

YULE CATTO & COMPANY PLC
Preliminary Results for the year ended 31 December 2003

Yule Catto is an international producer of speciality chemicals, which are supplied to global customers, ranging from manufacturers of medical gloves, paint and adhesives to the pharmaceuticals and cosmetics industries

HIGHLIGHTS

- * Turnover up 8% at £550.1 million [2002: £510.8 million]
- * Profit before taxation⁺ advanced to £59.9 million [2002: £52.6 million]
- * Further growth in dividends for the year to 13.0 pence per share [2002: 12.5 pence] a rise of 4%
- * Earnings per share⁺ higher at 27.6 pence [2002: 23.9 pence]
- * Record level of free cash flow before dividends - £62.8 million [2002: £29.8 million]
- * Lower net borrowings - £177.3 million [2002: £211.2 million]
- * Profit attributable to shareholders - £27.8 million [2002: 17.3 million]

⁺ before amortisation, sale and termination of business and profit / (loss) on disposal of fixed assets

Anthony Richmond-Watson, Chairman, comments:

“Whilst uncertainties surrounding currency and raw materials are currently posing increased challenges, we have positioned the Group to be an efficient producer of speciality chemicals with up-to-date plant increasingly located in cost advantageous areas to serve customers’ needs. Innovation of products and production methods, often in conjunction with our customers over long periods, is crucial to developing and maintaining our market positions. We see the benefits of this strategy throughout the Group and are confident that it will provide a platform for further growth in the future”.

4 March 2004

ENQUIRIES:

YULE CATTO

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RESULTS SUMMARY

	Note	2003 Audited £'000	2002 Audited £'000
Total turnover*		550,114	510,778
Earnings before taxation, interest, depreciation, amortisation*	5	96,474	87,360
Operating profit before amortisation*	5	73,432	66,689
Total operating profit		57,985	51,445
Profit before taxation +	5	59,914	52,562
Profit on ordinary activities before taxation		49,185	35,493
Profit attributable to shareholders		27,798	17,348
Net borrowings		177,276	211,191
Net cash inflow from operating activities		111,140	73,325
Free cash flow before dividends	5	62,768	29,803
Adjusted earnings per ordinary share		27.6p	23.9p
Basic earnings per ordinary share		19.2p	12.0p
Dividends on ordinary shares:			
Interim paid November		5.3p	5.1p
Final proposed/paid		7.7p	7.4p
Total dividend		13.0p	12.5p

Note:

* Includes attributable share of joint ventures: turnover £10,487,000 (2002 £9,216,000)

+ Before amortisation, sale and termination of business and profit/(loss) on disposal of fixed assets

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CHAIRMAN'S STATEMENT

We are delighted to report a record level of profit and free cash flow, together with a further increase in dividends.

The success of generic omeprazole sales to the USA was the key feature of a year that saw the Pharma and Fine Chemicals divisional operating profit increase by 60% to £36.2 million. In our largest division, Polymers, the anticipated reduction in the high price of oil did not materialise, resulting in continuing high raw material costs which placed constraints on efforts to develop margin growth. Within Performance Chemicals, operating profit advanced by a creditable 9%, despite restrictions on the operating capacity of our ultramarine business and the impact of further restructuring initiatives.

Total turnover of £550.1 million, which includes the two Ditar companies acquired in January 2003, demonstrated good growth in many of our businesses. Profit before taxation⁺ was struck at £59.9 million. This was a very pleasing 14% advance over the previous year despite the negative impact of exchange rates and increased pension costs.

Across the group, movements in foreign currency exchange rates have had a mixed impact. The strengthening of the Euro has improved the translation of overseas results by £4 million. However the weakening US Dollar, which accelerated rapidly towards the end of the year, was significantly more detrimental to the value of transactions. While forward hedging has provided a buffer, the full impact of the current level of exchange rates has yet to be reflected in our results.

A formal valuation of the main UK pension fund was conducted during the second half of the year. In common with many UK groups, our scheme has a deficit which we have addressed by a combination of modifying certain benefits, higher employee contribution rates and increased payments from the group, which on an annualised basis total £5 million.

Profit attributable to minority interests has reduced during the year owing partially to difficult economic conditions prevailing in Asia for much of the year and also as a result of two modest investments in the final quarter. In South Africa, we increased our equity holding in Revertex Chemicals SA from 75% to 100%, whilst in India, an agreement was signed to take our shareholding in James Robinson India (Pvt) Ltd from 51% to 66%.

Adjusted earnings per share of 27.6 pence show a strong advance of 15% compared to the prior period. Your directors have proposed a final dividend of 7.7 pence per share, taking the total for the year to 13.0 pence, an increase of 4%.

There is an exceptional credit to the profit and loss account of £4.7 million, which relates to the termination of businesses and the disposal of fixed assets. In 2000 we announced the withdrawal from the textile dye market. Following the sale during 2003 of surplus land related to this manufacturing activity, the liabilities have been successfully closed out more quickly and favourably than originally expected, resulting in the release of provisions for future costs. Additionally, we have decided to withdraw from the loss making activity of producing inks in France.

Vigilant cash management continues to be a priority. An excellent free cash flow before dividends of £62.8 million has assisted in reducing net borrowings to £177.3 million. This was achieved as a result of a higher level of operating profit combined with a strong working capital performance, which delivered a record net cash inflow from operating activities of £111.1 million. Judicious investment in fixed assets and the proceeds from the sale of land resulted in net capital expenditure of £19.1 million, only 0.8 times depreciation.

Outlook

The long awaited contribution from the launch of generic omeprazole in the USA has been a welcome boost to results during the last two years, generating a significant level of profit and cash. However, circumstances have changed with new entrants to the market in late 2003. As we look forward, the generic and ethical product development programme for our active pharmaceutical ingredients business continues to widen and deepen, with the benefits likely to emerge from 2005 onwards.

In line with the chemical industry in general, the persistently high price of oil is continuing to make it difficult to predict the cost of raw materials. Margin recovery remains a key task through a focus on pricing, new product introduction and production efficiencies. By this means our Polymer companies are positioning themselves to maximise achievable performance at all stages of the raw material cycle. In the meantime, we have invested heavily in new capacity, which has been fully commissioned and we are enjoying volume growth as new customers approve production from our appropriately sited facilities.

Performance Chemicals will benefit from the restructuring initiatives implemented towards the end of 2003. Together with more efficient production processes arising from capital investment, innovative products are being directed at new markets. However, the devaluation of the US dollar is impacting margins.

Whilst uncertainties surrounding currency and raw materials are currently posing increased challenges, we have positioned the Group to be an efficient producer of speciality chemicals with up-to-date plant increasingly located in cost advantageous areas to serve customers' needs. Innovation of products and production methods, often in conjunction with our customers over long periods, is crucial to developing and maintaining our market positions. We see the benefits of this strategy throughout the Group and are confident that it will provide a platform for further growth in the future.

ANTHONY RICHMOND-WATSON
Chairman

4 March 2004

+ excludes amortisation, sale and termination of businesses and profit/(loss) on disposal of fixed assets

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REVIEW OF OPERATIONS

POLYMER CHEMICALS

		£'000
Sales (including joint ventures)	2003	295,354
	2002	260,031
Divisional Operating Profit	2003	29,608
	2002	37,553

Once again, good growth in turnover, approaching 14%, was achieved by our water-based polymer operations in 2003. Underlying demand was reasonable, but selling price increases and the first time contribution from the acquisition of the Ditar compounding businesses were also important factors in this performance.

Operating margins at 10% of sales were towards the bottom end of the range we have experienced historically during the cyclical rise and fall in the cost of raw materials. Generally, it had been thought that the price of petroleum-based products would moderate post the resolution of the Iraq crisis. This did not turn out to be the case and raw materials remained firm. The anticipation of a fall, however, made customer sentiment against price increases all the stronger.

Our ongoing strategy of investing in new assets in support of product and geographic growth has passed some important milestones and provides an excellent platform for future growth. The Synthomer SA dispersion facility in Mouscron, Belgium, is achieving good capacity utilisation and a major expansion is currently at an early planning stage. Production at our Malaysian nitrile latex plant is approaching design capacity. With the further migration of synthetic glove production to South East Asia, we shall, as planned, be augmenting the local production from our European sites. New environmental legislation further delayed our capacity expansion in South Africa. However, working in close cooperation with the authorities and the local community, full commissioning took place in the fourth quarter.

The Ditar business in Holland, acquired in early 2003, has been successfully integrated and establishes us as the clear market leader in the European carpet compound sector. Recent announcements of the withdrawal of a significant supplier from this market should provide both a sales opportunity and greater stability going forward.

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REVIEW OF OPERATIONS (cont'd)

The difficulty of predicting even the short-term position regarding the cost of raw materials may persist for some time, providing challenges for margin development. On the other hand, volume growth should be less problematic given our sustained concentration on speciality markets and the fact that manufacturing capacity is now available in the appropriate location to develop sales geographically.

Synthetic Latex

The acquisition of Ditar Ridderkerk BV and Ditar Hasselt BV in February 2003 provided additional volume to our synthetic latex plants in Germany and the UK, as well as establishing Synthomer as the number one supplier in the European carpet compound market. Floor covering latex and compounds now represent the largest volume sector of business for Synthomer, with sales growing by close to 12% in 2003. Progress was sustained in the speciality areas, but the free capacity created by the transfer of volume to Malaysia will permit further penetration into these important markets.

Synthetic nitrile glove production continues to grow in South East Asia and China. The substitution of natural latex gloves also continues apace, creating an opportunity for substantially increased sales volumes. The new Synthomer nitrile latex operation in Kluang, Malaysia experienced some delays in obtaining customer approvals. These were, however, achieved during the second half, leading to a rapid growth in sales volume. Additional resource is now focused on debottlenecking the plant, in order to maximise the supply of nitrile latex manufactured in Malaysia.

Emulsions

Synthomer continued to grow its share of the free emulsion market in UK, but overall sales were flat, as additional in-house capacity was installed at major customers. In mainland Europe, volumes grew, supported by the new polymerisation plant in Belgium. Product development also saw the portfolio enhanced by the launch of several new water-based polymers for surface coating and adhesives.

A new reactor installed at DCI-Harco in Saudi Arabia has provided much needed capacity to supply the Middle East market. Despite concerns over security in the region, it was pleasing to see our Saudi joint venture achieve record volume and profit performance.

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REVIEW OF OPERATIONS (cont'd)

In South Africa, the strengthening Rand impacted unfavourably on export activity to sub-Saharan Africa. The local market remained strong, placing pressure on production capacity until the new reactor was fully commissioned.

The business in the Far East saw a year of economic turbulence. As well as the raw material cost pressures seen elsewhere, the first half was badly affected by the SARS outbreak. Volumes improved during the second half, partly helped by exports on the back of Ringgit devaluation. Overall, the year finished strongly and plant debottlenecking is in progress in anticipation of a continuation of this improved performance.

Polyvinyl Alcohol/Acetate

The PVC industry, the main outlet for Synthomer's Alcotex range of polyvinyl alcohols, had a weak year, showing little growth in Europe and reduced growth rates in the traditional USA and Asian markets. Sales of Alcotex, however, continued to grow, with their unique stabilising characteristics being utilised by our customers' desire to produce ever higher quality PVC. The new PVC pilot plant commissioned in early 2003 was used to good effect by Synthomer in demonstrating the effectiveness of our products.

Polyvinyl acetate sales continue to find their special niche in a wide variety of applications. Sales were slightly down on 2002, primarily as a result of weaker parquet wood flooring adhesives sales in the recessed German market.

Other Speciality Products

In the Malaysian adhesives sector, Revertex Finewaters maintained its market leadership position, but the SARS issue impacted the Malaysian woodworking and furniture industries, which were slow to recover. It is pleasing to report that things have now returned to historic levels. Export sales, particularly to Vietnam, exhibited strong growth and a study is in progress to assess the possibility of establishing local production in that country.

The resins business in Malaysia also exhibited growth, primarily in the polyester market, where a technical licence with a major South Korean company is moving the business into new product areas. Flame retardant and in situ pipe lining repairs typify the speciality direction of the new business.

The Natural Rubber business continued its recovery and produced much improved results, aided by a strong upward movement in rubber prices. The core prevulcanised latex business remains a focus, where a number of new growth opportunities have been identified.

In the Lithene polybutadiene business, initiatives brought to the market in the last three years are showing excellent customer acceptance and will easily compensate for the decline in the use of this product for chlorinated rubber production.

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REVIEW OF OPERATIONS (cont'd)

PHARMA AND FINE CHEMICALS

		£'000
Sales	2003	111,994
	2002	106,499
Divisional Operating Profit	2003	36,170
	2002	22,722

Sales rose by 5% in the year, with a mix of factors contributing to this achievement. Within the Pharma operations, substantially increased sales were generated for omeprazole to all territories, but this was counterbalanced somewhat by a reduction in sales from our Italian facility, due to the decision to decontaminate the cephalosporin facility and release capacity for future years. Restructuring within the flavour industry held back sales, but this was offset by improved turnover of fragrance products.

The unusual circumstances surrounding the launch of generic omeprazole in the USA provided the opportunity of good margins for the active ingredient manufactured by Uquifa in Spain. This, plus a reasonable stability of prices for other products, saw operating profit advance by £13.5m to £36.2m; a new record for our Pharma and Fine Chemicals activities.

In the third quarter of 2003, events changed dramatically within the generic omeprazole market in the USA. Our major customer had achieved a unique and highly favourable position as the only generic supplier of omeprazole following a court decision in late 2002. The product was launched with Uquifa enjoying an exclusive supply position for the active ingredient. The other litigants appealed the court decision but, whilst awaiting that hearing, other companies entered the US market. Subsequently, the original decision was upheld and there is ongoing litigation involving the new entrants. The effect of all this is that the unique position of our major customer has now altered significantly, with a substantial loss of market share and reduced sales by Uquifa.

The abrupt change to the US generic omeprazole market obviously will alter the short-term outlook for our Pharma operations. However, sales of omeprazole to other territories continue to grow well and opportunities in new applications may open up towards the end of 2004. Overall, other products are performing reasonably, but securing new contracts to fill the released capacity in Italy may take longer than had been anticipated, due to the weaker pharmaceutical ingredient market and the extended timescale of regulatory approval currently prevailing.

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REVIEW OF OPERATIONS (cont'd)

The longer-term strategy remains in place, with the portfolio of generic products in development deepening and widening. Progress is also being made in securing ethical and early stage drug development projects, as evidenced by the high loadings on our pilot plants.

Pharma

The Uquifa companies had a very strong year in 2003, assisted by the rapid growth in sales of omeprazole and solid sales of other generic and ethical products. The product development programme saw a number of key contractual relationships strengthen in Europe and America. It is also pleasing to report the first sales to the Japanese ethical market, following a number of years of intense effort.

Our Spanish operations benefited most from the growth of sales of generic omeprazole in every market around the world where patent protection has ended. In support of this, a new multi-purpose plant has been commissioned at our second site in Sant Celoni. Not only does this provide security of supply to the omeprazole market, but creates additional capacity and flexibility for the introduction of new products.

There has been considerable competitive pressure directed towards our older generic products, cimetidine and ranitidine, a large part of this coming from the expiry of patents for other anti-ulcer drugs. Investment in new cGMP particle size equipment has, however, opened up opportunities for higher specification volume sales that should commence towards the end of 2004.

In Italy we successfully completed a lengthy decontamination of the cephalosporin facility, freeing this flexible 80,000 litre unit for other products. Validation batches have been produced for five products which will progressively go towards filling this capacity as customer approvals are received. Until this is achieved, we anticipate it will hold back the profit performance of this business.

A very positive picture has emerged in Mexico, with significant growth in products that offer good added value. A number of these are new ethical intermediates. This has placed pressure on the manufacturing facility, which is being addressed by stepping up investment and beginning the process of moving products to Italy where possible. The expiry of the ciprofloxacin patent in the USA towards the end of 2004 should be beneficial to our Mexican operations. It will inevitably be much more modest than has been experienced with other generic launches, due to the large number of entrants targeting the market.

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REVIEW OF OPERATIONS (cont'd)

With regard to early stage and new ethical products, the new pilot plant in Spain has been a notable success, running at full capacity in 2003 and highly loaded for 2004. In order that our own development programme is not compromised, a refit of the original pilot plant will be completed in early 2004. To maintain the focus on this important development area, we have sanctioned investment in a €3m pilot facility in Italy, with the intention of breaking ground for the new unit in March 2004.

In terms of profitability, the coming year will be less propitious than perhaps was envisaged prior to the unprecedented entry of competition into the US generic omeprazole market. In addition, the pharmaceutical industry trades largely in US Dollars, providing a further challenge for European based operations. Looking further forward, our strategy remains concentrated on long-term goals directed towards securing an ever-broadening range of products and customers, supported by highly cost effective production facilities.

Flavours and Fragrances

Variable market conditions were seen as the world flavour and fragrance industry digested the major restructuring of recent years. The largest negative influence was destocking by customers as they rationalised production sites. On the other hand, our specialised polycyclic musk benefited as its dominant global market position continued to strengthen.

Oxford Chemicals Limited faced the greatest impact from industry consolidation and sales fell by 10% in 2003. Towards the end of the year there were signs of a more normal order pattern being re-established. To meet the challenges of the market, product innovation remains a key focus. The decrease in sales of larger volume products has been addressed by a restructuring exercise reducing the operating cost base of the company.

The business of PFW Aroma Chemicals BV showed a strong recovery in 2003 and sales advanced by 9%, accompanied by good profitability as the hard work of repositioning the company bore fruit. While the issue persists over the non-biodegradability of our principal product, further intensive European testing continues to support the safety of the product from every other standpoint. This has resulted in the product re-entering development programmes at a number of the larger customers, providing real opportunities for growth in volume. Efforts to secure contract manufacturing business to exploit PFW's technical expertise in high quality fragrance manufacture are also making good progress, adding further optimism for the future.

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REVIEW OF OPERATIONS (cont'd)

PERFORMANCE CHEMICALS

		£'000
Sales	2003	142,766
	2002	144,248
Divisional Operating Profit	2003	11,737
	2002	10,780

General market conditions showed little sign of improvement for a number of our companies, therefore the achievement of overall sales at close to 2002 levels was pleasing. Operating profits advanced by 9%, showing the benefits of considerable effort by managements in restructuring their companies. These changes resulted in a number of substantial restructuring costs.

The improvement in profitability is all the more commendable given that exports from the UK and Europe are mainly in US dollars, which has placed margins under pressure as the US currency has weakened.

Good progress has been achieved and benefits are accruing from the strategic review of the James Robinson businesses. In France, however, the difficulties of Holliday Encres SA proved ever more intractable in a highly competitive inks market, exacerbated by weak economic conditions. The decision has, therefore, reluctantly been taken to withdraw from the business.

Inorganic Chemicals

Despite turnover holding up reasonably well, results from William Blythe Limited fell back due to a combination of factors. Additionally, changes in the senior management team caused a temporary disruption.

The substantial changes taking place in the copper business continued to be a feature with the final migration of all printed circuit board manufacture to Asia, ending the supply of cost effective copper containing etchant in the UK. New processes were introduced to make high quality light copper carbonate, catalyst precursors and copper amines which are providing growth and, in total, higher sales of copper products were achieved.

Tin products had another good year, as did iodine, where margins were boosted by toll manufacturing contracts. The timber treatment business is rapidly changing to more environmentally-friendly products, creating both opportunities and challenges as customers review their supply and logistics requirements.

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REVIEW OF OPERATIONS (cont'd)

Sales of sulphur dioxide derivatives fell back due to new competitive pressure from mainland European suppliers. Margins received some support from low caustic soda prices, but attention is now directed towards increasing volumes employing a carefully targeted sales drive.

Dyes and Chemicals

Production restrictions that persisted due to the lack of a functioning flue gas desulphurisation (FGD) unit in France caused by a fire in 2002, was only one of the difficulties experienced by the Holliday Pigments' ultramarine business. The weakness of the US currency meant much time was spent in the endeavour to raise prices and some market share was conceded. Coupled with the restricted volume from France, this saw sales volumes reduce for the first time in many years.

The new FGD unit will be available by the end of March 2004, creating production capacity well above historic levels. A full review of the structure of the business has also identified significant cost savings and efficiency opportunities. Product introduction to new markets from the R&D programme continues to be well received and in time these developments hold out the promise of substantial benefit.

The James Robinson activities have undergone a major review that has resulted in the identification of a clear strategy which will better match the assets employed and the skills of our people, to the markets served. The first stages were implemented during the year and, despite absorbing sizeable restructuring costs, a performance much in line with the previous year was achieved. Mixed results were recorded by the products within the portfolio. Growth in hair dyes was more modest than had been anticipated, photographic chemicals saw weak sales of black and white developers, but good ongoing colour developer progress was made by our Indian joint venture. Photochromic dyes saw a widening of the customer base and, assisted by new product launches, this brought good margin progression.

Other Activities

The dispersions manufacturing business of Holliday Dispersions Limited in the UK saw a year of consolidation, but its French sister company succeeded in reversing a trend of falling performance through a high level of sales activity and tight control of costs.

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REVIEW OF OPERATIONS (cont'd)

Our consumer chemicals operations failed to make a similar major breakthrough, but an improved enquiry level for both private and branded products is emerging. Within the substantially reduced cost base that has been created, there is now the possibility of good profit growth with only modest gains in turnover.

Another excellent year was recorded by Brencliffe Limited whose houseware and automotive business goes from strength to strength. New business has been developed at key accounts through innovative marketing concepts and carefully researched product sourcing. Autoclenz Limited also turned in a fine performance, hitting new records of profitability whilst expending considerable effort on enhancing management systems and procedures to offer even better customer service.

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CONSOLIDATED PROFIT & LOSS ACCOUNT

	Note	2003 Audited £'000	2002 Audited £'000
Existing operations		522,165	494,318
Acquired operations		12,408	-
		<hr/> 534,573	494,318
Discontinued operations		5,054	7,244
Turnover of company and subsidiaries		<hr/> 539,627	501,562
Share of turnover of joint ventures		10,487	9,216
		<hr/>	<hr/>
Total turnover	3	<hr/> 550,114 <hr/>	510,778
Operating profit before joint ventures and amortisation of goodwill			
Existing operations		71,232	65,588
Acquired operations		718	-
		<hr/> 71,950	65,588
Discontinued operations		(233)	(336)
		<hr/> 71,717	65,252
Amortisation of goodwill			
Existing operations		(15,244)	(15,244)
Acquired operations		(203)	-
		<hr/>	<hr/>
Operating profit of company and subsidiaries		56,270	50,008
Existing operations		55,988	50,344
Acquired operations		515	-
Discontinued		(233)	(336)
Operating profit of company and subsidiaries		<hr/> 56,270	50,008
Share of operating profit of joint ventures		1,715	1,437
		<hr/>	<hr/>
Total operating profit		57,985	51,445
Sale and termination of businesses		2,067	-
Profit/(loss) on disposal of fixed assets		2,651	(1,825)
Interest payable (net)		(13,518)	(14,127)
		<hr/>	<hr/>
Profit on ordinary activities before taxation		49,185	35,493
Taxation on profit of ordinary activities		(19,848)	(16,293)
		<hr/>	<hr/>
Profit on ordinary activities after taxation		29,337	19,200
Minority interests		(1,539)	(1,852)
		<hr/>	<hr/>
Profit attributable to shareholders		27,798	17,348
Ordinary dividends		(18,777)	(18,095)
		<hr/>	<hr/>
Retained profit/(loss) for the financial year		<hr/> 9,021 <hr/>	(747)
Operating profit before amortisation			
		73,432	66,689
Profit before taxation *		59,914	52,562
Profit after taxation and minorities*		39,802	34,417
Earnings per share			
- Adjusted	6	27.6p	23.9p
- Basic		19.2p	12.0p
- Diluted		19.0p	11.9p

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SUMMARISED CONSOLIDATED BALANCE SHEET

	2003 Audited £'000	2002 Audited £'000
Fixed assets		
Goodwill	231,821	242,724
Tangible fixed assets	175,067	173,291
Investments in joint ventures	3,252	3,014
Investments	38	51
	<u>410,178</u>	<u>419,080</u>
Current assets		
Stock	66,947	60,740
Debtors	100,182	111,403
Cash at bank and in hand	9,856	6,553
	<u>176,985</u>	<u>178,696</u>
Creditors - due within one year		
Borrowings	(34,271)	(57,527)
Dividends	(11,150)	(10,715)
Other creditors	(170,966)	(158,959)
	<u>(39,402)</u>	<u>(48,505)</u>
Net current liabilities		
Creditors - due after more than one year		
Borrowings	(152,861)	(160,217)
Other creditors	(594)	(71)
Provisions for liabilities and charges	(26,757)	(25,059)
	<u>(180,212)</u>	<u>(185,347)</u>
Net assets	<u>190,564</u>	<u>185,228</u>
Shareholders' funds - all equity	187,120	180,314
Minority interests	3,444	4,914
Capital employed	<u>190,564</u>	<u>185,228</u>
Net borrowings		
Cash at bank and in hand	9,856	6,553
Borrowings - due within one year	(34,271)	(57,527)
Borrowings - due after one year	(152,861)	(160,217)
	<u>(177,276)</u>	<u>(211,191)</u>

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SUMMARISED CONSOLIDATED CASH FLOW STATEMENT

	Note	2003 Audited £'000	2002 Audited £'000
Net cash flow inflow from operating activities	4	111,140	73,325
Dividends received from joint ventures		1,244	1,410
Returns on investment and servicing of finance		(15,573)	(14,572)
Taxation paid		(14,749)	(10,897)
Capital expenditure and financial investment		(19,294)	(19,463)
		<hr/>	
Free cash flow before dividends, acquisitions and disposal of business		62,768	29,803
Acquisition and disposal of business		(6,348)	-
Equity dividends paid		(18,342)	(17,598)
Cash inflow/(outflow) before financing		<hr/> 38,078	<hr/> 12,205
Financing		(30,356)	(15,105)
		<hr/>	
Increase/(decrease) in cash balances		<hr/> 7,722	<hr/> (2,900)
Movement in net borrowings			
Cash inflow (outflow) before financing		38,078	12,205
Exchange movements		(4,163)	(231)
		<hr/> 33,915	<hr/> 11,974

Notes

1. Copies of the 2003 Annual Report will be posted to the shareholders on 15 April 2004.
2. The financial information set out above does not comprise the company's statutory accounts. It has been derived from the group's audited accounts for the year ended 31 December 2003, which will be delivered to the Registrar of Companies following the Annual General Meeting. The accounting policies used to prepare these accounts are the same as those used in the preparation of group's audited account for the year ended 31 December 2002. The auditors' report was unqualified and did not contain any statement under section 237 (2) or (3) of the Companies Act 1985.

The Financial statements were approved by the Board of Directors on 4 March 2004.

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NOTES (cont'd)

3. Analysis of total turnover by activity	2003	2002
	£'000	£'000
Polymer Chemicals (including joint ventures)	295,354	260,031
Pharma & Fine Chemicals	111,994	106,499
Performance Chemicals	142,766	144,248
	550,114	510,778

Analysis of operating profit by activity

Polymer Chemicals	29,608	37,553
Pharma & Fine Chemicals	36,170	22,722
Performance Chemicals	11,737	10,780
Holding companies	(4,083)	(4,366)
Operating profit before amortisation	73,432	66,689

Analysis of total turnover by destination

United Kingdom	132,502	130,380
Other Europe	208,782	193,069
Asia	97,711	82,848
Africa and Middle East	38,245	34,872
Rest of World	72,874	69,609
	550,114	510,778

4. Reconciliation of operating profit to net cash inflow from operating activities

	2003	2002
	£'000	£'000
Operating profit	57,985	51,445
Share of profits of joint ventures	(1,715)	(1,437)
	56,270	50,008
Depreciation charge	23,042	20,671
Cash impact of termination of businesses	(590)	(510)
Amortisation of goodwill	15,447	15,244
Amortisation of investments	224	523
Increase in stocks	(5,200)	(279)
Decrease/(increase) in debtors	15,177	(11,093)
Increase/(decrease) in creditors and provisions	6,770	(1,239)
Net cash inflow from operating activities	111,140	73,325

YULE CATTO & COMPANY PLC
Preliminary Results for the year ended 31 December 2003

NOTES (cont'd)

5. Reconciliation of numbers shown in Highlights and Results Summary

	2003	2002
	£'000	£'000
Total operating profit	57,985	51,445
Add: depreciation	23,042	20,671
Add: amortisation of goodwill	15,447	15,244
Earnings before taxation, interest, depreciation and amortisation	96,474	87,360
Total operating profit	57,985	51,445
Add: amortisation of goodwill	15,447	15,244
Operating profit before amortisation	73,432	66,689
Profit on ordinary activities before taxation	49,185	35,493
Add: sale and termination of businesses	(2,067)	-
Add: (profit)/loss on disposal of fixed assets	(2,651)	1,825
Add: amortisation of goodwill	15,447	15,244
Profit before taxation +	59,914	52,562
Net cash inflow from operating activities	111,140	73,325
Dividends received from joint ventures	1,244	1,410
Net cash outflow from returns on Investments and servicing of finance	(15,573)	(14,572)
Total tax paid	(14,749)	(10,897)
Capital expenditure and financial investment	(19,294)	(19,463)
Free cash flow before dividends	62,768	29,803

+ before amortisation, sale and termination of business and profit/(loss) on disposal of fixed assets

6. Adjusted earnings per share

	Earnings		Earnings per share	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Earnings - Basic	27,798	17,348	19.2	12.0
Amortisation of goodwill	15,447	15,244	10.7	10.6
Sale and termination of businesses	(2,067)	-	(1.4)	-
(Profit)/loss on disposal of fixed assets	(2,651)	1,825	(1.8)	1.3
Tax on sale and termination of businesses and (profit)/loss on disposal of fixed assets	1,275	-	0.9	-
Earnings – Adjusted	39,802	34,417	27.6	23.9

The directors believe that the adjusted earnings as shown above is a more meaningful measure of the ongoing performance of the group's operations than that prescribed by FRS3.