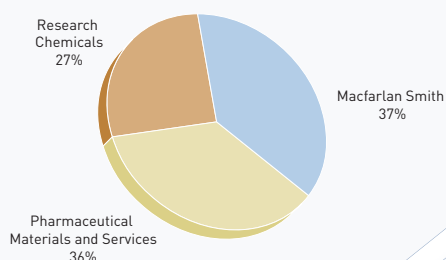


BUSINESS REVIEW

Operations Review → Fine Chemicals Division

Sales Excluding Precious Metals



Key Statistics

Return on sales excluding precious metals	25.5%
Return on invested capital (ROIC)	13.4%
Capital expenditure	£22.0m
Capex / depreciation	1.4
Average invested capital	£417m
Employees	1,026

	Year to 31st March			%
	2010	2009	%	
	£ million	£ million	change	at constant rates
Revenue	221	220	+1	-4
Sales excluding precious metals	219	215	+2	-2
Underlying operating profit	55.8	49.5	+13	+9

Description of the Business

Fine Chemicals Division is a global supplier of active pharmaceutical ingredients, fine chemicals and other speciality chemical products and services to a wide range of chemical and pharmaceutical industry customers and industrial and academic research organisations.

Macfarlan Smith

Macfarlan Smith manufactures active pharmaceutical ingredients (APIs) and intermediate products for the pharmaceutical and fine chemical industries. The business is the world's leading manufacturer of opiate alkaloids which are used for pain management and other pharmaceutical applications. It 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 APIs for controlled drugs and for platinum based anticancer treatments. It 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.

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.

Performance in 2009/10

Fine Chemicals Division achieved modest growth in the year in the face of challenging market conditions. The division's revenue increased by 1% to £221 million and sales excluding precious metals rose by 2% to £219 million. Operating profit was 13% ahead at £55.8 million. The division received a one-off benefit to sales and operating profit of US \$12 million from the launch of the generic version of ADDERALL XR® in April 2009. However it also incurred £1.6 million in redundancy and other costs at its Pharmaceutical Materials and Services business in the USA. Excluding these items, the division's operating profit was 1% ahead at £49.9 million. On a constant currency basis sales excluding precious metals were 2% below and operating profit, excluding these items, was also 2% down.

Macfarlan Smith

Macfarlan Smith's sales of specialist opiate products, particularly buprenorphine, naloxone and naltrexone, continued to grow in 2009/10. However, its sales of bulk opiates, such as codeine phosphate, were impacted by reduced availability of raw material, and overall, sales of opiate based APIs were down on last year. As a result, sales excluding precious metals declined by 8% to £80 million. While the business took swift action to control costs and sales of non-opiate products, such as fentanyl and methylphenidate, saw continued growth, Macfarlan Smith's profit was a little down on last year.

Pharmaceutical Materials and Services

The division's Pharmaceutical Materials and Services business had a good year overall with sales excluding precious metals 14% ahead of 2008/09 at £79 million, benefiting from the income received as the result of the launch of the first generic version of ADDERALL XR® by Teva Pharmaceutical Industries. Excluding this one-off benefit, sales excluding precious metals still grew and were up by 3% at £71 million. Pharmaceutical Materials and Services' manufacturing business performed well with sales of amphetamine salts and opiate products continuing to show good growth, more than offsetting a decline in sales of platinum based anticancer APIs.

Our contract research business, however, continued to be adversely affected by a lack of venture capital funding for new drug development which has impacted many of our smaller customers. Sales excluding precious metals were down more than 30% in 2009/10 and the business generated an operating loss. Consequently a restructuring plan was implemented at its facility in Massachusetts, USA resulting to date, in a 31% reduction in headcount compared to last year. In addition to the £1.6 million in redundancy and other costs, this plan resulted in an £11.3 million impairment charge in respect of redundant assets at the site. It will take some time for this business to recover, but we believe that its skills are necessary to assist our customers in the development of new APIs and hence feed growth in our manufacturing business.



→ Research Chemicals is a catalogue based supplier of speciality inorganic and organic chemicals. It operates under the Alfa Aesar brand name.

Research Chemicals

The Research Chemicals business was impacted by a marked contraction in R&D spending in many parts of the world due to the global economic slowdown. Despite this, sales excluding precious metals were slightly up at £60 million. However, good cost control in North America and Europe offset, in part, additional costs incurred through the geographic expansion of the business in Asia, resulting in profits from the business being only marginally down on last year. Its European and North American markets were particularly badly hit in the first half of the year but saw some recovery in the second half, especially in North America. The business' Asian operations, however, were up on last year with good growth in sales in both China and Korea.

Research Chemicals continued to focus on geographic expansion with new warehouse facilities opening in both India and Germany during the course of the year. Its new manufacturing joint venture, Alfa Aesar Synmax in Yantai, China, in which we have a 51% shareholding, became operational with the commissioning of its pilot plant facility in March 2010. As well as serving the research chemicals needs of the rapidly growing market in China, Alfa Aesar Synmax has large scale capacity which allows Research Chemicals to bring the manufacturing of bulk and custom products in house and support the manufacturing activities at its facility in Heysham, UK.



→ Manufacturing operations at our Pharmaceutical Materials and Services business in the USA.