



INTERIM

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RESULTS FOR THE SIX MONTH PERIOD TO 30TH NOVEMBER 2004:

- OPERATING PROFITS REDUCED TO £22.9M FROM £26.2M LARGELY AS A RESULT OF TRADING DIFFICULTIES IN RUSSIA
- PRE-TAX PROFITS REDUCED TO £26.2M FROM £27.3M
- DILUTED EARNINGS PER SHARE REDUCED TO 39.88p FROM 41.31p
- NET FUNDS OF £59.9M AFTER ACQUISITION PAYMENT OF £23.0M FOR CHARLES WORTHINGTON
- THE INTERIM DIVIDEND INCREASED BY 7.5% TO 8.65p PER SHARE FROM 8.05p

OVERVIEW

Profitability in the six months to 30th November was restricted by the trading difficulties in Russia. Other units have performed largely to plan, despite the weak dollar and the high cost of oil related materials.

The last five years have seen significant change within the PZ Cussons Group by improving margins and generating cash. During this period we have invested £38m in our share buy back programme to enhance shareholder return and also in significant expenditure in growth initiatives to enable the Group to realise its full potential.

Growth Initiatives

In **Nigeria** we have invested in:

- A plan to expand the capacities of the detergent factory at Ikorodu by 15% and the soap factory at Aba by 30%.
- New factories to:
 - ▶ Manufacture refrigerators, freezers and air conditioners with our Chinese partners Haier. Current sales are in the region of £12m per annum up 50% on last year.
 - ▶ Manufacture a new feminine hygiene range, with technical support from our Greek partner Mega. Current sales are in the region of £1m per annum up 35% on last year.

Construction is now largely complete on our exciting new joint venture with the Irish company Glanbia Plc to invest \$20m in a milk factory in Nigeria. The factory should be fully operational by the summer of 2005 and will have the capacity for sales in excess of £50m per annum.

We are now investigating further opportunities to expand our nutritional foods business in Nigeria based on milk ingredients.

In **Indonesia** we have continued to invest in factory capacity and have recently purchased a new plot of land to enable us to build

new factories as we further expand our product and brand ranges. Plans are now being finalised to build a factory to expand our Cussons Baby range. Nutritional foods are also being researched.

In the **UK**, we have also recently purchased the largely UK based brands of Original Source and Charles Worthington which we consider have international potential. Both of these brands have performed up to expectations to date and are considered to have the potential to grow profitably in the USA and in a number of our existing units.

The foundations for significant growth have, therefore, now been firmly established and the following has been actioned with a view to our realising the full potential of the initiatives.

People

A long term people development programme has been launched throughout all units, with a clear objective to improve the quality of our management resource both from within and by external recruitment.

The programme will identify and give career planning opportunities to individuals who display Group values and have the ability and potential to progress further.

The programme is set in the context of our commitment to establishing a working environment based on a transparent meritocracy and involving excellent local people in the future of their units, reducing our dependency on expatriate management.

Brands

With the recent acquisition of the Original Source and Charles Worthington brands a new subsidiary has been established – PZ Cussons Brands International – to have responsibility for and to give

impetus to the development of our key brands throughout all our existing units, and to investigate potential in new markets, such as the USA where Charles Worthington products are already established.

Brands International is a mixed discipline team with representation from within our major units and will have specific control over our Imperial Leather, Cussons Baby, Carex, Morning Fresh, Original Source and Charles Worthington brands.

This represents approximately 50% of our global business and has five year growth targets in excess of 10% per annum.

Supply Chain

As part of the Group margin improvement programme, a comprehensive review of the supply chain has been undertaken which is now resulting in certain restructuring. In particular it has been decided to build a new bar soap production factory in Thailand to provide the majority of the UK and Australian market soap needs together with the existing Indonesian plant. The new factory should be in full production by 2007 when the UK Nottingham bar soap plant will be closed. Output from the Nottingham factory represents

about 17% of our total UK consumer business. Plans relating to the Australian plant were announced last year.

The current weakness in the dollar and the impact of high oil prices on key packaging materials has restricted improvement in margins over the last few months, but our target remains to increase operating margins in the years ahead.

Communications

There has been considerable investment in systems development in recent years, with all units basing their financial, distribution and supply chain processes on one system, MfgPro.

Communication technology has recently become available covering all areas of our business including Africa, to enable more reliable voice and data transfer.

In January 2005 a contract was agreed with Equant (part of France Telecom) to establish a Virtual Private Network for all units which will enable timely, reliable, consistent and visible information to be instantly available, assisting significantly in achieving rapid progress on the three major initiatives mentioned above.

PZ CUSSONS' INTERNATIONAL POLICY REMAINS TO:

- FOCUS ON SPECIFIC GEOGRAPHICAL MARKETS WHICH HAVE POTENTIAL FOR GROWTH
- UNDERSTAND THE NEEDS AND ASPIRATIONS OF LOCAL CONSUMERS AND DEVELOP RELEVANT QUALITY, INNOVATIVE PRODUCTS
- ENSURE THE AVAILABILITY OF THESE PRODUCTS VIA THE ESTABLISHMENT OF FIRST CLASS DISTRIBUTION NETWORKS

Regional Unit Reviews

A decision has now been made to dispose of our Chinese unit, which has been in loss for some years, despite considerable efforts to establish a profitable distribution network. We will retain a presence in China to assist with both our group purchasing initiative and also our rapidly growing Nigerian white goods business in partnership with Haier.

The exceptional costs anticipated in disposing of the Chinese unit are expected to be offset by exceptional property disposal gains in the UK. These will arise from the anticipated sale and leaseback of our head office and the profit on the sale of our Bury warehouse in the first half resulting from the decision to outsource UK distribution.

In Eastern Europe the results for Poland for the first half year have been satisfactory; however, in Russia, the new distribution arrangements announced last year have not proved to be as successful as intended, largely because of the fall in the value of the rouble against the zloty later in 2004. This has reduced margins significantly and also

led to lower sales with reduced flexibility on our pricing policies and has resulted in losses in Russia of £3m in the first half. Action is now being taken to reduce the focus on Russia and concentrate our ambitions in Eastern Europe mainly on Poland. We are undertaking an exercise to restructure the Eastern European business so as to quickly establish a profitable level of activity; however losses are expected to continue at a similar level in the second half year.

Europe

In the UK, the key brands of Imperial Leather, Morning Fresh, Carex and Original Source performed well with the launch of the Carex bathroom range performing notably strongly. However, increases in raw material prices (including packaging materials) particularly those which are oil based, are impacting on margins. Sales of the new Charles Worthington products have been in line with plan at about £9m in the UK for the five months from 1st July 2004 when the company was acquired. Agreement has now been finalised to maintain brand exclusivity with Boots in the UK.

As described above the poor performance in Russia has impacted significantly on the results in Eastern Europe. In Poland itself, although remaining a very competitive market, sales and operating margins have largely been in line with plan and a relaunch of the leading detergent brand E has been successful.

Sales in Greece have continued to rise, but margins continued to suffer in the first half as a result of the poor olive oil harvest in 2003. However, indications for the second half look positive with an improved harvest in 2004.

Africa

Turnover in Nigeria in naira is 17% up on the previous year, with the refrigerator factory performing particularly strongly. Margins have, however, suffered from the increased cost of raw materials caused by the weak dollar and the high oil prices. The high oil prices have resulted in a major increase in Government revenues, however generally these have been used to build reserves and it is only now that there are indications of increases in Government expenditure.

Dividends

An interim dividend of 8.65p per share for the half-year to 30th November 2004 (2003 – 8.05p) has been declared, payable on 6th April 2005 to ordinary and 'A' ordinary shareholders on the register on 4th March 2005.

	£000	£000
Profit for the period		16,630
Dividends:		
Preference shares		
7½% cumulative	(29)	
10% cumulative	(356)	
		(385)
Ordinary and 'A' ordinary shares		
Interim at 8.65p		(3,484)
Adjustment for May 2004 proposed final at 23.95p on shares transferred from ESOT		(22)
Profit retained		12,739

Margins are now improving and are expected to improve further in the second half.

Turnover and profitability in Ghana, Kenya and Cameroun have improved.

Asia

Although sales growth was restricted in the region, overall profitability continued to increase on last year, particularly in Australia, where the margin improvement programme is impacting significantly.

Trading in Indonesia, Thailand and Malaysia was competitive with restrictions on sales price increases, despite oil based cost increases to raw and packaging materials.

The continuing losses in China have, as already explained, resulted in the decision to dispose of the business.

Investments

The value of the equity portfolio increased by 9% in the period, to £17.3m from £15.9m. £0.9m has been taken to profit with realised gains and released provisions, leaving £3.5m of unrealised surplus at 30th November 2004.

Purchase of own shares

The company has made no further purchases of its own shares in the six months to 30th November 2004.

Directors

David Whitewood, Group Sourcing Director, will retire from the company on 31st May 2005.

David will be succeeded by John Pantelireis, currently Supply Chain Development Director of PZ Cussons International Ltd, who will join the Board as Supply Chain Director with effect from 1st June 2005.

Outlook

There are indications of general margin improvements overall in the second half; however, as explained, results will be limited by further operating losses in Russia.

The actions being taken as described above, together with the elimination of losses in Russia and China, give the Group further opportunities for profit improvement in the future. Reflecting this we have increased the dividend by 7.5%.

The balance sheet remains strong, giving the Group adequate funds to finance planned opportunities for growth and to have the flexibility to purchase its own shares.

8th February 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

The directors submit the unaudited accounts of the Group for the half-year to 30th November 2004.

	Half-year to 30th November 2004 £000	Half-year to 30th November 2003 £000	Year to 31st May 2004 £000
Turnover	250,705	245,088	488,545
Operating profit before exceptional items	22,923	26,215	54,094
Operating exceptional items	-	-	(4,741)
Operating profit after exceptional items	22,923	26,215	49,353
Profit on disposal of intangible fixed assets	-	-	5,943
Profit on disposal of tangible fixed assets	1,611	-	-
Net investment income/interest payable	1,678	1,038	4,693
Profit before taxation	26,212	27,253	59,989
Taxation			
United Kingdom	(4,807)	(3,945)	(8,216)
Overseas	(3,917)	(5,003)	(10,002)
	(8,724)	(8,948)	(18,218)
Profit after taxation	17,488	18,305	41,771
Equity minority interests	(858)	(1,101)	(3,492)
Profit attributable to members of the company	16,630	17,204	38,279
Dividends	(3,891)	(3,633)	(13,642)
Profit for the period retained	12,739	13,571	24,637
Basic earnings per ordinary and 'A' ordinary share of 10p			
After exceptional items	40.34p	41.72p	93.35p
Before exceptional items	36.34p	41.72p	85.87p
Diluted earnings per ordinary and 'A' ordinary share of 10p	39.88p	41.31p	92.09p
Dividend per ordinary and 'A' ordinary share of 10p	8.65p	8.05p	32.00p

CONSOLIDATED BALANCE SHEET

	30th November 2004 £000	Restated 30th November 2003 £000	Restated 31st May 2004 £000
Fixed assets			
Intangible assets	39,025	9,994	9,728
Goodwill	-	906	-
Negative goodwill	-	(2,192)	-
	-	(1,286)	-
Tangible assets	147,688	139,414	146,657
Interests in joint ventures:			
Share of gross assets	8,848	-	1,708
Share of gross liabilities	(8,989)	-	(1,689)
Share of net assets	(141)	-	19
Other investments	555	624	576
	414	624	595
	187,127	148,746	156,980
Current assets			
Stocks	116,352	114,869	112,586
Debtors due within one year	82,472	66,864	65,703
Debtors due after one year	6,204	5,781	5,568
Investments	52,552	72,526	80,339
Cash at bank and in hand	14,867	9,458	13,088
	272,447	269,498	277,284
Creditors (due within one year)			
Bank loans and overdrafts	(7,115)	(7,732)	(8,251)
Others	(102,438)	(92,898)	(93,076)
	(109,553)	(100,630)	(101,327)
Net current assets	162,894	168,868	175,957
Total assets less current liabilities	350,021	317,614	332,937
Creditors (due after one year)	(20,080)	(16,335)	(15,891)
Provisions for liabilities and charges	(12,159)	(14,859)	(11,193)
Net assets	317,782	286,420	305,853
Capital and reserves			
Equity ordinary share capital	4,073	4,073	4,073
Non-equity preference share capital	7,898	7,898	7,898
Total called up share capital	11,971	11,971	11,971
Reserves attributable to equity interests	270,348	241,099	255,573
Total shareholders' funds	282,319	253,070	267,544
Equity minority interests	35,463	33,350	38,309
	317,782	286,420	305,853

GROUP CASH FLOW STATEMENT

	Half-year to 30th November 2004 £000	Half-year to 30th November 2003 £000	Year to 31st May 2004 £000
Cash flow from operating activities	24,425	26,289	52,336
Returns on investments and servicing of finance	3,257	(1,109)	965
Taxation	(8,079)	(6,616)	(15,647)
Capital expenditure and financial investment	(12,145)	(7,670)	(10,000)
Acquisitions and disposals	(22,963)	-	(100)
Equity dividends paid	(9,624)	(8,668)	(11,910)
Cash (outflow)/inflow before use of liquid resources and financing	(25,129)	2,226	15,644
Management of liquid resources	27,541	(4,293)	(13,579)
Financing	2,678	555	1,831
Increase/(decrease) in cash in the period	5,090	(1,512)	3,896

Reconciliation of net cash flow to movement in net funds

Increase/(decrease) in cash in the period	5,090	(1,512)	3,896
Cash inflow from financing	(2,678)	(555)	(1,831)
Cash (inflow)/outflow from management of liquid resources	(27,541)	4,293	13,579
Change in net funds resulting from cash flows	(25,129)	2,226	15,644
Currency retranslation	(135)	(638)	(2,575)
Movement in net funds in the period	(25,264)	1,588	13,069
Opening net funds	85,176	72,107	72,107
Closing net funds	59,912	73,695	85,176

Reconciliation of operating profit to operating cash flows

Operating profit	22,923	26,215	49,353
Amortisation of goodwill and other intangible assets	-	228	448
Depreciation and adjustments on disposals	7,836	9,363	15,480
Provisions	1,085	401	(2,074)
Stocks	(5,229)	(2,517)	(4,587)
Debtors	(13,883)	(9,753)	(10,114)
Creditors	11,693	2,352	218
Add back charge for shares purchased for ESOT	-	-	731
Impairment of goodwill and intangible fixed assets	-	-	2,881
Net cash flow from operating activities	24,425	26,289	52,336

GROUP CASH FLOW STATEMENT CONTINUED

Analysis of net funds

	At 31st May 2004 £000	Cash Flow £000	Exchange Difference £000	At 30th November 2004 £000
Cash in hand and at bank	13,088	1,709	70	14,867
Overdrafts	(4,499)	3,381	(1)	(1,119)
		5,090		
Loans due within one year	(3,752)	(2,286)	42	(5,996)
Loans due after one year	-	(392)	-	(392)
		(2,678)		
Deposits	65,046	(28,937)	(221)	35,888
Other current asset investments	15,293	1,396	(25)	16,664
		(27,541)		
	85,176	(25,129)	(135)	59,912

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Half-year to 30th November 2004 £000	Half-year to 30th November 2003 £000	Year to 31st May 2004 £000
Profit for the period	16,630	17,204	38,279
Currency retranslation	2,365	(11,552)	(20,085)
Surplus on revaluation	-	-	12,702
Total recognised gains and losses for the period	18,995	5,652	30,896

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	Half-year to 30th November 2004 £000	Restated Half-year to 30th November 2003 £000	Restated Year to 31st May 2004 £000
Total recognised gains and losses for the period	18,995	5,652	30,896
Dividends	(3,891)	(3,633)	(13,642)
Restatement of ESOT shares (see note 4)	(329)	(209)	(970)
Net increase in shareholders' funds	14,775	1,810	16,284
Opening shareholders' funds	267,544	251,260	251,260
Closing shareholders' funds	282,319	253,070	267,544

NOTES

1. During the period the Bury warehouse was sold resulting in a total exceptional profit of £1,611,000. The tax attributable to this profit is nil.
2. Details of the exceptional items recognised in the year to 31st May 2004 are included in the published report and accounts for that period.
3. On 1st July 2004 the group acquired the Charles Worthington hair care range for an initial cash consideration of £23.0m with further cash consideration payable of between £5m and £12m contingent on future sales performance.
A fair value exercise has been performed on the assets and liabilities acquired in the transaction. As part of this process the Charles Worthington brand has been valued at £29.2m.
4. In accordance with UITF38, shares held in the Employee Share Ownership Trust have been reclassified in the balance sheet from investments to the profit and loss account reserve. The impact of this reclassification is to reduce both investments and the profit and loss account reserve at 30th November by £1,299,462 (2003: £209,431).
5. The interim financial statements, which are neither audited nor reviewed, have been prepared on the basis of the accounting policies set out in the Annual Report and Accounts 2004 with the exception of accounting for the ESOT shares which has changed to reflect the requirements of UITF38. These interim financial statements do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985.
The figures for the year ended 31st May 2004 are an abridged statement of the Group audited accounts for that year. The audited accounts, containing an unqualified audit report, have been delivered to the Registrar of Companies.

Directors

Chairman

A J Green

Chief executive

C N Green

A G Calder
D C Godwin*
G A Kanellis
D W Lewis*
C Nicoloulis
R H Sellers OBE*
J D M Smith*
P J Smyth
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