Albany Molecular Research (UK) Limited

Directors' report and financial statements

Registered number 05125002

Year ended 31 December 2013

Contents

Company information

Directors
D J Shepherd
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

Strategic report

The directors present their annual strategic report and the audited financial statements for the financial year ended 31 December 2013.

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 £208,734 (*2012: £1,675,396*). The directors do not recommend payment of a final ordinary dividend.

Business review

The business continued to experience significant growth in turnover during 2013 with revenue increasing by 46% against the 2012 level £7,468,000 (*2012: £5,103,000*). A key factor in driving the revenue growth was the return of a long-established pharmaceutical product to anticipated demand levels following a period of inventory reduction by our customer. In addition, a number of new products were introduced to the site and there were indications that demand for development products is returning to previous levels of activity.

Throughout 2013 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 provide an attractive offering with a relatively low cost base and close integration of functions on the site, as well as access to global AMRI resources and expertise.

During 2013 a loan payable to the AMRI group (£1,145,000) became due and was repaid and this, along with an increase in working capital associated with stock to support the increased activity level, resulted in a significant increase in the net current assets of the business £2,675,000 (*2012: £227,000*).

As a consequence of the increased revenue and continued control of costs, the business operating loss reduced substantially compared to 2012 £130,000 (*2012: £1,604,000*) demonstrating continued progress towards profitability following the downturn and restructuring made in 2009.

The Holywell site continues to be an integral part of AMRI SMARTSOURCING™ in both providing intermediates to other AMRI locations for further processing and also benefitting from services provided by other facilities such as analytical support from Hyderabad in India. AMRI personnel have also travelled both to the Holywell site and from the Holywell site to provide seamless transfer of processes around the AMRI network.

AMRI has continued to invest in the Holywell facility via a capital expenditure programme of approximately £400,000 during 2013. The key projects included provision of a new wiped film evaporator and reactors to support the introduction of a new product to the business, addition of further laboratory reactor systems and improvements to site access control and analytical equipment. During 2013 the project to refurbish the Unit 2000 production facility was completed and as a result new business was undertaken in that plant throughout the latter part of 2013 and has continued into 2014.

Although there were no quality regulatory inspections during 2013 the site continued to host a number of customer quality audits and these were completed successfully. The site continued to operate to the requirements of cGMP and was also successfully recertified against the ISO9001 standard.

The Health & Safety Executive and UK Environment Agency both inspected the site during 2013 with no significant non-conformances reported.

Strategic 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 compared to 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 2013 the year on year revenue growth was 46% (*2012: 33%*) and a booked to bill ratio of 1.29 (*2012: 0.83*).

Principal Risks and Uncertainties

The company operates in an extremely competitive Contract Research Organisation market environment. The key risks and uncertainties identified as facing the business are:

1. Competition from Far East companies that operate within a lower cost base and hence are able to attract business at lower prices. This may be mitigated by implementing cost reduction initiatives and operating to high standards of quality and customer service.
2. The company may be impacted by strategic decisions of large customers and their internal product pipelines. The business is mitigating this by seeking to diversify its portfolio and working with customers in other markets and with later phase / commercial products.

Future Developments

The company continues to build on the sales growth by way of investment in its quality standards, people and equipment; and constantly reviewing and fine tuning the sales and operation strategies.

By order of the board,

D J Shepherd
Director

Mostyn Road
Holywell
Flintshire
CH8 9DN

Date: 01/AUG/2014

Directors' report

The directors present their directors' report and the audited financial statements for the financial year ended 31 December 2013.

Directors

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

D J Shepherd
D C Lathbury (Resigned 31 March 2014)
L M Henderson
M Nolan

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.

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.

Political and charitable contributions

During the year, the company made charitable donations totalling £450 *(2012: £nil)* and political contributions of £nil *(2012: £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: 01/AUG/2014

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 2013 set out on pages 8 to 18. 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 2013 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 Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's 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.

H Jones.

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

7 August 2014.

Profit and Loss Account

for the year ended 31 December 2013

	Note	**31 December 2013 £**	31 December 2012 £
Turnover	*2*	**7,468,188**	5,102,520
Cost of sales		**(7,016,648)**	(6,176,612)
Gross profit/(loss)		**451,540**	(1,074,092)
Administrative expenses		**(581,422)**	(529,827)
Operating (loss)	*2-3*	**(129,882)**	(1,603,919)
Bank interest receivable		**1,119**	258
Interest payable and similar charges	*6*	**(79,971)**	(71,735)
(Loss) on ordinary activities before taxation		**(208,734)**	(1,675,396)
Tax on (loss) on ordinary activities	*7*	**-**	-
(Loss) for the financial period		**(208,734)**	(1,675,396)

The results shown above are derived wholly from continuing operations.

Statement of total recognised gains and losses

for the year ended 31 December 2013

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £208,734 for the year ended 31 December 2013, and the loss of £1,675,396 for the year ended 30 December 2012.

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

Balance Sheet
at 31 December 2013

	Note	31 December 2013 £	31 December 2012 £
Fixed assets			
Tangible assets	*8*	**3,414,309**	3,285,621
Current assets			
Stocks	*9*	**1,089,379**	672,761
Debtors	*10*	**3,828,227**	2,815,906
Cash at bank and in hand		**187,542**	364,591
		5,105,148	3,853,258
Creditors: amounts falling due within one year	*11*	**(2,430,570)**	(3,626,258)
Net current assets		**2,674,578**	227,000
Total assets less current liabilities		**6,088,887**	3,512,621
Creditors: amounts falling due after more than one year	*12*	**-**	-
Net assets		**6,088,887**	3,512,621
Capital and reserves			
Called up share capital	*13*	**9,995,000**	7,210,000
Capital contribution	*14*	**6,271,507**	6,271,507
Profit and loss account	*14*	**(10,177,620)**	(9,968,886)
Shareholders' funds		**6,088,887**	3,512,621

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

These financial statements were approved by the board of directors on 01/AUG/14 and were signed on its behalf by:

D J Shepherd
Director

Notes
(forming part of the financial statements)

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)

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 2013 £	31 December 2012 £
By geographical market		
United Kingdom	**2,131,015**	1,286,015
European Union (excluding UK)	**759,742**	1,658,762
Asia/Australasia	**2,520,701**	293,560
North America	**1,951,650**	1,864,183
Rest of World	**105,080**	-
	7,468,188	5,102,520

Operating loss

This is stated after charging:

	31 December 2013 £	31 December 2012 £
Auditors' remuneration - audit	**19,240**	18,500
Depreciation of owned fixed assets	**261,600**	269,282
Operating lease rentals – plant & machinery	**28,963**	5,062

Notes *(continued)*

Remuneration of directors

	31 December 2013 £	31 December 2012 £
Directors' emoluments	**88,250**	85,056
Company contributions to money purchase pension schemes	**7,399**	7,109

	Number of directors	
	31 December 2013 No	31 December 2012 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 £25,705 *(2012: £17,684)*.

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 2013	31 December 2012
Management	**6**	7
Administration	**4**	4
Production	**52**	50
	62	61

The aggregate payroll costs of these persons were as follows:

	31 December 2013 £	31 December 2012 £
Wages and salaries	**2,107,765**	2,049,761
Social security costs	**225,174**	216,288
Other pension costs	**129,517**	128,749
	2,462,456	2,394,798

Notes *(continued)*

Interest payable and similar charges

	31 December 2013 £	31 December 2012 £
Finance costs	**79,971**	71,735

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 higher than the standard rate of corporate tax in the UK of 23.25% (*2012: 24.50%*). The differences are reconciled below:

	31 December 2013 £	31 December 2012 £
Current tax reconciliation		
(Loss) on ordinary activities before tax	**(208,734)**	(1,675,396)
(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (*2012: 24.50%*).	**(48,524)**	(410,426)
Effects of:		
Disallowed expenses and non taxable income	**-**	286
Capital allowances for period in excess of depreciation	**40,351**	63,283
R&D expenditure credits	**8,150**	-
Other timing differences	**23**	254
Unrelieved tax losses and other deductions in the period	**-**	346,603
Total current tax charge (see above)	**-**	-

Notes (continued)

7 Taxation (continued)

(c) Factors that may affect future tax charges.

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly and reduce the deferred tax assets/liabilities at 31 December 2013 which has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

The unrecognised deferred taxation asset is as follows:

	31 December 2013 £	31 December 2012 £
Tax losses	**1,463,338**	1,428,346
Other timing differences	**2,131**	2,428
Accelerated capital allowances	**147,945**	135,677
	1,613,414	1,566,451

Tangible fixed assets

	Freehold property £	**Plant and machinery £**	**Total £**
Cost			
At 1 January 2013	2,500,000	3,979,259	6,479,259
Additions	-	391,301	391,301
Disposal	-	(2,762)	(2,762)
At 31 December 2013	2,500,000	4,367,798	6,867,798
Depreciation			
At 1 January 2013	818,281	2,375,357	3,193,638
Provided during the year	23,750	237,850	261,600
Depreciation released on disposal	-	(1,749)	(1,749)
At 31 December 2013	842,031	2,611,458	3,453,489
Net book value			
At 31 December 2013	**1,657,969**	**1,756,340**	**3,414,309**
At 31 December 2012	1,681,719	1,603,902	3,285,621

Notes *(continued)*

Stocks

	31 December 2013 £	31 December 2012 £
Raw materials and consumables	**303,112**	270,278
Work in progress – intermediates	**786,267**	402,483
	1,089,379	672,761

Debtors

	31 December 2013 £	31 December 2012 £
Trade debtors	**2,025,376**	861,747
Amounts owed by parent undertakings	**1,582,302**	1,582,302
Amounts owed by group undertakings	**43,515**	204,605
Other debtors	**80,502**	90,936
Prepayments and accrued income	**96,532**	76,316
	3,828,227	2,815,906

Creditors: amounts falling due within one year

	31 December 2013 £	31 December 2012 £
Trade creditors	**881,926**	893,673
Amounts payable to group undertakings	**1,124,177**	1,360,746
Loan payable to group undertaking (see note 12)	-	1,145,001
Other taxes and social security costs	**72,315**	77,001
Other creditors	**244,625**	63,298
Accruals	**107,527**	86,539
	2,430,570	3,626,258

Notes *(continued)*

Creditors: amounts falling due after more than one year

	31 December 2013 **£**	31 December 2012 £
Loan payable to group undertaking	-	-

During 2012 AMRI Hungary Zrt ceased trading and the loan balance became payable within one year. In 2013 the capital and accrued interest were paid in full and final settlement of the loan agreement.

Called up share capital

	31 December 2013 **£**	31 December 2012 £
Allotted, called up and fully paid		
99,950,000 (*2012: 72,100,000*) Ordinary shares of £ 0.10 each	**9,995,000**	**7,210,000**

During the year shares to a value of £2,785,000 in Albany Molecular Research (UK) Limited were allotted to Albany Molecular Research Limited. The raised funds were used to inject additional working capital in to Albany Molecular Research (UK) Limited.

Reconciliation of shareholders' funds and movements on reserves

	Called up share capital **£**	**Capital contribution** **£**	**Profit and loss account** **£**	**Total shareholders funds** **£**
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
Issue of share capital	2,785,000	-	-	2,785,000
(Loss) for the year	-	-	(208,734)	(208,734)
At 31 December 2013	**9,995,000**	**6,271,507**	**(10,177,620)**	**6,088,887**

Notes *(continued)*

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 2013 of £18,670 (*2012: £18,409*).

Other financial commitments

a) At 31 December 2013 the company had annual commitments under non-cancellable operating leases as set out below:

	Other	
	31 December 2013 £	31 December 2012 £
Operating leases which expire:		
Within 2-5 years	**28,963**	5,063

(b) The company has £149,000 authorised capital commitments at 31 December 2013 (*2012: £27,580*).

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.

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.

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 Unites States of America. Copies of the financial statements for Albany Molecular Research Incorporated are available from its registered office: 26 Corporate Circle, Albany, NY.