



Leadership in speciality chemicals

Yule Catto & Co plc Interim Report
for the six months ended 30 June 2006



YULE
CATTO

Polymer Chemicals

Polymer Chemicals is a major supplier of water based polymers and synthetic latices to the surface coatings, paper, adhesives and textile industries. Polymer Chemicals major activity is the manufacture of aqueous dispersions and synthetic latices which form one of the cornerstones of Yule Catto's speciality chemicals product portfolio. Yule Catto companies have established an unrivalled reputation as leaders in polymer technology and are foremost manufacturers of polymer dispersions and related products to targeted sectors around the world.

Pharma and Fine Chemicals

Pharma and Fine Chemicals manufacture generic and ethical pharmaceutical actives, pharmaceutical intermediates and a range of fine chemicals for use in flavours and fragrances. Together they form a substantial base from which to grow rapidly in the pharmaceutical and fine chemical sector.

Performance Chemicals

Companies under the Performance banner are focused upon sustaining their strong niche market positions through satisfying the needs of customers with products of the highest quality, supplying a wide range of speciality chemicals including colorants and metal salts.

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Operating highlights

- Underlying group sales* increased by 8% to £281.8 million, (2005: £261.3 million)
- Underlying profit before taxation* £16.2 million, (2005: £16.9 million)
- Profit attributable to equity shareholders £8.2 million, (2005: £12.0 million)
- Earnings per share* of 7.6p, (2005: 7.6p)
- Interim dividend 3.8p per share, (2005: 3.7p)
- Continuing progress in polymer market expansion
- Net borrowings* of £175.8 million, (2005: £191.1 million)

* Before special items, as defined in notes 2, 3 and 7

+3%

Interim dividend increased

£16.2m

Underlying profit before tax

Results summary

	Underlying performance ^(a)		IFRS	
	2006 Unaudited £'000	2005 Unaudited £'000	2006 Unaudited £'000	2005 Unaudited £'000
Six months to 30 June				
Group sales	281,835	261,337	290,264	290,765
EBITDA ^(b)	31,859	33,342	31,700	33,700
Operating profit	22,453	23,593	22,294	23,951
Profit before taxation	16,199	16,860	13,298	18,334
Earnings per share	7.6p	7.6p	5.7p	8.3p
Dividend per share ^(c)	3.8p	3.7p	3.8p	3.7p
Net borrowings ^(d)	(175,790)	(191,057)	(172,118)	(190,424)
Free cash flow ^(e)	(14,783)	(4,563)	(14,783)	(4,563)

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

^(a) Underlying performance is before special items. (See notes 2,3 and 7)

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

^(c) An interim dividend of 3.8p per share will be paid on 17 November 2006 to members on the register at close of business on 20 October 2006.

Under IFRS this is not accrued in the financial statements.

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

^(e) As shown within the cash flow statement.

Chairman's statement

Interim Results for the six months ended 30 June 2006

"We have invested in the geographic expansion of our Polymer business and the volume growth seen in recent years should continue. In our Pharmaceuticals business a number of new generic products are expected to enter the market in 2007, 2008 and beyond. Therefore, we remain confident that we can deliver growth in shareholder value. However, near term results will be held back by events in Performance Chemicals."

Anthony Richmond-Watson, Chairman

Overview

Excellent progress has been achieved in Polymers as it reaps the rewards of investing in its infrastructure to expand the geographic reach of the division. The pharmaceutical active ingredient business experienced the normal pattern of price erosion of generic products, as the market matures post patent expiry. Performance chemicals has been temporarily impacted by the transition towards an improved cost structure, combined with a significant disruption in the ultramarine pigment business.

The resultant Group underlying profit before taxation of £16.2 million is 4% below the corresponding period. With the confidence that further benefits will accrue from investment and restructuring initiatives, the Board has declared an interim dividend of 3.8 pence per share, being an increase of 3%.

Polymer Chemicals

Latex volume increased by 8% as we continue to benefit from growth in the nitrile glove industry in Asia. The manufacturing facility in Malaysia is being expanded and following commissioning in early 2007, the current capacity constraint will be alleviated. In Europe, the construction sector has been buoyant, whilst our activity in the paper sector is gaining momentum.

Fortunes were more variable in the emulsions business. The DIY market in the UK started the year very slowly, but has progressively improved during the period, which augurs well for the second half. We enjoy a high share of the domestic market in Malaysia and South Africa and therefore the ability to expand volume there is more limited. After stalling last year the Middle East returned to growth which, combined with the continuing penetration of continental Europe, contributed to an overall volume increase of 7%.

Other speciality products also performed well. Auxiliary polymers benefited from additions to the product portfolio and a strong PVC market, whilst the use of lithene polybutadiene in anti-corrosion paint for the marine industry increased.

The effect of the rising price of oil has been exacerbated by unexpected outages in the monomer supply chain, which have restricted the availability of key raw materials, leading to further significant increases in input costs. Despite the difficult feedstock environment, it is very pleasing to report that operating profit moved forward by 32% to £20.3 million, whilst margins were maintained above 10%.

Pharma and Fine Chemicals

Demand for our generic portfolio has remained strong, with activity in omeprazole being particularly buoyant at 25% ahead of last year. We continue to find new opportunities in the ethical sector and we are seeing an increasing revenue stream from third party contract research work.

We have completed the investment in laboratory and pilot plant facilities which are necessary for the development of new drug masterfiles. They also provide an invaluable contribution to process improvements and cost-down initiatives which are essential to counteract the normal pricing pattern of the generic market.

After a period of consolidation within the flavour and fragrance industry, during which demand was subdued and competition from the Far East was encouraged by customers, there are indications of a return to growth. New customers have been established in India and China for our polycyclic musk, whilst demand for other musks has reached a level where additional capacity will be required. In flavours, activity has improved by 8%.

Performance Chemicals

Last year we announced that two manufacturing sites in UK would cease operations during the course of 2006. Inevitably, this has resulted in a level of inefficiency during the wind-down period, which is likely to persist for the remainder of the year, with the full benefit of the initiatives being realised in 2007.

The restructured businesses offer a number of significant growth opportunities including photochromic dyes for ophthalmic and security applications and metal salts used in catalysts.

In the ultramarine pigment business impurities in a key raw material have resulted in output being severely restricted, with the knock-on impact of reduced sales and additional costs. Corrective actions have been implemented and recent production confirms that the process has returned to previous high standards. All efforts are now being directed at regaining our market position.

Borrowings

Net borrowings, adjusted for movements in the mark-to-market of financial derivatives, have increased since the year end by £10.2 million to £175.8 million.

The normal seasonal increase in working capital has been further compounded by the raw material situation and a skew in trading activity towards the end of the period. This is merely a timing issue and we expect to see the normal reversal in the second half. At 0.7 times depreciation, capital expenditure was at a similar level to last year. Going forward, there will be a modest increase due to the investment in expanding the nitrile capacity in Malaysia and a facility to manufacture cytotoxic pharmaceutical products.

Overall, the closure of two UK operations is expected to have a positive impact on cash. Initially, however, there will be an outflow of funds, which in the first half was £3.2 million, with the inflow from the sale of land following in a later period. The disposal of Reabrook was completed on 5 June, delivering proceeds of £3.8 million and the potential for an additional £0.6 million of deferred consideration.

Dividend

The interim dividend of 3.8 pence per ordinary share (2005: 3.7p) will be paid on 17 November 2006 to members on the register at close of business on 20 October 2006.

Board Changes

Adrian Whitfield joined the Board on 1 March 2006 and became Chief Executive on 17 August 2006 following the retirement of Alex Walker on that date.

Outlook

Looking ahead, we have invested in the geographic expansion of our Polymer business and the volume growth seen in recent years should continue. In our Pharmaceuticals business we have the infrastructure to support a strong and expanding pipeline of pharmaceutical active ingredients, with a number of new generic products expected to enter the market in 2007, 2008 and beyond. Therefore, we remain confident that we can deliver growth in shareholder value.

However, near term results will be held back by events in Performance Chemicals. In particular the outcome of the initiatives in the pigments business will be a key factor for delivery of the full year's underlying profit before taxation, which is likely to be marginally below the level achieved last year.



Anthony Richmond-Watson

7 September 2006

Consolidated income statement

for the six months ended 30 June 2006

	Note	6 months ended 30 June 2006		6 months ended 30 June 2005		12 months ended December 2005	
		£'000 Unaudited	£'000 Unaudited	£'000 Unaudited	£'000 Unaudited	£'000 Unaudited	£'000 Unaudited
Group revenue			283,567		284,983		556,051
Share of joint ventures' revenue			6,697		5,782		12,656
Group sales	2		290,264		290,765		568,707
Group revenue			283,567		284,983		556,051
Company and subsidiaries			21,853		23,425		45,334
Joint ventures			441		526		859
Operating profit	2		22,294		23,951		46,193
Interest payable		(6,692)		(8,422)		(15,424)	
Interest receivable		438		1,689		3,683	
Fair value adjustment		(6,254)		(6,733)		(11,741)	
Fair value adjustment		(2,742)		1,116		(2,421)	
Finance costs			(8,996)		(5,617)		(14,162)
Profit before taxation			13,298		18,334		32,031
Taxation			(4,488)		(5,828)		(8,998)
Profit for the period			8,810		12,506		23,033
Profit attributable to minority interests			576		523		1,180
Profit attributable to equity shareholders of the parent			8,234		11,983		21,853
			8,810		12,506		23,033
Earnings per share							
Basic			5.7p		8.3p		15.1p
Diluted			5.6p		8.2p		14.9p

Consolidated balance sheet

as at 30 June 2006

	30 June 2006	30 June 2005	31 December 2005
	£'000 Unaudited	£'000 Unaudited	£'000 Audited
Non-current assets			
Goodwill	172,443	172,443	172,443
Other intangible assets	691	748	815
Property, plant and equipment	129,229	142,731	140,064
Deferred tax assets	2,607	1,860	2,531
Investment in joint ventures	3,700	3,712	4,064
	308,670	321,494	319,917
Current assets			
Inventories	67,473	68,113	66,495
Trade and other receivables	119,419	122,786	103,244
Cash and cash equivalents	49,322	42,705	46,027
	236,214	233,604	215,766
Current liabilities			
Borrowings	(50,796)	(39,554)	(37,385)
Trade and other payables	(117,102)	(119,470)	(129,523)
Current tax liability	(53,488)	(50,138)	(53,050)
Dividends	(7,717)	(11,440)	-
Derivatives at fair value	(16,486)	(7,300)	(4,312)
Net current liabilities	(9,375)	5,702	(8,504)
Non-current liabilities			
Borrowings	(170,644)	(193,575)	(179,908)
Trade and other payables	(509)	(1,044)	(306)
Deferred tax liability	(6,143)	(13,482)	(6,056)
Post retirement benefit obligations	(61,744)	(78,431)	(69,637)
	(239,040)	(286,532)	(255,907)
Net assets	60,255	40,664	55,506
Equity			
Called up share capital	14,565	14,480	14,480
Share premium	33,026	31,829	31,829
Capital redemption reserve	949	949	949
Hedging and translation reserve	(4,015)	(2,691)	(481)
Retained earnings	11,260	(8,503)	4,009
Equity attributable to equity holders of the parent	55,785	36,064	50,786
Minority interests	4,470	4,600	4,720
Total equity	60,255	40,664	55,506
Analysis of net borrowing			
Cash and cash equivalents	49,322	42,705	46,027
Current borrowings	(50,796)	(39,554)	(37,385)
Non-current borrowings	(170,644)	(193,575)	(179,908)
Net borrowings	(172,118)	(190,424)	(171,266)
Add back: special items	(3,672)	(633)	5,675
Net borrowings (underlying performance)	(175,790)	(191,057)	(165,591)

The financial statements were approved by the Board of Directors and authorised for issue on 7 September 2006.

Consolidated cash flow

for the six months ended 30 June 2006

	Note	6 months ended 30 June 2006		6 months ended 30 June 2005		12 months ended December 2005	
		£'000 Unaudited	£'000 Unaudited	£'000 Unaudited	£'000 Unaudited	£'000 Audited	£'000 Audited
Operating							
Cash generated from operations	5		2,782		12,731		57,791
Interest received		438		1,689		3,683	
Interest paid		(6,786)		(8,255)		(15,095)	
Net interest paid			(6,348)		(6,566)		(11,412)
UK corporation tax paid		-		-		(74)	
Overseas corporate tax paid		(4,065)		(2,692)		(10,964)	
Total tax paid			(4,065)		(2,692)		(11,038)
Net cash (outflow) / inflow from operating activities			(7,631)		3,473		35,341
Investing							
Dividends received from joint ventures			631		44		130
Purchase of property, plant and equipment		(7,102)		(7,494)		(14,331)	
Sale of property, plant and equipment		-		47		45	
Net capital expenditure and financial investment			(7,102)		(7,447)		(14,286)
Sale of businesses		3,849		2,625		18,858	
Net cash impact of acquisitions and disposals			3,849		2,625		18,858
Net cash (outflow) / inflow from investing activities			(2,622)		(4,778)		4,702
Financing							
Equity dividends paid			-		-		(16,796)
Dividends paid to minority interests			(681)		(633)		(1,399)
Purchase of own shares			(140)		(381)		(369)
Issue of shares			1,282		-		-
Proceeds / (repayment) of non-current borrowings			-		14,943		(5,033)
Net cash inflow from financing activities			461		13,929		(23,597)
(Decrease) / increase in cash and bank overdrafts during the year			(9,792)		12,624		16,446
Comprised of:							
Cash and cash equivalents			5,021		(53,499)		(46,623)
Bank overdrafts			(14,813)		66,123		63,069
			(9,792)		12,624		16,446

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

for the six months ended 30 June 2006

	6 months ended 30 June 2006	6 months ended 30 June 2005	12 months ended 31 December 2005
	£'000 Unaudited	£'000 Unaudited	£'000 Audited
Net cash (outflow) / inflow from operating activities	(7,631)	3,473	35,341
Dividends received from joint ventures	631	44	130
Net capital expenditure and financial investment	(7,102)	(7,447)	(14,286)
Dividends paid to minority interests	(681)	(633)	(1,399)
Free cash flow	(14,783)	(4,563)	(19,786)
Net cash impact of acquisitions and disposals	3,849	2,625	18,858
Purchase of own shares	(140)	(381)	(369)
Issue of shares	1,282	-	-
Equity dividends paid	-	-	(16,796)
Exchange movements	(407)	(1,097)	571
Movement in net borrowings (underlying performance)	(10,199)	(3,416)	22,050

Consolidated statement of recognised income and expense

for the six months ended 30 June 2006

	6 months ended 30 June 2006			6 months ended 30 June 2005		
	Minority interests £'000 Unaudited	Equity holders of the parent £'000 Unaudited	Total £'000 Unaudited	Minority interests £'000 Unaudited	Equity holders of the parent £'000 Unaudited	Total £'000 Unaudited
Actuarial gains and losses	-	5,901	5,901	-	(4,248)	(4,248)
Tax on items recognised directly in equity	-	-	-	-	-	-
Exchange differences	(146)	3,534	3,388	305	(1,744)	(1,439)
Profit for the period	576	8,234	8,810	523	11,983	12,506
Total recognised income for the period	430	17,669	18,099	828	5,991	6,819

	12 months ended 31 December 2005		
	Minority interests £'000 Audited	Equity holders of the parent £'000 Audited	Total £'000 Audited
Actuarial gains and losses	-	3,442	3,442
Tax on items recognised directly in equity	-	(34)	(34)
Exchange differences	533	466	999
Profit for the year	1,180	21,853	23,033
Total recognised income for the period	1,713	25,727	27,440

Notes to the financial statements

1 Basis of presentation

The accompanying consolidated financial statements of Yule Catto & Co plc have been prepared in accordance with recognition and measurement principles required by International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared using accounting policies consistent in all material respects with those applied in the Company's Annual Report for the year ended 31 December 2005. This statement does not seek to comply with IAS 34 "Interim Financial Reporting". The financial statements for the six months ended 30 June 2006, are unaudited and do not constitute statutory financial statements within the meaning of section 240 of the Companies Act 1985.

2 Consolidated income statement analysis

	Note	6 months ended 30 June 2006 Continuing operations			6 months ended 30 June 2005 Continuing operations		
		Underlying performance £'000	Special items £'000	IFRS £'000	Underlying performance £'000	Special items £'000	IFRS £'000
		Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
Group revenue		275,138	8,429	283,567	255,555	29,428	284,983
Share of joint ventures' revenue		6,697	–	6,697	5,782	–	5,782
Group sales	3,4	281,835	8,429	290,264	261,337	29,428	290,765
<hr/>							
Group revenue		275,138	8,429	283,567	255,555	29,428	284,983
Company and subsidiaries		22,012	(159)	21,853	23,067	358	23,425
Joint ventures		441	–	441	526	–	526
Operating profit / (loss)	3,4	22,453	(159)	22,294	23,593	358	23,951
Finance costs		(6,254)	(2,742)	(8,996)	(6,733)	1,116	(5,617)
Profit / (loss) before taxation		16,199	(2,901)	13,298	16,860	1,474	18,334
Taxation		(4,536)	48	(4,488)	(5,359)	(469)	(5,828)
Profit / (loss) for the period		11,663	(2,853)	8,810	11,501	1,005	12,506
<hr/>							
Profit attributable to minority interests		576	–	576	523	–	523
Profit attributable to equity holders of the parent		11,087	(2,853)	8,234	10,978	1,005	11,983
		11,663	(2,853)	8,810	11,501	1,005	12,506
<hr/>							
Earnings per share							
Basic		7.6p	(2.1)p	5.7p	7.6p	0.7p	8.3p
Diluted		7.6p	(2.0)p	5.6p	7.5p	0.7p	8.2p

Discontinued operations

There are no discontinued operations. A number of businesses were sold or closed during the period, however these do not satisfy the criteria of IFRS 5 to be treated as discontinued operations.

3 Special items

The special items disclosed are made up as follows:

	6 months ended 30 June 2006	6 months ended 30 June 2005	12 months ended 31 December 2005
	£'000 Unaudited	£'000 Unaudited	£'000 Unaudited*
Group sales			
Revenue of operations sold or closed during the period	8,429	29,428	52,249
Operating profit / (loss)			
Operating profit / (loss) of operations sold or closed during the period	146	1,084	(129)
Profit or loss arising from the sale or closure of operations	(305)	(726)	136
	(159)	358	7

4 Segmental analysis – underlying performance

	6 months ended 30 June 2006	6 months ended 30 June 2005	12 months ended 31 December 2005
	£'000 Unaudited	£'000 Unaudited	£'000 Unaudited*
Group sales by activity			
Polymer Chemicals	199,419	179,712	364,770
Pharma & Fine Chemicals	45,284	43,824	82,170
Performance Chemicals	37,132	37,801	69,518
	281,835	261,337	516,458
Operating profit by activity			
Polymer Chemicals	20,300	15,380	34,159
Pharma & Fine Chemicals	4,936	7,040	10,903
Performance Chemicals	113	3,469	5,806
Unallocated corporate expenses	(2,896)	(2,296)	(4,682)
	22,453	23,593	46,186
Finance costs	(6,254)	(6,733)	(11,741)
Underlying profit before taxation	16,199	16,860	34,445

* The underlying performance of the Performance Chemicals division has been adjusted to exclude the turnover and operating profit for Reabrook Limited, which was sold on 5 June 2006.

Notes to the financial statements

continued

5 Reconciliation of operating profit to cash generated from operations

	6 months ended 30 June 2006 £'000 Unaudited	6 months ended 30 June 2005 £'000 Unaudited	12 months ended 31 December 2005 £'000 Audited
Reconciliation of operating profit to cash generated from operations			
Operating profit	22,294	23,951	46,193
Less: share of profits of joint ventures	(441)	(526)	(859)
	21,853	23,425	45,334
Depreciation and amortisation	9,406	9,749	19,291
Profit or loss arising from the sale or closure of operations	305	726	(136)
Cash impact of termination of businesses	(3,233)	(162)	(761)
Loss / (profit) on sale of fixed assets	83	–	(73)
Share based payments	140	381	711
(Increase) / decrease in inventories	(3,107)	1,053	1,550
Increase in trade and other receivables	(21,365)	(14,732)	(1,380)
Pension funding in excess of IAS 19 charge	(1,272)	(1,728)	(2,992)
Increase / (decrease) in trade and other payables	655	(4,643)	(1,050)
Unrealised exchange gains	(683)	(1,338)	(2,703)
Cash generated from operations	2,782	12,731	57,791

6 Further information

The financial information for the year ended 31 December 2005 has been extracted from the statutory accounts, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 237 of the Companies Act 1985.

The financial statements were approved by the Board of Directors on 7 September 2006.

This statement can be obtained by the public from the company's registered office at Temple Fields, Harlow, Essex, CM20 2BH, or on the company website www.yulecatto.com.

Earnings per ordinary share are based on the attributable profit for the period and the weighted average number of shares in issue during the period to June 2006 of 145.3 million (2005: 144.7 million).

7 Glossary of terms

Group sales	Group sales represent the total of revenue from Yule Catto and Co plc, its subsidiaries, and its share of the revenue of joint ventures.
EBITDA	EBITDA is calculated as operating profit before depreciation, amortisation and non-recurring items.
Operating profit	Operating profit represents profit before finance costs and taxation.
Non-recurring items	Non-recurring items are defined as: <ul style="list-style-type: none">• Profit or loss impact arising from the sale or closure of an operation;• Impairment of non-current assets; and• Other non-operating or one-off items.
Special items	The following are disclosed separately as special items in order to provide a clearer indication of the Group's underlying performance: <ul style="list-style-type: none">• Non-recurring items;• Mark to market adjustments in respect of cross currency and interest rate derivatives used for hedging purposes where IAS 39 hedge accounting is not applied;• Revaluation of USD loan notes from the rate of the related cross currency swaps to the year end rate; and• The transitional adjustment required to reflect movements in fair value caused by variations in interest rates, and subsequent amortisation thereof, to the extent that these constituted effective hedges under UK GAAP.
Underlying performance	Underlying performance represents the statutory performance of the Group under IFRS, excluding special items.
Free cash flow	Free cash flow represents cash flow before cash impact of acquisitions and disposals, purchase of own shares, equity dividends paid and exchange movements.
Net borrowings	Net borrowings represents cash and cash equivalents together with short and long term borrowings, as adjusted for the effect of related derivative instruments irrespective of whether they qualify for hedge accounting.





Belgium

Synthomer SA

China

Yule Catto Asia Ltd

England

Holliday Pigments Ltd
James Robinson Ltd
Oxford Chemicals Ltd
Synthomer Ltd
William Blythe Ltd

France

Holliday France SA
Holliday Pigments SA

Germany

James Robinson GmbH
Synthomer GmbH

India

James Robinson India (Pvt) Ltd
Revertex-KA Latex (India) Private Ltd

Italy

Uquifa Italia SpA

Malaysia

Revertex Finewaters Sdn Bhd
Revertex (Malaysia) Sdn Bhd
Synthomer Sdn Bhd

Mexico

Uquifa Mexico S.A.C.V.

Netherlands

Ditar Hasselt BV
PFW Aroma Chemicals BV
Synthomer BV

Saudi Arabia

Dhahran Harco Chemical Industries Ltd

South Africa

Arkem (Pty) Ltd
Revertex Chemicals (Pty) Ltd

Spain

Holliday Chemical España SA
Union Quimico Farmaceutica SA (UQUIFA)

Thailand

Revertex (Thailand) Ltd

USA

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