, and the other Non-Executive Directors were members of the Committee throughout the year under review. All of the Committee members, with the exception of Mr Flower, are considered by the Board to be independent. Mr Flower became a member of the Committee on 6 July 2010 and, while it is no longer appropriate to apply the test of independence to him following his appointment as Chairman, he was considered by the Board to be independent on his initial appointment as a Non-Executive Director. Mr Hannam will succeed Mr Littmoden as Chairman of the Committee with effect from 1 March 2012.

The Group Chief Executive and the Group Finance Director may be invited to attend meetings of the Committee. The Committee keeps itself informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisers. During the year, the Committee sought advice from New Bridge Street ("NBS", an Aon Hewitt Company) and Freshfields Bruckhaus Deringer. The Group Chief Executive, the Group Finance Director and the Company Secretary also assist the Committee, except in relation to their own remuneration. NBS has no connection with the Company other than in the provision of advice in relation to executive remuneration and nor does Aon Hewitt, the ultimate parent company of NBS. Freshfields Bruckhaus Deringer provides legal advice to the Company on matters other than remuneration on a regular and continuing basis.

The Committee's remit is set out in the terms of reference which were reviewed during the year under review and are approved by the Board. A copy of the terms of reference is available on the Company's website. In 2011, the Committee recommended to the Board the broad policy for the remuneration of the Chairman, the Executive Directors and other senior executives.

### 2. Remuneration policy

The Group's remuneration policy is to ensure that the remuneration of Executive Directors and senior executives properly reflects their duties and responsibilities and is sufficient to recruit, retain and motivate high-quality executive talent, whilst aligning the interests of senior executives as closely as possible with the interests of shareholders. The remuneration of the Executive Directors has been structured to provide a significant performance-related element linked to the achievement of stretching performance targets.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosures, the Committee considers whether the incentive policies for Executive Directors and senior executives will raise any ESG issues or risks by inadvertently motivating irresponsible behaviour. More generally, the Committee also takes into account the principles of sound risk management when setting pay policies (with liaison between the Audit and Remuneration Committees where appropriate) and is satisfied that the current remuneration structure at Low & Bonar is appropriate. In reaching this conclusion, the Committee took into account the results of a remuneration risk assessment that was undertaken during the year under review. This assessment confirmed that the Company's remuneration policy is aligned with the Group's strategy and does not encourage undue risk taking given the internal controls operated by the Group, the range of performance measures used for incentive purposes and the significant weighting placed on long-term performance.

The Committee intends to keep the Company's remuneration policy under review to ensure that an appropriate balance between fixed and variable pay is maintained.

When setting Executive Directors' pay, the Committee takes due account of remuneration levels elsewhere in the Group (for example, consideration is given to the overall salary increase budget and incentive structures that operate across the Group).

## Governance

### Directors' Report on Remuneration *continued*

The main components of remuneration of the Executive Directors are as follows:

	Objective	Performance period	Policy
Basic salary	To position at a competitive level for similar roles in comparable international manufacturing companies and companies from across all FTSE sectors	Annually	Individual pay levels determined by reference to performance, skills and experience in post. Consideration given to the wider pay levels and salary increases across the Group
Performance-related bonus	To incentivise delivery of performance objectives	One year	Bonus payments are based on the achievement of challenging financial targets
Long-term Incentive Plans	To drive performance, aid retention and align the interests of Executive Directors with shareholders	Three years	50% of any award is subject to EPS growth. The remaining 50% is subject to the relative total shareholder return ("TSR") of the Company compared against the constituents of an appropriate FTSE index
Share ownership guidelines	To align interests of Executive Directors with shareholders	Ongoing	Executive Directors are expected to retain 50% of the after-tax number of vested long-term incentive awards until a shareholding of 100% of salary is achieved (applicable to awards granted from 2011 onwards)
Other benefits	To provide competitive benefits in line with market practice	Ongoing	Executive Directors receive a car allowance, private health insurance, death in service cover and a pension contribution. They may also join the SAYE share scheme

#### i) Basic salary – Executive Directors

The Committee considers the individual's role and responsibilities, performance, skills, experience and pay levels in similar roles in comparative international manufacturing companies and, more generally, companies from across all FTSE sectors. For guidance, the Committee sources relevant comparative pay data from its advisers (as appropriate). Furthermore, due consideration is also given to the wider pay levels and salary increases being proposed across the Group.

In terms of the salary levels of the current Executive Directors, these are as follows:

Group Chief Executive: £332,175 (effective from 1 December 2011; £322,500 from 1 December 2010); and Group Finance Director: £252,350 (effective from 1 December 2011; £245,000 from 1 December 2010).

The increase awarded to the Group Chief Executive and the Group Finance Director, at 3%, took due account of the cost of living salary increase budget set across the Group for the current financial year and also reflected the Company's desire to maintain a competitive level of total remuneration and to recognise robust performance over the financial year just completed.

#### ii) Performance-related bonus – Executive Directors

The maximum bonus potential is set at 100% of basic salary.

The bonus earned against the targets set for 2011 was 81.0% of salary. This bonus award reflected 98.7% of the maximum profit target being met (which determined 55% of the total bonus opportunity), a total of five of the month-end net debt targets for the year being met (which determined 25% of the total bonus opportunity) and 100% of the maximum sales volume growth target being met (which determined 20% of the total bonus opportunity). The sales volume growth target was underpinned by a minimum profit requirement to ensure that the sales growth and returns were delivered on a profitable basis. To provide further context on the level of performance delivered, profit before tax, amortisation and non-recurring items increased 26% from the result delivered in the year to 30 November 2010, total borrowings were maintained within the Group's target range of 1.5–2.0 times EBITDA and relevant sales volumes increased by 6%.

In 2012, the Executive Directors will again be eligible to receive a performance-related bonus of up to 100% of salary. However, reflecting the Group's stated medium-term objectives, the weighting applied to the Group's core short-term performance measures are to be rebalanced. There will be a greater focus on Group profit (60% of the total bonus opportunity) alongside a new focus on profitable sales volume growth outside of the Group's heartland markets (10% of the total bonus opportunity). As the Group has substantially reduced net debt over recent years and now has a stated policy to operate at or below a net debt to EBITDA ratio of 2 times, performance will no longer be measured against absolute net debt levels but will instead be measured against return on capital employed targets (30% of the total bonus opportunity).

With regard to the sales volume growth and return on capital employed targets, these will be underpinned by a minimum profit requirement to ensure that the sales growth and returns are delivered on a profitable basis. No bonus is earned against non-financial targets. The 2012 annual bonus will also be subject to clawback provisions which will enable the Committee to recover the value overpaid to an Executive Director in respect of 2012 performance in the event of a material misstatement of the Company's financial results or misconduct that leads to such material misstatement. The clawback provisions will operate for a two-year period following the date on which the bonus is paid.

### iii) Long-term Incentive Plans

#### *The Low & Bonar 2003 Long-term Incentive Plan (the "2003 LTIP")*

The 2003 LTIP, which was approved by shareholders in February 2003, and amended by shareholders in August 2005, forms the long-term element of the remuneration structure for the Executive Directors and senior executives.

Both restricted share awards (subject to challenging performance conditions and transferred to recipients without payment) and share options (also subject to performance conditions but requiring payment of an exercise price prior to transfer to recipients) may be granted under the 2003 LTIP. Executive Directors do not currently receive share options. At 30 November 2011, a total of 23 current employees of the Group held restricted share awards and 14 held share options.

Executive Directors have historically received awards of restricted shares under the 2003 LTIP which have been subject to a combination of EPS and TSR performance conditions. The use of EPS and TSR performance targets in tandem with the 2003 LTIP is considered to provide a well balanced set of performance measures focusing executives on internal and external performance. EPS is a key internal financial measure of performance and is fully aligned with measuring the Group's long-term success in delivering its profitable growth strategy. TSR focuses executives on the delivery of above-market returns which is in alignment with shareholders' interests.

#### *Quantum*

The maximum award that may be made to a participant in any financial year is 200% of salary, although awards to date have been restricted to 150% of salary, save that in relation to facilitating the appointment of Mr Holt in 2010, it was considered appropriate to grant an award equal to 180% of his salary on joining the Group taking into account his experience and abilities and remuneration forfeited in his joining Low & Bonar.

During the year under review, awards were granted with a value equal to 125% of salary to both Mr Good and Mr Holt.

A full summary of the awards made to the Executive Directors and the targets applying to each award are set out in Table 3 on page 47.

### *2012 Long-term incentive awards*

It is the Company's intention to make further awards to Executive Directors (and other members of the Company's senior management) in March 2012. The Committee currently intends to grant awards at 110% of salary to the Group Chief Executive and 100% to the Group Finance Director. In determining the level of awards to be granted, the Committee took into account (i) the need to set a competitive level of total remuneration to retain and motivate the Company's robustly performing executive team (ii) the Company's recent share price performance and (iii) the challenging range of targets set, with higher actual EPS performance requirements at the threshold and maximum performance levels than the awards granted during the year under review.

Awards granted under the 2003 LTIP in 2012 to Executive Directors will also be subject to clawback provisions which will enable the Committee to recover the value overpaid to an Executive Director under an award in respect of performance to the year ending 30 November 2014 in the event of a material misstatement of the Company's financial results or misconduct that leads to such material misstatement. The clawback provisions will operate for a two-year period following the date on which the awards vest.

As in prior years, awards will be split so that half will vest dependent on challenging EPS growth targets and half dependent on relative TSR measured against the constituents of the FTSE Small Cap Index. The proposed targets, each tested over three years, are as follows:

#### Relative Total Shareholder Return (50% of an award)

Low & Bonar TSR Ranking versus FTSE Small Cap Index (excluding investment trusts)	Percentage vesting
Below median	0%
Median	20%
Upper quartile	100%

#### Straight-line vesting between performance points

#### Earnings Per Share (50% of an award)

2014 adjusted EPS	Percentage vesting
Below 7.1p	0%
7.1p	20%
8.8p	100%

#### Straight-line vesting between performance points

The use of EPS and TSR reflects our continued long-term focus on earnings growth and creating shareholder value. Setting EPS targets as actual numbers for the financial year ending 30 November 2014 is considered to provide a clear and transparent approach to incentivising Executive Directors. The range of EPS targets reflect the current trading environment and are aligned with the Group Chief Executive's continued focus on profitable growth, which is a key factor in our strategy. We believe the targets to be appropriately challenging given the proposed level of the awards.

## Governance

### Directors' Report on Remuneration *continued*

When testing the targets, the Committee's policy is to (i) request from its advisers an independent assessment of the extent to which the relative TSR target has been satisfied and (ii) consider the Company's audited results (and the need to make any adjustments) when determining the extent of vesting in respect of EPS targets.

#### iv) Other share-based incentives

Executive Directors remain eligible to participate in the Low & Bonar 1997 Sharesave Scheme (the SAYE scheme), which is open to all eligible UK employees. During the year, options were granted under three- or five-year contracts at a 20% discount to the share price at the offer date. The maximum overall employee contribution is £250 per month. None of the Directors has an interest in this scheme except for Steve Good and Mike Holt.

The Company also operates the Low & Bonar 2007 Sharesave Scheme, which is open to a large number of the eligible non-UK employees and operates in a substantially similar way to the Low & Bonar 1997 Sharesave Scheme. None of the Directors has an interest in this scheme.

#### v) Share ownership guidelines

Share ownership guidelines operate in respect of long-term incentive awards. Executive Directors are expected to retain 50% of the after-tax number of future vested long-term incentive awards until a shareholding of equivalent value to 100% of salary is achieved (in respect of awards granted from 2011 onwards).

#### vi) Other benefits

Executive Directors receive a car allowance, private health insurance, death in service cover and a Company pension contribution of up to 25% of salary. They may also join the SAYE scheme on the same terms as all other Company employees.

### 3. Directors' service contracts and letters of appointment

#### i) Executive Directors

In setting notice periods and determining termination payments under Directors' service contracts, the Company's policy includes the following:

- notice periods should be set at one year or less to reflect the recommendations of the Code;
- in the event of termination, the Committee considers what compensation commitments the Directors' terms of appointment would entail and seeks to avoid rewarding poor performance where possible; and
- taking a robust line on reducing compensation to reflect departing Directors' obligations to mitigate loss.

In relation to the specific provisions included in each of the Executive Directors' service contracts that served during the year under review, these are detailed below.

#### a) Steve Good, Group Chief Executive

Steve Good entered into a service agreement in November 2003 (as amended in 2009 following his becoming Group Chief Executive) in respect of his appointment.

His employment may be terminated by the Company giving him not less than twelve months' notice in writing or by Mr Good giving the Company not less than six months' notice in writing. In the event of termination by the Company, the Company has the discretion to make a payment in lieu of notice (of his basic salary plus other emoluments (but not bonus)). In the event that Mr Good's employment is terminated by the Company, then the Company shall, if it is making a payment in lieu of notice, make a payment to him on the date of such notice of termination equivalent to his salary for a period of six months. Further payments are only made if Mr Good is not otherwise in full time employment at the time such payments become due.

#### b) Mike Holt, Group Finance Director

Mike Holt entered into a service agreement in September 2010 in respect of his appointment, which commenced on 22 November 2010.

His employment may be terminated by the Company giving him not less than twelve months' notice in writing or by Mr Holt giving the Company not less than six months' notice in writing. In the event of termination by the Company, the Company has the discretion to make a payment in lieu of notice (of his basic salary plus other emoluments (but not bonus)). In the event that Mr Holt's employment is terminated by the Company, then the Company shall, if it is making a payment in lieu of notice, make a payment to him on the date of such notice of termination equivalent to his salary for a period of six months. Further payments are only made if Mr Holt is not otherwise in full time employment at the time such payments become due.

Both Mr Good and Mr Holt can be dismissed without notice for gross misconduct.

It is the Company's policy that Board approval is required before any external appointment may be accepted by an Executive Director. Neither of the Executive Directors have external appointments.

#### ii) Non-Executive Directors

Non-Executive Directors do not have service contracts but are appointed pursuant to letters of appointment renewable usually for periods of three years as follows:

	Original appointment date	Renewed for a period of 3 years from
Steve Hannam <sup>1</sup>	1/9/2002	1/9/2011
Chris Littmoden <sup>1</sup>	23/2/2005	23/2/2011
Folkert Blaisse	1/1/2007	1/1/2010
Martin Flower <sup>2</sup>	1/1/2007	1/1/2010
John Sheldrick	1/10/2011	N/A

<sup>1</sup> Mr Hannam's appointment has been renewed until 31 August 2012.

Mr Littmoden's appointment has been renewed until 28 February 2012.

<sup>2</sup> Martin Flower became Chairman on 30 June 2010 and entered into a revised service contract as detailed below.

The appointment of the Non-Executive Directors may be terminated by either the Director or the Company giving six months' notice in writing. Continuation of an appointment is contingent on re-election by the shareholders as required by the Articles.

During the year under review, the remuneration of the Non-Executive Directors was reviewed by the Board (without the Non-Executive Directors participating in Board decisions) but was not increased and remains at £38,012, which is the third consecutive year without an increase being awarded. The fee for chairing the Remuneration Committee also remains at £5,000 and the fee for chairing the Audit Committee remains at £7,000.

The Non-Executive Directors do not participate in the Company's annual bonus scheme, in any of the Company's share incentive schemes or in the Company's pension scheme.

Remuneration paid to the Non-Executive Directors during the year is shown in Table 1 on page 46.

**iii) Martin Flower, Chairman**

Martin Flower has a service contract with the Company dated 12 February 2010 (which replaced his letter of appointment relating to his previous service as a Non-Executive Director dated 1 January 2007) under which he is paid a fee of £135,757. This fee was reviewed by the Committee, but not increased, for the year ending 30 November 2012. He does not participate in the Company's annual bonus scheme, in any of the Company's share incentive schemes or in the pension scheme.

Mr Flower's appointment is for a period of three years from 30 June 2010. The appointment may be terminated at any time by either party giving to the other six months' prior written notice. If the Company gives notice it may, at its discretion, terminate the appointment with immediate effect by paying an amount in respect of the fee for the notice period. Mr Flower's appointment as Chairman will terminate forthwith and without any compensation for loss of office if he is removed as a Director by resolution passed at a general meeting or if he ceases to be a Director pursuant to any provision of the Articles of Association.

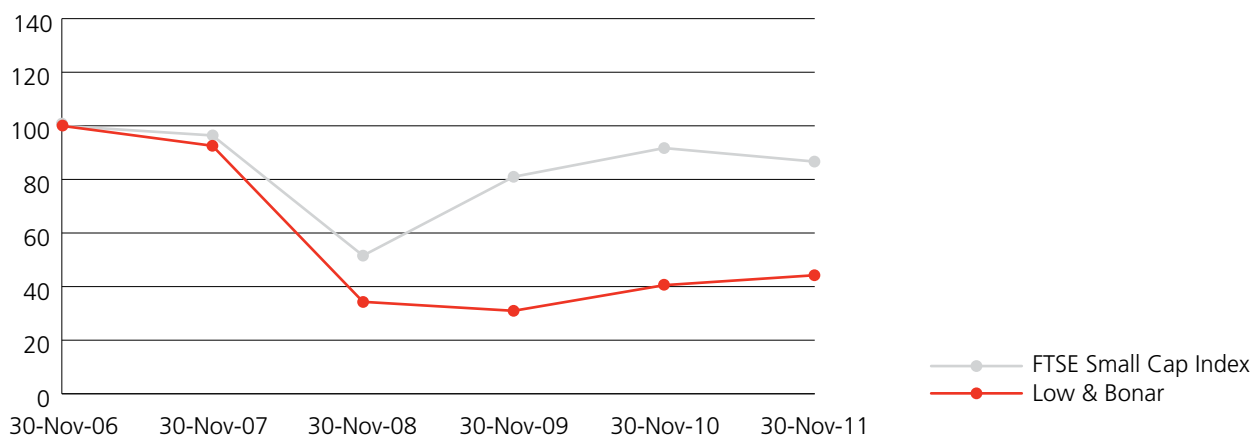
The Committee recommends the remuneration of the Chairman to the Board. Remuneration paid to the Chairman during the year is shown in Table 1 on page 46.

**4. Performance graph**

The following graph illustrates the TSR performance of the Company compared to the FTSE Small Cap Total Return Index (the "Index") over the past five years. The Index has been chosen as the appropriate benchmark for the Company. It is a recognised broad equity market index of which the Company has been a member throughout the period. The Index constituents are also used for the purposes of measuring the Company's relative TSR performance in the 2003 LTIP which governs 50% of each award's vesting. Performance, as required by legislation, is measured by TSR, being the increase in the share price over the period including the value of net dividends which are assumed to be reinvested in the Company's shares on the ex-dividend date by the Company.

**Total shareholder return**

source: Thomson Reuters



This graph shows the value, at 30 November 2011, of £100 invested in the Company's Ordinary Shares on 30 November 2006 compared with the value of £100 invested in the FTSE Small Cap Total Return Index. The other points plotted are the values at intervening financial year-ends.

## Governance

Directors' Report on Remuneration *continued*

## Part 2: Audited Information

Table 1 Analysis of individual Directors' emoluments

	Salaries and fees £	Annual bonus £	Pensions £	Benefits in kind <sup>2</sup> £	Total 2011 £	Total 2010 £
<b>Executive Directors</b>						
S Good <sup>3</sup>	322,500	261,225	80,625	18,155	<b>682,505</b>	710,067
M Holt <sup>1,3</sup>	245,000	198,450	61,250	17,837	<b>522,537</b>	8,782
K Higginson <sup>1</sup>	–	–	–	–	–	226,789
	<b>567,500</b>	<b>459,675</b>	<b>141,875</b>	<b>35,992</b>	<b>1,205,042</b>	<b>945,638</b>
<b>Non-Executive Directors</b>						
RD Clegg <sup>1,4</sup>	–	–	–	–	–	90,082
SJ Hannam <sup>5</sup>	43,835	–	–	–	<b>43,835</b>	43,012
C Littmoden <sup>6</sup>	43,012	–	–	–	<b>43,012</b>	43,012
MC Flower	135,757	–	–	–	<b>135,757</b>	78,739
FB Blaise	38,012	–	–	–	<b>38,012</b>	38,012
JN Sheldrick <sup>7</sup>	7,500	–	–	–	<b>7,500</b>	–
	<b>268,116</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>268,116</b>	<b>292,857</b>
	<b>835,616</b>	<b>459,675</b>	<b>141,875</b>	<b>35,992</b>	<b>1,473,158</b>	<b>1,238,495</b>

1 Mike Holt became a Director on 22/11/2010 and information in this report for 2010 relates only to the period from that date to 30/11/2010. Kevin Higginson was a Director until 24/8/2010 and information in this report for 2010 relates only to the period from 1/12/2009 up to that date. Duncan Clegg was a Director until 30/6/2010 and information in this report for 2010 relates only to the period from 1/12/2009 up to that date.

2 Benefits in kind are a car allowance and health insurance for the Director and his spouse/children under 21.

3 In addition to their salaries, the Executive Directors are entitled to a percentage of their basic salary to enable them to make retirement benefit arrangements. Payments made under this arrangement during the year were:

	% of annual basic salary	Cash payment, subject to statutory deductions £	Employer's contribution into personal pension plan £	Total payment in respect of retirement benefit arrangements £
M Holt	25	7,500	53,750	<b>61,250</b>
S Good	25	33,625	47,000	<b>80,625</b>
		<b>41,125</b>	<b>100,750</b>	<b>141,875</b>

4 Included in the fee paid to Duncan Clegg for 2010 was a fee of £7,500 for his chairmanship of the Low & Bonar Group Retirement Benefit Scheme (the "Scheme"). This fee was recharged by the Company to the Scheme.

5 Steve Hannam received a fee of £7,000 (2010: £5,000) for his Chairmanship of the Audit Committee (which is included in the number in the table). Mr Hannam ceased to Chair the Audit Committee on 1/10/2011.

6 Chris Littmoden received a fee of £5,000 for his Chairmanship of the Remuneration Committee (which is included in the number in the table).

7 John Sheldrick became a Director on 1/10/2011 and information in this report for 2011 relates only to the period from that date to 30/11/2011. Mr Sheldrick receives a fee of £7,000 for his chairmanship of the Audit Committee (a pro rata proportion of which is included in the number in the table).

Table 2 Directors' interests in shares

The interests of the Directors and their connected persons in the shares of the Company were:

	30/11/2011	1/12/2010
MC Flower	<b>388,142</b>	388,142
SJ Hannam	<b>348,232</b>	348,232
S Good	<b>208,193</b>	208,193
C Littmoden	<b>166,458</b>	161,437
FB Blaise	<b>124,285</b>	124,285
M Holt	–	–
J Sheldrick	–	–

During the period 1/12/2011 to 7/2/2012, no changes in Directors' interests have been notified to the Company.

No Director held any beneficial interest in or options over shares in or debentures of any other Group company at 30/11/2011 or at 7/2/2012.



Part 2: Audited Information *continued*

**Table 3 The Low & Bonar 2003 Long-Term Incentive Plan**

Awards held by Directors under the 2003 LTIP were as follows:

	At 1/12/2010	Awarded in year	Vested in year	Lapsed in year	At 30/11/2011	Award price	Date of award
S Good	292,858	–	–	–	<b>292,858</b>	35.00p	21/8/2009 <sup>1</sup>
S Good	146,428	–	–	–	<b>146,428</b>	35.00p	3/9/2009 <sup>1</sup>
S Good	1,397,932	–	–	–	<b>1,397,932</b>	33.00p	1/3/2010 <sup>2</sup>
M Holt	980,000	–	–	–	<b>980,000</b>	45.00p	22/11/2010 <sup>2</sup>
S Good	–	753,505	–	–	<b>753,505</b>	53.50p	15/3/2011 <sup>3</sup>
M Holt	–	572,430	–	–	<b>572,430</b>	53.50p	15/3/2011 <sup>3</sup>

- The performance criteria applying to these awards are structured as follows:  
50% of the shares are subject to an EPS growth target and 50% a relative TSR target measured against the constituents of the FTSE Small Cap Index. Under the EPS element, 25% of shares vest for EPS in the financial year ended 30/11/2011 of 4.2 pence, rising on a straight-line basis to full vesting for EPS of 5.0 pence. Under the TSR element, 25% of shares vest for median TSR, rising on a straight-line basis to full vesting for upper quartile.
- The performance criteria applying to these awards are structured as follows:  
50% of the shares are subject to an EPS growth target and 50% a relative TSR target measured against the constituents of the FTSE Small Cap Index. Under the EPS element, 25% of shares vest for EPS in the financial year ended 30/11/2012 of 4.7 pence, rising on a straight-line basis to full vesting for EPS of 5.4 pence. Under the TSR element, 25% of shares vest for median TSR, rising on a straight-line basis to full vesting for upper quartile.
- The performance criteria applying to these awards are structured as follows:  
50% of the shares are subject to an EPS growth target and 50% a relative TSR target measured against the constituents of the FTSE Small Cap Index. Under the EPS element, 20% of shares vest for EPS in the financial year ended 30/11/2013 of 5.9 pence, rising on a straight-line basis to full vesting for EPS of 7.0 pence. Under the TSR element, 20% of shares vest for median TSR, rising on a straight-line basis to full vesting for upper quartile.

**Directors' share options**

As at 30/11/2011, Steve Good held 24,643 options under the Low & Bonar 1997 Sharesave Scheme. As at 30/11/2011, Mike Holt held 36,039 options under the Low & Bonar 1997 Sharesave Scheme. No options were exercised by any Director during the year ended 30/11/2011. No options have been granted to any Director during the period 1/12/2011 to 7/2/2012.

The market price of a share at 30/11/2011 was 44.75p and the range during the year to 30/11/2011 was 42.30p to 77.00p.



**Christopher Littmoden**

Chairman, Remuneration Committee

On behalf of the Board of Directors

7 February 2012

## Governance

### Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and applicable laws and have elected to prepare the Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period.

In preparing each of the Group and Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Directors' Responsibility Statement required under the Disclosure and Transparency Rules

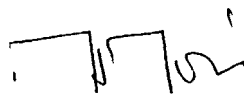
The Directors confirm, to the best of their knowledge, that:

- these financial statements, prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the management report, which comprises the Chairman's Statement and the Business Review, includes a fair review of the development and performance of the business and of the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by:



**Steve Good**  
7 February 2012



**Mike Holt**  
7 February 2012

## Independent Auditor's Report to the Members of Low & Bonar PLC

We have audited the financial statements of Low & Bonar PLC for the year ended 30 November 2011 set out on pages 50 to 97. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 November 2011 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Statement set out on pages 34 to 40 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 33, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

### Tim Widdas (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants  
St Nicholas House  
Park Row  
Nottingham  
NG1 6FQ

7 February 2012

## Financial Statements

### Consolidated Income Statement

for the year ended 30 November

	Note	2011			2010		
		Before amortisation and non-recurring items £m	Amortisation and non-recurring items (Note 5) £m	Total £m	Before amortisation and non-recurring items £m	Amortisation and non-recurring items (Note 5) £m	Total £m
<b>Revenue</b>	1	<b>388.7</b>	–	<b>388.7</b>	344.6	–	344.6
<b>Operating profit/(loss)</b>	1	<b>30.6</b>	–	<b>30.6</b>	25.8	(13.8)	12.0
Non-operating income	5	–	–	–	–	5.4	5.4
Financial income	6	<b>10.6</b>	–	<b>10.6</b>	10.4	–	10.4
Financial expense	6	<b>(17.8)</b>	–	<b>(17.8)</b>	(17.6)	–	(17.6)
Net financing costs		<b>(7.2)</b>	–	<b>(7.2)</b>	(7.2)	–	(7.2)
<b>Profit/(loss) before taxation</b>	2	<b>23.4</b>	–	<b>23.4</b>	18.6	(8.4)	10.2
Taxation	7	<b>(5.8)</b>	<b>1.6</b>	<b>(4.2)</b>	(5.8)	2.0	(3.8)
<b>Profit/(loss) after taxation</b>		<b>17.6</b>	<b>1.6</b>	<b>19.2</b>	12.8	(6.4)	6.4
<b>Profit/(loss) for the year from continuing operations</b>		<b>17.6</b>	<b>1.6</b>	<b>19.2</b>	12.8	(6.4)	6.4
<b>Profit for the year from discontinued operations</b>	28	–	<b>2.2</b>	<b>2.2</b>	–	–	–
<b>Profit/(loss) for the year</b>		<b>17.6</b>	<b>3.8</b>	<b>21.4</b>	12.8	(6.4)	6.4
<b>Attributable to</b>							
Equity holders of the Company		<b>17.2</b>	<b>3.8</b>	<b>21.0</b>	12.7	(6.4)	6.3
Minority interest	26	<b>0.4</b>	–	<b>0.4</b>	0.1	–	0.1
		<b>17.6</b>	<b>3.8</b>	<b>21.4</b>	12.8	(6.4)	6.4
<b>Earnings per share</b>	10						
Continuing operations:							
Basic		<b>5.97p</b>		<b>6.53p</b>	4.41p		2.19p
Diluted		<b>5.81p</b>		<b>6.36p</b>	4.37p		2.17p
Discontinued operations:							
Basic		–		<b>0.76p</b>	–		–
Diluted		–		<b>0.74p</b>	–		–
Total:							
Basic		<b>5.97p</b>		<b>7.29p</b>	4.41p		2.19p
Diluted		<b>5.81p</b>		<b>7.10p</b>	4.37p		2.17p

## Consolidated Statement of Comprehensive Income

for the year ended 30 November

	Note	2011 £m	2010 £m
<b>Profit for the year</b>		<b>21.4</b>	6.4
<b>Other comprehensive income</b>			
Actuarial gain/(loss) on defined benefit pension scheme	4	3.7	(0.2)
Deferred tax on defined benefit pension scheme	4	–	0.3
Exchange differences on translation of foreign operations, net of hedging		2.6	(9.7)
<b>Total other comprehensive income for the year, net of tax</b>		<b>6.3</b>	(9.6)
<b>Total comprehensive income for the year</b>		<b>27.7</b>	(3.2)
<b>Attributable to</b>			
Equity holders of the parent		27.1	(3.6)
Minority interest	26	0.6	0.4
		<b>27.7</b>	(3.2)

## Financial Statements

## Balance Sheets

as at 30 November

	Note	Group		Company	
		2011 £m	2010 £m	2011 £m	2010 £m
<b>Non-current assets</b>					
Goodwill	11	84.9	83.3	–	–
Intangible assets	12	40.6	44.8	–	–
Property, plant and equipment	13	115.0	113.7	0.3	0.3
Investment in subsidiaries	14	–	–	94.7	94.7
Investment in associate	15	0.4	0.4	–	–
Deferred tax assets	20	2.5	3.3	–	–
Other receivables	17	–	–	80.9	82.3
		<b>243.4</b>	245.5	<b>175.9</b>	177.3
<b>Current assets</b>					
Inventories	16	75.6	60.1	–	–
Trade and other receivables	17	75.2	67.6	79.4	101.8
Derivative assets	19	–	0.1	–	0.1
Cash and cash equivalents	19	20.9	11.6	9.8	0.4
		<b>171.7</b>	139.4	<b>89.2</b>	102.3
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	19	2.1	2.6	0.8	1.1
Current tax liabilities	18	5.4	8.4	1.8	1.8
Trade and other payables	18	80.2	71.6	22.2	15.0
Provisions	21	0.5	3.6	–	–
Derivative liabilities	19	–	16.0	–	15.9
		<b>88.2</b>	102.2	<b>24.8</b>	33.8
<b>Net current assets</b>		<b>83.5</b>	37.2	<b>64.4</b>	68.5
<b>Total assets less current liabilities</b>		<b>326.9</b>	282.7	<b>240.3</b>	245.8
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	19	104.1	71.0	104.1	71.0
Deferred tax liabilities	20	24.8	25.5	–	–
Post employment benefits	4	14.2	26.0	6.1	17.9
Other payables	22	1.0	0.8	–	31.2
		<b>144.1</b>	123.3	<b>110.2</b>	120.1
<b>Net assets</b>		<b>182.8</b>	159.4	<b>130.1</b>	125.7
<b>Equity attributable to equity holders of the parent</b>					
Share capital	23	45.3	45.3	45.3	45.3
Share premium account	24	54.1	54.1	54.1	54.1
Translation reserve	25	(28.6)	(31.0)	–	–
Retained earnings		106.1	85.7	30.7	26.3
<b>Total equity attributable to equity holders of the parent</b>		<b>176.9</b>	154.1	<b>130.1</b>	125.7
Equity holders of the parent					
Minority interest	26	5.9	5.3	–	–
<b>Total equity</b>		<b>182.8</b>	159.4	<b>130.1</b>	125.7

The consolidated financial statements on pages 50 to 97 were approved by the Board on 7 February 2012 and signed on its behalf by:



**Steve Good**  
7 February 2012  
Registered number: SC008349



**Mike Holt**  
7 February 2012

## Consolidated Cash Flow Statement

for the year ended 30 November

	Note	2011 £m	2010 £m
<b>Profit for the year from continuing operations</b>		<b>19.2</b>	6.4
<b>Profit for the year from discontinued operations</b>		<b>2.2</b>	–
<b>Profit for the year</b>		<b>21.4</b>	6.4
Adjustments for:			
Depreciation and impairment		12.3	13.7
Amortisation		6.3	6.8
Income tax expense		4.2	3.8
Net financing costs		7.2	7.2
Non-recurring pension credits		(6.0)	–
Partial EU fine refund		(2.2)	–
(Increase)/decrease in inventories		(15.3)	0.1
Increase in trade and other receivables		(2.5)	(7.4)
Increase in trade and other payables		6.7	7.8
Decrease in provisions		(3.1)	(2.2)
(Gain)/loss on disposal of property, plant and equipment		(0.2)	0.1
Equity-settled share-based payment		0.9	0.3
<b>Cash inflow from operations</b>		<b>29.7</b>	36.6
Interest received		2.9	3.4
Interest paid		(8.7)	(8.1)
Tax paid		(7.6)	(3.3)
Pension cash contributions in excess of operating charge		(3.4)	(3.2)
<b>Net cash inflow from operating activities</b>		<b>12.9</b>	25.4
Prepaid participation in joint ventures		(1.7)	–
Acquisition of property, plant and equipment		(12.1)	(6.7)
Intangible assets purchased		(1.0)	(0.7)
Proceeds from disposal of property, plant and equipment		0.4	–
<b>Net cash outflow from investing activities</b>		<b>(14.4)</b>	(7.4)
Drawdown of borrowings		66.7	38.3
Repayment of borrowings		(33.5)	(48.4)
Finance lease capital repayments		(0.2)	(0.1)
Settlement of cash flow hedges		(16.9)	(9.3)
Equity dividends paid		(5.2)	(3.7)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>10.9</b>	(23.2)
<b>Net cash inflow/(outflow)</b>	27	<b>9.4</b>	(5.2)
<b>Cash and cash equivalents at start of year</b>		<b>11.6</b>	16.2
Foreign exchange differences		(0.1)	0.6
<b>Cash and cash equivalents at end of year</b>		<b>20.9</b>	11.6

## Financial Statements

### Company Cash Flow Statement

for the year ended 30 November

	Note	2011 £m	2010 £m
<b>Profit for the year</b>		<b>5.0</b>	24.6
Adjustments for:			
Depreciation		–	0.1
Income tax (credit)/expense		<b>(0.1)</b>	0.1
Net financing costs		<b>1.0</b>	1.8
(Increase)/decrease in receivables		<b>(6.1)</b>	10.8
Increase in payables		<b>7.3</b>	0.7
Decrease in provisions		–	(5.4)
Non-recurring pension credits		<b>(6.0)</b>	–
Partial EU fine refund		<b>(1.0)</b>	–
Decrease in net financial liabilities		<b>(0.8)</b>	(11.1)
Equity-settled share-based payment		<b>0.9</b>	0.3
<b>Cash inflow from operations</b>		<b>0.2</b>	21.9
Interest received		<b>11.0</b>	5.8
Interest paid		<b>(9.9)</b>	(5.1)
Pension cash contributions in excess of operating charge		<b>(3.0)</b>	(3.0)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(1.7)</b>	19.6
<b>Net cash inflow from investing activities</b>		–	–
Drawdown of borrowings		<b>66.7</b>	38.3
Repayment of borrowings		<b>(33.5)</b>	(47.0)
Settlement of cash flow hedges		<b>(16.9)</b>	(9.3)
Equity dividends paid		<b>(5.2)</b>	(3.7)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>11.1</b>	(21.7)
<b>Net cash inflow/(outflow)</b>	27	<b>9.4</b>	(2.1)
<b>Cash and cash equivalents at start of year</b>		<b>0.4</b>	2.5
Foreign exchange differences		–	–
<b>Cash and cash equivalents at end of year</b>		<b>9.8</b>	0.4



## Consolidated Statement of Changes in Equity

for the year ended 30 November

	Share capital £m	Share premium £m	Translation reserve £m	Retained earnings £m	Equity attributable to equity holders of the parent £m	Minority interest £m	Total equity £m
At 1 December 2009	45.3	54.1	(21.0)	82.7	161.1	4.9	166.0
Profit for the year	–	–	–	6.3	6.3	0.1	6.4
Actuarial loss on defined benefit pension scheme	–	–	–	(0.2)	(0.2)	–	(0.2)
Deferred tax on defined benefit pension scheme	–	–	–	0.3	0.3	–	0.3
Exchange differences on translation of foreign operations, net of hedging	–	–	(10.0)	–	(10.0)	0.3	(9.7)
Dividends paid to Ordinary Shareholders	–	–	–	(3.7)	(3.7)	–	(3.7)
Share-based payment	–	–	–	0.3	0.3	–	0.3
Net (decrease)/increase for the year	–	–	(10.0)	3.0	(7.0)	0.4	(6.6)
At 30 November 2010	45.3	54.1	(31.0)	85.7	154.1	5.3	159.4
<b>Profit for the year</b>	–	–	–	<b>21.0</b>	<b>21.0</b>	<b>0.4</b>	<b>21.4</b>
<b>Actuarial gain on defined benefit pension scheme</b>	–	–	–	<b>3.7</b>	<b>3.7</b>	–	<b>3.7</b>
<b>Deferred tax on defined benefit pension scheme</b>	–	–	–	–	–	–	–
<b>Exchange differences on translation of foreign operations, net of hedging</b>	–	–	<b>2.4</b>	–	<b>2.4</b>	<b>0.2</b>	<b>2.6</b>
<b>Dividends paid to Ordinary Shareholders</b>	–	–	–	<b>(5.2)</b>	<b>(5.2)</b>	–	<b>(5.2)</b>
<b>Share-based payment</b>	–	–	–	<b>0.9</b>	<b>0.9</b>	–	<b>0.9</b>
<b>Net increase for the year</b>	–	–	<b>2.4</b>	<b>20.4</b>	<b>22.8</b>	<b>0.6</b>	<b>23.4</b>
<b>At 30 November 2011</b>	<b>45.3</b>	<b>54.1</b>	<b>(28.6)</b>	<b>106.1</b>	<b>176.9</b>	<b>5.9</b>	<b>182.8</b>

## Financial Statements

### Company Statement of Changes in Equity

for the year ended 30 November

	Share capital £m	Share premium £m	Retained earnings £m	Equity attributable to equity holders of the parent £m
At 1 December 2009	45.3	54.1	4.5	103.9
Profit for the year	–	–	24.6	24.6
Actuarial gain on defined benefit pension scheme	–	–	0.6	0.6
Dividends paid to Ordinary Shareholders	–	–	(3.7)	(3.7)
Share-based payment	–	–	0.3	0.3
Net increase for the year	–	–	21.8	21.8
At 30 November 2010	45.3	54.1	26.3	125.7
<b>Profit for the year</b>	–	–	<b>5.0</b>	<b>5.0</b>
<b>Actuarial gain on defined benefit pension scheme</b>	–	–	<b>3.7</b>	<b>3.7</b>
<b>Dividends paid to Ordinary Shareholders</b>	–	–	<b>(5.2)</b>	<b>(5.2)</b>
<b>Share-based payment</b>	–	–	<b>0.9</b>	<b>0.9</b>
<b>Net increase for the year</b>	–	–	<b>4.4</b>	<b>4.4</b>
<b>At 30 November 2011</b>	<b>45.3</b>	<b>54.1</b>	<b>30.7</b>	<b>130.1</b>

## Significant Accounting Policies

### General information

Low & Bonar PLC (the "Company") is a company domiciled in Scotland and incorporated in Scotland under the Companies (Consolidation) Act 1908. The address of the registered office is Whitehall House, 33 Yeaman Shore, Dundee, DD1 4BJ. The management head office is 9th Floor, Marble Arch Tower, 55 Bryanston Street, London, W1H 7AA.

The consolidated financial statements of the Company for the year ended 30 November 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

### (A) Basis of preparation

The financial statements are presented in Pounds Sterling, rounded to the nearest hundred thousand Pounds. They are prepared on the historical cost basis except for the revaluation to fair value of certain financial instruments. UK company law requires directors to consider whether it is appropriate to prepare the financial statements on the basis that the Company and the Group are a going concern.

The Group's business activities, together with the factors likely to affect its future development, performance and position, together with details of cash flows and borrowing requirements, are set out in the Business Review on pages 1 to 29. The further information contained in the Business Review and Note 19 to the financial statements includes the Group's objectives, policies and processes for managing its capital, financial risks and hedging activities together with its exposure to credit and liquidity risks. The principal risks and uncertainties section on pages 24 and 25 provides further details of the principal risks affecting the Group and Company.

The current global economic conditions create uncertainty, particularly over the level of demand for the Group's products and the price of its raw materials.

The Directors have reviewed the Group's medium-term forecasts to determine whether the committed banking facilities are sufficient to support the Group's projected liquidity requirements and whether the forecast earnings are sufficient to meet the covenants associated with the banking facilities. The Group manages its day-to-day working capital requirements utilising the current facilities available to it (see Note 19).

In December 2010, the Group agreed new borrowing facilities in the form of a €130m revolving loan facility that replaced previous banking facilities and matures in February 2015. The new facility is in addition to the €45m private placement note which was issued in September 2010 and which matures in September 2016.

After making enquiries, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future, and are not aware of any material uncertainties related to events or conditions that may cast significant doubt about the ability of the Company and the Group to continue as a going concern. Accordingly, they have continued to adopt the going concern basis in preparing the financial statements.

Both the parent Company financial statements and the Group financial statements have been prepared in accordance with IFRS as adopted by the EU ("adopted IFRS"). At the date of authorisation of these financial statements, there are a number of Standards, Interpretations and Amendments in issue but not yet effective and which have therefore not yet been applied in these financial statements (accounting policy X).

On publishing the parent Company financial statements here together with the Group financial statements, the Company has taken advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes which form a part of these approved financial statements.

The adopted IFRS applied by the Group in the preparation of these financial statements are those that were effective at 30 November 2011. The Group has adopted the following new Standards, Interpretations and Amendments which became effective during the year with no significant impact on the Group's consolidated financial results or position:

- Amendment to IFRS 2 Share-based Payment (Group cash-settled share-based payment transactions).
- Amendment to IAS 32 Financial Instruments: Presentation (Classification of rights issues).
- IFRIC 19 Extinguishing Financial Instruments with Equity Instruments.
- Improvements to IFRS 2010.

### (B) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are those entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In the parent Company financial statements, investments in subsidiaries are carried at cost less impairment.

The interest of minority shareholders is initially stated at the minority's share of the fair values of the identifiable assets and liabilities recognised on the date of acquisition.

#### (ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity-accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

## Financial Statements

### Significant Accounting Policies *continued*

#### **(iii) Joint ventures**

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

The Group accounts for its joint ventures using the equity method. The investment in the joint venture is recognised initially at cost and is adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture.

#### **(iv) Transactions eliminated on consolidation**

Intra-Group balances and transactions and any unrealised gains arising from intra-Group transactions are eliminated in preparing the consolidated financial statements.

#### **(v) Discontinued operations**

A discontinued operation is a component of the Group's businesses that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

#### **(C) Foreign currency**

##### **(i) Foreign currency transactions**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Pounds Sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Pounds Sterling at exchange rates ruling at the date the fair values were determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

##### **(ii) Translation of foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The income statements of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the date of the transactions. Exchange differences arising from the translation of foreign operations, and of related qualifying hedges, are taken to Other Comprehensive Income. They are released to the income statement upon disposal. Monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future are treated as part of the net investment in the foreign operation.

##### **(iii) Hedging of risks**

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward exchange contracts (see accounting policies D and E).

#### **(D) Derivative financial instruments**

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks arising from operational and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value. Derivative financial instruments are subsequently remeasured to their fair value with the resulting gain or loss being recognised in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resulting gain or loss depends on the nature of the item being hedged (see accounting policy E).

Financial instruments carried at fair value are required to be measured by reference to the following levels:

Level 1: quoted prices in active markets for identical instruments;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the instrument, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or

Level 3: inputs for the instrument that are not based on observable market data (unobservable inputs).

All financial instruments have been measured using a Level 2 valuation method.

#### **(E) Hedging**

##### **(i) Cash flow hedges**

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, a firm commitment or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised in Other Comprehensive Income. When the firm commitment or forecast transaction results in the recognition of a non-financial asset or liability, the cumulative gain or loss is removed from equity and included in the initial measurement of the asset or liability. Otherwise, the cumulative gain or loss is removed from equity and recognised in the income statement at the same time as the hedged transaction. The ineffective part of any gain or loss is recognised in the income statement immediately.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

##### **(ii) Hedge of net investment in foreign operation**

Exchange differences arising from the translation of the net investment in foreign operations, and of related hedges, are taken to the translation reserve. They are released to the income statement upon disposal of the foreign operation.

In respect of all foreign operations, any differences that have arisen since 1 December 2004, the date of transition to IFRS, are presented as a separate component of equity in the Group financial statements. When foreign operations have been disposed of, any cumulative differences are recycled to retained earnings.

The Group tests effectiveness on a prospective and retrospective basis to ensure compliance with IAS 39.

## **(F) Property, plant and equipment**

### **(i) Owned assets**

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy K). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. Borrowing costs related to the acquisition or construction of qualifying assets are capitalised.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant, property and equipment.

### **(ii) Leased assets**

Leases whereby the Company or the Group assume substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy K). Lease payments are accounted for as described in accounting policy R. Where land and buildings are held under lease the accounting treatment of the land is considered separately from that of buildings.

### **(iii) Subsequent expenditure**

The Company and the Group recognise in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred, if it is probable that the future economic benefits associated with the item will flow to the Company or the Group and the cost of the item can be measured reliably. Subsequent costs are capitalised if it is probable that the future economic benefits will flow to the entity, and the costs can be reliably measured.

### **(iv) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment and major components that are accounted for separately. Land is not depreciated.

The estimated useful lives for significant classes of assets are as follows:

– property	10–50 years
– plant and equipment	3–15 years

For other assets, the useful economic lives are:

– fixtures and fittings	3–7 years
– computer hardware	2–5 years
– tooling	1–5 years
– motor vehicles	3–5 years

## **(G) Intangible assets**

### **(i) Goodwill**

Goodwill is recognised only in a business combination and is measured as a residual. Goodwill represents the excess of the fair value of the consideration paid over the share of the identifiable assets acquired and liabilities assumed.

Goodwill is stated at deemed cost less any accumulated impairment losses (see accounting policy K).

### **(ii) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement when it is incurred.

Expenditure on development activities, where research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense is incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see accounting policy K).

### **(iii) Other intangible assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see accounting policy K). Expenditure on internally generated goodwill and brands is recognised in the income statement when it is incurred.

### **(iv) Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite life are not amortised but are systematically tested for impairment annually and further tested at each balance sheet date if there is any evidence of potential impairment. Other intangible assets are amortised from the date that they are available for use.

## Financial Statements

### Significant Accounting Policies *continued*

The estimated useful lives of the identified intangible assets are as follows:

– technology based	5–10 years
– customer relationships	4–11 years
– marketing related	10 years
– order backlog	3 months
– non-compete agreements	4–5 years
– software	3–5 years

#### (H) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at their amortised cost less impairment losses (see accounting policy K).

#### (I) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

#### (J) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's or the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### (K) Impairment

The carrying amounts of the Company's and the Group's assets, other than inventories (accounting policy I), and deferred tax assets (accounting policy T) are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units (group of units) and then to reduce the carrying amount of other assets in the unit (group of units) on a pro rata basis. Impairment losses are recognised in the income statement.

An impairment loss in respect of goodwill is not reversible. Other impairment losses are reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### (i) Calculation of recoverable amount

Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their 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 assumptions of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

#### (L) Share capital

##### (i) Preference share capital

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of financial expenses. Finance payments associated with financial instruments that are classified in equity are dividends, and are recorded directly in equity.

##### (ii) Dividends

Dividends on redeemable Preference Shares are recognised as a liability on an accruals basis. Dividends on Ordinary Shares are recognised as a liability in the period in which they are declared. Dividend income is recognised in the income statement on the date that the dividend is declared.

##### (iii) Equity transaction costs

Directly attributable and incremental transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

### **(M) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective-interest basis.

### **(N) Employee benefits**

The Company and the Group operate defined benefit pension plans and defined contribution pension plans. The Company also offers share-based compensation benefits to certain employees of the Group.

#### **(i) Defined contribution plans**

A defined contribution pension plan is one under which fixed contributions are paid to a third party. The Company and the Group have no further payment obligations once these contributions have been paid. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

#### **(ii) Defined benefit plans**

A defined benefit pension plan is one that specifies the amount of pension benefit that an employee will receive on retirement. The Company's and the Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating to the terms of the Company's or the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Where the calculation results in a benefit to the Company or the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The Group determines the extent to which payments made which fulfil obligations to make future contributions to cover an existing shortfall will be available as a refund or reduction in future contributions after they are paid in to the plan. To the extent that the contributions payable will not be available after they are paid in to the plan, the Group recognises a liability when the obligation arises.

Actuarial gains and losses are recognised immediately in Other Comprehensive Income.

#### **(iii) Equity and equity-related compensation benefits**

The Company and Group have applied the requirements of IFRS 2. In accordance with the exemption available within the transitional provisions of IFRS 1, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005.

The Company operates various equity-settled and cash-settled share option schemes. Equity-settled share-based payments are measured at fair value at the date of the grant, and the fair value determined at the grant date of these payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured taking into account market conditions and by use of the Black-Scholes model or a Stochastic model, as appropriate. Measurement inputs include share price at the measurement date, exercise price of the instrument, expected volatility (based on historic volatility patterns), the expected dividend yield and the risk-free interest rate (calculated based on UK Gilts with a term commensurate with the expected term remaining of the performance period at grant). The fair values of cash-settled payments are re-measured at each balance sheet date and the cost of these payments is recognised over the vesting period, taking into account the re-measurement of fair value at each balance sheet date.

The Low & Bonar 1995 Employees' Share Ownership Plan Trust (the "ESOP") purchases shares in the Company in order to satisfy awards made under the Company's Long-term Incentive Plan. Shares held by the ESOP are treated as treasury shares and a deduction is computed in the Company's issued share capital for the purposes of calculating EPS.

### **(O) Provisions**

A provision is recognised in the balance sheet when the Company or the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to the affected parties.

### **(P) Trade and other payables**

Trade and other payables are initially recognised at fair value and thereafter stated at their amortised cost. They are not interest-bearing.

### **(Q) Revenue**

#### **Goods sold and services rendered**

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 the Group has transferred the significant risks and rewards of ownership of the goods to the buyer (which is predominantly on despatch as most items are sold on a CIF basis), the amount of revenue can be measured reliably and it is probable that the economic benefits of the transaction will flow to the Group.

### **(R) Expenses**

#### **(i) Operating lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

## Financial Statements

### Significant Accounting Policies *continued*

#### **(ii) Finance lease payments**

Payments made under finance leases are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

#### **(iii) Net financing costs**

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, return on scheme assets and interest costs on scheme liabilities in respect of defined benefit pension schemes, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement (see accounting policy E). Interest income is recognised in the income statement as it accrues, using the effective interest rate.

#### **(S) Non-recurring items**

Items which are both material and non-recurring are presented within their relevant consolidated income statement category and are described in more detail in Note 5. The separate reporting of non-recurring items helps provide a better indication of the Group's underlying business performance.

#### **(T) Taxation**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in Other Comprehensive Income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, goodwill in respect of acquisitions prior to 1 December 2004 and differences relating to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(U) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Directors.

#### **(V) Significant judgements and estimates**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

A number of accounting estimates and judgements are incorporated within the provision for post employment obligations and are discussed in Note 4. In relation to the Group's property, plant and equipment (Note 13), useful economic lives and residual values of assets have been established using historical experience and an assessment of the nature of the assets involved. Impairment tests have been undertaken with respect to goodwill and intangible assets (Notes 11 and 12) using commercial judgement and a number of assumptions and estimates have been made to support their carrying amounts. Estimating a value in use amount requires management to make an estimate of the future expected cash flows from each cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

A number of accounting estimates and judgements are incorporated within the impairment provisions for trade receivables which are described in more detail in Note 17. A number of accounting estimates and judgements are incorporated within the provisions for share-based payments. These are described in more detail in Note 23.

The Group is required to estimate the corporation tax in each of the jurisdictions in which it operates. This requires an estimate of the current tax liability together with an assessment of the temporary differences which arise as a result of different accounting and tax treatments. These temporary differences result in deferred tax assets or liabilities which are recognised in the balance sheet. Deferred tax assets are only recognised to the extent that it is more likely than not that the asset will be realised in the future. This evaluation requires judgements to be made including the forecast of future taxable income.



The Group operates in a variety of countries in the world and is subject to various tax jurisdictions and rules. The Group is subject to tax audits, which can require several years to conclude. Management judgement is required to determine the total provision for income tax. Amounts accrued are based on management's interpretation of country specific tax law and the likelihood of settlement. However, actual tax liabilities could differ from the provision. This may require an adjustment in a subsequent period which could have a material impact on the Group's profit or loss and cash position.

#### **(W) Financial guarantee contracts**

With respect to financial guarantee contracts, where the Company enters into such contracts to guarantee the indebtedness of other companies within the Group, these are considered to be insurance arrangements and are accounted for as such. In this respect, the Company treats the guarantee contract as a contingent liability unless it becomes probable that the Group will be required to make a payment under the guarantee.

#### **(X) New IFRS not yet applied**

On the date on which these financial statements were authorised the following Standards, Interpretations and Amendments had been issued by the IASB or IFRIC but were not effective for the year ended 30 November 2011 and have not yet been adopted by the Group:

- Amendments to IFRS 7 Financial Instruments: Disclosures<sup>1</sup> – effective for the year ending 30 November 2012.
- IFRS 9 Financial Instruments and additions to IFRS 9 (issued October 2010) – effective for the year ending 30 November 2016.
- IFRS 10 Consolidated Financial Statements – effective for the year ending 30 November 2014.
- IFRS 11 Joint Arrangements – effective for the year ending 30 November 2014.
- IFRS 12 Disclosure of Interests in Other Entities – effective for the year ending 30 November 2014.
- IFRS 13 Fair Value Measurement – effective for the year ending 30 November 2014.
- Amendments to IAS 1 Financial Statement Presentation – effective for the year ending 30 November 2013.
- Amendments to IAS 12 Income Taxes – effective for the year ending 30 November 2012.
- Amendments to IAS 19 Employee Benefits – effective for the year ending 30 November 2014.
- Revised IAS 24 Related Party Disclosures<sup>1</sup> – effective for the year ending 30 November 2012.
- IAS 27 Separate Financial Statements – effective for the year ending 30 November 2014.
- IAS 28 Investments in Associates and Joint Ventures – effective for the year ending 30 November 2014.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine – effective for the year ending 30 November 2014.

<sup>1</sup> Denotes that the Standard or Interpretation has been endorsed by the European Financial Reporting Advisory Group.

The Amendments to IAS 19 will alter the measurement, recognition and disclosure requirements for the Group's defined benefit plans.

The adoption of IFRS 9 will affect the measurement and disclosure of financial instruments.

IFRS 11 will affect the Group's accounting policy for joint arrangements.

The Directors do not expect that the adoption of the other Standards, Interpretations and Amendments listed above will have a material impact on the financial statements of the Group in future periods.

## Financial Statements

### Notes to the Accounts

#### 1. Segmental information

For the purposes of management reporting to the chief operating decision maker, the Group is organised into two reportable operating divisions – Performance Technical Textiles and Technical Coated Fabrics. Financial information for each operating division is also available in a disaggregated form in line with the identified cash generating units. Segment assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis.

The Group's principal activities are in the international manufacturing and supply of those performance materials commonly referred to as technical textiles. The global technical textiles industry comprises, inter alia, fibres, yarns, woven fabrics and non-woven fabrics serving diverse markets such as the hygiene, automotive, construction, industrial and healthcare markets. The Group's business is focused on two areas of activity in the international technical textiles industry: the production and supply of (a) performance technical textiles and (b) technical coated fabrics for use in the transport, print and architectural markets.

Unallocated items comprise mainly cash and cash equivalents, interest-bearing loans, borrowings, derivative assets and liabilities, post employment benefits, taxation balances and corporate assets and expenses. Intra-segment sales are not material.

	2011			Total £m
	Performance Technical Textiles £m	Technical Coated Fabrics £m	Unallocated Central £m	
Revenue from external customers – continuing operations	269.3	119.4	–	388.7
Operating profit before amortisation and non-recurring items	23.1	10.7	(3.2)	30.6
Amortisation	(2.7)	(3.0)	–	(5.7)
Operating profit before non-recurring items	20.4	7.7	(3.2)	24.9
Non-recurring items	–	–	5.7	5.7
Operating profit	20.4	7.7	2.5	30.6
Net financing costs				(7.2)
Profit before taxation				23.4
Taxation				(4.2)
Profit for the year – continuing operations				19.2
Reportable segment assets	176.8	87.5	–	264.3
Intangible assets and goodwill				125.5
Investment in associate				0.4
Cash and cash equivalents				20.9
Other unallocated assets				4.0
<b>Total Group assets</b>				<b>415.1</b>
Reportable segment liabilities	(55.9)	(22.0)	–	(77.9)
Loans and borrowings				(106.2)
Derivative liabilities				–
Post employment benefits				(14.2)
Other unallocated liabilities				(34.0)
<b>Total Group liabilities</b>				<b>(232.3)</b>
<b>Other information</b>				
Additions to property, plant and equipment	9.5	2.6	–	12.1
Depreciation	8.8	3.5	–	12.3

1. Segmental information *continued*

	2010			Total £m
	Performance Technical Textiles £m	Technical Coated Fabrics £m	Unallocated Central £m	
Revenue from external customers – continuing operations	239.2	105.4	–	344.6
Operating profit before amortisation and non-recurring items	19.1	9.7	(3.0)	25.8
Amortisation	(3.7)	(3.1)	–	(6.8)
Operating profit before non-recurring items	15.4	6.6	(3.0)	19.0
Non-recurring items	(6.6)	–	(0.4)	(7.0)
Operating profit	8.8	6.6	(3.4)	12.0
Non-operating income (non-recurring items)				5.4
Net financing costs				(7.2)
Profit before taxation				10.2
Taxation				(3.8)
Profit for the year – continuing operations				6.4
Reportable segment assets	160.2	81.1	–	241.3
Intangible assets and goodwill				128.1
Investment in associate				0.4
Cash and cash equivalents				11.6
Other unallocated assets				3.5
<b>Total Group assets</b>				<b>384.9</b>
Reportable segment liabilities	(49.6)	(20.0)	–	(69.6)
Loans and borrowings				(73.6)
Derivative liabilities				(16.0)
Post employment benefits				(26.0)
Other unallocated liabilities				(40.3)
<b>Total Group liabilities</b>				<b>(225.5)</b>
<b>Other information</b>				
Additions to property, plant and equipment	4.7	2.0	–	6.7
Depreciation	9.4	3.4	0.1	12.9

## Financial Statements

### Notes to the Accounts *continued*

#### 1. Segmental information *continued*

The geographical analysis of external revenue by location of customers and non-current assets by location of assets, as presented to the chief operating decision maker, is as follows:

	External revenue by location of customers		Non-current assets by location of assets	
	2011 £m	2010 £m	2011 £m	2010 £m
Western Europe	245.6	221.3	199.5	208.6
Eastern Europe	29.4	25.0	11.5	12.0
North America	58.5	50.6	18.2	15.0
Middle East	15.1	11.7	8.1	4.8
Asia	24.7	21.7	6.1	5.1
Rest of the World	15.4	14.3	–	–
<b>Total</b>	<b>388.7</b>	<b>344.6</b>	<b>243.4</b>	<b>245.5</b>

Revenues arising in the UK, which is the parent Company's country of domicile, were £22.1m (2010: £19.6m). The net book value of non-current assets located in the UK at 30 November 2011 was £3.4m (2010: £4.4m). More than 10% of the Group's revenues arise in Germany. The net book value of non-current assets located in Germany at 30 November 2011 was £92.8m (2010: £94.2m) and revenues in the year to 30 November 2011 were £70.4m (2010: £57.1m).

#### 2. Profit before taxation

	2011 £m	2010 £m
Total operating costs	358.1	332.6
Total operating costs above include:		
Staff costs	74.0	71.0
Inventories		
Cost of inventories recognised as an expense	188.2	152.2
Write down of inventories recognised as an expense	0.3	0.4
Change in provisions held against inventories	(0.3)	0.3
Depreciation of property, plant and equipment	12.3	12.9
Amortisation of intangible assets	6.3	6.8
Exchange differences recognised as a loss/(gain)	0.1	(0.3)
(Gain)/loss on disposal of property, plant and equipment	(0.2)	0.1
Amounts payable under operating leases		
Property	4.2	2.8
Plant and equipment	0.9	1.3
Research and development expenditure recognised as an expense	3.1	3.1

The balance of operating costs relates to other external charges.

#### Auditor's remuneration

During the year the Group obtained the following services from its auditor at costs detailed below:

	2011 £m	2010 £m
Audit of these financial statements	0.2	0.3
Audit of financial statements of subsidiaries	0.3	0.3
Non-audit services:		
Corporate tax compliance	0.1	0.2
Corporate tax consultancy	0.1	0.1
Other	–	–

The total amount paid to the auditor was £0.7m (2010: £0.9m).

### 3. Staff numbers and costs

The average number of persons employed by the Group during the year including Executive Directors was:

	Group	
	2011	2010
Production	1,419	1,488
Sales	223	225
Administrative	228	233
	<b>1,870</b>	<b>1,946</b>

The average number of persons employed by the Company during the year was 18 (2010: 20).

The aggregate staff costs were:

	Group	
	2011 £m	2010 £m
Wages and salaries	58.9	56.8
Social security costs	11.8	11.4
Pension costs	3.3	2.8
	<b>74.0</b>	<b>71.0</b>

	Company	
	2011 £m	2010 £m
Wages and salaries	2.6	2.2
Social security costs	0.3	0.2
Pension costs	0.2	0.2
	<b>3.1</b>	<b>2.6</b>

The Directors of the Company are listed on pages 30 and 31.

### 4. Post employment benefits

The Group operates a number of pension schemes in the UK and overseas. These are either defined benefit or defined contribution in nature. The assets of all the schemes are held separately from those of the Group.

#### a) Defined contribution schemes

Various defined contribution pension schemes exist around the Group. These are accounted for on a contribution payable basis. The total cost charged to income in respect of defined contribution pension schemes was £3.0m (2010: £2.3m).

#### b) Defined benefit schemes

##### i) United Kingdom

The UK defined benefit scheme (the "Scheme") was independently valued by a qualified actuary at 31 March 2011 using the projected unit method. The main assumption in carrying out the valuation was for investment returns of 6.4% per annum in respect of investments in higher risk assets and 4.65% in respect of lower risk assets. At 31 March 2011, the total market value of assets in the UK scheme was £142.2m. The overall level of funding was 86%. The net income statement credit for the year ended 30 November 2011 for the UK pension scheme was £5.0m (2010: £2.2m charge). The Scheme is held by the Company and all of the UK disclosures relate to the Company and the Group.

Following the valuation of the UK scheme in 2008, the Company agreed with the Trustee of the Scheme a schedule of contributions to fund a deficit under the Minimum Funding Requirement under which the Company has made a payment of £3.0m during the year ending 30 November 2011 (2010: £3.0m). Following the 2011 valuation, the Company has agreed a revised schedule of contributions with the Trustee under which the Company will pay contributions of £3.3m per annum from the year ending 30 November 2012. The Company may be required to make further contributions to the UK scheme if the Group's net cash inflow exceeds certain agreed levels provided that the total contributions payable in any one year will be no more than £4.0m and the total contributions payable under the revised schedule (which runs to 2019) shall not exceed £28.4m.

## Financial Statements

### Notes to the Accounts *continued*

#### 4. Post employment benefits *continued*

Following the announcement by the UK Government on 8 July 2010 of their intention to use CPI rather than RPI to calculate statutory minimum increases in both deferred pensions and pensions in payment, the Trustee of the Group's main UK pension scheme has notified deferred members of this change. The Company has given due consideration, including discussions with its legal advisers and the Trustee, to the impact of the change on the valuation of the Scheme liabilities at 30 November 2011. Following the guidance set out in UITF 48, a gain of £4.9m has been credited to the income statement as a past service credit. The Group's UK defined benefit scheme was also closed to future accrual during the period to 30 November 2011, resulting in a non-recurring curtailment credit to the income statement of £1.1m.

#### ii) Non-UK

Defined benefit schemes are held in Germany and the United States relating to the Colbond business and the MTX business together with a scheme in Belgium. Further disclosure on these schemes is detailed below. Defined benefit schemes also exist in the Group's Dutch businesses, which are members of an industry-wide scheme, and it is not possible to separately identify assets and liabilities and therefore these schemes are accounted for on a contribution payable basis. The Group will share in the actuarial gains and losses of the industry-wide schemes.

#### iii) Financial assumptions

The valuations require the exercise of judgement in relation to various assumptions, including employee and pensioner demographics and the future expected return on assets. Management determine the assumptions to be adopted in discussion with their actuaries. The application of different assumptions could have a significant effect on the amounts reflected in the income statement, the statement of comprehensive income and balance sheet in respect of post employment benefits. The assumptions vary among the countries in which the Group operates and there may be an interdependency between some of the assumptions.

The financial assumptions used to estimate defined benefit obligations are:

	UK schemes		Non-UK schemes	
	2011 %	2010 %	2011 %	2010 %
Discount rate	<b>4.80</b>	5.50	<b>4.75–5.00</b>	4.70–5.00
Expected return on scheme assets	<b>4.50</b>	5.30	<b>4.50–7.00</b>	4.40–7.75
Future salary increases	–	4.90	<b>2.25–3.50</b>	2.25–4.00
Future pension increases	<b>3.00</b>	3.20	<b>2.00</b>	2.00
Inflation increase	<b>2.10</b>	3.40	<b>2.00</b>	2.00

In assessing the Group's post employment liabilities, management monitor mortality assumptions and use up-to-date mortality tables. Allowance is made for expected future increases in life expectancy. The figures assume that a UK Scheme male member, currently aged 65, will survive a further 21 years and a female member for a further 24 years. Management consider that the assumptions used are appropriate approximations to the life expectancy of Scheme members in the light of scheme specific experience and more widely available statistics.

To develop the expected long-term rate of return on assets assumption, management consider the level of expected returns on risk-free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio and an allowance made for expected expenses.

#### iv) Financial impact of plans

The total amount recognised for defined benefit schemes is as follows:

	UK schemes		Non-UK schemes		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Fair value of scheme assets	<b>145.6</b>	138.2	<b>9.0</b>	8.8	<b>154.6</b>	147.0
Present value of defined benefit obligations	<b>(151.7)</b>	(156.1)	<b>(17.1)</b>	(16.9)	<b>(168.8)</b>	(173.0)
Net liability recognised in the balance sheet	<b>(6.1)</b>	(17.9)	<b>(8.1)</b>	(8.1)	<b>(14.2)</b>	(26.0)

#### 4. Post employment benefits *continued*

Amounts recognised as a charge/(credit) to the income statement in respect of the defined benefit pension schemes are as follows:

	UK schemes		Non-UK schemes		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Current service cost	0.1	0.2	0.2	0.3	0.3	0.5
Interest cost	8.1	8.4	0.8	0.8	8.9	9.2
Expected return on scheme assets	(7.2)	(6.4)	(0.5)	(0.5)	(7.7)	(6.9)
Effect of change in pension indexation legislation	(4.9)	–	–	–	(4.9)	–
Curtailment gain	(1.1)	–	–	–	(1.1)	–
	<b>(5.0)</b>	2.2	<b>0.5</b>	0.6	<b>(4.5)</b>	2.8

Amounts recognised in Other Comprehensive Income are as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Actuarial gain/(loss)	3.7	(0.2)	3.7	0.6
Associated deferred tax	–	0.3	–	–

The cumulative actuarial loss recognised in Other Comprehensive Income is £(16.3)m (2010: £(20.0)m). The Company has not recorded a deferred tax asset against the movement recognised in Other Comprehensive Income as it is not probable that a tax benefit will be realised in the future.

Changes in the present value of the defined benefit obligation are as follows:

	UK schemes		Non-UK schemes		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Opening defined benefit obligation	156.1	155.9	16.9	13.7	173.0	169.6
Current service cost	0.1	0.2	0.2	0.3	0.3	0.5
Interest cost	8.1	8.4	0.8	0.8	8.9	9.2
Plan participants' contributions	–	0.3	–	–	–	0.3
Actuarial loss/(gain)	0.9	(0.3)	(0.2)	3.2	0.7	2.9
Benefits paid	(7.5)	(8.4)	(0.8)	(0.9)	(8.3)	(9.3)
Effect of change in pension indexation legislation	(4.9)	–	–	–	(4.9)	–
Curtailment gain	(1.1)	–	–	–	(1.1)	–
Exchange adjustments	–	–	0.2	(0.2)	0.2	(0.2)
Closing defined benefit obligation	<b>151.7</b>	156.1	<b>17.1</b>	16.9	<b>168.8</b>	173.0

Changes in the fair value of scheme assets are as follows:

	UK schemes		Non-UK schemes		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Opening fair value of scheme assets	138.2	136.4	8.8	6.0	147.0	142.4
Expected return	7.2	6.4	0.5	0.5	7.7	6.9
Actuarial gain/(loss)	4.6	0.3	(0.2)	2.4	4.4	2.7
Contributions by employers	3.1	3.2	0.7	0.5	3.8	3.7
Plan participants' contributions	–	0.3	–	–	–	0.3
Benefits paid	(7.5)	(8.4)	(0.8)	(0.9)	(8.3)	(9.3)
Exchange adjustments	–	–	–	0.3	–	0.3
Closing fair value of scheme assets	<b>145.6</b>	138.2	<b>9.0</b>	8.8	<b>154.6</b>	147.0

## Financial Statements

Notes to the Accounts *continued***4. Post employment benefits** *continued*

The fair value of the UK scheme assets at the balance sheet date is analysed as follows:

	2011 £m	2011 %	2010 £m	2010 %
Equity securities	<b>32.6</b>	<b>22</b>	34.3	25
Debt securities	<b>29.1</b>	<b>20</b>	29.9	22
Index-linked Gilts	<b>34.7</b>	<b>24</b>	27.8	20
Diversified growth funds	<b>27.4</b>	<b>19</b>	26.9	19
Property	<b>12.9</b>	<b>9</b>	12.0	9
Cash and other	<b>8.9</b>	<b>6</b>	7.3	5
	<b>145.6</b>	<b>100</b>	138.2	100

The fair value of the non-UK scheme assets at the balance sheet date is analysed as follows:

	2011 £m	2011 %	2010 £m	2010 %
Equity securities	<b>3.3</b>	<b>37</b>	4.3	49
Debt securities	<b>5.3</b>	<b>59</b>	3.4	39
Index-linked Gilts	<b>0.2</b>	<b>2</b>	0.6	7
Cash and other	<b>0.2</b>	<b>2</b>	0.5	5
	<b>9.0</b>	<b>100</b>	8.8	100

History of experience gains and losses – UK scheme:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	<b>145.6</b>	138.2	136.4	121.0	142.3
Present value of defined benefit obligation	<b>(151.7)</b>	(156.1)	(155.9)	(125.4)	(143.3)
Deficit in the scheme	<b>(6.1)</b>	(17.9)	(19.5)	(4.4)	(1.0)
Experience adjustments to scheme assets					
Amount	<b>4.6</b>	0.3	13.3	(33.3)	(2.7)
Percentage of present value of scheme assets	<b>3%</b>	0%	10%	(27%)	(2%)
Experience adjustments to scheme liabilities					
Amount	<b>3.4</b>	3.1	(2.5)	(2.5)	0.8
Percentage of present value of scheme liabilities	<b>2%</b>	2%	(2%)	(2%)	1%

History of experience gains and losses – non-UK schemes:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Fair value of scheme assets	<b>9.0</b>	8.8	6.0	5.7	5.5
Present value of defined benefit obligation	<b>(17.1)</b>	(16.9)	(13.7)	(13.2)	(8.6)
Deficit in the scheme	<b>(8.1)</b>	(8.1)	(7.7)	(7.5)	(3.1)
Lump sum payable in French scheme	<b>–</b>	–	–	–	(0.7)
	<b>(8.1)</b>	(8.1)	(7.7)	(7.5)	(3.8)
Experience adjustments to scheme assets:					
Amount	<b>(0.2)</b>	–	0.6	(1.8)	0.1
Percentage of fair value of scheme assets	<b>(2%)</b>	0%	10%	(31%)	2%
Experience adjustments to scheme liabilities:					
Amount	<b>0.2</b>	0.2	0.1	(0.2)	(0.2)
Percentage of present value of scheme liabilities	<b>1%</b>	1%	1%	(2%)	(2%)



**4. Post employment benefits** *continued***c) US post retirement medical plans**

The assumed medical trend rates for the Group's US post-retirement medical schemes are as follows:

	2011	2010
Assumed healthcare trend rate:		
Immediate	7.6%	8.0%
Ultimate	4.5%	4.5%

The effect of an increase of one percentage point and the effect of a decrease of one percentage point in the assumed trend is shown by the table below:

	2011 +1% £'000	2011 -1% £'000	2010 +1% £'000	2010 -1% £'000
Effect on total service cost and interest cost components	6	(4)	6	(5)
Effect on defined benefit obligation	41	(36)	40	(35)

**5. Amortisation and non-recurring items**

During the year the Group recognised significant non-recurring items and amortisation as detailed below:

	2011 £m	2010 £m
<b>Amounts (credited)/charged to operating profit</b>		
Effect of change in pension indexation legislation	(4.9)	–
Curtailment gain	(1.1)	–
Joint venture start up costs	0.3	–
Restructuring costs including asset impairments	–	6.4
Plant start up costs	–	0.6
<b>Total non-recurring items</b>	<b>(5.7)</b>	7.0
Amortisation charge	5.7	6.8
<b>Total charge to operating profit</b>	–	13.8
<b>Amounts credited to non-operating income</b>		
Release of pension equalisation provision	–	(5.4)
<b>Amounts credited to discontinued operations</b>		
Partial EU fine refund	(2.2)	–

**Current year**

Following the announcement by the UK Government on 8 July 2010 of their intention to use CPI rather than RPI to calculate statutory minimum increases in both deferred pensions and pensions in payment, the Trustee of the Group's main UK pension scheme has notified deferred members of this change. The Company has given due consideration, including discussions with its legal advisers and the Trustee, to the impact of the change on the valuation of the Scheme liabilities at 30 November 2011. Following the guidance set out in UITF 48, an actuarial gain of £4.9m has been credited to the income statement as a past service credit. The Group's UK defined benefit scheme was closed to future accrual during the period to 30 November 2011, resulting in a non-recurring curtailment credit to the income statement of £1.1m.

During the year, the Group has incurred £0.3m of initial costs in respect of its joint venture in Saudi Arabia. The terms of the joint venture were agreed in January 2011.

In November 2011 the EU's General Court agreed a 25% reduction in the €12.24m fine imposed on the Company and its subsidiary Bonar Technical Fabrics NV by the European Commission in 2005, for infringing Article 81 of the European Community Treaty in connection with a cartel relating to industrial bags, a market the Group exited in 1997 following the sale of its Belgian packaging business. The reimbursement, including interest and net of associated legal costs, totalled £2.2m and has been shown as a non-recurring item within discontinued operations. The reimbursement was received in December 2011.

**Prior year**

During the year ended 30 November 2010, costs of £6.4m were incurred in connection with restructuring of the loss-making Yarns business. The closure of the Group's Ostend facility and the transfer of manufacturing output to the Group's new facility in Abu Dhabi was completed during 2011.

## Financial Statements

### Notes to the Accounts *continued*

#### 5. Non-recurring items *continued*

During the year ended 30 November 2010, start up costs of £0.6m were incurred as the result of commissioning the new Yarns plant in Abu Dhabi.

In April 2010 the Court of Session in Scotland determined that the measures taken by the Company and the Trustee in 1991 to equalise the retirement ages of men and women in the main UK pension scheme at 65 years had been effective. As a result, the £5.4m balance of the provision created in the year to 30 November 2008, to account for the additional funding required should the measures have been defective, was released in the year ended 30 November 2010.

#### 6. Financial income and financial expense

	2011 £m	2010 £m
<b>Financial income</b>		
Interest income	2.9	3.5
Expected return on pension scheme assets	7.7	6.9
	<b>10.6</b>	10.4
<b>Financial expense</b>		
Interest on bank overdrafts and loans	(8.5)	(8.5)
Amortisation of bank arrangement fees	(0.5)	–
Interest on pension scheme liabilities	(8.9)	(9.2)
Amounts capitalised within property, plant and equipment	0.1	0.1
	<b>(17.8)</b>	(17.6)

#### 7. Taxation

##### *Recognised in the income statement*

	2011 £m	2010 £m
<b>Current tax</b>		
UK corporation tax		
– current year	–	–
– prior year	–	0.2
Overseas tax		
– current year	5.4	5.5
– prior year	(0.9)	(0.4)
Total current tax	4.5	5.3
<b>Deferred tax</b>	(0.3)	(1.5)
<b>Total tax charge in the income statement</b>	<b>4.2</b>	3.8

The amount of deferred tax income relating to changes in tax rates is £nil (2010: £0.1m).

##### *Reconciliation of effective tax rate*

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax of 27% (2010: 28%) to the profit before tax are as follows:

	2011 £m	2010 £m
Profit before tax from continuing operations	23.4	10.2
Profit before tax from discontinued operations	2.2	–
<b>Profit before tax</b>	<b>25.6</b>	10.2
<b>Tax charge at 27% (2010: 28%)</b>	<b>6.9</b>	2.8
Expenses not deductible and income not taxable	(4.1)	(2.7)
Higher tax rates on overseas earnings	0.5	–
Current tax losses not utilised	1.2	3.6
Tax losses utilised	–	(0.1)
Other short-term timing differences	0.6	0.4
Prior period adjustments	(0.9)	(0.2)
<b>Total tax charge for the year</b>	<b>4.2</b>	3.8

**7. Taxation** *continued***Deferred tax recognised directly in Other Comprehensive Income**

	2011 £m	2010 £m
Actuarial gains and losses relating to post employment benefit obligations	–	(0.3)
Relating to share-based payments	–	–
<b>Total</b>	<b>–</b>	<b>(0.3)</b>

In June 2010, the Emergency Budget announced the phased reduction in the main UK corporation tax rate from 28% to 24%, with the first 1% reduction due to take effect from 1 April 2011. In March 2011 the Government announced a further 1% reduction in the eventual main UK corporation tax rate to 23% from 2014. The first 2% reduction, from 28% to 26%, took effect from 1 April 2011. Given that the Group does not expect to pay tax in the UK in the foreseeable future, this change is not considered to have any material impact on the Group.

**8. Profits of the Company**

The Company has not presented its own income statement as permitted by section 408 of the Companies Act 2006. The profit after tax was £5.0m (2010: £24.6m).

**9. Dividends**

Amounts recognised as distributions to equity shareholders in the year were as follows:

	2011 £m	2010 £m
Final dividend for the year ended 30 November 2010 – 1.1p per share (interim dividend in lieu of final for the year ended 30 November 2009: 0.8p per share)	<b>3.2</b>	2.3
Interim dividend for the year ended 30 November 2011 – 0.7p per share (2010: 0.5p per share)	<b>2.0</b>	1.4
	<b>5.2</b>	3.7

The Directors have proposed a final dividend in respect of the financial year ended 30 November 2011 of 1.4p which will absorb an estimated £4.0m of shareholders' funds. This has not been provided for in these accounts because the dividend was proposed after the year end. If it is approved by shareholders at the Annual General Meeting of the Company to be held on 29 March 2012, it will be paid on 19 April 2012 to shareholders who are on the register of members at close of business on 23 March 2012.

During the year the Board declared a final dividend on Ordinary Shares in relation to the year ended 30 November 2010 of 1.1p, which was paid to Ordinary Shareholders on the register of members at close of business on 25 March 2011.

The Directors declared an interim dividend on Ordinary Shares in relation to the year ended 30 November 2011 of 0.7p per share, which was paid to Ordinary Shareholders on the register of members at close of business on 2 September 2011.

**10. Earnings per share**

Basic earnings per share is calculated by dividing the earnings attributable to Ordinary Shareholders by the weighted average number of Ordinary Shares outstanding, excluding those held by the ESOP which are treated as cancelled for the purpose of this calculation.

For diluted earnings per share, the weighted average number of Ordinary Shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. The Group has two classes of dilutive potential Ordinary Shares: those share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary Shares during the year; and those long-term incentive plan awards for which the performance criteria have been satisfied.

## Financial Statements

Notes to the Accounts *continued***10. Earnings per share** *continued*

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	2011			2010		
	Earnings £m	Weighted average number of shares (millions)	Per share amount pence	Earnings £m	Weighted average number of shares (millions)	Per share amount pence
<b>Statutory – continuing operations</b>						
<b>Basic earnings per share</b>						
Earnings attributable to Ordinary Shareholders	18.8	287.889	6.53	6.3	287.880	2.19
<b>Effect of dilutive items</b>						
Share-based payment	–	7.959		–	2.445	
<b>Diluted earnings per share</b>	<b>18.8</b>	<b>295.848</b>	<b>6.36</b>	<b>6.3</b>	<b>290.325</b>	<b>2.17</b>
<b>Statutory – discontinued operations</b>						
<b>Basic earnings per share</b>						
Earnings attributable to Ordinary Shareholders	2.2	287.889	0.76	–	287.880	–
<b>Effect of dilutive items</b>						
Share-based payment	–	7.959		–	2.445	
<b>Diluted earnings per share</b>	<b>2.2</b>	<b>295.848</b>	<b>0.74</b>	<b>–</b>	<b>290.325</b>	<b>–</b>
<b>Statutory – total operations</b>						
<b>Basic earnings per share</b>						
Earnings attributable to Ordinary Shareholders	21.0	287.889	7.29	6.3	287.880	2.19
<b>Effect of dilutive items</b>						
Share-based payment	–	7.959		–	2.445	
<b>Diluted earnings per share</b>	<b>21.0</b>	<b>295.848</b>	<b>7.10</b>	<b>6.3</b>	<b>290.325</b>	<b>2.17</b>
<b>Before amortisation and non-recurring items</b>						
<b>Basic earnings per share</b>						
Earnings attributable to Ordinary Shareholders	17.2	287.889	5.97	12.7	287.880	4.41
<b>Effect of dilutive items</b>						
Share-based payment	–	7.959		–	2.445	
<b>Diluted earnings per share</b>	<b>17.2</b>	<b>295.848</b>	<b>5.81</b>	<b>12.7</b>	<b>290.325</b>	<b>4.37</b>

**11. Goodwill**

	Group	
	2011 £m	2010 £m
<b>Cost and net book value</b>		
At 1 December	83.3	90.5
Exchange adjustments	1.6	(7.2)
Acquisition of subsidiaries	–	–
At 30 November	84.9	83.3

**11. Goodwill** *continued***Cash generating units**

Goodwill is allocated to the Group's cash generating units ("CGUs") which have been identified according to the principal markets in which each business operates. A summary of the carrying value presented at CGU level is shown below:

	<b>Group</b>	
	<b>2011</b>	2010
	<b>Cost and net book value</b>	Cost and net book value
	<b>£m</b>	£m
<b>Cash generating unit</b>		
Specialist yarns	<b>9.2</b>	9.0
Fabrics and fibres	<b>10.7</b>	10.9
Polymeric mats and composites	<b>26.8</b>	26.1
Technical coated fabrics	<b>37.9</b>	37.0
Other	<b>0.3</b>	0.3
At 30 November	<b>84.9</b>	83.3

The Group tests goodwill values for impairment at each reporting date. The recoverable amounts are determined using value in use calculations for each CGU based on projected cash flows, discounted to calculate the net present value. The key assumptions used are set out below.

**Cash flow projections**

Cash flow projections for each CGU are derived from the most recent annual budgets and five year plans approved by the Board, which take into account the long-term average and projected growth rates for each of the key markets served by the CGUs, along with forecast changes to selling prices and direct costs. Assumptions are based on past experience and management's expectations of future changes in markets using external sources of information where appropriate.

**Long-term growth rates**

The value in use calculations assume terminal growth rates of between 2% and 3% (2010: between 2% and 5%) beyond year five.

**Discount rate**

Forecast pre-tax cash flows for each CGU are discounted to net present value using the Group's weighted average cost of capital, calculated based on external advice and adjusted for individual CGUs where necessary to reflect applicable forecast risks and potential cash flow volatilities. The weighted average cost of capital is sensitive to the Group's capital structure and for the year ended November 2011 takes into account the Group's refinancing during 2010 and the maturity of the Group's cross-currency swap liabilities in November 2011. Pre-tax discount rates ranged from 9.7% to 11.3% (2010: 14.1% to 15.0%) to calculate value in use for CGUs.

No impairment arose as a result of the valuations. Management believe that the valuations are sufficiently robust such that reasonably foreseeable variations in the key assumptions would not result in significant changes to the results of the impairment tests. The assumptions have been reviewed in the light of the current economic environment and are considered appropriate. The value in use calculations show at least 64% headroom compared to the book values of the CGUs.

Sensitivity analysis has shown that with an increase of 430 basis points in the pre-tax discount rate applied to each CGU there would be no impairment at a terminal growth rate of 2.0% (2010: no impairment with an increase of 160 basis points and 5.0% terminal growth rate).

## Financial Statements

Notes to the Accounts *continued*

## 12. Intangible assets

Group	Computer software £m	Research and development £m	Order backlog £m	Customer relationships £m	Marketing related £m	Technology based £m	Non-compete agreements £m	Total £m
<b>Cost</b>								
At 30 November 2009	2.0	1.9	0.2	35.1	15.0	21.9	1.4	77.5
Exchange adjustment	(0.1)	(0.1)	(0.1)	(2.6)	(1.4)	(1.8)	(0.1)	(6.2)
Additions	0.2	0.5	–	–	–	–	–	0.7
At 30 November 2010	2.1	2.3	0.1	32.5	13.6	20.1	1.3	72.0
<b>Exchange adjustment</b>	<b>0.2</b>	<b>–</b>	<b>–</b>	<b>0.5</b>	<b>0.3</b>	<b>0.4</b>	<b>–</b>	<b>1.4</b>
<b>Additions</b>	<b>0.3</b>	<b>0.7</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1.0</b>
<b>Retirements</b>	<b>–</b>	<b>(0.2)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(0.2)</b>
<b>At 30 November 2011</b>	<b>2.6</b>	<b>2.8</b>	<b>0.1</b>	<b>33.0</b>	<b>13.9</b>	<b>20.5</b>	<b>1.3</b>	<b>74.2</b>
<b>Aggregate amortisation</b>								
At 30 November 2009	1.3	0.4	0.2	8.5	2.7	7.8	1.4	22.3
Exchange adjustment	(0.1)	–	(0.1)	(0.7)	(0.3)	(0.6)	(0.1)	(1.9)
Charge for the year	0.3	0.3	–	2.8	1.0	2.4	–	6.8
At 30 November 2010	1.5	0.7	0.1	10.6	3.4	9.6	1.3	27.2
<b>Exchange adjustment</b>	<b>0.1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>0.2</b>	<b>–</b>	<b>0.3</b>
<b>Charge for the year</b>	<b>0.2</b>	<b>0.4</b>	<b>–</b>	<b>2.5</b>	<b>1.1</b>	<b>2.1</b>	<b>–</b>	<b>6.3</b>
<b>Retirements</b>	<b>–</b>	<b>(0.2)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(0.2)</b>
<b>At 30 November 2011</b>	<b>1.8</b>	<b>0.9</b>	<b>0.1</b>	<b>13.1</b>	<b>4.5</b>	<b>11.9</b>	<b>1.3</b>	<b>33.6</b>
<b>Net book value</b>								
<b>At 30 November 2011</b>	<b>0.8</b>	<b>1.9</b>	<b>–</b>	<b>19.9</b>	<b>9.4</b>	<b>8.6</b>	<b>–</b>	<b>40.6</b>
At 30 November 2010	0.6	1.6	–	21.9	10.2	10.5	–	44.8
At 30 November 2009	0.7	1.5	–	26.6	12.3	14.1	–	55.2

## Notes

- Marketing related intangible assets are assets that are primarily used in the marketing or promotion of products or services. Such assets include trademarks, trade names, service marks and internet domain names.
- Non-compete agreements prohibit a seller from competing with the purchaser of a business.
- Customer relationships consist of customer lists, customer contracts and relationships and non-contractual customer relationships.
- Technology based intangible assets relate to innovations and technological advances and include patented and unpatented technology, databases and trade secrets.
- Research and development assets relate to expenditure incurred in the course of research where findings can be applied to a plan or design for the production of new or substantially improved products and processes.

**13. Property, plant and equipment**

	Group			Company		
	Property £m	Plant and equipment £m	Total £m	Property £m	Plant and equipment £m	Total £m
<b>Cost</b>						
At 30 November 2009	50.6	202.6	253.2	0.6	0.3	0.9
Exchange adjustment	(2.8)	(11.7)	(14.5)	–	–	–
Additions	0.4	6.3	6.7	–	–	–
Capitalisation of interest	–	0.1	0.1	–	–	–
Disposals	(0.1)	(2.0)	(2.1)	(0.1)	(0.3)	(0.4)
Reclassifications	(0.2)	0.2	–	–	–	–
At 30 November 2010	47.9	195.5	243.4	0.5	–	0.5
<b>Exchange adjustment</b>	<b>0.9</b>	<b>2.8</b>	<b>3.7</b>	–	–	–
<b>Additions</b>	<b>0.4</b>	<b>11.7</b>	<b>12.1</b>	–	–	–
<b>Capitalisation of interest</b>	–	<b>0.1</b>	<b>0.1</b>	–	–	–
<b>Disposals</b>	–	<b>(2.9)</b>	<b>(2.9)</b>	–	–	–
<b>At 30 November 2011</b>	<b>49.2</b>	<b>207.2</b>	<b>256.4</b>	<b>0.5</b>	–	<b>0.5</b>
<b>Accumulated depreciation</b>						
At 30 November 2009	15.9	109.8	125.7	0.2	0.3	0.5
Exchange adjustment	(0.7)	(7.1)	(7.8)	–	–	–
Charge for the year	1.2	11.7	12.9	0.1	–	0.1
Impairment	–	0.9	0.9	–	–	–
Disposals	(0.1)	(1.9)	(2.0)	(0.1)	(0.3)	(0.4)
Reclassifications	–	–	–	–	–	–
At 30 November 2010	16.3	113.4	129.7	0.2	–	0.2
<b>Exchange adjustment</b>	<b>0.3</b>	<b>1.8</b>	<b>2.1</b>	–	–	–
<b>Charge for the year</b>	<b>1.1</b>	<b>11.2</b>	<b>12.3</b>	–	–	–
<b>Disposals</b>	–	<b>(2.7)</b>	<b>(2.7)</b>	–	–	–
<b>At 30 November 2011</b>	<b>17.7</b>	<b>123.7</b>	<b>141.4</b>	<b>0.2</b>	–	<b>0.2</b>
<b>Net book value</b>						
<b>At 30 November 2011</b>	<b>31.5</b>	<b>83.5</b>	<b>115.0</b>	<b>0.3</b>	–	<b>0.3</b>
At 30 November 2010	31.6	82.1	113.7	0.3	–	0.3
At 30 November 2009	34.7	92.8	127.5	0.4	–	0.4

The carrying value of freehold land not depreciated at 30 November 2011 was £3.4m (2010: £3.3m).

The net book value of assets held under finance leases at 30 November 2011 was £nil (2010: £1.1m).

Committed capital expenditure at 30 November 2011 totalled £2.3m (2010: £4.7m).

## Financial Statements

### Notes to the Accounts *continued*

#### 14. Investment in subsidiaries

	Company	
	2011 £m	2010 £m
<b>Shares in Group undertakings</b>		
Cost at 1 December and 30 November	<b>103.5</b>	103.5
Provision for impairment at 1 December and 30 November	<b>(8.8)</b>	(8.8)
Net book value at 1 December and 30 November	<b>94.7</b>	94.7

The subsidiary undertakings whose results, or financial position, in the opinion of the Directors, principally affected the results shown in these accounts are shown within Note 32.

#### 15. Investment in associate

	Group	
	2011 £m	2010 £m
Cost and net book value		
At 1 December	<b>0.4</b>	0.4
Share of retained profit	<b>0.1</b>	0.1
Dividends received	<b>(0.1)</b>	(0.2)
Additional investment in associate	–	0.1
At 30 November	<b>0.4</b>	0.4

The Group's share of the assets, liabilities, income and expenses of its associated undertakings are shown below:

	2011 £m	2010 £m
Total assets	<b>1.3</b>	2.3
Total liabilities	<b>(0.2)</b>	(1.2)
Net assets	<b>1.1</b>	1.1
Group share of net assets	<b>0.4</b>	0.4
Revenue	<b>3.5</b>	3.6
Profit for the year	<b>0.2</b>	0.4
Group share of profit for the year	<b>0.1</b>	0.1

The associates whose results, or financial position, in the opinion of the Directors, principally affected the results shown in these accounts are shown within Note 32.

#### 16. Inventories

	Group	
	2011 £m	2010 £m
Raw materials	<b>17.4</b>	16.3
Work in progress	<b>15.3</b>	11.6
Finished goods	<b>42.9</b>	32.2
	<b>75.6</b>	60.1

Inventories are presented in the balance sheet net of provision for impairment of obsolete and slow moving items. Impairment is estimated by management based upon prior experience and their assessment of the current and future economic environment. The write down of inventories is included in cost of sales.



**17. Trade and other receivables**

	Group	
	2011 £m	2010 £m
<b>Current</b>		
Trade receivables	65.3	63.9
Provision for impairment of receivables	(3.7)	(4.4)
Net trade receivables	61.6	59.5
Other receivables	9.5	5.3
Prepayments and accrued income	4.1	2.8
	<b>75.2</b>	<b>67.6</b>
<b>Non-current</b>		
Amounts owed by subsidiaries	80.9	82.3
<b>Current</b>		
Amounts owed by subsidiaries	77.4	101.3
Other receivables	1.7	0.2
Prepayments and accrued income	0.3	0.3
	<b>79.4</b>	<b>101.8</b>

Included within the Group's other receivables is an amount of £3.0m (2010: £nil) due from the European Commission, representing a partial refund of the fine that was previously paid by the Group in relation to its Belgian packaging business, which was sold in 1997 (see Note 28). The Company's share of this refund is £1.5m (2010: £nil). The reimbursement was received in December 2011.

Included within the Group's prepayments is £1.7m (2010: £nil) of down-payments made on behalf of the Group's Saudi Arabian joint venture, Bonar Natpet.

The Group has an established credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. The Group's review includes external ratings and bank references, where available. Purchase limits are established for each customer; these limits are reviewed quarterly. The Group has a long history of trading with a number of its customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables.

**Impairment losses**

The age profile of gross trade receivables at the balance sheet date was:

	Group	
	2011 £m	2010 £m
Not past due	52.8	52.4
Past due 0–30 days	4.2	4.5
Past due 31–120 days	3.0	1.8
More than 120 days past due	5.3	5.2
	<b>65.3</b>	<b>63.9</b>

## Financial Statements

### Notes to the Accounts *continued*

#### 17. Trade and other receivables *continued*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group	
	2011 £m	2010 £m
Balance at 1 December	(4.4)	(3.9)
Increased during the year	(0.2)	(1.3)
Reversed during the year	0.3	0.1
Utilised during the year	0.7	0.3
Exchange adjustments	(0.1)	0.4
At 30 November	(3.7)	(4.4)

Provisions for impairment of receivables are estimated by management based on prior experience and their assessment of the current economic environment. When the Group is satisfied that no recovery of the amount owing is possible, the amounts are considered irrecoverable and are written off against the receivable directly, recognised in the income statement when the receivable is considered to be uncollectable. The trade receivables impairment provision as at 30 November 2011 was £3.7m (2010: £4.4m). Management believe that this provision is adequate to cover the risk of bad debts and any exposure to credit risk. At 30 November 2011, 57.2% (2010: 42.2%) of trade receivables were insured.

#### 18. Trade and other payables

	Group	
	2011 £m	2010 £m
<b>Current</b>		
Trade payables	54.8	43.5
Other taxes and social security	2.5	1.6
Other payables	5.0	3.9
Accruals	17.9	22.6
	80.2	71.6
Current tax liabilities	5.4	8.4
	85.6	80.0

	Company	
	2011 £m	2010 £m
<b>Current</b>		
Amounts owed to subsidiaries	18.3	11.4
Other taxes and social security	0.1	0.1
Other payables	1.0	0.7
Accruals	2.8	2.8
	22.2	15.0
Current tax liabilities	1.8	1.8
	24.0	16.8

#### 19. Financial assets, liabilities, derivatives and financial risk management

##### Treasury policies

The objectives of the Group's treasury policies, which are set out in more detail within the Financial Review on pages 22 and 23, are to ensure sufficient liquidity to meet the Group's operational and strategic needs and the management of financial risk at optimal cost. The main financial risks to which the Group is exposed are foreign currency risk, credit risk and interest rate risk. Group treasury policies are set by the Board and permit the use of conventional financial instruments and certain derivative instruments to manage and mitigate these risks. There were no changes to this policy in the year ended 30 November 2011.

The Group treasury function is responsible for implementing Group policy and for managing the Group's relationships with its key providers of debt and other treasury services. The treasury function is operated as a cost centre and no speculative transactions are permitted. Underlying policy assumptions and activities are reviewed by the Board. Controls over exposure changes and transaction authenticity are in place. The treasury function is subject to periodic independent review by the internal audit department.

**19. Financial assets, liabilities, derivatives and financial risk management** *continued***Fair value of financial assets and liabilities**

The fair value of the Group's financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	Group				Company			
	Fair value	Book value	Fair value	Book value	Fair value	Book value	Fair value	Book value
	2011	2011	2010	2010	2011	2011	2010	2010
£m	£m	£m	£m	£m	£m	£m	£m	
Cash at bank and in hand	20.9	20.9	11.6	11.6	9.8	9.8	0.4	0.4
Trade and other receivables	71.1	71.1	64.8	64.8	160.0	160.0	183.8	183.8
Trade and other payables	(86.6)	(86.6)	(80.8)	(80.8)	(24.0)	(24.0)	(48.0)	(48.0)
Obligations under finance leases	–	–	(0.2)	(0.2)	–	–	–	–
Bank overdrafts	(2.1)	(2.1)	(2.4)	(2.4)	(0.8)	(0.8)	(1.1)	(1.1)
Cross-currency swaps	–	–	(15.8)	(15.8)	–	–	(15.8)	(15.8)
Forward exchange contracts – liabilities	–	–	(0.1)	(0.1)	–	–	–	–
Preference shares	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Prepaid arrangement fees	1.6	1.6	0.5	0.5	1.6	1.6	0.5	0.5
Floating rate borrowings	(66.8)	(66.8)	(33.5)	(33.5)	(66.8)	(66.8)	(33.5)	(33.5)
Fixed rate borrowings	(38.9)	(38.5)	(38.2)	(37.6)	(38.9)	(38.5)	(38.2)	(37.6)
	<b>(101.2)</b>	<b>(100.8)</b>	(94.5)	(93.9)	<b>40.5</b>	<b>40.9</b>	47.7	48.3

**Estimation of fair value**

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

**Cash and cash equivalents**

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

**Trade and other receivables/payables**

The fair value of trade and other receivables and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

**Finance lease liabilities**

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease arrangements.

**Interest-bearing financial assets and liabilities**

The fair value of interest-bearing assets and liabilities that bear interest at floating rates approximates to their carrying value.

The fair value of the fixed interest financial liabilities is determined by discounting future contracted cash flows, using appropriate yield curves, to their net present value.

**Forward exchange contracts**

The fair value of forward foreign exchange contracts is based on their publicly available market price. If this is not available, forward contracts are marked to market based on the current spot rate.

**Cross-currency swaps**

The fair values of cross-currency swaps are based on the estimated amount the Group would pay if the transactions were terminated, using standard market conventions with reference to the relevant closing market spot rates.

**Funding and liquidity**

At 30 November 2010, the Group's committed borrowing facilities comprised unsecured bank facilities of £140.4m, together with a €45m senior loan note.

On 16 December 2010, the Group cancelled the £140.4m bank facilities and entered into a new €130m unsecured multicurrency revolving credit facility with a syndicate of five of its key relationship banks. This facility is committed until February 2015 and bears interest at between 1.40% to 2.40% above LIBOR depending on the ratio of the Group's net debt to EBITDA at each of its half year and year end reporting dates.

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### Notes to the Accounts *continued*

#### 19. Financial assets, liabilities, derivatives and financial risk management *continued*

The €45m senior loan note was raised by private placement with Pricoa Capital Group Limited. This funding is unsecured and is scheduled for repayment in September 2016, and bears interest at a fixed rate of 5.90% per annum for the term of the loan.

The Group's total facilities at 30 November 2011 therefore totalled €175.0m (£149.8m).

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders commensurate with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes changes in the light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's capital structure is as follows:

	Group	
	2011 £m	2010 £m
Net debt	<b>85.3</b>	62.0
Total equity	<b>182.8</b>	159.4
	<b>268.1</b>	221.4

#### Analysis of cash and cash equivalents

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Sterling	<b>10.2</b>	0.4	<b>9.8</b>	0.4
Euro	<b>5.8</b>	6.8	–	–
US Dollar	<b>2.1</b>	1.0	–	–
Other	<b>2.8</b>	3.4	–	–
	<b>20.9</b>	11.6	<b>9.8</b>	0.4

#### Analysis of interest-bearing borrowings

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Borrowings falling due within one year or on demand</b>				
Bank loans and overdrafts	<b>2.1</b>	2.4	<b>0.8</b>	1.1
Other borrowings				
– Obligations under finance leases and hire purchase contracts	–	0.2	–	–
	<b>2.1</b>	2.6	<b>0.8</b>	1.1
<b>Borrowings falling due after more than one year</b>				
Bank loans and overdrafts	<b>65.6</b>	33.5	<b>65.6</b>	33.5
5.9% €45m Senior Note due 2016	<b>38.1</b>	37.1	<b>38.1</b>	37.1
Other borrowings				
– Preference shares	<b>0.4</b>	0.4	<b>0.4</b>	0.4
– Obligations under finance leases and hire purchase contracts	–	–	–	–
	<b>104.1</b>	71.0	<b>104.1</b>	71.0

All of the Company's and Group's borrowings are unsecured.

### 19. Financial assets, liabilities, derivatives and financial risk management *continued*

The following tables show the undiscounted contracted cash flows and maturities of financial liabilities together with their carrying amounts and average effective interest rates as at the balance sheet date:

	Group 2011						
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m
<b>Non-derivative financial liabilities:</b>							
Multicurrency revolving facility							
– Sterling	2.6	(15.5)	(17.2)	(0.4)	(0.4)	(16.4)	–
– Euro	3.1	(37.3)	(42.3)	(1.2)	(1.2)	(39.9)	–
– US Dollar	2.2	(14.0)	(15.3)	(0.3)	(0.3)	(14.7)	–
5.9% €45m Senior Note due 2016	5.9	(38.5)	(49.5)	(2.3)	(2.3)	(44.9)	–
Bank overdrafts							
– Sterling	3.0	(0.2)	(0.2)	(0.2)	–	–	–
– Euro	3.4	(1.7)	(1.7)	(1.7)	–	–	–
– Other	2.5	(0.2)	(0.2)	(0.2)	–	–	–
Finance leases		–	–	–	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees		1.6	–	–	–	–	–
		(106.2)	(126.8)	(6.3)	(4.2)	(115.9)	(0.4)
Trade and other payables	–	(86.6)	(86.6)	(85.6)	(1.0)	–	–
<b>Derivative financial liabilities:</b>							
Cross-currency swaps		–	–	–	–	–	–
Forward exchange contracts used for hedging							
– Outflow		–	–	–	–	–	–
		(192.8)	(213.4)	(91.9)	(5.2)	(115.9)	(0.4)

	Group 2010						
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m
<b>Non-derivative financial liabilities:</b>							
Multicurrency revolving facility							
– Sterling	2.1	(33.5)	(34.3)	(0.7)	(33.6)	–	–
5.9% €45m Senior Note due 2016	5.9	(37.6)	(50.5)	(2.2)	(2.2)	(6.7)	(39.4)
Bank overdrafts							
– Sterling	2.3	(0.2)	(0.2)	(0.2)	–	–	–
– Euro	2.6	(2.1)	(2.1)	(2.1)	–	–	–
– Other	2.3	(0.1)	(0.1)	(0.1)	–	–	–
Finance leases	5.5	(0.2)	(0.2)	(0.2)	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees		0.5	–	–	–	–	–
		(73.6)	(87.8)	(5.5)	(35.8)	(6.7)	(39.8)
Trade and other payables	0.0	(80.8)	(80.8)	(80.0)	(0.8)	–	–
<b>Derivative financial liabilities:</b>							
Cross-currency swaps	7.6	(15.8)	(17.0)	(17.0)	–	–	–
Forward exchange contracts used for hedging							
– Outflow		(0.1)	(0.1)	(0.1)	–	–	–
		(170.3)	(185.7)	(102.6)	(36.6)	(6.7)	(39.8)

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Notes to the Accounts *continued*19. Financial assets, liabilities, derivatives and financial risk management *continued*

	Company 2011						
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m
<b>Non-derivative financial liabilities:</b>							
Multicurrency revolving facility							
– Sterling	2.6	(15.5)	(17.2)	(0.4)	(0.4)	(16.4)	–
– Euro	3.1	(37.3)	(42.3)	(1.2)	(1.2)	(39.9)	–
– US Dollar	2.2	(14.0)	(15.3)	(0.3)	(0.3)	(14.7)	–
5.9% €45m Senior Note due 2016	5.9	(38.5)	(49.5)	(2.3)	(2.3)	(44.9)	–
Bank overdrafts							
– Sterling	3.0	(0.4)	(0.4)	(0.4)	–	–	–
– Euro	3.4	(0.2)	(0.2)	(0.2)	–	–	–
– Other	2.5	(0.2)	(0.2)	(0.2)	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees		1.6	–	–	–	–	–
		(104.9)	(125.5)	(5.0)	(4.2)	(115.9)	(0.4)
Trade and other payables	0.0	(24.0)	(24.0)	(24.0)	–	–	–
<b>Derivative financial liabilities:</b>							
Cross-currency swaps		–	–	–	–	–	–
Forward exchange contracts used for hedging							
– Outflow		–	–	–	–	–	–
		(128.9)	(149.5)	(29.0)	(4.2)	(115.9)	(0.4)
<b>Company 2010</b>							
	Effective rate %	Carrying amount £m	Contractual cash flows £m	<1 year £m	1-2 years £m	2-5 years £m	>5 years £m
<b>Non-derivative financial liabilities:</b>							
Multicurrency revolving facility							
– Sterling	2.1	(33.5)	(34.3)	(0.7)	(33.6)	–	–
5.9% €45m Senior Note due 2016	5.9	(37.6)	(50.5)	(2.2)	(2.2)	(6.7)	(39.4)
Bank overdrafts							
– Sterling	2.1	–	–	–	–	–	–
– Other	2.3	(1.1)	(1.1)	(1.1)	–	–	–
Preference shares	5.8	(0.4)	(0.4)	–	–	–	(0.4)
Prepaid arrangement fees		0.5	–	–	–	–	–
		(72.1)	(86.3)	(4.0)	(35.8)	(6.7)	(39.8)
Trade and other payables	0.0	(48.0)	(48.0)	(16.8)	(31.2)	–	–
<b>Derivative financial liabilities:</b>							
Cross-currency swaps	7.6	(15.8)	(17.0)	(17.0)	–	–	–
Forward exchange contracts used for hedging							
– Outflow		–	–	–	–	–	–
		(135.9)	(151.3)	(37.8)	(67.0)	(6.7)	(39.8)

On 30 November 2011, the Group's committed borrowing facilities comprised a revolving credit facility of €130m, expiring in February 2015, and a €45m Senior Note due in September 2016 (2010: bank facilities of £140.4m expiring in December 2011 and €45m Senior Note due in September 2016).

## 19. Financial assets, liabilities, derivatives and financial risk management *continued*

### Foreign exchange risk

#### (a) Translational

The Group has significant net assets based outside of the UK, predominantly in the Eurozone and the United States of America, with further amounts held in the Czech Republic, Hungary and China.

During the year ended 30 November 2010, the Group used cross-currency swaps to hedge against changes in the Sterling value of its Euro and US Dollar investments arising from currency exchange movements. Accordingly, the Group swapped the proceeds of its €45m private placement into Sterling until November 2011, in order to maintain the efficiency of its net investment hedges, and the Group elected not to designate the private placement proceeds and the associated currency swaps as hedges.

In November 2011, the cross-currency swaps matured and were repaid. From this date the Group elected to use its direct currency borrowings under the private placement and its €130m multicurrency revolving facility as hedges against movements in the Sterling value of its Euro and US Dollar investments.

#### (b) Transactional

The Company and Group have limited transactional currency exposures, arising on sales and purchases made in currencies other than the functional currency of the entity making the sale or purchase. Significant exposures which are deemed at least highly probable are matched where possible, and the remaining transactional risk is mitigated using forward foreign exchange contracts, all of which mature within one year of the balance sheet date.

The following tables show the derivative assets/(liabilities) recognised in the accounts in respect of these hedging instruments:

Carrying and fair value amount 2011						
Notional contract amount	Designated as cash flow hedges	Designated as net investment hedges	Not designated as hedges	Derivative assets	Derivative liabilities	
£m	£m	£m	£m	£m	£m	£m
Cross-currency swaps designated as net investment hedges	–	–	–	–	–	–
Cross-currency swaps not designated as hedges	–	–	–	–	–	–
Forward exchange contracts designated as cash flow hedges	4.0	–	–	–	–	–
Forward exchange contracts not designated as hedges	–	–	–	–	–	–
		–	–	–	–	–
				Derivative assets	Derivative liabilities	2011
				£m	£m	£m
<b>Derivative assets/(liabilities)</b>						
<b>Net investment hedges:</b>						
Euro				–	–	–
US Dollar				–	–	–
<b>Cash flow hedges:</b>						
Euro				–	–	–
US Dollar				–	–	–
<b>Not designated as hedges:</b>						
Euro				–	–	–
				–	–	–

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Notes to the Accounts *continued*19. Financial assets, liabilities, derivatives and financial risk management *continued*

	Carrying and fair value amount 2010					
	Notional contract amount £m	Designated as cash flow hedges £m	Designated as net investment hedges £m	Not designated as hedges £m	Derivative assets £m	Derivative liabilities £m
Cross-currency swaps designated as net investment hedges	73.4	–	(15.9)	–	–	(15.9)
Cross-currency swaps not designated as hedges	31.7	–	–	0.1	0.1	–
Forward exchange contracts designated as cash flow hedges	8.0	(0.1)	–	–	–	(0.1)
Forward exchange contracts not designated as hedges	5.9	–	–	–	–	–
		(0.1)	(15.9)	0.1	0.1	(16.0)
				Derivative assets £m	Derivative liabilities £m	2010 £m
<b>Derivative assets/(liabilities)</b>						
<b>Net investment hedges:</b>						
Euro				–	(12.1)	(12.1)
US Dollar				–	(3.8)	(3.8)
<b>Cash flow hedges:</b>						
Euro				–	(0.1)	(0.1)
US Dollar				–	–	–
<b>Not designated as hedges:</b>						
Euro				0.1	–	0.1
				0.1	(16.0)	(15.9)

The gains and losses on ineffective portions of such derivatives are recognised immediately in the income statement. During the year to 30 November 2011, an amount of £nil (2010: £nil) was recognised due to hedge ineffectiveness. The amount recognised in equity in the year in respect of hedges was a loss of £1.9m (2010: profit of £10.7m).

**Cross-currency swaps**

At 30 November 2010, the Group held cross-currency swaps designated as net investment hedges which exchanged an asset of £73.4m for liabilities of €88m and \$24.6m; and a cross-currency swap not designated as a net investment hedge which exchanged an asset of €38m for a liability of £31.7m. These swaps matured in November 2011 and were repaid.

**Forward exchange contracts**

The Group had the following forward foreign exchange contracts in place at the balance sheet date, all of which mature within one year of the balance sheet date:

	2011		2010	
	Currency million	Average exchange rate	Currency million	Average exchange rate
Sterling/Euro	0.9	1.16	14.3	1.19
Sterling/US Dollar	–	–	0.5	1.59
Euro/US Dollar	0.2	1.37	0.2	1.38
Euro/Hungarian Forint	1,141.2	304.30	430.4	275.92



**19. Financial assets, liabilities, derivatives and financial risk management** *continued*

The Company had the following forward foreign exchange contracts in place at the balance sheet date:

	2011		2010	
	Currency million	Average exchange rate	Currency million	Average exchange rate
Sterling/Euro	–	–	13.0	1.19

The following significant exchange rates applied during the year:

	Average rate 2011	Average rate 2010	Year end rate 2011	Year end rate 2010
Sterling/Euro	<b>1.15</b>	1.16	<b>1.17</b>	1.20
Sterling/US Dollar	<b>1.61</b>	1.55	<b>1.57</b>	1.56
Sterling/Czech Crown	<b>28.30</b>	29.43	<b>29.51</b>	29.88
Sterling/Hungarian Forint	<b>319.90</b>	319.40	<b>354.80</b>	337.50

**Sensitivity analysis**

A 10% strengthening of Sterling against the following currencies would have decreased equity and profit after tax by the amounts shown below. This analysis assumes that all other variables, including interest rates, remain constant:

	2011		2010	
	Profit £m	Equity £m	Profit £m	Equity £m
US Dollar	<b>(0.3)</b>	<b>(1.3)</b>	(0.2)	(0.6)
Euro	<b>(1.0)</b>	<b>(5.8)</b>	(1.0)	(4.8)
Czech Crown	<b>(0.1)</b>	<b>(1.1)</b>	(0.2)	(1.0)
Hungarian Forint	<b>(0.1)</b>	<b>(0.4)</b>	(0.1)	(0.6)

A 10% weakening of Sterling against the above currencies as at 30 November 2011 and 2010 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

**Credit risk**

Credit risk is the loss in relation to a financial asset due to non-payment by the customer or counterparty. The Group's objective is to reduce its exposure to counterparty default by restricting the type of counterparty it deals with and by employing an appropriate policy in relation to the collection of financial assets. The Group's principal financial assets are cash, derivative financial instruments and receivables which represent the Group's maximum exposure to credit risk in relation to financial assets.

The credit risk in relation to cash and derivative financial instruments is mitigated by Group policies which restrict dealings to approved counterparties with high credit ratings and with whom the Group has an ongoing banking relationship. The Group has set maximum permitted exposures with each counterparty which are reviewed regularly.

Trade receivable exposures are with a wide range of counterparties, and the credit strength of these counterparties is monitored. Where appropriate, credit risks are minimised through the use of forward funding, letters of credit, variations in payment terms and insurance. The maximum exposure to credit risk is represented by the carrying value of each financial asset as recorded in the balance sheet. There are no significant concentrations of credit risk at the balance sheet date nor are there any significant exposures to any one customer. See Note 17 for further details.

The Group's policy is to provide financial guarantees only where there is a clear commercial advantage in doing so.

The Company believes that all amounts receivable from subsidiary companies are recoverable in full.

## Financial Statements

### Notes to the Accounts *continued*

#### 19. Financial assets, liabilities, derivatives and financial risk management *continued*

##### **Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum credit risk at the reporting date was:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Financial assets at fair value through profit and loss	–	0.1	–	0.1
Trade and other receivables	<b>71.1</b>	64.8	<b>160.0</b>	183.8
Cash and cash equivalents	<b>20.9</b>	11.6	<b>9.8</b>	0.4
	<b>92.0</b>	76.5	<b>169.8</b>	184.3

##### **Interest rate risk**

The Group's strategy seeks a balance between fixed and floating rate borrowings, to achieve a reasonable effective interest rate whilst protecting the Group against material adverse changes in interest rates over the medium term.

All of the Group's interest-bearing assets and liabilities at 30 November 2011 and 2010 were on a floating rate basis, apart from preference debt with an average coupon rate of 5.75% and the €45m Senior Note due 2016 which bears interest at 5.90% until its maturity in September 2016; and, at 30 November 2010, €50m of cross-currency swap liability which bore interest at 4.75% until its maturity in November 2011 and finance lease liabilities with an average rate of 5.5%.

Floating rate financial assets and liabilities comprise borrowings under the Group's syndicated multicurrency revolving credit facility, which bear interest at LIBOR (or, in the case of borrowings in Euro, EURIBOR), or the lender's base rate for the currency concerned, plus a margin of between 1.40% and 2.40%; cash deposits and bank overdrafts which bear interest at market rates; and, at 30 November 2010, the cross-currency swap Sterling assets, which bore interest at 1.5% over LIBOR; and the floating rate cross-currency swap liabilities, which bore interest at between 1.62% and 2.20% above EURIBOR or LIBOR as appropriate until their maturity in November 2011.

##### **Profile**

At the reporting date the interest rate profile of the Group's and Company's interest-bearing net debt and financial instruments was:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Fixed rate</b>				
Net debt	<b>(38.5)</b>	(37.7)	<b>(38.5)</b>	(37.5)
Financial instruments	–	(41.7)	–	(41.7)
Total fixed rate	<b>(38.5)</b>	(79.4)	<b>(38.5)</b>	(79.2)
<b>Floating rate</b>				
Net debt	<b>(46.8)</b>	(24.3)	<b>(56.7)</b>	(34.2)
Financial instruments	–	25.8	–	25.9
Total floating rate	<b>(46.8)</b>	1.5	<b>(56.7)</b>	(8.3)
Total interest-bearing net debt and financial instruments	<b>(85.3)</b>	(77.9)	<b>(95.2)</b>	(87.5)

##### **Sensitivity analysis**

A change of 100 basis points in interest rates would have increased or decreased equity by £0.2m (2010: £0.4m). The impact on the profit or loss for the period would have been to increase or decrease profit by £0.2m (2010: £0.4m). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

## 20. Deferred taxation Group

Recognised deferred tax assets and liabilities:

	2011			2010		
	Assets £m	Liabilities £m	Net assets/ (liabilities) £m	Assets £m	Liabilities £m	Net assets/ (liabilities) £m
Intangible assets	–	(10.9)	(10.9)	–	(12.2)	(12.2)
Retirement benefit liabilities	1.2	–	1.2	0.8	–	0.8
Accelerated tax depreciation	–	(13.6)	(13.6)	–	(13.3)	(13.3)
Other	1.3	(0.3)	1.0	2.5	–	2.5
<b>Tax assets/(liabilities)</b>	<b>2.5</b>	<b>(24.8)</b>	<b>(22.3)</b>	<b>3.3</b>	<b>(25.5)</b>	<b>(22.2)</b>

Unrecognised deferred tax assets:

	2011 £m	2010 £m
Tax losses	31.7	20.0
Retirement benefit liabilities	1.6	4.8
Employee share schemes	0.8	0.3
	<b>34.1</b>	<b>25.1</b>

Tax losses include an amount of £9.9m (2010: £10.3m) in respect of capital losses. The tax losses have no expiry date.

Movement in deferred tax during the year ended 30 November 2011:

	Balance 1/12/2010 £m	Recognised in Other Comprehensive Income £m	Recognised in income £m	Exchange adjustments £m	Balance 30/11/2011 £m
Intangible assets	(12.2)	–	1.6	(0.3)	(10.9)
Retirement benefit liabilities	0.8	–	0.4	–	1.2
Accelerated tax depreciation	(13.3)	–	(0.2)	(0.1)	(13.6)
Other	2.5	–	(1.5)	–	1.0
	(22.2)	–	0.3	(0.4)	(22.3)

Movement in deferred tax during the year ended 30 November 2010:

	Balance 1/12/2009 £m	Recognised in Other Comprehensive Income £m	Recognised in income £m	Exchange adjustments £m	Balance 30/11/2010 £m
Intangible assets	(15.1)	–	1.7	1.2	(12.2)
Retirement benefit liabilities	1.1	0.3	(0.6)	–	0.8
Accelerated tax depreciation	(14.2)	–	0.3	0.6	(13.3)
Other	2.4	–	0.1	–	2.5
	(25.8)	0.3	1.5	1.8	(22.2)

The Group has recognised deferred tax assets of £2.5m (2010: £3.3m) as the Directors believe it is probable that future taxable profits will be available against which the assets can be utilised as they reverse over the coming years.

The Group has not recognised deferred tax liabilities in respect of investments in subsidiaries as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. In the majority of cases, it is likely that sufficient underlying tax credits will be available to offset the tax liability arising and it is not considered practicable to disclose the amount of the timing difference in respect of the deferred tax liabilities which have not been recognised.

## Financial Statements

### Notes to the Accounts *continued*

#### 20. Deferred taxation *continued* Company

Recognised deferred tax assets:

	2011 £m	2010 £m
Accelerated tax depreciation	–	–
Tax assets	–	–

Unrecognised deferred tax assets:

Tax losses	20.0	12.2
Retirement benefit liabilities	1.6	4.8
Employee share schemes	0.8	0.3
	<b>22.4</b>	<b>17.3</b>

Tax losses include an amount of £6.7m (2010: £7.0m) in respect of capital losses. The tax losses have no expiry date.

Movement in deferred tax asset during the year ended 30 November 2011:

	Balance 1/12/2010 £m	Recognised in Other Comprehensive Income £m	Recognised in income £m	Balance 30/11/2011 £m
Accelerated tax depreciation	–	–	–	–
	–	–	–	–

Movement in deferred tax asset during the year ended 30 November 2010:

	Balance 1/12/2009 £m	Recognised in Other Comprehensive Income £m	Recognised in income £m	Balance 30/11/2010 £m
Accelerated tax depreciation	0.1	–	(0.1)	–
	0.1	–	(0.1)	–

There are no timing differences arising in respect of the deferred tax liabilities which have not been recognised.

#### 21. Provisions

	Group	
	Restructuring £m	Pension equalisation £m
<b>Current</b>		
At 30 November 2009	–	–
Provided in the year	3.7	–
Exchange difference	(0.1)	–
At 30 November 2010	3.6	–
<b>Utilised in the year</b>	<b>(3.1)</b>	–
<b>Exchange difference</b>	–	–
<b>At 30 November 2011</b>	<b>0.5</b>	–
<b>Non-current</b>		
At 30 November 2009	–	5.8
Transfer to other payables	–	(0.4)
Released	–	(5.4)
At 30 November 2010	–	–
<b>Utilised in the year</b>	–	–
<b>At 30 November 2011</b>	–	–

## 21. Provisions *continued*

The provision created in the year ended 30 November 2010 related to the restructuring of the Yarns business, as explained in Note 5. The restructuring was completed by June 2011 and the majority of costs were paid during the year ended 30 November 2011.

The provision in respect of the potential UK pension scheme funding equalisation shortfall, which was created in the year ended 30 November 2008, was released in the year ended 30 November 2010, as explained in Note 5.

	<b>Company</b>
	<b>Pension equalisation £m</b>
<b>Non-current</b>	
At 30 November 2009	5.8
Transfer to other payables	(0.4)
Released	(5.4)
At 30 November 2010	–
<b>Utilised in the year</b>	–
<b>At 30 November 2011</b>	–

## 22. Other payables

	<b>Group</b>	
	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
<b>Non-current</b>		
Other payables	<b>1.0</b>	0.8

	<b>Company</b>	
	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
<b>Non-current</b>		
Amounts owed to subsidiaries	–	31.2

## 23. Share capital

	<b>Group and Company 2011</b>		<b>Group and Company 2010</b>	
	<b>Ordinary Shares £m</b>	<b>Deferred Shares £m</b>	<b>Ordinary Shares £m</b>	<b>Deferred Shares £m</b>
<b>Allotted, called up and fully paid</b>				
At 1 December				
287,907,108 Ordinary Shares at 5p each	<b>14.4</b>	–	14.4	–
154,571,152 Deferred Shares at 20p each	–	<b>30.9</b>	–	30.9
Shares issued to employees				
20,501 Ordinary Shares (2010: Nil) issued under share option plans and long-term incentive plans	–	–	–	–
<b>At 30 November</b>				
287,927,609 (2010: 287,907,108) Ordinary Shares of 5p each	<b>14.4</b>	–	14.4	–
154,571,152 Deferred Shares of 20p each	–	<b>30.9</b>	–	30.9

## Financial Statements

### Notes to the Accounts *continued*

#### 23. Share capital *continued*

##### Capital reorganisation

On 11 March 2009, the Company's Ordinary Share capital was reorganised by means of a capital reorganisation involving: (i) the subdivision and reclassification of each issued Ordinary Share into one new Ordinary Share of 5p and one Deferred Share of 20p; and (ii) the subdivision of each authorised but unissued Ordinary Share into five new Ordinary Shares of 5p each. On completion of the capital reorganisation, each Ordinary Shareholder held one new Ordinary Share and one Deferred Share for each Ordinary Share previously held.

A Deferred Share: (i) does not entitle its holder to receive any dividend or other distribution; (ii) does not entitle its holder to receive notice of, nor to attend, speak or vote at, any general meeting of the Company; (iii) entitles its holder on a return of capital on a winding-up (but not otherwise) only to the repayment of the amount paid up on that share after payment of (a) the amounts entitled to be paid up to holders of the Preference Shares and (b) the capital paid up on each Ordinary Share of five pence in the share capital of the Company and the further payment of £10m on each such Ordinary Share; and, (iv) does not entitle its holder to any further participation in the capital, profits or assets of the Company.

##### Shares issued during the year

During the year ended 30 November 2011, 20,501 shares (2010: nil shares) were issued to employees who exercised share options. Nil shares were issued pursuant to awards made under the 2003 LTIP (2010: nil).

##### Preference Shares

	Group and Company	
	2011 £m	2010 £m
Allotted, called up and fully paid		
100,000 (2010: 100,000) 6% first cumulative preference stock of £1.00 each	0.1	0.1
100,000 (2010: 100,000) 6% second cumulative preference stock of £1.00 each	0.1	0.1
200,000 (2010: 200,000) 5.5% third cumulative preference stock of £1.00 each	0.2	0.2
	<b>0.4</b>	<b>0.4</b>

Preference Shares are included within borrowings. Preference Shares have priority over Ordinary Shares on a winding up of the Company. Provided that preference dividends remain paid in accordance with the Company's Articles of Association, Preference Shares do not carry voting rights.

##### Potential issues of Ordinary Shares

An element of senior executive remuneration is provided in the form of share options and long-term incentive plan awards. More details of these options and awards can be found in the Directors' Report on Remuneration on pages 41 to 47. Employees are also invited to participate in the Low & Bonar Sharesave schemes.

##### Share options

Under the provisions of the employee share option schemes there were options for a total of 4.2 million Ordinary Shares outstanding at 30 November 2011 (2010: 4.2 million Ordinary Shares). The number of options outstanding which were granted in the last financial year was 0.3 million (2010: 1.6 million).

**23. Share capital** *continued*

Details of the options included in the IFRS 2 charge are as follows:

Year of grant	Fair value in pence	Exercise price in pence	Exercise period	Ordinary Shares of 5p each				30/11/2011
				1/12/2010	Granted	Exercised	Lapsed	
<b>Share options</b>								
2004	29.30	91.45	2007 to 2014	53,322	–	–	–	<b>53,322</b>
2006	30.59	85.26	2009 to 2016	5,285	–	–	(5,285)	–
2006	27.23	108.18	2009 to 2016	442,126	–	–	–	<b>442,126</b>
2007	31.41	101.95	2010 to 2017	7,262	–	–	(1,482)	<b>5,780</b>
2008	19.98	75.73	2011 to 2018	38,871	–	–	(30,277)	<b>8,594</b>
2008	18.31	75.73	2011 to 2018	93,637	–	–	(41,504)	<b>52,133</b>
2008	20.06	107.69	2011 to 2018	57,685	–	–	(57,685)	–
2009	14.08	32.18	2012 to 2017	343,103	–	(12,465)	(55,215)	<b>275,423</b>
2009	14.07	32.18	2012 to 2017	962,209	–	(8,036)	(37,485)	<b>916,688</b>
2010	13.50	26.00	2013 to 2018	768,663	–	–	(16,752)	<b>751,911</b>
2010	13.50	26.00	2013 to 2018	799,821	–	–	(4,283)	<b>795,538</b>
2011	22.17	42.80	2014 to 2019	–	135,906	–	(6,747)	<b>129,159</b>
2011	22.16	42.80	2014 to 2019	–	123,187	–	–	<b>123,187</b>
<b>Phantom share options</b>								
2004	2.11	91.45	2007 to 2014	267,677	–	–	–	<b>267,677</b>
2006	6.46	108.18	2009 to 2016	336,836	–	–	–	<b>336,836</b>
<b>Total</b>				<b>4,176,497</b>	<b>259,093</b>	<b>(20,501)</b>	<b>(256,715)</b>	<b>4,158,374</b>

The weighted-average exercise price of share options outstanding at 30 November 2011 was 50.07p (2010: 51.03p). The weighted average exercise prices of share options granted, exercised and lapsed in the year to 30 November 2011 were 42.80p, 32.18p and 59.82p respectively. 1.1 million share options were exercisable at 30 November 2011.

The fair values of share options granted in the year to 30 November 2011 ranged from 21.51p to 22.43p and were derived using the Black-Scholes model. The assumed future volatility ranged from 51% to 62%, the dividend yield was 3.7%, the expected term ranged from 3.4 years to 5.4 years and the risk-free rate ranged from 1.9% to 2.8%.

The fair values of the phantom share options were recalculated based on data at 30 November 2011 using the Stochastic model. The assumed future volatility ranged from 42% to 60%, the dividend yield was 3.7%, the expected term ranged from 2.5 years to 4.1 years and the risk-free rate ranged from 0.5% to 0.8%.

The average share price in the year ended 30 November 2011 was 57.43p.

**Long-term incentive plan awards**

Under the provisions of the long-term incentive plan there were awards for a total of 10.9 million Ordinary Shares outstanding at 30 November 2011 (2010: 7.9 million Ordinary Shares). The number of awards outstanding which were granted in the last financial year was 3.1 million (2010: 5.3 million).

Details of the awards included in the IFRS 2 charge are shown below:

Year of grant	Fair value in pence	Award price in pence	Vesting period	Ordinary Shares of 5p each				30/11/2011
				1/12/2010	Awarded	Exercised	Lapsed	
2008	66.48	95.57	2008 to 2011	131,104	–	–	(131,104)	–
2009	28.33	35.25	2009 to 2012	2,306,842	–	–	(62,710)	<b>2,244,132</b>
2009	30.48	35.00	2009 to 2012	146,428	–	–	–	<b>146,428</b>
2010	25.19	33.00	2010 to 2013	4,341,636	–	–	–	<b>4,341,636</b>
2010	36.87	45.00	2010 to 2013	980,000	–	–	–	<b>980,000</b>
2011	41.11	53.50	2011 to 2014	–	3,141,788	–	–	<b>3,141,788</b>
<b>Total</b>	<b>28.34</b>	<b>36.22</b>		<b>7,906,010</b>	<b>3,141,788</b>	<b>–</b>	<b>(193,814)</b>	<b>10,853,984</b>

## Financial Statements

### Notes to the Accounts *continued*

#### 23. Share capital *continued*

No instruments awarded under the long-term incentive plan were exercisable at 30 November 2011 or 30 November 2010.

The fair values of awards made in the year to 30 November 2011 ranged from 35.24p to 46.98p and were derived using the Stochastic model. The assumed future volatility used was 64%, the dividend yield was 3.7%, the expected term was 3 years and the risk-free rate was 1.2%.

The total amount charged to the Consolidated Income Statement in respect of share-based payments was £0.9m (2010: £0.2m). Liabilities in respect of cash-settled share-based payments were not material at either 30 November 2011 or 30 November 2010.

#### 24. Share premium account

	Group and Company	
	2011 £m	2010 £m
At 1 December and 30 November	<b>54.1</b>	54.1

#### 25. Translation reserve

	Group	
	2011 £m	2010 £m
At 1 December	<b>(31.0)</b>	(21.0)
Adjustments on translation of net assets and results of overseas subsidiaries, net of hedging	<b>2.4</b>	(10.0)
<b>At 30 November</b>	<b>(28.6)</b>	(31.0)

#### 26. Minority interest

	Group	
	2011 £m	2010 £m
At 1 December	<b>5.3</b>	4.9
Share of profit after taxation	<b>0.4</b>	0.1
Exchange adjustment	<b>0.2</b>	0.3
<b>At 30 November</b>	<b>5.9</b>	5.3

#### 27. Reconciliation of net cash flow movement to movement in net debt

	Group	
	2011 £m	2010 £m
<b>For the year ended 30 November</b>		
Net increase/(decrease) in cash and cash equivalents	<b>9.4</b>	(5.2)
Net cash flow from movements in debt financing	<b>(34.8)</b>	9.6
Prepaid bank arrangement fees	<b>1.6</b>	0.5
Amortisation of bank arrangement fees	<b>(0.5)</b>	–
Finance lease capital repayments	<b>0.2</b>	0.1
Foreign exchange differences	<b>0.8</b>	0.4
Movement in net debt in the year	<b>(23.3)</b>	5.4
Net debt at 1 December	<b>(62.0)</b>	(67.4)
<b>Net debt at 30 November</b>	<b>(85.3)</b>	(62.0)



**27. Reconciliation of net cash flow movement to movement in net debt** *continued*

	Company	
	2011 £m	2010 £m
<b>For the year ended 30 November</b>		
Net increase/(decrease) in cash and cash equivalents	9.4	(2.1)
Net cash flow from movements in debt financing	(34.8)	8.2
Prepaid bank arrangement fees	1.6	0.5
Amortisation of bank arrangement fees	(0.5)	–
Foreign exchange differences	0.8	0.2
Movement in net debt in the year	(23.5)	6.8
Net debt at 1 December	(71.7)	(78.5)
<b>Net debt at 30 November</b>	<b>(95.2)</b>	<b>(71.7)</b>

**28. Discontinued operations**

The profit attributable to discontinued operations arose from the partial refund of an EU fine paid by the Group in relation to its Belgian packaging business, which the Group sold in 1997, as follows:

	Group	
	2011 £m	2010 £m
Operating profit before amortisation and non-recurring items	–	–
Non-operating non-recurring items – partial EU fine refund	2.2	–
Profit before and after tax attributable to discontinued operations	2.2	–

**29. Operating lease commitments**

At 30 November, the Group had total non-cancellable commitments under operating leases as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
<b>Plant and equipment</b>				
Lease payments within one year	1.0	0.8	–	–
Lease payments between one and two years	0.6	0.6	–	–
Lease payments between two and five years	0.5	0.3	–	–
Lease payments beyond five years	–	–	–	–
	2.1	1.7	–	–
<b>Property</b>				
Lease payments within one year	4.1	4.1	0.3	0.3
Lease payments between one and two years	4.0	3.8	0.2	0.3
Lease payments between two and five years	11.3	7.9	–	0.3
Lease payments beyond five years	9.4	8.8	–	–
	28.8	24.6	0.5	0.9

**30. Contingent liabilities**

At the time of disposing of the Group's North American packaging operations in March 2000, the Company entered into an Environmental Agreement with the purchasers of the business. The Environmental Agreement contains provisions regarding the remediation of known environmental contamination in the vicinity of one of the facilities which was sold in Burlington, Ontario. The Environmental Agreement expired in September 2006 and the Group has an ongoing liability only in respect of outstanding claims notified prior to this date. At 30 November 2011, an accrual of £0.1m (2010: £0.1m) remains in the Group's balance sheet for the ongoing remediation costs which the Directors believe will be sufficient to satisfy payments due.

In addition, the Company from time to time guarantees certain obligations of its subsidiaries arising in the normal course of trade. At 30 November 2011, £8.6m of guarantees were outstanding (2010: £2.0m).

## Financial Statements

### Notes to the Accounts *continued*

#### 31. Related party transactions

The Company provides debt finance to various operating subsidiaries. A total of £158.3m was outstanding at 30 November 2011 (2010: £183.6m). The Company also borrows surplus funds from its subsidiaries. At 30 November 2011, the total amount payable to subsidiaries was £18.3m (2010: £42.6m).

The Company received income in respect of management services provided to its subsidiaries totalling £3.8m (2010: £3.9m). In addition, the Company paid fees in respect of management services provided by its subsidiaries totalling £nil (2010: £0.4m).

The Company received interest income from related parties totalling £6.9m (2010: £5.2m) and accrued interest payable to related parties of £0.6m (2010: £0.5m).

The Company received no dividend income from its subsidiaries (2010: £30.0m).

All related party transactions were conducted on an arm's-length basis.

The remuneration of key personnel (including Directors) of the Company was:

	2011 £m	2010 £m
Short-term benefits	<b>2.3</b>	2.0
Post employment benefits	<b>0.3</b>	0.2
Share-based payments	<b>0.7</b>	0.5
	<b>3.3</b>	2.7

Key personnel (excluding Directors) comprise the Executive Management Team consisting of three Business Unit Managing Directors (2010: three) who are directly responsible for the Group's operating companies and one Director of New Business (2010: one).

Full details of Directors' emoluments, pension benefits and interests are set out in the Directors' Report on Remuneration on pages 41 to 47.

### 32. Group companies

Subsidiary undertakings	Principal product areas	Country	%
<b>Performance Technical Textiles</b>			
Bonar Yarns & Fabrics Limited	Specialist yarns	Scotland	100.0*
Bonar Technical Fabrics N.V.	Woven and non-woven fabrics	Belgium	100.0
Bonar Emirates Technical Yarns Industries LLC	Specialist yarns	United Arab Emirates	49.0
Yihua Bonar Yarns & Fabrics Co. Ltd	Woven fabrics and specialist yarns	People's Republic of China	60.0
Anglo-Danish Fibre Industries Ltd (trading as ADFIL)	Construction fibres	England and Wales	100.0
Bonar Xirion NV	Specialist yarns	Belgium	100.0
Geo-Tiptex Ipari es Kereskedelmi Kft	Non-woven fabrics	Hungary	100.0
Colbond BV	Polymeric mats and composites	The Netherlands	100.0
Colbond Geosynthetics Produktions GmbH	Polymeric mats and composites	Germany	100.0
Colbond GmbH and Co.KG	Polymeric mats and composites, and holding company	Germany	100.0
Colbond Geosynthetics SARL	Polymeric mats and composites	France	100.0
Colbond Inc	Polymeric mats and composites	USA	100.0
Bonar Technical Yarns Inc	Specialist yarns	USA	100.0
<b>Technical Coated Fabrics</b>			
Mehler Texnologics Logistics GmbH	Technical coated fabrics	Germany	100.0
Mehler Texnologics GmbH	Technical coated fabrics	Germany	100.0
Mehler Texnologics S.R.L.	Technical coated fabrics	Romania	100.0
Mehler Texnologics Ltd	Technical coated fabrics	England and Wales	100.0
Mehler Texnologics S.p.A	Technical coated fabrics	Italy	100.0
Mehler Texnologics s.a.r.l	Technical coated fabrics	France	100.0
Mehler Texnologics Inc	Technical coated fabrics	USA	100.0
Mehler Texnologics s.r.o	Technical coated fabrics	Czech Republic	100.0
Mehler Texnologics Sp. Z o.o.	Technical coated fabrics	Poland	100.0
Mehler Texnologics Teknik Tekstil Limited Sirketi	Technical coated fabrics	Turkey	100.0
Mehler Texnologics S.I.A	Technical coated fabrics	Latvia	100.0
Low & Bonar Technical Textiles Russia Ltd	Technical coated fabrics	Russia	100.0
<b>Holding companies</b>			
Bonar International Holdings Limited	Holding company	Scotland	100.0*
Bonar International Sarl	Holding company	Luxembourg	100.0
Low & Bonar (Nederland) BV	Holding company	The Netherlands	100.0
LCM Construction Products Ltd	Holding company	England and Wales	100.0*
Low & Bonar Technical Textiles Holding BV	Holding company	The Netherlands	100.0
Colbond Holding BV	Holding company	The Netherlands	100.0
Colbond Verwaltungs GmbH	Holding company	Germany	100.0
Colbond (Nederland) BV	Holding company	The Netherlands	100.0
<b>Associated undertaking</b>			
CPW GmbH	Intellectual property	Germany	33.3

1 Unless otherwise stated, shares held are ordinary, common or unclassified.

2 The percentage of the nominal value of issued shares held is shown following the name of each company.

3 An asterisk\* indicates that the percentage of share capital shown is held directly by the Company.

4 A number of subsidiary undertakings, the trading results and assets of which are not material in relation to the Group as a whole, have been omitted from the above list. In compliance with the Companies Act 2006, particulars of these undertakings will be annexed to the next annual return.

5 The companies listed were incorporated in the country shown against each of them and, with the exception of Bonar International Sarl which operates primarily in England, that country is also the principal country of operation.

## Financial Statements

### Five Year History

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
<b>Revenue</b>					
Continuing operations	388.7	344.6	304.8	335.2	210.3
Discontinued operations	–	–	–	96.0	101.5
Total (including discontinued operations)	388.7	344.6	304.8	431.2	311.8
<b>Operating profit before amortisation and non-recurring items</b>					
Continuing operations	30.6	25.8	22.1	26.7	14.1
Discontinued operations	–	–	–	10.4	12.0
Total (including discontinued operations)	30.6	25.8	22.1	37.1	26.1
<b>Operating profit</b>					
Continuing operations	30.6	12.0	9.2	19.1	11.1
Discontinued operations	–	–	–	9.0	11.7
Total (including discontinued operations)	30.6	12.0	9.2	28.1	22.8
<b>Profit before tax, amortisation and non-recurring items</b>					
Continuing operations	23.4	18.6	15.8	16.0	10.4
Discontinued operations	–	–	–	10.3	12.0
Total (including discontinued operations)	23.4	18.6	15.8	26.3	22.4
<b>Profit before tax</b>					
Continuing operations	23.4	10.2	0.7	2.2	7.4
Discontinued operations	2.2	–	0.4	64.8	11.7
Total (including discontinued operations)	25.6	10.2	1.1	67.0	19.1
<b>Net debt</b>	(85.3)	(62.0)	(67.4)	(104.5)	(50.5)
<b>Per Ordinary Share</b>					
Basic earnings/(loss) per share (including discontinued operations) (p)	7.29	2.19	(0.25)	39.45	8.60
Dividends declared per share (p)	2.1	1.6	0.8	1.925	4.85

Discontinued operations in 2007 and 2008 represent the Floors Division (discontinued in 2008) and, in 2011, a non-recurring profit arising from the Group's Belgian packaging business (discontinued in 1997).

## Advisers and Financial Calendar

### Company Secretary

Matthew Joy

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Registered number: SC008349

### Advisers

#### Registrar

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Lochside House  
7 Lochside Avenue  
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#### Auditor

KPMG Audit Plc

#### Solicitors

Freshfields Bruckhaus Deringer LLP

#### Principal bankers

The Royal Bank of Scotland Plc  
Barclays Corporate  
KBC Bank NV  
ING Bank NV  
Comerica Incorporated

#### Corporate finance advisers

NM Rothschild & Sons Limited

#### Brokers

Numis Securities Limited

### Financial Calendar

Annual General Meeting 29 March 2012

Announcements for results for the year ending 30 November 2012  
Half year July 2012  
Full year February 2013

Final dividend payment for the year ended 30 November 2011  
Ordinary Shares 19 April 2012

First, second and third cumulative preference stock 1 March 2012 and 1 September 2012

## Financial Statements

## Notes



## Low & Bonar PLC

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