

Avecia Group plc
Financial Statements – September 30 2006

TABLE OF CONTENTS

Item 1. Financial Statements

Consolidated Profit and Loss Accounts for the nine months ended September 30, 2006 (unaudited), and for the nine months ended September 30, 2005 (unaudited).

Consolidated Balance Sheets as at September 30, 2006 (unaudited) and as at December 31, 2005.

Consolidated Cash Flow Statements for the nine months ended September 30, 2006 (unaudited) and for the nine months ended September 30, 2005 (unaudited).

Notes to the Financial Statements

Avecia Group plc

Unaudited Consolidated Profit and Loss Accounts

PROFIT AND LOSS ACCOUNT

	Notes	9 months ended 30.09.06	9 months ended 30.09.05
		£m	£m
Continuing operations			
Group turnover	3	45.8	47.7
Operating costs		(60.2)	(78.1)
Restructuring costs		(0.6)	(5.8)
Other operating income		0.2	3.7
Loss before interest and tax	3	(14.8)	(32.5)
Finance income		1.8	8.8
Finance costs	4	(13.6)	(50.8)
Loss before tax		(26.6)	(74.5)
Tax		0.1	(2.2)
Loss after tax from continuing operations		(26.5)	(76.7)
Profit from discontinued operations & gain on disposal of discontinued operations		90.8	140.1
Retained profit/(loss) for the period		64.3	63.4
Discontinued operations is broken down as follows :			
Group turnover		8.1	118.4
Operating costs		(8.6)	(113.9)
Other operating income		-	(0.8)
Loss on sale of assets		(0.7)	
Profit from discontinued operations		(1.2)	3.7
Share of operating profit/(loss) of joint ventures		0.2	-
Gain on disposal of discontinued operations	6	91.8	136.4
Profit from discontinued operations & gain on disposal of discontinued operations		90.8	140.1

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Avecia Group plc

BALANCE SHEET

	<u>Notes</u>	As at 30.09.06	As at 31.12.05
		£m	£m
ASSETS			
Non-current assets			
Goodwill		20.6	20.6
Intangible assets		-	0.3
Property, plant and equipment		65.0	71.8
Amounts due from parent undertakings		43.5	42.7
		<u>129.1</u>	<u>135.4</u>
Current assets			
Stocks		12.5	7.2
Trade and other debtors		17.3	17.6
Cash and cash equivalents		26.5	49.1
Assets classified as held for sale		-	71.7
		<u>56.3</u>	<u>145.6</u>
Total assets		<u>185.4</u>	<u>281.0</u>
LIABILITIES			
Non-current liabilities			
Financial liabilities	5	15.9	109.3
Other creditors		-	0.2
Deferred tax liabilities		1.6	0.2
Pension liabilities		-	48.4
		<u>17.5</u>	<u>158.1</u>
Current liabilities			
Trade and other creditors		33.6	34.9
Financial liabilities		0.6	3.5
Current tax liabilities		-	0.1
Provisions		2.9	8.8
Liabilities classified as held for sale		-	12.9
		<u>37.1</u>	<u>60.2</u>
Total liabilities		<u>54.6</u>	<u>218.3</u>
Net assets		<u>130.8</u>	<u>62.7</u>
Equity			
Called up share capital		179.1	329.1
Retained earnings		(48.3)	(266.4)
Equity attributable to equity holders of parent		<u>130.8</u>	<u>62.7</u>
Total equity and liabilities		<u>185.4</u>	<u>281.0</u>

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Avecia Group plc

CASH FLOW STATEMENT

	9 months ended 30.09.06 £m	9 months ended 30.09.05 £m
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the period	64.3	63.4
<i>Adjustments for :</i>		
Depreciation, amortisation & impairment charges	8.6	21.1
Finance income	(1.8)	(8.8)
Finance costs	13.6	50.8
Share of loss of associates	(0.2)	-
Gain on disposal of discontinued operations	(90.6)	(136.4)
Tax expense / (income)	(0.1)	2.2
Operating loss/profit before changes in working capital and provisions	(6.2)	(7.7)
 Non cash items	 1.1	 (1.9)
Increase/(decrease) in provision for pensions & similar obligations	(29.7)	1.1
Increase/(decrease) in other provisions	(6.5)	6.0
Loss/(profit) on sale of fixed assets	-	(2.2)
Increase in stocks	(6.7)	(3.8)
Increase/(decrease) in trade & other debtors	(2.2)	6.9
Increase/(decrease) in trade & other creditors	5.6	(21.3)
Cash from operating activities	(44.6)	(22.9)
Interest paid	(20.7)	(46.2)
Tax paid	(0.1)	(1.3)
Net cash outflow from operating activities	(65.4)	(70.4)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of fixed asset investments	-	(1.5)
Disposal of subsidiaries	140.2	396.3
Cash disposed of with subsidiaries	(0.7)	(4.3)
Purchases of property, plant and equipment	(2.8)	(6.4)
Disposals of property, plant & equipment	-	2.7
Dividends received from joint ventures	0.4	0.3
Interest received	1.9	1.3
Net cash used in investing activities	139.0	388.4
 CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of long-term borrowings	(96.0)	(296.7)
Payment of finance lease liabilities	-	(0.5)
Net cash used in financing activities	(96.0)	(297.2)
 Net increase in cash and cash equivalents	(22.4)	20.8
Cash and cash equivalents at beginning of period	49.1	22.7
Effect of exchange rate fluctuations on cash held	(0.2)	-
Cash and cash equivalents at end of period	26.5	43.5

The accompanying notes are an integral part of these unaudited interim consolidated financial statements.

Avecia Group plc

1. Basis of preparation

The unaudited consolidated financial statements have been prepared in accordance with the basis of preparation and accounting policies adopted in the consolidated financial statements.

The information contained in the following notes to the unaudited consolidated financial statements is condensed from that which would appear in the annual consolidated financial statements; accordingly the unaudited consolidated financial statements should be read in conjunction with the annual consolidated financial statements.

The consolidated financial statements included herein are unaudited. They include all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position of Avecia Group plc as at September 30, 2006 and December 31, 2005 and the results of operations and cash flows for the nine months ended September 30, 2006 and September 30, 2005.

2. Accounting policies

Basis of consolidation

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled entities are those entities over whose activities the group has joint control, established by contractual agreement. The consolidated financial statements include the group's share of the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives they are accounted for as separate property, plant and equipment.

The cost of each item of property, plant and equipment is written off evenly over its estimated remaining life. Reviews are made periodically of the estimated remaining lives of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear. Depreciation is charged to the income statement on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The total asset lives approximate to 15 years for buildings and 10 years for plant and equipment.

Intangible assets and goodwill

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and Jointly Controlled Entities. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

In respect of acquisitions prior to 1 January 2004, goodwill is included at 1 January 2004 on the basis of its deemed cost, which represents the amount recorded under UK GAAP. On transition amortisation of goodwill has ceased as required by IFRS 1. Negative goodwill arising on an acquisition is recognised in the income statement.

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Avecia Group plc

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Intangible assets acquired, including patents and intellectual property rights are capitalised and amortised on a straight line basis over their estimated useful lives. Internally developed intangible assets are not capitalised.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate the risks specific to the liability.

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the group; and
- (b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Loans and preference shares

Loans and preference shares in kind are stated at amortised cost less impairment.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations, and of related qualifying hedges are taken directly to the hedging reserve. They are released into the income statement upon disposal.

Avecia Group plc

Government grants

Government grants made as a contribution towards revenue expenditure, or for an objective with an associated revenue cost (such as job creation) are included on the balance sheet as deferred income and released to the income statement in line with the costs being incurred.

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the income statement over the estimated useful economic lives of the assets to which they relate.

Where grants comprise both capital and revenue elements, these elements are split out on a reasonable basis and each element is treated as described above.

Leases

Leases in which the group assumes substantially all the risks and rewards are classified as finance leases. Assets held under finance leases are capitalised and included in property, plant and equipment at the lower of their fair value and the present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses. Each asset is depreciated over the shorter of the lease term or its useful life. The obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under creditors due within, or creditors due after, one year. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Rentals under operating leases are charged to the income statement on a straight-line basis over the lease term. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Net financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement (see financial instruments accounting policy) and finance charges with respect to the group's defined benefit pension schemes.

Interest income and interest payable are recognised in the income statement as they accrue, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Post-retirement benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses as at 1 January 2004, the date of transition to Adopted IFRSs, were recognised. In respect of actuarial gains and losses that arise subsequent to 1 January 2004 the Group recognises them in the period they occur directly into equity through the statement of recognised income and expense.

Current service costs and finance charges are recognised in the income statement.

Avecia Group plc

Discontinued operations

A discontinued operation is a component of the group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale, that has been disposed of, has been abandoned or that meets the criteria to be classified as held for sale.

Discontinued operations are presented on a single line in the income statement (including the comparative period).

Inventories

Inventories are stated at the lower of cost and net realisable value. The first in, first out or an average method of valuation is used. In determining cost, depreciation is included but selling expenses and certain overhead expenses (principally central administration costs) are excluded. Net realisable value is determined as selling price less costs of disposal.

Trade and other receivables

Trade and other receivables are stated at amortised cost less impairment losses.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Revenue

The company generates revenue through sales of specialty chemicals in the open market, through raw material conversion and supply and development contracts. Revenue excludes inter-segment revenue and value added taxes.

Revenue is recognised when services have been rendered and significant risks and rewards in respect of ownership of the products are passed to the customer. Where multiple-element sales arrangements exist, this entails the company recognizing revenue on individual contract elements for work performed or services rendered during the period.

Cash and cash equivalents

Cash and cash equivalents, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Avecia Group plc

Impairment

The carrying amounts of the group's assets other than, inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use were tested for impairment as at 1 January 2004, the date of transition to Adopted IFRSs.

Calculation of recoverable amount

The recoverable amount of the group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Avecia Group plc

3. Segmental information

Classes of business:

The following tables analyse sales, operating profit, depreciation and amortization by business segment.

	Consolidated Financial Statements for the 9 months ended September 30, 2006	Consolidated Financial Statements for the 9 months ended September 30, 2005
	£ million	£ million
Sales		
Biotechnology	39.8	44.0
Other	6.0	3.7
	45.8	47.7
Discontinued businesses	8.1	118.4
	53.9	166.1
Operating profit / (loss)		
Biotechnology	(4.8)	(8.0)
Other	(10.0)	(11.3)
Restructuring Charge	-	(13.2)
	(14.8)	(32.5)
Discontinued businesses	(1.2)	3.7
	(16.0)	(28.8)
Depreciation and Amortization		
Biotechnology	5.3	6.0
Other	3.0	2.0
Restructuring Charge	-	7.4
	8.3	15.4
Discontinued businesses	0.3	5.7
	8.6	17.1

The restructuring charge for the period ending 30 September, 2005 relates to the closure of the DNA operations at Grangemouth in the United Kingdom and consists of £4.6 million in respect of severance costs, £1.2 million stock write off and £7.4 million fixed asset write off.

Results for the discontinued businesses are reported within the profit from discontinued operations & gain on disposal of discontinued operations line of the consolidated profit and loss account.

Avecia Group plc

Geographic areas:

The table below shows information by geographic area in which turnover and profits are generated. An analysis of turnover by customer location is also given.

	Consolidated Financial Statements for the 9 months to September 30, 2006	Consolidated Financial Statements for the 9 months to September 30, 2005
	£ million	£ million
Turnover by customer location		
United Kingdom	12.6	30.8
Continental Europe	6.1	36.1
The Americas	31.6	66.6
Asia, Africa and Australasia	3.6	32.6
Total	<u>53.9</u>	<u>166.1</u>
Turnover by supplier location		
United Kingdom	35.8	89.8
Continental Europe	-	14.4
The Americas	17.1	52.2
Asia, Africa and Australasia	1.0	9.7
Total	<u>53.9</u>	<u>166.1</u>

4. Finance Costs

	Consolidated Financial Statements for the 9 months to September 30, 2006	Consolidated Financial Statements for the 9 months to September 30, 2005
	£ million	£ million
External interest paid	6.5	16.1
Redemption premium	4.8	17.0
Revaluation (credited)/ charged to interest	0.6	11.4
Fee amortization	1.7	6.3
Total	<u>13.6</u>	<u>50.8</u>

Avecia Group plc

5. Analysis of debt

	Consolidated Financial Statements as at September 30, 2006	Consolidated Financial Statements as at December 31, 2005
	£ million	£ million
External loans due within less than 1 year	-	-
External loans due after more than 1 year	15.9	109.3
	<u>15.9</u>	<u>109.3</u>

Analysis of debt shown net of un-amortized issuance costs:

	Consolidated Financial Statements as at September 30, 2006	Consolidated Financial Statements as at September 30, 2006
	£ million Gross	£ million Net
Redeemable Preference Shares	15.9	15.9
	<u>15.9</u>	<u>15.9</u>

	Consolidated Financial Statements as at September 30, 2006	Consolidated Financial Statements as at September 30, 2006
	£ million Gross	£ million Net
In one year or less, or on demand	-	-
Between one and two years	-	-
Between two and three years	-	-
Between three and four years	15.9	15.9
Between four and five years	-	-
In five years or more	-	-
	<u>15.9</u>	<u>15.9</u>

Avecia Group plc

6. Profit from discontinued operations & gain on disposal of discontinued operations

Gain on disposal of businesses in 2006 comprises £97.0m profit on the disposal of the Inkjet and Electrophotography business to Fuji Photo Film Co. Ltd on 17 February 2006, a loss of £5.3m on the disposal of the Image Polymer business, a jointly controlled entity, to the Mitsui Chemicals Group on 31 March 2006, a loss of £0.6m being the final purchase price adjustments relating to the disposals of the NeoResins, Fine Chemicals and Pharmaceuticals businesses in 2005, £1.1m deferred proceeds from the sale of the Biocides business in 2004 and £0.4m costs associated with prior year disposals.

Gains on disposal of businesses in 2005 comprised profits of £114.1 million arising on the sale of the NeoResins business to Royal DSM N.V. on 2 February 2005, £12.4 million on the sale of the Displays business to Merck KgaA on 28 February 2005, and £8.4m on the sale of the Fine Chemicals business to Kemfine Holdings Oy on 16 September 2005, the balance being deferred proceeds from the sale of the Biocides business in 2004.

7. Post Balance Sheet Events

In November 2006 Avecia reached agreement with Fuji Photo Film Co. Ltd and Nicholas Piramal India Limited (NPIL) relating to final price adjustments in respect of pension contributions arising on the disposals of the Inkjet and Electrophotography business and Pharmaceuticals businesses. This agreement will result in a net payment to Fuji of £4.1 million and a net receipt from NPIL of £0.6 million, both of which are expected to be settled in December 2006.

In December 2006 Avecia signed a contract for the sale of surplus land at Avecia's premises at Blackley, UK. Gross proceeds from the disposal are £8.4 million, of which £3.9 million is receivable on completion, with the balance payable twelve months after completion. Completion is subject to finalisation of minor legal matters relating to the land, and is anticipated in the first quarter of 2007. Further costs to complete are currently estimated at some £0.7 million.