

# BUSINESS REVIEW

## Operations – Fine Chemicals & Catalysts Division

	Year to 31st March			% at constant rates
	<b>2009</b> £ million	2008 £ million	% change	
Revenue	<b>606</b>	521	+16	+2
Sales excluding precious metals	<b>347</b>	303	+15	+3
Operating profit*	<b>72.8</b>	67.1	+8	-1

\* before restructuring charges.

### Description of the Business

Fine Chemicals & Catalysts Division is a global supplier of fine chemicals, catalysts and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and research institutes.

#### *Catalysts and Chemicals*

The Catalysts and Chemicals business manufactures precious and base metal catalysts, fine chemicals and electrochemical products. The business sells its products to customers in the speciality chemical, pharmaceutical, fine chemical and other markets. Manufacturing takes place in the UK, USA, Germany, India and China.

#### *Macfarlan Smith*

Macfarlan Smith manufactures active pharmaceutical ingredients (APIs) and intermediate products for the pharmaceutical industry. The business specialises in APIs for controlled drugs, particularly opiate products. Most of Macfarlan Smith's customers are generic pharmaceutical companies. The business is headquartered in Edinburgh, UK.

#### *Pharmaceutical Materials and Services*

The Pharmaceutical Materials and Services business manufactures APIs and provides services to the pharmaceutical industry. The business specialises in the manufacture of platinum based anticancer APIs and controlled drugs and provides a full range of commercial scale manufacturing services for APIs to both generic and branded pharmaceutical companies. The business has operations in the USA and Ireland.

#### *Research Chemicals*

The Research Chemicals business is a globally integrated catalogue based supplier of speciality inorganic and organic chemicals. It operates under the Alfa Aesar brand name and is based in the UK, USA, Germany, China and India.

### Key Statistics

Return on sales excluding precious metals	<b>21.0%</b>
Return on invested capital (ROIC)	<b>14.1%</b>
Capital expenditure	<b>£23.4m</b>
Capex / depreciation	<b>1.0 times</b>
Average invested capital	<b>£516m</b>
Employees	<b>1,689</b>

### Performance in 2008/09

Fine Chemicals & Catalysts Division achieved good growth in reported sales, largely as a result of favourable exchange translation. Many of the division's businesses are located outside the UK, particularly in the USA, and sales reported in sterling benefited from currency movements. Revenue increased by 16% to £606 million, sales excluding precious metals rose by 15% to £347 million and operating profit grew by 8% to £72.8 million. Translated at constant exchange rates, sales excluding precious metals increased by 3% and operating profit fell by 1%.

The division's Fine Chemicals businesses (Macfarlan Smith, Pharmaceutical Materials and Services and Research Chemicals) achieved good growth in the year. These businesses contributed £220 million (36%) of the division's revenue; £215 million (62%) of sales excluding precious metals; and £49.5 million (68%) of operating profit (before restructuring charges).

From 1st April 2009, the remaining business in the division, Catalysts and Chemicals, has been transferred to Precious Metal Products Division. As a result, in the reported results for 2009/10 we will be showing Fine Chemicals as a separate segment and including the results of Catalysts and Chemicals within Precious Metal Products Division. Catalysts and Chemicals' revenue for 2008/09 was £386 million; sales excluding precious metals £132 million; and operating profit £23.3 million.



– Catalyst and chemical manufacturing in Shanghai, China.

#### Catalysts and Chemicals

Catalysts and Chemicals achieved good growth in the first half of the year but sales fell in the second half as demand for some products declined in response to the global recession. Precious metal salts used in the manufacture of catalysts for the automotive industry were well down and sales of catalysts used in the manufacture of edible oils, which had enjoyed good sales growth in the first half, weakened in the second six months of the year. By contrast, sales of catalysts to the pharmaceutical industry were strong throughout the year with good demand for pgm based heterogeneous catalysts, palladium coupling catalysts and chiral ligands.

Our expansion of capacity in China for the manufacture of pgm based chemicals and catalysts became fully operational during the year, and additional capacity for sponge nickel catalysts for the local Chinese market will start production in the summer of 2009.

#### Macfarlan Smith

Macfarlan Smith's sales of opiate products were well up on last year with good demand for codeine phosphate. Sales of specialist opiates were also strong, particularly oxycodone. In the non-opiate sector, sales of galantamine showed good growth as a result of the launch of generic alternatives to Razadyne®. Manufacturing costs rose, particularly the cost of energy, which reduced return on sales, but operating profit was still comfortably ahead of last year.



– Researching the application of chiral technologies.

#### Pharmaceutical Materials and Services

The division's Pharmaceutical Materials and Services business was ahead of last year with good sales of methylphenidate and opiate products. Sales of platinum based anticancer APIs were similar to last year with increased sales of oxaliplatin. However, revenue from contract research was adversely affected by the lack of venture capital funding for a number of our smaller customers. On 4th April 2009, Barr Laboratories (now part of Teva Pharmaceutical Industries) launched its generic version of ADDERALL XR®. Pharmaceutical Materials and Services has an agreement with Barr Laboratories which will provide additional income for the first six months after launch during which period Barr Laboratories has market exclusivity for this generic product.

In March 2009 we announced the closure of our facility in Ireland which manufactures prostaglandin APIs for the European market. We plan to consolidate prostaglandin API manufacturing at our facility in Massachusetts, USA. The closure has resulted in a £9.4 million restructuring charge in this year's accounts.

#### Research Chemicals

Research Chemicals achieved good growth in the year with increased sales in North America, Europe and Asia. Sales were held back in China during the Olympics but recovered well later in the year. On 2nd March 2009 we purchased our partner's 49% share of our catalogue joint venture in China for £5.2 million. With increasing demand for its products, the business is investing in the expansion of facilities in India and in Europe and has a new manufacturing joint venture in Yantai, China which will begin operations in summer 2009.