

Notes on the Accounts

for the six months ended 30th September 2004

1 Basis of preparation

The interim accounts were approved by the Board of Directors on 23rd November 2004, and are unaudited but have been reviewed by the auditors. They do not constitute statutory accounts, but have been prepared on the basis of the accounting policies set out in the annual report for the year ended 31st March 2004. The group sold its Pigments & Dispersions business during the period and so its results are reported as discontinued operations (note 13). The group adopted Urgent Issues Task Force Abstract 38 – 'Accounting for ESOP Trusts' in its accounts for the year ended 31st March 2004 and so it has restated its accounts for the six months ended 30th September 2003. Information in respect of the year ended 31st March 2004 is derived from the company's statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under 237(2) and 237(3) of the Companies Act 1985.

2 Group turnover

Activity analysis	Six months to		Year to
	30.9.04	30.9.03	31.3.04
	£ million	restated £ million	restated £ million
Catalysts	583.3	593.3	1,142.7
Precious Metals	1,693.2	1,380.0	2,956.4
Pharmaceutical Materials	66.4	64.7	139.7
Colours & Coatings	117.7	110.9	224.2
	2,460.6	2,148.9	4,463.0
Discontinued operations	12.3	15.8	29.9
	2,472.9	2,164.7	4,492.9

Geographical analysis by origin	Six months to		Year to
	30.9.04	30.9.03	31.3.04
	£ million	restated £ million	restated £ million
Europe	1,743.7	1,519.9	3,209.5
North America	536.1	497.8	961.9
Asia	537.9	394.1	837.6
Rest of the World	126.9	116.8	272.2
	2,944.6	2,528.6	5,281.2
Discontinued operations	14.2	17.2	33.4
	2,958.8	2,545.8	5,314.6
Less inter-segment sales	(485.9)	(381.1)	(821.7)
	2,472.9	2,164.7	4,492.9

Notes on the Accounts

for the six months ended 30th September 2004

3 Total turnover excluding the value of precious metals

Activity analysis	Six months to		Year to
	30.9.04 £ million	30.9.03 restated £ million	31.3.04 restated £ million
Catalysts	342.4	379.9	720.3
Precious Metals	63.9	59.1	120.6
Pharmaceutical Materials	62.8	61.0	131.5
Colours & Coatings	117.0	109.3	222.1
	586.1	609.3	1,194.5
Discontinued operations	12.3	15.8	29.9
	598.4	625.1	1,224.4

4 Total operating profit

Activity analysis	Six months to		Year to
	30.9.04 £ million	30.9.03 restated £ million	31.3.04 restated £ million
Catalysts	56.9	56.5	109.2
Precious Metals	23.4	21.9	44.2
Pharmaceutical Materials	20.9	20.7	42.3
Colours & Coatings	12.8	10.4	24.2
Corporate	(8.3)	(7.8)	(16.4)
	105.7	101.7	203.5
Discontinued operations	0.4	1.4	2.5
	106.1	103.1	206.0
Goodwill amortisation	(10.6)	(9.9)	(19.8)
Exceptional items included in total operating profit (note 5)	(3.0)	–	2.1
	92.5	93.2	188.3

Geographical analysis	Six months to		Year to
	30.9.04 £ million	30.9.03 restated £ million	31.3.04 restated £ million
Europe	43.4	37.8	79.0
North America	35.2	36.5	72.0
Asia	9.1	12.3	19.4
Rest of the World	18.0	15.1	33.1
	105.7	101.7	203.5
Discontinued operations	0.4	1.4	2.5
	106.1	103.1	206.0
Goodwill amortisation	(10.6)	(9.9)	(19.8)
Exceptional items included in total operating profit (note 5)	(3.0)	–	2.1
	92.5	93.2	188.3

Notes on the Accounts

for the six months ended 30th September 2004

5 Exceptional items

The exceptional items included in total operating profit of £3.0 million comprise £1.0 million for the cost of integrating the business of Activated Metals and Chemicals, Inc. (AMC), which was acquired on 30th March 2004, and £2.0 million for the cost of integrating the business of Lancaster Synthesis Limited, which was acquired on 30th September 2004.

The loss on closure of continuing operations of £12.4 million relates to the closure of the gold and silver bullion refinery in Royston, England.

The loss on sale of discontinued operations of £15.3 million relates to the sale of the Pigments & Dispersions business (note 13).

6 Effect of exchange rate changes on translation of foreign subsidiaries' operating profits

Average exchange rates used for translation of results of foreign operations	Six months to 30.9.04	30.9.03	Year to 31.3.04
US dollar / £	1.81	1.62	1.69
Euro / £	1.49	1.43	1.44
South African rand / £	11.75	12.23	12.11

The main impact of exchange rate movements on the group's operating profit comes from the translation of foreign subsidiaries' profits into sterling. The one significant exception is the South African rand where the translational impact is more than offset by the impact of movements in the rand on operating margins. Consequently the analysis below excludes the translational impact of the rand.

Activity analysis	Six months to 30.09.04 At this year's rates £ million	At last year's rates £ million	Effect £ million
Catalysts	56.9	59.9	(3.0)
Precious Metals	23.4	24.4	(1.0)
Pharmaceutical Materials	20.9	22.2	(1.3)
Colours & Coatings	12.8	13.8	(1.0)
Corporate	(8.3)	(8.3)	–
	105.7	112.0	(6.3)
Discontinued operations	0.4	0.4	–
	106.1	112.4	(6.3)

Notes on the Accounts

for the six months ended 30th September 2004

7 Retirement benefits assets and liabilities

Net return	Six months to		Year to
	30.9.04 £ million	30.9.03 £ million	31.3.04 £ million
Expected return on scheme assets	22.2	18.8	37.5
Interest on scheme liabilities	(17.6)	(15.9)	(31.5)
	4.6	2.9	6.0

Pension fund assets and liabilities

The net assets of the group's retirement benefits schemes which are in surplus and the net liabilities of the schemes which are in deficit are shown separately in the balance sheet. At 31st March 2004 the group's UK defined benefit pension scheme held assets with a market value of £599.6 million and had a net surplus, after tax, of £30.3 million. The group's other main pension schemes are in the USA. At 31st March 2004 these schemes held assets with a market value of £59.6 million and had a net deficit, after tax, of £6.0 million. The group also operates schemes for post-retirement medical benefits (now closed to new members) which are unfunded and had net liabilities of £18.9 million at 31st March 2004.

8 Taxation

	Six months to		Year to
	30.9.04 £ million	30.9.03 £ million	31.3.04 £ million
United Kingdom	12.3	12.1	27.4
Overseas	18.6	17.1	30.8
Associates	–	–	0.1
Tax on ordinary activities before exceptional items and goodwill amortisation	30.9	29.2	58.3
Tax on goodwill amortisation	(1.0)	(1.2)	(2.0)
Tax on exceptional items included in total operating profit	(1.0)	–	1.6
Tax on loss on closure of continuing operations	(3.7)	–	–
Tax on loss on sale of discontinued operations	(2.9)	–	–
	22.3	28.0	57.9

9 Dividends

An interim dividend of 8.7 pence per ordinary share will be paid on 2nd February 2005 to shareholders on the register at the close of business on 3rd December 2004.

Notes on the Accounts

for the six months ended 30th September 2004

10 Earnings per ordinary share

The calculation of earnings per ordinary share is based on a weighted average of 217,102,673 shares in issue (six months to 30th September 2003 – 217,587,885 shares, year to 31st March 2004 – 217,629,033). The calculation of diluted earnings per ordinary share is based on the weighted average number of shares in issue adjusted by the dilutive outstanding share options and long term incentive plan.

Before exceptional items, goodwill amortisation and the tax thereon, basic earnings per ordinary share were 33.6 pence (six months to 30th September 2003 – 31.8 pence, year to 31st March 2004 – 64.0 pence) and diluted earnings per ordinary share were 33.5 pence (six months to 30th September 2003 – 31.7 pence, year to 31st March 2004 – 63.7 pence).

11 Reconciliation of operating profit to net cash inflow from operating activities

	Six months to 30.9.04 £ million	30.9.03 £ million	Year to 31.3.04 £ million
Operating profit	92.2	93.0	187.7
Depreciation, amortisation and net profit on disposal of fixed assets and investments	42.7	40.1	83.5
Net retirement benefit charge less contributions	4.6	6.1	1.0
(Increase) / decrease in owned stocks	(53.6)	(13.7)	17.3
Decrease / (increase) in debtors	30.8	(1.1)	(41.7)
Increase in creditors and provisions	4.2	18.0	11.9
Net cash inflow from operating activities	120.9	142.4	259.7

12 Acquisition of the business of Lancaster Synthesis Limited

On 30th September 2004 the group acquired the business of Lancaster Synthesis Limited from Clariant AG for £2.0 million with a further payment of £0.3 million still outstanding. Costs incurred were £0.5 million, including £0.3 million accrued. Lancaster Synthesis Limited manufactures and distributes organic compounds for research and development purposes and is headquartered in Morecambe, England. The estimated fair value of the net assets acquired was £2.8 million. This has been accounted for by acquisition accounting.

13 Sale of Pigments & Dispersions business

On 1st September 2004 the group sold its Pigments & Dispersions business to Rockwood Pigments (UK) Limited for an initial consideration of £27.0 million. The consideration is likely to be reduced by an estimated £2.0 million following agreement as to the level of assets in the business at completion and the level of net debt transferred to the purchaser. Costs incurred were £2.9 million, of which £0.4 million were accrued. The net assets disposed of were £33.2 million, including £0.1 million of cash. After including £5.8 million of goodwill previously written off directly to reserves the disposal resulted in an estimated loss of £15.3 million.