

REGISTRAR

COBRA BIOLOGICS LIMITED
ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2013
Company No. 02710654

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COBRA BIOLOGICS LIMITED

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COBRA BIOLOGICS LIMITED

DIRECTORS AND ADVISORS

Directors and officers

Peter Coleman
Carl-Johan Spak
Richard Hughes

Chief Executive Officer
Director
Company Secretary

Registered office

Stephenson Building
The Science Park
Keele
Staffordshire
ST5 5SP

Auditors

Baker Tilly Audit UK LLP
St Philips Point
Temple Row
Birmingham
B2 5AF

COBRA BIOLOGICS LIMITED

STRATEGIC REPORT

Principal activities and future developments

The principal activity of the Company is the provision of manufacturing services for protein, virus and DNA based pharmaceuticals.

Cobra Biologics Limited has a strong presence in the provision of mammalian protein, microbial products, virus and DNA manufacturing services. As a subsidiary of Cobra Biologics Holding AB the Company's strategy is to expand its service offering through the installation of increased capacity, utilising disposable systems, with the aim to provide a one-stop-shop for contract manufacturing services of biopharmaceuticals. The Company expects to expand its current capabilities and in the future, to provide commercial manufacturing services for customer products.

The Company's primary source of business during the last three years has been from North America however the European market and emerging markets are increasingly important. In 2012 the Company expanded its sales team in Europe as well as continuing to build on its established business in other regions such as Asia and the Far East.

In 2014 and beyond, the directors' focus will be to return the Company to profitability and they remain confident about the Company's commercial prospects.

Events after the balance sheet date

On 31 March 2014, Prokarium was sold to Prokarium Holdings Limited a 100% subsidiary of Flerie Invest AB by the Company's parent company Cobra Holdings Limited. On 1 April 2014 the Company sold the materials and Intellectual property rights in the ORT VAC technology to Prokarium Limited for £473,000. The transactions will allow the Company and Group to have a clearer focus in achieving in carrying out their activities.

Principal risks and uncertainties

Financial risks

The directors have overall responsibility for the establishment and oversight of the Company's risk management framework. Risk management policies are constantly reviewed, taking into account changes in market conditions and the Company's activities. A formal risk management update is presented to the Board bi-annually.

Interest rate risk: the Company is exposed to interest rate risk on funds borrowed at floating rates. The Company has been provided with unsecured working capital loans by Cobra Biologics Holding AB. The Company pays a fixed rate of 4% per annum above the base rate of the Royal Bank of Scotland Plc.

Liquidity risk: the Company manages liquidity by maintaining appropriate banking facilities and through loan facilities provided by the ultimate holding company. The directors continuously monitor cash flow forecasts, both short and long term and then measure these forecasts to actual performance. Consideration is also given to the maturity profiles of financial assets and liabilities.

Credit risk: the Company's credit risk relates to trade receivables and cash and cash equivalents. The Company utilises established UK banking entities whose credit rating and financial position is reviewed regularly and considers that the risk to cash and cash equivalents is not significant. The Company has no significant concentration of credit risk related to receivables, as the exposure is spread over a number of customers over different geographical areas. The Company uses publicly available trading records, web site analysis and press releases to rate both new and existing customers. The Company's maximum exposure to credit risk at 31 December 2013 was £2,442k (2012: £2,025k).

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STRATEGIC REPORT

Foreign currency risk: the Company generated overseas revenue during the period, primarily from North America and Continental Europe. The position regarding currency risk is regularly reviewed given the significant volatility in both the US Dollar and the Euro. The company also receives significant sums in Swedish Kroner. Foreign currency risk is managed through the use of foreign currency bank accounts and an offset overdraft facility between foreign and sterling accounts. Furthermore, overseas revenue is partially offset by overseas expenditure which mainly comprises of the salaries and costs of the US sales team and in Sweden the cost of sub-contracted services from affiliates. This is further mitigated by the Company's specialist skills being relatively price insensitive.

Commercial risks

In addition to the financial risks the Company's risk management framework has highlighted to the directors the following key commercial risks facing the Company:

Customer funding: The majority of the Company's customers are mid-sized biopharmaceutical companies, who are reliant upon funding from both the public and private capital markets for their product development. The Company constantly monitors via subscription to the appropriate database and/or the financial and trade press, the global pipeline funding to determine which companies are receiving that funding.

The Company anticipates being in a good position to take advantage of what is expected to be an increase in prospective business as we emerge from the global recession which has hit the funding for biologics products more than most. Throughout this difficult period, Cobra has benefited from established contracts with its existing customer base. The Company will continue to seek and win business for the good product candidates developed by well-funded organisations.

The Company carries out both technical and financial due diligence on all its customers prior to contract signature.

Regulatory compliance: the Company is required by the UK pharmaceutical regulator, the Medical and Healthcare Products Regulatory Agency (MHRA), as with all companies in the sector, through the EU Clinical Trials Directive to ensure that our manufacturing facilities provide services that are consistent and achieve the appropriate quality standards, termed current Good Manufacturing Practice (cGMP). Failure to comply with these regulations may result in production delays or even closure of our facilities until corrective action is in place. This risk is managed by employing and maintaining an experienced quality team of 6 employees one of which is a Qualified Person (QP).

Maintenance, validation and upgrade of facilities: the Company's facilities are maintained to both full cGMP and MHRA compliance, therefore continued capital investment is of key importance to on-going activities in these facilities and the Company made cash investments of £0.1m in property, plant and equipment in 2013 (2012: £0.1m).

Recruitment, retention and training of employees: the Company operates in a knowledge based industry and recognises the importance of the appropriate recruitment and retention of its highly skilled workforce. The Company operates a performance management and appraisal framework which links directly into the risk management process and the financial objectives of the business. The Company has a preferred list of recruitment agents to build relationships and ensure the Company offers competitive salaries. The Company also places great emphasis on open and dynamic communication with its employees, which includes a Staff Committee, regular company briefings and updates from the CEO, guidance notes and published management structures and job descriptions.

Market fluctuations and customer product failure: The biopharmaceutical market is young and rapidly growing, which from time to time, is subject to trends and fluctuations. The product failure rate is also similar to the failure rate of conventional pharmaceuticals, in that 90% of phase I drugs fail to reach the commercial market. The Company attempts to mitigate this risk, by ensuring it has a wide customer base, working with 50 customers in 2013 (2012: 46), operating in all the biopharmaceutical market segments and being very thorough in both its customer financial and product potential due diligence.

COBRA BIOLOGICS LIMITED

STRATEGIC REPORT

Business review

Operations: Cobra Biologics Limited is primarily an international provider of manufacturing services for the global biopharmaceutical industry. The Company operates from UK based manufacturing facilities in Keele. The Company is a wholly owned subsidiary of Cobra Biologics Holdings Limited. Other subsidiaries in the Group are Prokarium Limited whose principal activity is to develop the Oral Vaccine platform technology Vaxonella™, Cobra Biomanufacturing EBT Limited whose principal activity is to act as trustee to the Company's Long Term Incentive Plan (LTIP) and the dormant Cobra Biomanufacturing LLC.

Going concern: In determining the appropriate basis of preparation of these financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the date of the approval of the financial statements.

At 31 December 2013 the Company had cash and cash equivalents of £0.2m. It incurred a loss of £3.1m for the twelve months preceding that date bringing the total deficit on profit and loss reserves to £54.8m. Cobra Biologics Holding AB has pledged financial support to the Parent Company and the Company, to allow them both to meet their liabilities as they fall due, and continue to trade on normal business terms, for a period of no less than twelve months from the date of the approval of these financial statements.

The directors have prepared a detailed cash flow forecast for the twelve months after the date of the signing of these financial statements ("the forecast") which includes a number of assumptions regarding the delivery of the £13.3m secured orders (entire Cobra Biologics Holding AB group), the signing of priority leads into secured contracts, expenditure and cost base, cash flows and loans from Cobra Biologics Holding AB, as well as the continued support of Cobra Biologics Holding AB. As such the Directors believe that they have a reasonable expectation that the Company will be able to operate within its available resources and there will be sufficient funds to enable the Company to continue as a going concern for the foreseeable future. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on this understanding, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments which would result from the basis of preparation being inappropriate.

Markets: of the \$23.1bn¹ spent on research and development in 2011 by public biotechnology research and development organisations in the USA, Europe, Canada and Australia, 75% or \$17.2bn² was spent by North American companies. Therefore, North America represents the primary market for Cobra Biologics services. However there is a significant amount of research and development expenditure, \$5.9bn spent by the remaining key biotech hubs, before accounting for the growing market in Asia.

It is estimated that the global market for the Company's biopharmaceutical contract manufacturing services, will grow with a compounded annual growth rate of 13.4% through to 2016³. The vast majority of the market is for protein based manufacturing services. However there is also an available growing specialised niche market for virus based manufacturing services and DNA also maintains a steady demand. Cobra Biologics Limited can uniquely provide manufacturing services for all of these segments in addition to cell based therapies.

Sales and marketing: North America is still the main source of revenue with 52% of the total revenue in 2013 (2012: 57%) achieved through a US based sales force which currently employs 2 business managers, covering the major biotechnology hubs of the US. In addition the Company has 3 business managers covering both Europe (including the UK) a combined territory that generated 33% of revenue in the period (2012: 26%) and the Rest of the World providing a steady contribution of 15% (2012: 17%). The sales team focus on well-funded mid-size biotechnology product companies with a requirement for process development expertise and specialised manufacturing services.

Research and development: to maintain the Company's scientific competitive edge, Cobra Biologics Limited has a molecular biology team, which employed on average 1 people in 2013 (2012: 4) through which the Company generates revenue from customer's research contracts and develops its own intellectual property, through innovative manufacturing processes. During 2012 part of the molecular biology team was transferred to Prokarium Ltd in order to focus on the development of the Group's oral vaccine platform Vaxonella™. As a result the company's research and development expenditure during the year was £0.2m (2012: £0.2m).

¹ Ernst & Young Beyond Borders Biotechnology Report 2012, Giovannetti & Jaggi

² Ernst & Young Beyond Borders Biotechnology Report 2012, Giovannetti & Jaggi

³ GBI Research, Manufacturing of Biologics - Increasing Demand for Monoclonal Antibodies and Recombinant Proteins Drives Increases in Capacities and Innovative Production Technologies, September 2010

COBRA BIOLOGICS LIMITED

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Contract values: these are variable and range from £0.1m to £5m, dependent upon the size and complexity of the programme. It usually follows that the further down the regulatory process our customer is the higher the value of the potential contract.

Key performance indicators

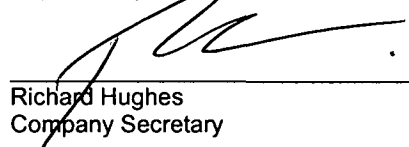
The Company operates in a complex industry, with a requirement for specialist knowledge. However the financial business model is one of a conventional contract manufacturing business, whose primary objective each financial year is to fill capacity slots and thereby cover the fixed overhead cost.

The directors believe that the table below sets out the key performance indicators of the Company and its performance against them:

	12 months to 31 December 2013	12 months to 31 December 2012
Revenue	£8.2m	£6.1m
Deferred income at period end	£2.1m	£1.6m
Gross margin	-4.9%	9.2%
Operating cash inflow/(outflow)	(£1.1m)	(£1.4m)
Cash and cash equivalents at period end	£0.2m	£0.1m
Employee recruitment: average headcount	76	71
Revenue per average headcount	£108k	£86k
	10 June 2014	29 August 2013
Group contracted forward order book*	£13.3m	£12.1m

*includes all subsidiaries of Cobra Biologics Holdings AB

Approved by the Board on 18 June 2014 and signed on its behalf by



Richard Hughes
Company Secretary

COBRA BIOLOGICS LIMITED

DIRECTORS REPORT

The directors of Cobra Biologics Limited present their report to the shareholder, together with the audited financial statements for the year ended 31 December 2013.

Capital structure

Cobra Biologics Limited is a limited company incorporated in England and Wales. It is a wholly owned subsidiary of Cobra Biologics Holdings Limited ("the Parent Company").

Results and dividend

The Company loss for the period after providing for taxation was £3.1m (2012: £2.1m loss) and an equivalent amount has been deducted from reserves. The directors do not propose the payment of a dividend (2012: nil).

The accumulated profit and loss reserve carried forward for the Company amounted to a deficit of £54.8m (2012: deficit £51.8m)

Directors

The directors in office throughout the period are listed below:

Peter Coleman	Chief Executive Officer
Carl-Johan Spak	
Tracey Macdonald	

Tracey Macdonald was appointed as Director on 17 April 2012 and resigned 29 January 2014.

Health and safety

The Company considers Health and Safety to be a top priority in its workplace and is committed to continual improvement of its Safety, Health, Environmental and Fire Protection Procedures through the training of all its employees.

Third party indemnity

The Company has made a third party indemnity provision for the benefit of the directors which was made during the period and remains in force at the date of this report.

Employee involvement

The Company recognises and seeks to encourage the involvement of its employees, with the aim being to recruit, motivate and retain employees. Employees are given training where appropriate.

Each employee receives a staff handbook, which outlines the Company's employment policies and includes a commitment to equal opportunities. The handbook is designed to attract and motivate employees regardless of sex, race, religion or disability. The staff handbook includes the Employment Equality (Age) Regulations which came into force on 1 October 2007 and wherever practicable gives full consideration to applications for employment from disabled persons.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and

COBRA BIOLOGICS LIMITED

DIRECTORS REPORT

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors, individually, are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Signed on behalf of the directors



Richard Hughes
Company Secretary

Approved by the directors on 18 June 2014

COBRA BIOLOGICS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COBRA BIOLOGICS LIMITED

We have audited the financial statements of Cobra Biologics Limited for the year ended 31 December 2013 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Cash Flows, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6 directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Baker Tilly UK Audit LLP

Mark Vincent
Senior Statutory Auditor
for and on behalf of
Baker Tilly UK Audit LLP, Statutory Auditor

18 July 2014

St Phillips Point
Temple Row
Birmingham
B2 5AF

COBRA BIOLOGICS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013**

Statement of income	Notes	2013 £000's	2012 £000's
Revenue	5	8,229	6,137
Cost of sales		<u>(8,634)</u>	<u>(5,575)</u>
Gross profit		(405)	562
Sales, marketing and distribution costs		(1,303)	(1,117)
Research and development		(420)	(177)
Administrative expenses		(2,019)	(2,038)
Other operating income	6	<u>1,200</u>	<u>845</u>
Operating loss		(2,947)	(1,925)
Finance costs	10	<u>(221)</u>	<u>(123)</u>
Loss before tax		(3,168)	(2,048)
Taxation	11	<u>87</u>	<u>(70)</u>
Loss for the period attributable to equity shareholders of the Company	7	(3,081)	(2,118)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>(3,081)</u>	<u>(2,118)</u>

The results for the current and preceding year are derived from continuing activities.

COBRA BIOLOGICS LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

Registered Number 02710654

	Notes	2013 £000's	2012 £000's
Non-current assets			
Property, plant and equipment	12	1,697	1,297
Intangible assets	13	-	-
		<u>1,697</u>	<u>1,297</u>
Current assets			
Inventories	14	123	79
Trade and other receivables	15	3,078	2,402
Assets held for sale	15	-	-
Cash and cash equivalents	15	219	134
		<u>3,420</u>	<u>2,615</u>
Total assets		<u>5,117</u>	<u>3,912</u>
Current liabilities			
Obligations under finance leases	17	-	(26)
Trade and other payables	18	(3,108)	(1,471)
Deferred income		(2,135)	(1,617)
		<u>(5,243)</u>	<u>(3,114)</u>
Net current liabilities		<u>(1,823)</u>	<u>(499)</u>
Non-current liabilities			
Amounts owed to Parent	16	(4,505)	(2,436)
Amount due to group undertakings	16	(19,883)	(19,795)
		<u>(24,388)</u>	<u>(22,231)</u>
Total liabilities		<u>(29,631)</u>	<u>(25,345)</u>
Net liabilities		<u>(24,514)</u>	<u>(21,433)</u>
Equity			
Called up share capital	20	1,389	1,389
Share premium		28,940	28,940
Retained earnings – (Deficit)		<u>(54,843)</u>	<u>(51,762)</u>
Total deficit on shareholders' funds		<u>(24,514)</u>	<u>(21,433)</u>

These financial statements were approved by the directors and authorised for issue on 18 June 2014 and are signed on their behalf by:


Richard Hughes
Company Secretary

COBRA BIOLOGICS LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013**

	Notes	2013 £000's	2012 £000's
Net Cash (outflow) / inflow from operating activities	21	<u>(1,075)</u>	<u>(1,364)</u>
Investing activities			
Proceeds from disposal of property, plant and equipment		-	231
Payments to acquire property, plant and equipment		<u>(750)</u>	<u>(100)</u>
Net cash inflow/(outflow) from investing activities		<u>(750)</u>	<u>131</u>
Financing activities			
Repayment of borrowings			-
Repayment of capital elements of finance leases		(26)	(58)
(Decrease)/Increase in amount owed to immediate parent undertaking		88	(1)
Increase in amount owed to intermediate parent undertaking		2,069	1,353
Other interest payable		(3)	(3)
Interest on bank loans and overdrafts		(6)	(5)
Interest element of finance leases		26	(3)
Interest on loans from group companies		<u>(166)</u>	<u>(91)</u>
Net cash inflow from financing activities		<u>1,982</u>	<u>1,192</u>
Increase/(Decrease) in cash and cash equivalents		157	(41)
Opening cash and cash equivalents		134	196
Effect of foreign exchange losses		<u>(72)</u>	<u>(21)</u>
Closing cash and cash equivalents		<u>219</u>	<u>134</u>

**STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2013**

	Share capital	Share premium	Retained Earnings - Deficit	Total
	£000's	£000's	£000's	£000's
At 1 January 2012	1,389	28,940	(49,644)	(19,315)
Loss for the year	<u>-</u>	<u>-</u>	<u>(2,118)</u>	<u>(2,118)</u>
At 31 December 2012	1,389	28,940	(51,762)	(21,433)
Loss for the year	<u>-</u>	<u>-</u>	<u>(3,081)</u>	<u>(3,081)</u>
At 31 December 2013	<u>1,389</u>	<u>28,940</u>	<u>(54,843)</u>	<u>(24,514)</u>

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

1. GENERAL INFORMATION

Cobra Biologics Limited is a private limited company incorporated and domiciled in England and Wales. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") adopted for use in the EU as at 31 December 2012 ("adopted IFRS"), International Financial Reporting Interpretations Committee ("IFRIC") interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

2. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2012.

At the date of authorisation of these financial statements, the following amendments to Standards and new Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 1 (Amendment) First time Adoption of International Financial Reporting Standards
- IFRS 7 (Amendment) Financial Instruments: Disclosures
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS12 Disclosure of Interests in Other Entities
- IFRS13 Fair Value Measurement
- IAS 1 (Amendment) Presentation of Financial Statements
- IAS 12 (Amendment) Income Taxes
- IAS 16 Property, Plant and Equipment
- IAS 19 Employee Benefits (Revised 2011)
- IAS 27 Separate Financial Statements (Revised 2011)
- IAS 28 Investments in Associates and Joint Ventures (Revised 2011)
- IAS 32 Financial Instruments
- IAS 34 Interim Financial Statements (Presentation)
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The directors have considered the above standards, interpretations and amendments and concluded that they are either not relevant to the Company or that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

Going concern: In determining the appropriate basis of preparation of these financial statements, the directors are required to consider whether the Company can continue in operational existence for the foreseeable future, being a period of not less than twelve months from the balance sheet date.

At 31 December 2013 the Company had cash and cash equivalents of £0.2m. It incurred a loss of £3.1m for the twelve months preceding that date bringing the total deficit on reserves to £54.9m. Cobra Biologics Holdings Limited has pledged financial support to the Parent Company and the Company, to allow them both to meet their liabilities as they fall due, and continue to trade on normal business terms, for a period of no less than twelve months from the date of the approval of these financial statements.

The directors have prepared a cash flow forecast for the twelve months after the date of the signing of these financial statements ("the forecast") which includes a number of assumptions regarding the delivery of the £13.0m group secured order, the signing of priority leads into secured contracts, expenditure and cost base, cash flows and loans from Cobra Biologics Holding AB, as well as the continued support of Cobra Biologics Holding AB. As such the directors believe that they have a reasonable expectation that the Company will be able to operate within its available resources and there will be sufficient funds to enable the Company to continue as a going concern for the foreseeable future. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so. Based on this understanding, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments which would result from the basis of preparation being inappropriate.

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Revenue: Excludes value added tax and represents amounts receivable in respect of the sale of services during the period. Revenue on contracts is invoiced in accordance with the terms of the agreement with the customer. Non-refundable deposits, which are usually invoiced and paid upon contractual signature, are recognised as revenue as the contract progresses. The remainder of the contractual revenue is recognised upon the stage of completion when the outcome of the contract can be foreseen with reasonable certainty and after allowing for costs of completion.

Research and development expenditure: Expenditure on new manufacturing process improvements or know how, which includes internal wage costs and external costs such as patenting, external studies and consultancy, which the Company is satisfied that it is probable that future economic benefit will result, is capitalised as an intangible asset and amortised through research and development expenditure over its expected useful life. Capitalisation commences from the point at which the technical feasibility and commercial viability can be demonstrated.

Expenditure that does not meet the above criteria is written off in the period in which it is incurred.

Foreign currencies: These financial statements are presented in the currency of the primary economic environment in which the entity operates (the "functional currency"). In preparing the financial statements, transactions in foreign currencies are recorded at the rates of exchange prevailing on the day of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rate prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated.

Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

Intangible assets: Are stated at cost less provisions for amortisation and impairments. Patents are amortised over their estimated useful economic lives from the time they are available for use until the end of their patent lives, which in the case of our capitalised patents is 10 years. Amortisation is charged to administrative expenses in the statement of comprehensive income.

Property, plant and equipment: Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost less residual value of each asset evenly over its expected useful life as follows:

Freehold buildings	between 15 and 50 years
Plant and laboratory equipment	between 6.67 and 15 years
Office equipment	4 years
Motor vehicles	3 years

The cost of property, plant and equipment includes directly attributable finance costs, calculated on a day to day basis, on expenditure incurred during construction and modification. The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Assets under construction include the costs directly attributable to bringing the asset into working condition for its intended use, and the costs are not depreciated until the asset is brought into use. Land and buildings are not depreciated.

Impairment: At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable useful amount of the cash generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment, at least annually and, whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment

COBRA BIOLOGICS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment is treated as a revaluation increase.

Assets held for sale: Property, plant and equipment are reclassified as assets held for sale where the carrying value of the asset is expected to be recovered principally through a highly probable sale transaction rather than through continuing use, and where the asset is considered to be available for immediate sale in its present condition.

Where an asset held for sale has not been sold within 12 months, the asset is continued to be classified as an asset held for sale where the delay has been caused by events or circumstances beyond the Company's control and the Company is still committed to selling the asset.

Taxation: The tax expenditure represents the sum of the current tax payable and deferred tax. The tax currently payable is based on the taxable loss for the period. Taxable losses differ from the net loss as reported in the statement of comprehensive income because it excludes items of income and expenses that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable loss, and is accounted for using the balance sheet asset method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable loss nor the accounting loss.

Deferred tax liabilities are recognised for taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The carrying value of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited direct to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Government grants: Amounts received from government grants in respect of capital expenditure are credited to a deferred income account and are released to the statement of comprehensive income over the expected useful lives of the relevant assets by equal instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Inventories: Are stated in the balance sheet at the lower of cost incurred in bringing each element of inventory to its present location and condition, and net realisable value.

Raw materials:	purchase cost on a first in first out basis.
Work in progress:	cost of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal and provision is also made for slow moving or obsolete items.

Leasing and hire purchase commitments: Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the Company, are capitalised in the balance sheet and are depreciated over their useful lives. The interest element

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

of the rental obligations is charged to the statement of comprehensive income over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Financial instruments: Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments.

Financial assets: All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables: Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost less any impairment.

Impairment is measured as the difference between the asset's carrying value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment charges are recognised in the statement of comprehensive income. Where an impairment loss subsequently reverses, the reversal shall not result in the carrying amount of the financial asset exceeding the amortised cost should that impairment not have been recognised in prior years.

Cash and cash equivalents: Cash and cash equivalents comprise cash on hand, on demand deposits and other short-term (with a maturity of three months or less) highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Equity instruments: An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities: A financial liability is any contractual arrangement for an entity to deliver cash to the holder of the associated financial instrument. If a financial instrument contains both an equity and a liability element, then the liability element is first established with any residual value being disclosed within equity shareholders' funds. The liability element is the present value of the future payments guaranteed to be made to the holders of the financial instrument.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Other financial liabilities: Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost.

Financial guarantee contract liabilities: Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Derivative financial instruments: The Company does not currently utilise derivative financial instruments, however it constantly reviews the benefits of these instruments, and on a contract by contract basis. The Company's accounting policy with respect to financial instruments is detailed below.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

The resulting gain or loss is recognised in the statement of comprehensive income immediately. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges), or hedges of net investments in foreign operations.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Fair value hedges: Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income immediately, together with any changes in the fair value of the hedged item that is attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive income relating to the hedged item.

Employee benefits: The Company operates a defined contribution pension scheme, covering all eligible employees. Contributions to the defined contribution pension scheme and all other employee benefit costs, including holiday pay, are charged to the statement of comprehensive income on an accruals basis.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, which are described in note 3, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

Revenue recognition: in making their judgement with regard to revenue recognition for its manufacturing services business, the directors have considered the detailed criteria for the recognition of revenue for the provision of services set out in IAS 18 'Revenue' and in particular for each service contract whether a stage deliverable had been achieved.

Going concern: in making their judgement with regard to going concern, the directors have considered the recent trading activity of the Company in conjunction with the preparation of a detailed cash flow forecast for the twelve month period from the date of the signing of these accounts. Further details on the judgements applied in determining the basis upon which the directors have made their judgements on going concern can be found in note 3 on page 11.

Key sources of estimation uncertainty

Impairment of assets: Determining whether the non-current assets of the Company and the carrying value of trade and intercompany receivables are impaired requires an estimation of the value in use of the cash generating units to which the assets have been allocated. The value in use requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. Additionally, estimates and assumptions have been made by management in respect of the fair values of the impairment of trade receivables, contract profitability, the estimated useful life of tangible and intangible assets, accruals and prepayments.

5. REVENUE

All revenue is generated from continuing operations, the analysis of which is as follows:

	2013 £000's	2012 £000's
The rendering of manufacturing services	8,052	5,951
Licence revenue	177	186
	<u>8,229</u>	<u>6,137</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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6. OTHER OPERATING INCOME

	2013 £000's	2012 £000's
Recharges to related parties	1,155	761
Patent assignments	1	81
Management fee	-	3
Grant	44	-
	<u>1,200</u>	<u>845</u>

7. LOSS FOR THE PERIOD

This is stated after charging/(crediting):	2013 £000's	2012 £000's
Net foreign exchange rate losses/(gains)	72	21
Research and development	420	177
Depreciation of property, plant and equipment	350	380
Amortisation of intangible assets	-	69
Staff costs (see note 9)	2,908	2,838
Loss/(profit) on sale of assets classified as held for sale	-	1
Operating lease charges – land and buildings	224	253
Operating lease charges – other	12	23
	<u></u>	<u></u>

8. AUDITORS' REMUNERATION

	2013 £000's	2012 £000's
Fees payable to Company's auditors for the audit of annual accounts		
Audit of Company's financial statements	<u>6</u>	<u>8</u>
Fees payable to Company's auditors for other services to the Company		
Tax services	2	1
Other services pursuant to legislation	<u>1</u>	<u>2</u>
Total non audit fees	<u>3</u>	<u>3</u>

9. STAFF COSTS

Directors' remuneration	2013	2012
Their aggregate remuneration comprised:	£000's	£000's
Aggregate emoluments	184	159
Company contributions to defined contributions pension scheme	<u>16</u>	<u>21</u>
	<u>200</u>	<u>180</u>

At 31 December 2013 there were 2 directors (2012: 2) to whom retirement benefits were accruing under defined contributions pension schemes.

During the 12 months to 31 December 2013 the highest paid director received aggregate emoluments of £102k and company contributions to defined contributions pension scheme of £10k.

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**NOTES TO THE FINANCIAL STATEMENTS
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(CONTINUED)**

Remuneration of directors not paid by the company	2013 £000's	2012 £000's
--	------------------------	------------------------

Carl-Johan Spak	<u>3</u>	<u>3</u>
	<u>3</u>	<u>3</u>

Employees (including directors)	2013 No.	2012 No.
The average monthly number of people (including directors) employed:		
Manufacturing	51	46
Sales, marketing and distribution	13	10
Research and development	1	4
Administration	11	11
	<u>76</u>	<u>71</u>

Their aggregate remuneration comprised:	2013 £000's	2012 £000's
Wages and salaries	2,540	2,448
Social security costs	225	230
Other pension costs	<u>143</u>	<u>160</u>
	<u>2,908</u>	<u>2,838</u>

10. FINANCE COSTS

	2013 £000's	2012 £000's
Interest payable on bank loans and overdraft	6	5
Interest payable on finance leases	(26)	3
Other interest payable	3	3
Interest payable to group companies	166	91
Exchange rate loss	<u>72</u>	<u>21</u>
	<u>221</u>	<u>123</u>

11. TAXATION

	2013 £000's	2012 £000's
Tax credit in relation to R&D claim	(88)	(51)
Adjustments in respect of previous periods	<u>1</u>	<u>121</u>
	<u>(87)</u>	<u>70</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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(CONTINUED)**

Factors affecting the tax credit for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £000's	2012 £000's
Loss before tax	<u>(3,168)</u>	<u>(2,048)</u>
Loss before tax multiplied by the standard rate of Corporate Tax in the UK of 23.25% (2012: 24.5%)	(737)	(502)
Effect of		
Disallowed expenses and non-taxable income	1	1
Depreciation in excess of capital allowances	82	(210)
Other timing differences	-	2
Loss relief claim	(103)	(60)
Tax losses carried forward	571	658
Difference in R&D rate and standard rate of tax	-	-
Losses surrendered for tax credit	98	60
Adjustment to tax charge in previous period	<u>1</u>	<u>121</u>
Current tax charge for the period	<u>(87)</u>	<u>70</u>

Factors affecting future tax charges

The trading losses carried forward available for set off against future profits arising from the same trade amount to approximately £26.8m (2012: £26m).

The company has a potential unrecognised deferred tax asset at the balance sheet date (see details below). It was announced that the rate of corporation tax will drop to 21% from 1 April 2014 and thereafter to 20% from 1 April 2015. The effects of a reducing corporation tax rate will be a lower annual effective tax rate thereby reducing the future unrecognised deferred tax asset.

Deferred taxation

The deferred tax recognised and not recognised is as follows:

	Recognised 31 Dec 2013 £000's	Not Recognised 31 Dec 2013 £000's	Recognised 31 Dec 2012 £000's	Not Recognised 31 Dec 2012 £000's
Accelerated capital allowances	-	(1,158)	-	(964)
Other timing differences	-	(4)	-	(4)
Tax losses	<u>-</u>	<u>(5,344)</u>	<u>-</u>	<u>(5,911)</u>
	<u>-</u>	<u>(6,506)</u>	<u>-</u>	<u>(6,879)</u>

The deferred tax asset has not been provided for as it is uncertain whether sufficient taxable profit will arise in the foreseeable future to enable the asset to reverse.

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**NOTES TO THE FINANCIAL STATEMENTS
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(CONTINUED)**

12. PROPERTY, PLANT AND EQUIPMENT

	Plant and laboratory equipment £000's	Motor vehicles £000's	Office equipment £000's	Assets under construction £000's	Total £000's
Cost					
At 1 January 2012	4,447	8	752	-	5,207
Additions	80	-	18	2	100
Disposals	(4)	-	-	-	(4)
Transfer to current assets	(2)	-	-	-	(2)
At 31 December 2012	4,521	8	770	2	5,301
Additions	134	-	43	573	750
Disposals	-	-	-	-	-
Transfer to current assets	-	-	-	-	-
At 31 December 2013	4,655	8	813	575	7,051
Depreciation					
At January 2012	3,004	8	614	-	3,626
Charge for the period	340	-	40	-	380
Depreciation on disposals	(2)	-	-	-	(2)
At 31 December 2012	3,342	8	654	-	4,004
Charge for the period	305	-	45	-	350
Depreciation on disposals	-	-	-	-	-
At 31 December 2013	3,647	8	699	-	4,354
Carrying amount					
At 31 December 2013	1,008	-	114	575	1,697
At 31 December 2012	1,179	-	116	2	1,297

The net book value of tangible fixed assets includes £0.0m (2012: £0.0m) in respect of assets held under finance leases. The assets under finance leases consist of plant, laboratory and office equipment and motor vehicles.

13. INTANGIBLE FIXED ASSETS

	Patents £000's
Cost	
At 1 January 2012, 31 December 2012 and 31 December 2013	161
Amortisation	
At 1 January 2012	92
Charge for the period	69
At 31 December 2012	161
Charge for the period	-
At 31 December 2013	161
Carrying amount	
At 31 December 2013	-
At 31 December 2012	-

Patent costs are amortised evenly over their useful economic lives.

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**NOTES TO THE FINANCIAL STATEMENTS
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(CONTINUED)**

14. INVENTORIES

	2013 £000's	2012 £000's
Raw materials & consumables	121	79
Work in progress	2	-
	<u>123</u>	<u>79</u>

15. OTHER FINANCIAL ASSETS

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, on demand bank deposits and other short term highly liquid investments. The carrying amount of these assets is approximately equal to their fair value.

	2013 £000's	2012 £000's
Trade and other receivables		
Trade receivables	1,349	1,469
Amounts due from group undertakings	1,222	556
Other receivables	227	134
Prepayments	281	243
	<u>3,079</u>	<u>2,402</u>

The average credit period taken on the sales of services is 55 days (2012: 73 days). No interest is charged on the receivables that are overdue. It is the Directors opinion that there are no irrecoverable amounts from the sale of services and no provision has been made for the period (2012: £17k). The allowance for 2012 related to specific unpaid balances.

The Company's most significant customer accounts for £338k of trade receivables at 31 December 2013 (2012: £510K).

Impairment losses

The ageing of total trade receivables that had not been impaired at the reporting date were as follows:

	2013 £000's	2012 £000's
Not past due	581	482
Past due 0 to 30 days	618	732
Past due 31 to 60 days	91	170
Past due 61 to 90 days	39	40
Past due 91 to 120 days	-	5
More than 120 days past due	20	57
	<u>1,349</u>	<u>1,486</u>
Less provisions	<u>-</u>	<u>(17)</u>
	<u>1,349</u>	<u>1,469</u>

The movement in the allowance for impairment in respect of trade receivables during the period was as follows:

	2013 £000's	2012 £000's
Balance at the beginning of the period	17	21
Impairment losses reversed	-	(6)
Impairment loss recognised	<u>(17)</u>	<u>2</u>
Balance at the end of the period	<u>-</u>	<u>17</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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Included in the Company's trade receivables are debtors with a carrying amount of £768k (2012: £987k) which are past due, but for which the Company has not provided, as there has not been a significant change in the credit quality of the receivables, the amounts are still considered recoverable. The Company does not hold any collateral over these balances.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Assets held for sale

At 31 December 2010 the Company had undertaken to sell surplus plant and equipment held at the Oxford Facility which had a net book value of £0.5m. A review of the realisable value of these assets was carried out which resulted in a £0.2m impairment. These assets were reclassified as assets held for sale within current assets. During the year ended 31 December 2011 £0.05m of assets were sold at auction for sum of £0.05m. The other £0.2m of assets remained in assets held for sale at 31 December 2011 and were sold in June 2012, realising their carrying value.

16. LOANS

	2013 £000's	2012 £000's
Unsecured borrowings		
Amount due to Group undertakings: Cobra Biologics Holding AB loans	4,505	2,436
Amount due to Parent company: Parent company loan	19,883	19,795
	<u>24,388</u>	<u>22,231</u>

All borrowings were held in Sterling. During the year Cobra Biologics Holdings AB provided the company with working capital loans. The loan was repayable on demand but not within 12 months of the financial year end. Interest is repayable at 4% over the base rate of the Royal Bank of Scotland Plc.

17. OBLIGATIONS UNDER FINANCE LEASES

	2013 £000's	2012 £000's
Finance leases are repayable as follows:		
Within one year	-	26
In the second year	-	-
In the third to fifth years inclusive	-	-
	-	26
Amount due for settlement within 12 months	-	(26)
Amount due for settlement after 12 months	-	-

It is the Company's policy to lease certain plant and equipment. The average lease term is 45 months (2012: 45 months). For the year ended 31 December 2012 the average effective borrowing was 11.6%. Interest rates are fixed at the contract date. All lease payments are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the Company's lease obligations is approximate to their carrying values.

The Company's obligations under finance leases are secured by the lessor's rights over the leased assets.

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**NOTES TO THE FINANCIAL STATEMENTS
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(CONTINUED)**

18. OTHER FINANCIAL LIABILITIES

	2013 £000's	2012 £000's
Trade and other payables		
Trade payables	1,166	548
Amounts due to group undertakings	1,506	743
Other taxation and social security	69	65
Accruals and other provisions	366	115
	<u>3,108</u>	<u>1,471</u>

Trade payables, amounts due to group undertakings and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken by the Company for trade payables is 88 days (2012: 66 days). For most suppliers no interest is charged on trade payables.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

19. OTHER FINANCIAL COMMITMENTS

At 31 December 2013 the Company had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows:

	Land & Buildings		Other	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Within one year	180	224	14	12
In the second to fifth year	149	329	16	11
After five years	-	-	-	-
	<u>329</u>	<u>553</u>	<u>30</u>	<u>23</u>

Operating lease payments represent rentals payable by the Company for certain of its office equipment and properties. Leases are negotiated for an average term of 12 and 2 years respectively and rentals are fixed for an average of 4 and 4 years respectively.

20. CALLED UP SHARE CAPITAL

	No (000's)	£000's
Authorised		
Ordinary 10 pence shares at 31 December 2012 and 31 December 2013	<u>17,633</u>	<u>1,763</u>
Allotted, called up and fully paid		
Ordinary 10 pence shares at 31 December 2012 and 31 December 2013	<u>13,890</u>	<u>1,389</u>

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**NOTES TO THE FINANCIAL STATEMENTS
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21. NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2013 £000's	2012 £000's
Operating loss	(2,947)	(1,925)
Depreciation of property, plant and equipment	350	380
Amortisation of intangible fixed assets	-	69
Profit on sale of assets classified as held for sale	-	1
Decrease/(Increase) in inventories	(44)	83
(Increase)/Decrease in trade and other receivables	(589)	(1,157)
Increase in deferred income	518	711
Decrease in trade and other payables	1,637	474
Net cash outflow from operating activities	(1,075)	(1,364)

22. FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments;

- Credit risk
- Market risk
- Liquidity risk

The note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors have overall responsibility for the establishment and oversight of the Company risk management framework. Risk management policies and systems are reviewed bi-annually to reflect changes in market conditions and the Company's activities.

Capital management risk

The Company manages its capital to ensure that it is able to continue as a going concern, whilst maximising shareholders' returns through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings in note 18 on page 22, cash and cash equivalents and equity attributable to equity holders as disclosed in the Statement of Changes in Equity on page 10. The Company's directors review the capital structure and as part of this review consider the cost of capital and the costs associated with each class of capital.

Gearing ratio

The gearing ratio at the period end is as follows:

	2013 £000's	2012 £000's
Debt	(24,388)	(22,257)
Cash and cash equivalents	219	134
Net debt	(24,169)	(22,133)
Equity	(24,353)	(21,392)
Net debt to equity	(0.99)	(1.03)

Debt includes all long and short term borrowings, including those disclosed in note 16. Equity includes all capital and reserves of the Company attributable to the equity holders of the Company.

Significant accounting policies

Details of significant accounting policies and the methods adopted, including the criteria for recognition, the

COBRA BIOLOGICS LIMITED

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(CONTINUED)**

basis for measurement and the basis upon which the income and expenditure is recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 of the financial statements.

	2013 £000's	2012 £000's
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>2,790</u>	<u>2,159</u>
	<u>2,790</u>	<u>2,159</u>

	2013 £000's	2012 £000's
Financial liabilities		
Amortised cost	21,049	20,343
Financial guarantee contracts	<u>4,505</u>	<u>2,462</u>
	<u>25,522</u>	<u>22,805</u>

Market risk

The activities of the Company expose the Company to the financial risks of changes in the foreign exchanges, primarily the US Dollar, Euro, Swedish Kroner and interest rates. The Company previously entered into derivative financial instruments when appropriate, to manage this exposure, including the following:

- Forward exchange rate contract to hedge against the exchange rate risk arising from the provision of services to overseas customers.

Foreign currency risk management

The Company generates a proportion of its order book and subsequent revenue from overseas customers in either US Dollars, Euros or Swedish Kroner, with the majority of its costs denominated in GBP Sterling. This exposure to different currencies can result in gains or losses with respect to the movements in foreign exchange rates and the impact of such fluctuations can be material. Accordingly, the Company manages its foreign currency exposure through the use of foreign currency bank accounts which have an offset facility with the GBP Sterling bank account. This allows the Company to hold foreign currency until appropriate exchange rates can be obtained. Additionally, the Company incurs expenditure overseas in foreign currencies which helps to mitigate the foreign exchange risk.

Foreign currency risk management

The carrying amounts of the Company's foreign currency denominated monetary assets/(liabilities) at 31 December 2013 are as follows:

	Liabilities		Assets	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
US Dollar	<u>(18)</u>	<u>(29)</u>	<u>230</u>	<u>758</u>
Euro	<u>(212)</u>	<u>(9)</u>	<u>516</u>	<u>55</u>
Swedish Kroner	<u>(586)</u>	<u>(403)</u>	<u>550</u>	<u>525</u>

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Foreign currency sensitivity analysis

The table below details the Company's sensitivity to a 10% movement in foreign currency rates against GBP Sterling which in the directors' opinion is reasonable given current market conditions. The sensitivity analysis includes only outstanding foreign currency denominated monetary assets/(liabilities) and adjusts their translation at 31 December 2013 for a 10% strengthening in foreign currency rates. The analysis is performed on the same basis as at 31 December 2012.

	US Dollar currency impact		Euro currency impact		Swedish Kroner currency impact	
	2013	2012	2013	2012	2013	2012
	£000's	£000's	£000's	£000's	£000's	£000's
Statement of comprehensive income	(19)	(66)	1	(4)	(32)	(11)
Equity	<u>(19)</u>	<u>(66)</u>	<u>1</u>	<u>(4)</u>	<u>(32)</u>	<u>(11)</u>

A 10% weakening in foreign exchange rates against GBP Sterling would have an equal but opposite effect.

Interest rate risk management

The Company is exposed to interest rate risk as the Company borrows funds at both fixed and floating interest rates. The Company's exposure to interest rates on financial assets and liabilities are listed in the liquidity section of this note.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined upon the exposure to interest rates for both derivatives and non derivative instruments at the balance sheet date. For floating rate liabilities, the liability is prepared assuming the amount of the liability outstanding at the balance sheet date was outstanding for the whole of the year. The calculation reflects a 0.5% strengthening in interest rate, which in the directors' opinion is reasonable given current market conditions.

If interest had strengthened by 0.5% and all other variables remained constant the effect on the Company's financial statements would be to increase the loss for the period 31 December 2013 and decrease reserves by £21k (2012: £12k). This is mainly due to the Company's exposure on its variable rate borrowings.

A 0.5% decrease in interest rates would have an equal but opposite effect.

Credit risk

Credit risk management

The Company's credit risk relates to trade receivables, short term investments and cash and cash equivalents. The credit risk on liquid funds is limited because the Company utilises counterparts who are established entities in the United Kingdom, and regularly reviews the performance and rating of these entities. The Company has no significant concentration of credit risk related to receivables, as the exposure is spread over a number of customers over different geographical areas. The Company uses publicly available trading records, web site analysis and press releases to rate its customers.

Disclosures relating to the credit risk associated with trade receivables are in the Report of the Directors on page 2 and in note 15.

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(CONTINUED)**

Liquidity risk

Liquidity risk management

The Company manages liquidity risk by maintaining appropriate banking facilities and through loan facilities provided by the ultimate parent company. The directors continuously monitor cash flow forecasts, both short and long term and then measuring those forecasts to actual performance. Consideration is also given to the maturity profiles of financial assets and liabilities.

The table below details the Company's remaining contractual maturity for its non derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows:

	On demand £000's	Within 3 months £000's	Within 3 to 12 months £000's	Within 1 to 5 years £000's	Due after 5 years £000's	Total £000's
2013						
Obligations under finance leases	-	-	-	-	-	-
Amount due to group undertaking	-	-	-	4,505	-	4,505
Amount due to parent company	-	-	-	19,883	-	19,883
	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,388</u>	<u>-</u>	<u>24,388</u>
2012						
Obligations under finance leases	-	26	-	-	-	26
Amount due to group undertaking	-	-	-	2,436	-	2,436
Amount due to parent company	-	-	-	19,795	-	19,795
	<u>-</u>	<u>26</u>	<u>-</u>	<u>22,231</u>	<u>-</u>	<u>22,257</u>

Fair values of financial assets and financial liabilities

The fair value, based upon discounted cash flows of the financial instruments detailed above was not materially different from their book values.

23. PENSION COMMITMENTS

The Company operates a defined contribution pension scheme established with Scottish Widows Plc. The assets of the scheme are held separately from those of the Company and are independently administered. The contributions payable by the Company under the scheme amounted to £0.1m (2012: £0.1m). Contributions totalling £20K (2012: £18K) were payable at the period end.

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(CONTINUED)

24. RELATED PARTY TRANSACTIONS

Remuneration of key management personnel

The remuneration of the directors, who are considered to be key management personnel of the Company are disclosed in note 9.

Other related party transactions

The Company entered into the following related party transactions during the period:

Transactions with the parent undertaking, Cobra Biologics Holdings Limited

	2013 £000's	2012 £000's
Management charge	335	323
Movements on inter company account	(247)	(324)
Movement in period	88	(1)
Amount due to parent undertaking at the beginning of the period	19,795	19,796
Amount due to parent undertaking at the period end	19,883	19,795

Transactions with intermediate parent undertaking, Cobra Biologics Holding AB

Cobra Biologics Holding AB was an intermediate parent undertaking from 30 June 2011.

	2013 £000's	2012 £000's
Recharges of travel expenses	1	2
Total recharges during the period	1	2
Amount due from intermediate parent undertaking at the period end	-	-
Loan made during the period	1,903	1,262
Interest charges	166	91
Movement in period	2,069	1,353
Amount due to intermediate parent undertaking at the beginning of the period	2,436	1,083
Amount due to intermediate parent undertaking at the period end	4,505	2,436

The loan is repayable on demand but not within 12 months of the financial period end. Interest is payable at 4% over the base rate of The Royal Bank of Scotland Plc.

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(CONTINUED)**

Transactions with Cobra Biologics AB (formerly Recipharm Biologics AB)

Cobra Biologics AB was a group undertaking during periods ended 31 December 2013 and 31 December 2012.

	2013 £000's	2012 £000's
Recharges for sales and marketing	519	247
Recharges for central administrative personnel	87	55
Recharges for research projects	65	70
Other recharges	-	-
Total recharges during the period	671	372
 Amount due from group undertaking at the period end	 157	 67
 Subcontract activities	 3,839	 2,209
Recharges for consumables	1,385	549
Recharges for sales and marketing	-	-
Total recharges incurred during the period	5,224	2,758
 Amount due to group undertaking at the period end	 1,503	 736

Transactions with Cobra Biopharma Matfors AB (formerly Unitech Biopharma AB)

Cobra Biopharma Matfors AB was a group undertaking during periods ended 31 December 2013 and 31 December 2012.

	2013 £000's	2012 £000's
Recharges for sales and marketing	300	339
Recharges for central administrative personnel	124	49
Other recharges	-	1
Total recharges during the period	424	389
 Amount due from group undertaking at the period end	 179	 46
 Subcontract activities	 27	 -
Recharges for consumables	5	-
Recharges for sales and marketing	-	-
Total recharges incurred during the period	32	-
 Amount due to group undertaking at the period end	 3	 -

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Transactions with Prokarium Ltd

Prokarium Ltd was a group undertaking during periods ended 31 December 2013 and 31 December 2012. On 31 March Prokarium Ltd was sold to Prokarium Holdings Limited a 100% subsidiary of Flerie Invest AB a company incorporated in Sweden.

	2013 £000's	2012 £000's
Recharges for salary costs	4	115
Recharges for overhead expenses – shared facilities	71	81
Total recharges during the period	75	196
Amount due from group undertaking at the period end	-	26
Recharges for overhead expenses – shared facilities	5	7
Total recharges during the period	5	7
Amount due to group undertaking at the period end	-	7

Transactions with Recipharm Limited

Recipharm Limited was a group undertaking until 30 June 2011 and a related party under common control from 30 June 2011 onwards.

	2013 £000's	2012 £000's
Recharges for finance director services	-	-
Recharged other costs	-	-
Amounts recharged to group undertaking	-	-
Recharges for finance director services	-	3
Recharged other costs	-	-
Amounts recharged to related party	-	3
Amount due from group undertaking at the period end	-	-
Amount due from related party at the period end and included in trade receivables	-	-
Recharges for employment advice	-	-
Recharged occupational health	-	-
Amounts recharged by group undertaking	-	-
Recharges for employment advice	-	7
Recharged occupational health	-	-
Amounts recharged by related party	-	7
Amount due to related party at the period end and included in trade payables and accruals and other provisions	-	1

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Transactions with Recipharm AB

Recipharm AB was a group undertaking until 30 June 2011 and a related party under common control from 30 June 2011 onwards.

	2013 £000's	2012 £000's
Contractual working capital contribution	-	213
Total charged to related party	-	213
Amounts due from related party at the period end included in trade receivables	-	-
Management charge	-	-
Interest charges	-	-
Recharged other costs	-	-
Amounts recharged by group undertaking	-	-
Recharged other costs	-	23
Amounts recharged by related party	-	23
Amount due to related party at the period end and included in accruals and other provisions	-	23

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

25. POST BALANCE SHEET EVENT

On 31 March 2014, Prokarium was sold to Prokarium Holdings Limited a 100% subsidiary of Flerie Invest AB by the Company's parent company Cobra Holdings Limited. On 1 April 2014 the Company sold the materials and Intellectual property rights in the ORT VAC technology to Prokarium Limited for £473,000.

26. PARENT UNDERTAKINGS AND ULTIMATE CONTROLLING PARTY

At the balance sheet date the immediate parent undertaking was Cobra Biologics Holdings Limited (formerly RecipharmCobra Holdings Limited), which was itself a wholly owned subsidiary of Cobra Biologics Holding AB, a company incorporated in Sweden.

Cobra Biologics Holding AB has produced consolidated financial statements, in accordance with International Financial Reporting Standards, which have been filed at Companies House, Crown Way, Cardiff CF14 3UZ.

At the balance sheet date the ultimate parent undertaking was Zentricity Holdings AB, a company incorporated in Sweden, and the ultimate controlling party was Thomas Eldered.