

Financial Statements Oxford-Emergent Tuberculosis Consortium Limited

For the year ended 31 December 2011



Registered number: 06631227

Company Information

Directors	Dr Steven Chatfield (Chairman) Professor Adrian Hill Dr Stephen Lockhart Ms Linda Naylor Mr Jay Reilly Mr Allen Shofe Mr Michael Stevens Dr Xiaomi Tong (appointed 4 April 2012)
Company secretary	Mrs Emma Wheatley
Company number	06631227
Registered office	540 Eskdale Road Winnersh Triangle Wokingham Berkshire RG41 5TU
Auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 3140 Rowan Place John Smith Drive Oxford Business Park South Oxford Oxfordshire OX4 2WB
Bankers	Barclays Bank 27 Soho Square London W1D 3QR

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Directors' report

For the year ended 31 December 2011

The directors present their report and the financial statements for the year ended 31 December 2011

Principal activities and review of business

The company's principal activity is the joint development of the MVA85A Tuberculosis (TB) vaccine between the University of Oxford and Emergent Biosolutions in the UK

There were no direct grant or contract revenues during the year. The company benefits indirectly by third party funding from the Wellcome Trust through the University of Oxford and from Aeras Global TB Vaccine Foundation towards clinical trials taking place in South Africa. This represents in part the development costs incurred in developing the MVA85A TB vaccine to date.

In 2011 the Company continued to follow its overall development plan, including an ongoing Phase IIb clinical trial and product development of the MVA85A TB vaccine.

Results

The loss for the year, after taxation, amounted to £8,778,000 (2010 - loss £6,036,000)

Principal risks and uncertainties

Products Risk

The development of live vaccines carries substantial risk, including the difficulties in design and execution of studies to evaluate efficacy and safety as well as the manufacture of live vaccine.

Regulatory Risk

The sector is regulated by relevant authorities in the EU, US and the rest of the world. There is risk that the Company may not be able to agree studies that are acceptable to the regulatory authorities which may change the course of the development.

Financing Risk

Planned activities for 2012 are partially funded via indirect third party funds and by US parent company contributions to which the parties are already committed. In addition to those funding sources, in 2011 the Company entered into a Loan Agreement with one of its shareholders, Emergent Product Development UK Limited ("Emergent"), to continue funding of the overall development plan. The loan amount is up to \$14 million, with the potential to be increased to \$23 million at the sole discretion of Emergent. As of December 31 2011 no funds had been drawn upon this loan. The directors believe the loan will provide adequate funding for the Company into 2013, however, the directors acknowledge that beyond mid 2013 subsequent clinical trial costs and product development will require additional cash flows. The directors are exploring a number of options for this funding, including:

- Extending the existing loan from Emergent to the higher \$23 million amount
- Additional investment from shareholders
- Additional investment or partnering from third parties
- Support from grants and NGOs

During January 2013 clinical trial data from the Infant Phase II study will become available and a decision will be made to address future funding needs from 2013 onwards. Consequently the directors acknowledge the 'emphasis of matter' disclosure in the audit report and are seeking redress in the short term to address this business need.

Directors' report

For the year ended 31 December 2011

Future developments

The Company intends to progress its MVA85A live vaccine development during 2012 and expects that research and development expenditure will continue, reflecting the progress of these vaccines and the stages of the lifecycle development into which they are maturing

Directors

The directors who served during the year were

Mr Daniel Abdun-Nabi (resigned 4 April 2012)
Professor Adrian Hill
Mr Kyle Keese (resigned 28 July 2011)
Dr Stephen Lockhart
Ms Linda Naylor
Mr Jay Reilly
Mr Allen Shofe
Mr Michael Stevens
Dr Steven Chatfield (appointed 28 July 2011)

Directors qualifying third party indemnity provisions

The Company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Political and charitable contributions

The Company made no charitable or political contribution during the year.

Financial risk management

The Company did have exposure to foreign currencies during 2011. No hedging arrangements were entered into during this time. Cash reserves and credit risk are small and exposure is limited.

Payment of creditors

The Company's policy with respect to the payment of its suppliers is to either use standard payment terms or to agree payment terms when entering into a transaction and to abide by those terms.

Directors' report

For the year ended 31 December 2011

Directors' responsibilities statement

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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,
- 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 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.

Provision of information to auditor

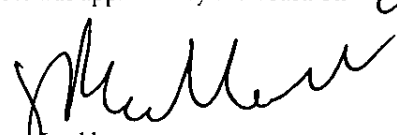
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of that information.

Auditor

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed re-appointed for the next financial year in accordance with Section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

This report was approved by the board on 26 September 2012 and signed on its behalf


Dr Stephen Lockhart
Director

26 Sept 2012

Independent auditor's report to the members of Oxford-Emergent Tuberculosis Consortium Limited

We have audited the financial statements of Oxford-Emergent Tuberculosis Consortium Limited for the year ended 31 December 2011, which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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, 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 Auditing Practices Board's website at www.frc.org.uk/apb/scope/private.cfm.

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 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter - Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.2 to the financial statements and in the Directors' Report concerning the Company's ability to continue as a going concern. The Company incurred a net loss of £8,778,000 during the year ended 31 December 2011. This, along with the future funding requirement, detailed in note 1.2 to the financial statements and in the Directors' Report, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

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 auditor's report to the members of Oxford-Emergent Tuberculosis Consortium Limited

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

Grant Thornton UK LLP

Tracey James (Senior Statutory Auditor)
for and on behalf of

Grant Thornton UK LLP

Chartered Accountants

Statutory Auditor

Oxford

Date

26 September, 2012

Profit and loss account

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Research and development costs		(7,904)	(5,876)
Administrative expenses		(874)	(160)
Operating loss	2	(8,778)	(6,036)
Loss on ordinary activities before taxation		(8,778)	(6,036)
Tax on loss on ordinary activities	3	-	-
Loss for the financial year	7	(8,778)	(6,036)

All amounts relate to continuing operations

There were no recognised gains and losses for 2011 or 2010 other than those included in the profit and loss account

The notes on pages 9 to 15 form part of these financial statements


Balance sheet

As at 31 December 2011

	Note	£000	2011 £000	£000	As restated 2010 £000
Current assets					
Debtors amounts falling due after more than one year	4	-		445	
Debtors amounts falling due within one year	4	1,176		5,815	
Cash at bank		104		39	
		<u>1,280</u>		<u>6,299</u>	
Creditors amounts falling due within one year	5	(613)		(438)	
Net current assets			<u>667</u>		<u>5,861</u>
Total assets less current liabilities			<u>667</u>		<u>5,861</u>
Capital and reserves					
Called up share capital	6		1		1
Share premium account	7		14,163		14,163
Capital Contribution	7		7,650		4,066
Profit and loss account	7		(21,147)		(12,369)
Shareholders' funds	8		<u>667</u>		<u>5,861</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

Dr Stephen Lockhart
 Director


 26 Sept 2012

The notes on pages 9 to 15 form part of these financial statements

Cash flow statement

For the year ended 31 December 2011

	Note	2011 £000	2010 £000
Net cash flow from operating activities	12	65	(165)
Increase/(Decrease) in cash in the year		65	(165)

Reconciliation of net cash flow to movement in net funds/debt

For the year ended 31 December 2011

	2011 £000	2010 £000
Increase/(Decrease) in cash in the year	65	(165)
Movement in net debt in the year	65	(165)
Net funds at 1 January 2011	39	204
Net funds at 31 December 2011	104	39

The notes on pages 9 to 15 form part of these financial statements

Notes to the financial statements

For the year ended 31 December 2011

1. Accounting policies

1.1 Basis of preparation of financial statements

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

The accounting policies of the company have remained unchanged from the prior period and are set out below

1.2 Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The Company has sufficient funding for its activities in 2012 in the form of a loan of \$14m from Emergent Product Development UK Limited. However under current forecasts and projected activities, the Company will require additional funding within twelve months of the date of approval of the financial statements as discussed further in the Director's report.

The directors consider that they have a reasonable expectation of raising the additional working capital and are currently exploring a number of options for this funding. They have therefore prepared the financial statements on a going concern basis.

1.3 Revenue recognition

Grant income is recorded when earned, with reference to research and development costs incurred. Any amounts received in advance of performance are recorded as deferred revenue. None of the revenues recognised to date are refundable if the relevant research effort is not successful.

Revenue from licenses granted is recognised in full on invoicing.

1.4 Research and development

Research and development expenditure is charged to the profit and loss account as incurred.

1.5 Debtors - share capital due

The amounts owed by group and related undertakings for share capital due have been split between current and long term debtors. The payments will be received as expenses are incurred on behalf of Oxford-Emergent Tuberculosis Consortium Limited, and therefore the amounts shown as current debtors are the estimated expenditure by those entities for the following year.

Notes to the financial statements

For the year ended 31 December 2011

1. Accounting policies (continued)

1.6 Deferred taxation

Deferred tax 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 exception that deferred tax 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 tax 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

Full provision for deferred tax is made in accordance with FRS 19

1.7 Research and development tax credits

The Finance Act 2000 allows research companies of a certain size to claim a tax credit for qualifying research expenditures. The company is considered large for the purposes of research and development relief and therefore cannot claim this credit. Instead enhanced relief is available to the company in line with the Finance Act 2002

1.8 Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account as foreign exchange gains or losses

1.9 Change in classification of costs

The directors have reviewed the classification of costs and have concluded that certain costs, previously classified as administrative costs, would be more appropriately classified as research and development costs. The profit and loss account for 2010 has been restated to show costs of £45k, previously shown as administrative costs, as research and development costs

Notes to the financial statements

For the year ended 31 December 2011

2. Operating loss

(a) The operating loss is stated after charging

	2011 £000	2010 £000
Auditors' remuneration - Audit services	15	12
- Non-audit services - taxation	5	2
Difference on foreign exchange	54	(113)
	<u>74</u>	<u>(99)</u>

(b) Staff costs and directors emoluments

The company incurred no direct staff costs or directors' costs during the year (2010 - none)

3. Taxation

	2011 £000	2010 £000
(a) UK corporation tax charge on loss for the year	-	-
	<u>-</u>	<u>-</u>

(b) Factors affecting tax charge for the year

The tax assessed for the year is lower than (2010 - lower than) the standard rate of corporation tax in the UK of 26.49% (2010 - 28%). The differences are explained below

	2011 £000	2010 £000
Loss on ordinary activities before tax	(8,778)	(6,036)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.49% (2010 - 28%)	(2,325)	(1,690)
Effects of		
Additional deduction for vaccine relief expenditure	(240)	(184)
Expenses not deductible for tax purposes	7	-
Unrelieved tax losses carried forward	2,558	1,874
Current tax charge for the year (see note above)	-	-
	<u>-</u>	<u>-</u>

(c) Factors that may affect future tax charges

There are tax losses of approximately £23,499k (2010 £13,839k) available to carry forward against future trading profits, subject to the agreement of the HM Revenue & Customs. No deferred tax assets have been recognised in respect of these amounts since the Company does not anticipate generating taxable profits in the immediate future.

Notes to the financial statements

For the year ended 31 December 2011

(d) Deferred tax

The details of the provided and unprovided deferred tax are as follows

	2011 Provided £000	2011 Unprovided £000	2010 Provided £000	2010 Unprovided £000
Tax losses available	-	(22,994)	-	(13,839)
Related unprovided deferred tax asset	-	(5,749)	-	(3,737)

4. Debtors

	2011 £000	As restated 2010 £000
Due after more than one year		
Amounts owed by group undertakings	-	232
Amounts owed by related undertakings	-	213
	<u>-</u>	<u>445</u>
	<u><u>-</u></u>	<u><u>445</u></u>
Due within one year		
Amounts owed by group undertakings	981	5,448
Amounts owed by related undertakings	-	25
Other debtors	195	150
Prepayments and accrued income	-	192
	<u>1,176</u>	<u>5,815</u>
	<u><u>1,176</u></u>	<u><u>5,815</u></u>

The share capital due will be paid by the shareholders as expenses are incurred by the company or as in-kind contributions

Prior year adjustment

During 2011 it was identified that a payment of £936k made in December 2010 by the University of Oxford was not recorded in the company's books until 2011. This payment was made to another contributor to the project to reimburse costs incurred in the running of the clinical trials. If this payment had been recorded in 2010 the impact would have been to reduce the amount owed by related undertakings and to reduce the capital contribution made by other contributors during the year. The balance sheet at 31 December 2010 has been restated to reflect this adjustment. As there is no change to recognised gains and losses as a result of this adjustment, a statement of total recognised gains and losses has not been presented.

Notes to the financial statements

For the year ended 31 December 2011

5. Creditors:

Amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	7	284
Amounts owed to group undertakings	12	-
Amounts owed to related party	26	50
Other creditors	568	104
	<u>613</u>	<u>438</u>

6. Share capital

	2011 £	2010 £
Allotted, called up and fully paid		
4,900 Shares (A) shares of £0 10 each	490	490
5,100 Shares (B) shares of £0 10 each	510	510
	<u>1,000</u>	<u>1,000</u>

The Ordinary A Shares and Ordinary B Shares rank pari passu

7. Reserves

	Share premium account £000	Capital contribution n £000	Profit and loss account £000
At 1 January 2011 (as previously stated)	14,163	5,002	(12,369)
Prior year adjustment (note 4)		(936)	
At 1 January 2011 (as restated)		4,066	
Loss for the year	-	-	(8,778)
Additional capital contribution	-	3,584	-
At 31 December 2011	<u>14,163</u>	<u>7,650</u>	<u>(21,477)</u>

Details of the prior year adjustment have been given in note 4

The balance on the share premium account may not be distributed under section 830 of the Companies Act 2006

The capital contribution reserve represents non-refundable contributions from third parties towards the development costs of the vaccine

Notes to the financial statements

For the year ended 31 December 2011

8. Reconciliation of movement in shareholders' funds

	2011	As restated 2010
	£000	£000
Opening shareholders' funds	6,797	9,727
Prior year adjustments	(936)	
	<hr/>	
Opening shareholders' funds (as restated)	5,861	
Loss for the year	(8,778)	(6,036)
Capital contribution	3,584	2,170
	<hr/>	<hr/>
Closing shareholders' funds	667	5,861
	<hr/>	<hr/>

9. Parent undertaking and controlling party

The Company's immediate parent undertaking is Emergent Product Development UK Limited, which is incorporated in the England and Wales

The Company's ultimate parent undertaking and controlling party is Emergent BioSolutions Inc, which is incorporated in Delaware, USA. Emergent Biosolutions Inc has included the results of the company in its group financial statements, copies of which are available from [http // www.emergentbiosolutions.com](http://www.emergentbiosolutions.com)

10. Related party transactions

During the period the University of Oxford and Emergent Product Development UK Limited continued to make payments against the amounts they owed in relation to shares they were issued in the year ended 31 December 2008. These payments were in the form of contributions towards the Company's expenditure in the year.

Amounts remaining unpaid from the University of Oxford in respect of the shares issued were £nil at 31 December 2011 (2010 £1,174k). Amounts remaining unpaid from Emergent Product Development UK Limited in respect of shares issued were £981k (2010 £5,680k).

At 31 December 2011 Isis Innovation Limited (a wholly owned subsidiary of the University of Oxford) was owed £25k (2010 £50k) by the Company for services incurred on behalf of the Company. Total services incurred during the year were £25k (2010 £50k).

At 31 December 2011, Emergent Product Development UK Limited were owed £12k (2010 £nil) by the Company in respect of costs incurred on the Company's behalf.

Notes to the financial statements

For the year ended 31 December 2011

11. Capital commitments and contingent liabilities

There were no capital commitments at 31 December 2011 or 31 December 2010

There were no contingent liabilities at 31 December 2011 or 31 December 2010

12. Net cash flow from operating activities

	2011 £000	2010 £000
Operating loss	(8,778)	(6,036)
Decrease/(increase) in debtors	617	(308)
Contributions to costs from shareholders	4,467	2,689
Increase in creditors	175	384
Contributions to costs from other contributors	3,584	3,106
Net cash inflow/(outflow) from operating activities	65	(165)

13. Analysis of changes in net debt

	1 January 2011 £000	Cash flow £000	Other non-cash changes £000	31 December 2011 £000
Cash at bank and in hand	39	65	-	104
Net funds	39	65	-	104