

YULE CATTO & COMPANY PLC
Interim Results for the six months ended 30 June 2004

Good progress, strong development pipeline, confidence in medium term prospects

HIGHLIGHTS

- Results reflect the ending of the unique position of omeprazole in USA market
- Profit before tax of £17.3 million* (2003: £36.2 million)
- Earnings per share of 7.9 pence* (2003: 16.5 pence)
- Interim dividend increases to 5.5 pence per share, a growth of 4%
- Double digit volume growth in water-based polymers within a challenging raw material price environment
- Pace of drug master file registrations stepped up in USA

Anthony Richmond-Watson, Chairman, comments:

"Good progress has been made along the path of the long term development of the group, with strong volume growth in polymers and further evolution in the pipeline for pharmaceutical active ingredients. We remain confident that with our investment programme in place, we can deliver solid and growing results for the group".

8 September 2004

* Before amortisation of goodwill.

ENQUIRIES:

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NOTES TO EDITORS

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.

The group is based in Harlow, Essex, employs a total of 3,500 people and has operations in the UK, continental Europe, Malaysia, Mexico, Middle East and South Africa. Yule Catto comprises three divisions: Polymer Chemicals, Pharma and Fine Chemicals and Performance Chemicals.

Polymer Chemicals

This is the largest of the three divisions and reflects Yule Catto's position as a world leader in the development and application of water-based polymer science. Among its principal products is nitrile (synthetic) latex, which is increasingly used as a substitute for natural latex in the manufacture of thin wall gloves. Other products from this division include SBR latex, adhesives and emulsions for use in a variety of applications including the manufacture of carpet backing, construction, paints and other speciality markets.

Pharma and Fine Chemicals

This division is made up of two business units, largest of which manufactures generic and ethical pharmaceutical bulk active ingredients for the worldwide Pharma industry. Operating under the UQUIFA trading name, all manufacturing sites are approved by the US Food & Drugs Administration (FDA). Yule Catto majors on developing generic active ingredients and has a substantial development pipeline of new products, extending more than 10 years into the future.

The *Fine Chemicals* business consists of two companies, Oxford Chemicals, a UK-based manufacturer of flavours for the food industry, and PFW, a manufacturer of fragrances for supply to the toiletry and detergent industry.

Performance Chemicals

A wide variety of niche products are served by this division with many products commanding leading global positions. Products manufactured include ultramarine pigments, hair dye intermediates, photographic and inorganic chemicals, while markets served include plastics, cosmetics and hair dyes, photographic and timber treatments.

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RESULTS SUMMARY

Six months to 30 June	Notes	2004 Unaudited £'000	2003 Unaudited £'000
Total turnover	1	274,544	284,549
Ebitda	1, 2	35,262	54,754
Total operating profit	1, 3	23,922	43,173
Profit before taxation	3	17,320	36,233
Net borrowings		183,327	181,029
Free cash flow before dividends		(4,251)	33,486
Adjusted earnings per share	3	7.9p	16.5p
Earnings per share - FRS3		2.5p	16.3p
Dividend per share		5.5p	5.3p

Notes:

1. Including attributable share of joint ventures.
2. Earnings before interest, tax, depreciation and amortisation.
3. Before amortisation of goodwill, sale and termination of businesses, and profit/loss on disposal of fixed assets.

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CHAIRMAN'S STATEMENT

Overview

Good progress has been made along the path of the long term development of the group, with strong volume growth in polymers and further evolution in the pipeline for pharmaceutical active ingredients.

Profit before taxation and amortisation of goodwill has been struck at £17.3 million. This reflects the expected reduction following the ending of the unique position of omeprazole in the USA market, which prevailed during all of the comparative period. Earnings were also impacted by rising raw material costs, previously reported increases in pension contributions and movements in foreign currency exchange rates.

With confidence in the future of our strategic investments your Board has increased the interim dividend to 5.5 pence (2003: 5.3 pence) per ordinary share, a growth of 4%.

Review of Operations

Polymer Chemicals

Recent investments have been directed at extending the geographic reach of the division, with initiatives in four regions. We are happy to report that all projects have been successfully commissioned and benefits have started to accrue, with double-digit volume growth in total across the range of water-based polymers, in the first six months of the year. Further expansion plans are at the design stage and will benefit from the sizeable infrastructure costs already incurred.

Emulsion resin saw volume advance in all territories with the penetration of continental Europe and the development of a number of countries in the Middle East being particularly pleasing. Good progress has also been achieved in auxiliary polymers, assisted by an improved global PVC market.

New customers have been gained in the glove dipping industry, supported by local production from the new nitrile facility in Malaysia, which is currently operating just below its design capacity. Latex for carpets, construction and other speciality applications has also experienced solid increases.

After a short respite in the third quarter of last year, raw material costs have continued to spiral upwards. The high price of oil and restricted availability of product in the supply chain, have been the primary drivers. Movements in the price of oil will ultimately be determined by global macro-economic and political events, but in the short term, it is likely to remain volatile.

Inevitably, in the current raw material environment profitability has been reduced. However, over many years we have delivered operating margins within a narrow range: this being achieved by close customer relationships, innovative product development and a focus on technically demanding applications. As monomer costs stabilise, we would expect margins to improve.

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CHAIRMAN'S STATEMENT (cont'd)

Pharma & Fine Chemicals

Although the competitive landscape for omeprazole in the USA changed in the third quarter of 2003, the market continues to be very attractive, albeit not at the high level of returns seen last year. New opportunities to grow omeprazole in the USA were confirmed in June with FDA approval given for the launch of a new patented immediate release version, for which an exclusive supply contract has been secured. Deliveries to date have been modest, but with good market acceptance, requirements could be high. In other territories, sales of omeprazole continue to expand, with Europe particularly strong, aided by the expiry of the patent in France.

Demand for other generics remains at a satisfactory level. New outlets have been found for ranitidine, whilst activity in ciprofloxacin has increased ahead of patent expiry. Contract manufacture has been more variable, influenced by the timing of customer requirements rather than the loss of business. Success has been achieved in the early stage drug development programme, with important milestones being reached for a project in phase IIb of the approval process.

Long term planning is essential in this business. We have updated and expanded the generic development programme for the coming years, contemplating patent expiry as far forward as 2017. In support of these growth initiatives, construction work on new laboratories and pilot plant facilities is progressing well and the pace of drug master file registrations is stepping up in the USA.

Consolidation in the flavour and fragrance industry in recent years resulted in a period of destocking. Towards the end of 2003 there were signs of a more normal ordering pattern being re-established and this has continued to improve during 2004. Increased business activity, combined with the benefits of restructuring actions, has delivered a positive movement in profit.

Performance Chemicals

Sales for the ultramarine business have been restricted due to a fire in the flue gas desulphurisation unit at the facility in France. The impact of the ensuing loss of volume has been exacerbated during 2004 by margin pressure arising from the weakness of the US dollar. A new state-of-the-art unit has recently been commissioned, releasing manufacturing capacity to begin to restore the previous market position.

Inorganic chemicals have not maintained the forward momentum achieved last year. The transition from CCA to alternative timber treatment technologies has yet to deliver the expected returns and there is increased pressure from overseas competitors in other product areas. A carefully selected sales drive into mainland Europe has been initiated.

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CHAIRMAN'S STATEMENT (cont'd)

Activity in hair dye intermediates has been strong and following a recent merger within our customer base, further consolidation of our market leading position should be achieved. Penetration of the photographic colour developer market has been extended through new customer approvals and process improvements in the Indian facility. Novel applications for photochromic dyes are being developed, which should provide growth in the future.

Borrowings

Net borrowings increased by £6.1 million to £183.3 million. The normal seasonal increase in working capital has been amplified by higher monomer costs, which increase the unit carrying value. In addition, a skew in trading activity towards the end of the period resulted in an uplift in debtors at the balance sheet date. The customary focus on cash generation should see this reverse in the second half of the year. After a higher level of expenditure on fixed assets in recent years, we anticipate a phase of reduced capital requirement. This has been borne out in the first six months of the year with a net outlay of £8.1 million, which represents 0.7 times depreciation.

On 2 September the group secured a further £75 million of long term finance in the form of Guaranteed Senior Unsecured Loan Notes issued to institutional investors in the USA. The Notes, repayable between 2012 and 2016, will reduce the group's dependence upon short and medium term facilities provided by banks.

Dividend

The interim dividend of 5.5 pence per ordinary share will be paid on 19 November 2004 to members on the register at close of business on 22 October 2004.

Outlook

We have invested in the geographic expansion of our Polymer business and the additional sales volume is being captured. The third quarter has seen monomer costs increase further, which in the short term will hold back margin development. Looking further ahead, with raw material cost stability, margins will improve. The pipeline for pharmaceutical active ingredients is strengthening, new opportunities have been identified and the infrastructure to support growth into the future is well advanced. We remain confident that with our investment programme in place, we can deliver solid and growing results for the group.

ANTHONY RICHMOND-WATSON
Chairman

8 September 2004

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CONSOLIDATED PROFIT & LOSS ACCOUNT

	6 months ended 30 June 2004	6 months ended 30 June 2003	12 months ended 31 December 2003
	Unaudited £000	Unaudited £000	Audited £000
Turnover of company and subsidiaries	268,821	279,833	539,627
Share of turnover of joint ventures	5,723	4,716	10,487
Total turnover	274,544	284,549	550,114
Operating profit			
Existing operations	23,123	42,305	71,717
Amortisation of goodwill	(7,734)	(7,701)	(15,447)
Operating profit of company and subsidiaries	15,389	34,604	56,270
Share of operating profit of joint ventures	799	868	1,715
Total operating profit	16,188	35,472	57,985
Sale and termination of businesses	-	4,775	2,067
Profit/(loss) on disposal of fixed assets	-	2,651	2,651
Interest payable (net)	(6,602)	(6,940)	(13,518)
Profit on ordinary activities before taxation	9,586	35,958	49,185
Taxation on profit on ordinary activities	(5,369)	(11,812)	(19,848)
Profit on ordinary activities after taxation	4,217	24,146	29,337
Minority interests	(571)	(596)	(1,539)
Profit attributable to shareholders	3,646	23,550	27,798
Ordinary dividends	(7,921)	(7,675)	(18,777)
Retained (loss)/profit for the financial period	(4,275)	15,875	9,021
Operating profit before amortisation	23,922	43,173	73,432
Profit before taxation (excluding amortisation, sale and termination of businesses and profit/(loss) on sale of fixed assets)	17,320	36,233	59,914
Earnings per share - Adjusted	7.9p	16.5p	27.6p
- FRS3	2.5p	16.3p	19.2p
Dividends per ordinary share	5.5p	5.3p	13.0p

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CONSOLIDATED BALANCE SHEET

	30 June 2004 Unaudited £000	30 June 2003 Unaudited £000	31 December 2003 Audited £000
Fixed Assets			
Goodwill	224,087	239,145	231,821
Tangible fixed assets	166,700	174,767	175,067
Investment in joint ventures	3,819	3,116	3,252
Investments	32	45	38
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	394,638	417,073	410,178
Current assets			
Stocks	65,731	66,422	66,947
Debtors	110,426	105,894	100,182
Bank and cash balances	10,425	11,149	9,856
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	186,582	183,465	176,985
Creditors – due within one year			
Borrowings	(42,239)	(31,894)	(34,271)
Dividends	(19,055)	(18,390)	(11,150)
Other Creditors	(159,912)	(157,155)	(170,966)
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Net current liabilities	(34,624)	(23,974)	(39,402)
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Total assets less current liabilities	360,014	393,099	370,776
Creditors – due after one year			
Borrowings	(151,513)	(160,284)	(152,861)
Other creditors	(80)	(66)	(594)
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Provisions for liabilities and charges	(26,004)	(25,564)	(26,757)
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Net assets	182,417	207,185	190,564
Capital and reserves			
Called up share capital	14,480	14,480	14,480
Reserves	163,938	187,212	172,640
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Shareholders' funds	178,418	201,692	187,120
Minority interests	3,999	5,493	3,444
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Capital employed	182,417	207,185	190,564
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YULE CATTO & COMPANY PLC
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CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 June 2004 Unaudited £000 £000	6 months ended 30 June 2003 Unaudited £000 £000	12 months ended 31 December 2003 Audited £000 £000
Net cash inflow from operating activities	15,364	55,670	111,140
Dividends received from joint ventures	124	792	1,244
Returns on investments and servicing of finance			
Net interest paid	(7,250)	(8,200)	(14,287)
Dividends paid to minority interests	<u>(16)</u>	<u>(49)</u>	<u>(1,286)</u>
Net cash outflow from returns on investments and servicing of finance	(7,266)	(8,249)	(15,573)
Taxation	(4,346)	(7,351)	(14,749)
Capital expenditure and financial investment			
Purchase of tangible fixed assets	(8,011)	(10,133)	(21,734)
Sale of tangible fixed assets	61	2,757	2,651
Investments net of disposals	<u>(177)</u>	<u>-</u>	<u>(211)</u>
	(8,127)	(7,376)	(19,294)
Free cash flow before dividends	(4,251)	33,486	62,768
Acquisitions and disposals			
Purchase of businesses	(1,343)	(4,105)	(6,348)
Equity dividends paid	<u>-</u>	<u>-</u>	<u>(18,342)</u>
Cash (outflow)/inflow before management of liquid resources and financing	(5,594)	29,381	38,078
Financing			
Exchange movements	<u>(457)</u>	781	(4,163)
Movement in net borrowings	(6,051)	30,162	33,915

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NOTES TO THE FINANCIAL STATEMENTS

1. Analysis of total turnover

	6 months ended 30 June 2004 Unaudited £'000	6 months ended 30 June 2003 Unaudited £'000
Analysis by activity		
Polymer Chemicals	153,693	148,125
Pharma & Fine Chemicals	48,652	61,020
Performance Chemicals	72,199	75,404
	274,544	284,549

2. Analysis of operating profit before amortisation of goodwill

	6 months ended 30 June 2004 Unaudited £'000	6 months ended 30 June 2003 Unaudited £'000
Analysis by activity		
Polymer Chemicals	13,867	14,455
Pharma & Fine Chemicals	8,479	23,664
Performance Chemicals	3,996	7,103
Holding Companies	(2,420)	(2,049)
	23,922	43,173

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

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

	30 June 2004 Unaudited £000	30 June 2003 Unaudited £000	31 December 2003 Audited £000
Operating profit	16,188	35,472	57,985
Share of profits of joint ventures	(799)	(868)	(1,715)
	15,389	34,604	56,270
Depreciation charge	11,340	11,581	23,042
Cash impact of termination of business	-	(155)	(590)
Amortisation of goodwill	7,734	7,701	15,447
Amortisation of investments	177	-	224
Increase in stocks	(156)	(4,150)	(5,200)
(Increase)/decrease in debtors	(13,139)	9,855	15,177
Decrease in creditors and provisions	(5,981)	(3,766)	6,770
Net cash inflow from operating activities	15,364	55,670	111,140

4. The financial information for the year ended 31 December 2003 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.
5. This statement will be sent to all shareholders on 8 September and can be obtained by the public from the company's registered office at Temple Fields, Harlow, Essex, CM20 2BH.
6. An interim dividend of **5.5p** (5.3p) per share, totalling **£7.9 million** (£7.7 million) has been declared by the directors.
7. Earnings per ordinary share are based on the attributable profit for the period and the weighted average number of shares in issue during the period - **144.4 million** (144.3 million).
8. Adjusted earnings per share excludes the sale and termination of businesses, profit on sale of fixed assets and the amortisation of goodwill.