

Albany Molecular Research (UK) Limited

**Directors' report and financial
statements**

Registered number 05125002

Year ended 31 December 2012

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Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities in respect of the Directors' Report and the financial statements	4
Independent auditor's report to the members of Albany Molecular Research (UK) Limited	5
Profit and Loss Account	7
Statement of total recognised gains and losses	7
Balance Sheet	8
Notes	9

Company information

Directors

D J Shepherd
D C Lathbury
L M Henderson
M Nolan

Auditor

KPMG LLP
St James' Square
Manchester
M2 6DS

Bankers

Barclays
71 Grey Street
Newcastle upon Tyne
NE99 1JP

Solicitors

DLA Piper UK LLP
Princes Exchange Princes Square
Leeds
LS1 4BY

Registered Office

Mostyn Road
Holywell
Flintshire
CH8 9DN

Directors' report

The directors present their directors' report and financial statements for the financial year ended 31 December 2012

Principal activities

The principal activity of the company during the year was the manufacture and provision of pharmaceutical products and the delivery of development services. The company offers a distinctive mix of technologies, resources and facilities for the process development scale up and manufacture of Active Pharmaceutical Ingredients and advanced intermediates.

Results and dividends

The loss for the year after taxation amounted to £1,675,396 (*2011 loss of £2,674,172*). The directors do not recommend payment of a final ordinary dividend.

Business review

The business experienced significant growth in turnover during 2012 with revenue increasing by 33% against the 2011 level (£5,103k vs £3,841k). The lack of demand for a key product from the site continued through 2012 as had been anticipated in previous reports and the growth largely came from other established products. In particular, demand returned after several years for an intermediate supplied to a large European pharmaceutical company for use in manufacture of a drug which is approaching its market launch, and is therefore expected to drive regular activity in the future. In general, demand in the development sector remained below historical levels as a result of the continued economic situation in Europe, whilst both the company as a whole and the UK-based business experienced increased demand in large-scale manufacturing. It is anticipated that this trend is likely to continue as large pharmaceutical companies continue to outsource both development and manufacturing activities whilst reducing internal resources and biotech firms re-emerge as the economic upturn gathers pace. There were positive signs from Europe during 2012 with much of the growth coming from this region.

Throughout 2012 the business cost base continued to be well managed and was in-line with forecast. The business continues to look for ways to further reduce costs and offset increases seen in areas such as energy and this has included utilising the corporate material purchasing group based in India. It is believed that the UK business and the Holywell site continue to have an attractive offering with a relatively low cost base and close integration of functions as well as access to global AMRI resources and expertise.

As a consequence of the increased revenue and continued control of costs, the business operating loss reduced substantially compared to 2011 (£1,604k vs £2,554k in 2011) demonstrating continued progress towards returning to profit following the downturn and restructuring made in 2009.

During 2012 AMRI launched AMRI SMARTSOURCING™ providing customers with improved outcomes across both outsourcing and insourcing by leveraging AMRI's expertise, global facilities and project management to develop strategic relationships and flexible delivery models. Examples of added value provided by the Holywell site to the global AMRI offering include manufacturing intermediates for downstream consumption by the Rensselaer, NY facility, accessing the larger pool of analytical expertise in the Indian facility and developing greater cross-site interaction in areas of technical development and manufacturing best practice.

AMRI continued to invest in the Holywell facility with a capital expenditure programme of approximately £560k during 2012 (vs £470k in 2011). A large proportion of this investment was directed at the larger scale manufacturing unit (up to 4,500 L batch volumes) in order to add this to the scope of the site's existing GMP certificate. The project was largely complete by the end of 2012 with minor items completed during Q1 2013. Following certification of the unit for GMP manufacture it is anticipated that the site will be able to deliver larger opportunities more economically and hence provide another capability link in the global AMRI manufacturing and development network.

Although there were no quality regulatory inspections during 2012 the site continued to host a number of customer quality audits and these were completed successfully with only minor observations noted. The site continued to operate to the requirements of cGMP and was also successfully recertified against the ISO9001 standard. The business achieved accreditation against the British Retail Consortium Global Food Safety standard for its manufacture of a food ingredient in a new facility constructed in 2011.

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Directors' report (continued)

Key performance indicators

The local management use a number of financial and non-financial indicators to measure the performance of the business. The financial indicators include revenue growth, booked to bill ratio (orders received vs invoices raised), gross margin and opportunity visible pipeline, the key non-financial indicators include safety metrics, absenteeism and delivery adherence. For the year to December 2012 the year on year revenue growth was 33% (2011 a reduction of 22%) and a booked to bill ratio of 0.83 (2011 1.16).

Going concern

Based on the most recent projections and the expectations of on-going financing, the directors have prepared the financial statements on a going concern basis. This is explained further in note 1 to these financial statements.

Directors

The directors who held office during the year were as follows:

M T Frost (Resigned 14 September 2012)
D J Shepherd
D C Lathbury
L M Henderson
M Nolan (Appointed 17 September 2012)

M Nolan is also a director of the ultimate parent undertaking, Albany Molecular Research Inc, and his interests in this company are disclosed in the group financial statements of that company.

Political and charitable contributions

During the year, the company made charitable donations totalling £nil (2011 £nil) and political contributions of £nil (2011 £nil).

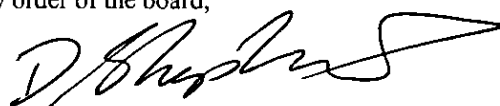
Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board,



D J Shepherd
Director

Mostyn Road
Holywell
Flintshire
CH8 9DN

Date 16/SEP/2013

Statement of directors' responsibilities in respect of the Directors' Report and 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



KPMG LLP

St James' Square
Manchester
M2 6DS
United Kingdom

Independent auditor's report to the members of Albany Molecular Research (UK) Limited

We have audited the financial statements of Albany Molecular Research (UK) Limited for the year ended 31 December 2012 set out on pages 7 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditor's 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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the 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 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report to the members of Albany Molecular Research (UK) Limited, (continued)

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, 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



Richard Evans (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS

16 September 2013

Profit and Loss Account
for the year ended 31 December 2012

	<i>Note</i>	31 December 2012 £	31 December 2011 £
Turnover	2	5,102,520	3,840,677
Cost of sales		(6,176,612)	(5,632,947)
Gross loss		(1,074,092)	(1,792,270)
Administrative expenses		(529,827)	(528,454)
Costs associated with MHRA certification		-	(233,522)
Operating loss	2-3	(1,603,919)	(2,554,246)
Bank interest receivable		258	255
Interest payable and similar charges	6	(71,735)	(120,181)
Loss on ordinary activities before taxation		(1,675,396)	(2,674,172)
Tax on loss on ordinary activities	7	-	-
Loss for the financial period		(1,675,396)	(2,674,172)

The results shown above are derived wholly from continuing operations

Statement of total recognised gains and losses
for the year ended 31 December 2012

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £1,675,396 for the year ended 31 December 2012, and the loss of £2,674,172 for the year ended 30 December 2011

The notes on pages 10 to 18 form part of the financial statements

Balance Sheet
at 31 December 2012

	Note	31 December 2012 £	31 December 2011 £
Fixed assets			
Tangible assets	8	3,285,621	3,001,273
Current assets			
Stocks	9	672,761	338,789
Debtors	10	2,815,906	2,611,624
Cash at bank and in hand		364,591	386,712
Creditors, amounts falling due within one year	11	3,853,258 (3,626,258)	3,337,125 (1,092,753)
Net current assets		227,000	2,244,372
Total assets less current liabilities		3,512,621	5,245,645
Creditors, amounts falling due after more than one year	12	-	(3,392,628)
Net assets		3,512,621	1,853,017
Capital and reserves			
Called up share capital	13	7,210,000	3,875,000
Capital contribution	14	6,271,507	6,271,507
Profit and loss account	14	(9,968,886)	(8,293,490)
Shareholders' funds		3,512,621	1,853,017

The notes on pages 10 to 18 form part of the financial statements

These financial statements were approved by the board of directors on 16/9/13 and were signed on its behalf by



D J Shepherd
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements are prepared under the historical cost convention and in accordance with applicable UK accounting standards

Going concern

The accounts have been prepared on the going concern basis as the company's ultimate parent undertaking, Albany Molecular Research Incorporated has undertaken to provide continuing financial support and not to demand repayment of the amounts due to it until the company's resources permit

In the opinion of the directors the going concern concept remains applicable due to the commitments described above

Cash flow statement

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Tangible fixed assets and depreciation

All fixed assets are initially recorded at cost

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset over its expected useful life, as follows

Freehold property and improvements	-	10 to 40 years, straight line
Plant and machinery	-	5 to 12 years, straight line

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. To the extent that invoices are raised in advance of supply, appropriate adjustments are made through deferred income.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition as follows:

Raw materials and goods for resale	-	purchase cost on a first-in, first-out basis
Work in progress and finished goods	-	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 to completion and disposal.

Notes (continued)

1 Accounting policies (continued)

Research and development

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project. Amortisation commences when commercial production of products from the related project begins.

Deferred tax

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred taxation assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions

The company operates a defined contribution pension scheme and contributes to personal pension arrangements for certain directors. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes (continued)

2 Analysis of turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties except in respect of contracting activities where turnover represents the value of work carried out during the period including amounts not invoiced. Turnover is wholly attributable to the company's principal continuing activity.

An analysis of turnover by geographical market is given below

	31 December 2012 £	31 December 2011 £
<i>By geographical market</i>		
United Kingdom	1,286,015	1,029,829
European Union (excluding UK)	1,658,762	342,244
Rest of Europe	-	101,876
Asia/Australasia	293,560	100,200
North America	1,864,183	2,266,528
	<u>5,102,520</u>	<u>3,840,677</u>

3 Operating loss

This is stated after charging

	31 December 2012 £	31 December 2011 £
Auditors' remuneration - audit	18,500	19,500
Depreciation of owned fixed assets	269,282	267,815
Operating lease rentals – plant & machinery	5,062	5,988
	<u></u>	<u></u>

Notes (continued)

4 Remuneration of directors

	31 December 2012 £	31 December 2011 £
Directors' emoluments	85,056	82,783
Company contributions to money purchase pension schemes	7,109	6,902

Number of directors

	31 December 2012 No	31 December 2011 No
Members of money purchase schemes	2	2

A director of the company has his salary recharged to Albany Molecular Research Incorporated which reflects his position in the group of Vice President of Chemical Development, a corporate position. The proportion of emoluments reflecting his services for this company was £17,684 (2011 £17,359)

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the period, analysed by category, was as follows

Number of employees

	31 December 2012	31 December 2011
Management	7	8
Administration	4	4
Production	50	50
	61	62

The aggregate payroll costs of these persons were as follows

	31 December 2012 £	31 December 2011 £
Wages and salaries	2,049,761	2,111,093
Social security costs	216,288	226,209
Other pension costs	128,749	107,426
	2,394,798	2,444,728

Notes (continued)

6 Interest payable and similar charges

	31 December 2012 £	31 December 2011 £
Finance costs	71,735	120,181

7 Taxation

(a) There is no tax charge for the period

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the period is lower than the standard rate of corporate tax in the UK of 24.5% (2011 26.5%). The differences are reconciled below

	31 December 2012 £	31 December 2011 £
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(1,675,396)	(2,674,172)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 26.5%)	(410,426)	(708,472)
<i>Effects of</i>		
Disallowed expenses and non taxable income	286	6,441
Capital allowances for period in excess of depreciation	63,283	45,350
Other timing differences	254	187
Unrelieved tax losses and other deductions in the period	346,603	656,494
Total current tax charge (see above)	-	-

Notes (continued)

7 Taxation (continued)

(c) Factors that may affect future tax charges

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge.

The unrecognised deferred taxation asset is as follows

	31 December 2012 £000	31 December 2011 £000
Tax losses	1,428,346	1,217,054
Other timing differences	2,428	2,381
Accelerated capital allowances	135,677	70,609
	<u>1,566,451</u>	<u>1,290,044</u>

8 Tangible fixed assets

	Freehold property £	Plant and machinery £	Total £
Cost			
At 1 January 2012	2,500,000	3,484,125	5,984,125
Additions	-	561,986	561,986
Disposal	-	(66,852)	(66,852)
	<u>2,500,000</u>	<u>3,979,259</u>	<u>6,479,259</u>
At 31 December 2012	2,500,000	3,979,259	6,479,259
Depreciation			
At 1 January 2012	794,531	2,188,321	2,982,852
Provided during the year	23,750	245,532	269,282
Depreciation released on disposal	-	(58,496)	(58,496)
	<u>818,281</u>	<u>2,375,357</u>	<u>3,193,638</u>
At 31 December 2012	818,281	2,375,357	3,193,638
Net book value			
At 31 December 2012	<u>1,681,719</u>	<u>1,603,902</u>	<u>3,285,621</u>
At 31 December 2011	<u>1,705,469</u>	<u>1,295,804</u>	<u>3,001,273</u>

Notes (continued)

9 Stocks

	31 December 2012 £	31 December 2011 £
Raw materials and consumables	270,278	139,368
Work in progress - intermediates	402,483	199,421
	<u>672,761</u>	<u>338,789</u>

10 Debtors

	31 December 2012 £	31 December 2011 £
Trade debtors	861,747	600,805
Amounts owed by parent undertakings	1,582,302	1,582,302
Amounts owed by group undertakings	204,605	121,227
Corporation tax debtor	-	100,676
Other debtors	90,936	81,118
Prepayments and accrued income	76,316	125,496
	<u>2,815,906</u>	<u>2,611,624</u>

11 Creditors: amounts falling due within one year

	31 December 2012 £	31 December 2011 £
Trade creditors	893,673	529,334
Amounts payable to group undertakings	1,360,746	303,275
Loan payable to group undertaking (see note 12)	1,145,001	-
Other taxes and social security costs	77,001	85,245
Other creditors	63,298	66,973
Accruals	86,539	107,926
	<u>3,626,258</u>	<u>1,092,753</u>

Notes (continued)

12 Creditors amounts falling due after more than one year

	31 December 2012 £	31 December 2011 £
Loan payable to group undertaking	-	3,392,628

The current loan of £1,145,001 is owed to AMRI Hungary Zrt and was due and repayable in full on its maturity date of 18 February 2015. During 2012 AMRI Hungary Zrt ceased trading and the loan balance is now payable within one year. The interest is based on GBP LIBOR plus a margin of 2% per annum accrued annually and paid on the 31 December or any other date mutually agreed between the parties. Included in current liabilities for amounts owed to group undertakings is an interest accrual of £191,859.

13 Called up share capital

	31 December 2012 £	31 December 2011 £
<i>Allotted, called up and fully paid</i>		
72,100,000 (2011: 38,750,000) Ordinary shares of £0.10 each	7,210,000	3,875,000

During the year shares to a value of £3,335,000 in Albany Molecular Research (UK) Limited were allotted to Albany Molecular Research Limited. The raised funds were used to inject additional working capital into Albany Molecular Research (UK) Limited.

14 Reconciliation of shareholders' funds and movements on reserves

	Called up share capital £	Capital contribution £	Profit and loss account £	Total shareholders funds £
At 31 December 2010	1,050,000	6,271,507	(5,619,318)	1,702,189
Issue of share capital	2,825,000	-	-	2,825,000
Loss for the year	-	-	(2,674,172)	(2,674,172)
At 31 December 2011	3,875,000	6,271,507	(8,293,490)	1,853,017
Issue of share capital	3,335,000	-	-	3,335,000
Loss for the year	-	-	(1,675,396)	(1,675,396)
At 31 December 2012	7,210,000	6,271,507	(9,968,886)	3,512,621

Notes (continued)

15 Pension commitments

The company operates a defined contribution pension scheme on behalf of the directors and certain employees and contributes to personal pension arrangements for certain directors. The assets of the schemes are held separately from those of the company in independently administered funds. The company had outstanding liabilities at the 31 December 2012 of £18,409 (2011 £16,186).

16 Other financial commitments

a) At 31 December 2012 the company had annual commitments under non-cancellable operating leases as set out below

	Other	
	31 December 2012 £	31 December 2011 £
Operating leases which expire Within 2-5 years	5,063	5,451

(b) The company has £27,580 authorised capital commitments at 31 December 2012 (2011 £84,832)

17 Related party transactions

The company has taken advantage of the exemption permitted by Financial Reporting Standard 8 and has not disclosed transactions with other group companies.

18 Parent undertaking

The company's immediate parent undertaking is Albany Molecular Research Limited, which is incorporated in the United Kingdom. Copies of the financial statements for Albany Molecular Research Limited are available from its registered office: Mostyn Road, Holywell, Flintshire, CH8 9DN.

19 Ultimate parent undertaking and controlling party

The company's ultimate parent undertaking and controlling party is Albany Molecular Research Incorporated, a NASDAQ quoted company, which is incorporated in the United States of America. Copies of the financial statements for Albany Molecular Research Incorporated are available from its registered office: 26 Corporate Circle, Albany, NY.