

Registered number: 09331560

PORTON BIOPHARMA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017



PORTON BIOPHARMA LIMITED

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PORTON BIOPHARMA LIMITED

COMPANY INFORMATION

Directors

M Brodie
D R Gleave
M Hindle
R J Hinton
N S Brooksby (appointed 1 June 2016)
M Harrison (appointed 8 May 2017)

Company secretary

N R M Mackie

Registered number

09331560

Registered office

Manor Farm Road
Porton
Salisbury
Wiltshire
SP4 0JG

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Kingsway
Cardiff
CF10 3PW

PORTON BIOPHARMA LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 MARCH 2017

The directors present the Strategic Report of Porton Biopharma Limited (the "company") for the period ended 31 March 2017.

Business review

The Company comprises the former Development and Production division of Public Health England, which was acquired by this limited liability company, wholly owned by the Secretary of State for Health, on the 1st of April 2015.

In its second year of operations, the company has continued to expand its manufacturing capabilities and has increased efficiencies in its manufacturing processes. This has yielded increased throughput in product volumes manufactured and supplied to the market, and is reflected in increased revenues for the period.

The biopharma industry continues to be subject to increasing regulatory requirements, both in the UK and globally. Compliance with these increasing requirements and our commitment to Good Manufacturing Practice ("GMP") imposes financial burdens and this is reflected in our increasing costs profile.

The company has experienced certain supply chain issues, which have led to the receipt of a warning letter from the FDA, the US regulator of Erwinase. The company has developed a Corrective Action Plan to remedy this situation and address deficiencies noted by the FDA, and is investing to ensure that these actions are completed and as a matter of urgency to ensure full compliance with regulatory requirements.

Our staff are the key to our success and we continue to invest significantly in our human resources; the company has implemented many policies and procedures to improve recruitment, training and development, and these are now increasing our efficiency. In addition, we are investing in the future of biological science by supporting a number of university placement students.

We have also been making substantial investments in new facilities and equipment, as well as upgrading our existing infrastructure. In the last 12 months we completed a new office building for our quality function, on 17 May 2017 we held a ground breaking ceremony led by John Glen MP for a new and larger pharmaceutical process facility and on 29 June 2017 Baroness Scott of Bybrook the leader of Wiltshire Council opened our new pharmaceutical research and development facility.

The investments we have made in our facilities, our processes and in our human resources are expected to further increase our throughput capacity and therefore the volumes supplied to the market. Our investments will also improve product quality and conformance with regulatory requirements & GMP. We expect to continue such progress and investment in the next period, growing the business, increasing revenues and attracting high value jobs to the Wiltshire region.

PORTON BIOPHARMA LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

Principal risks and uncertainties

Exchange rates

We sell our products internationally, and our revenues are therefore subjected to the fluctuations of foreign currency exchange rates. Given the multitude of markets into which we sell our products, it is difficult to accurately forecast the effects of currency exchange rates on revenues.

Product quality

Erwinase and Anthrax Vaccine are manufactured according to Good Manufacturing Practice, and regulated accordingly in the appropriate territories. The pharmaceutical industry strives for continuous improvement in the regulations that apply to its processes, systems and product characterisation to improve the quality and efficacy of pharmaceutical products. The Company must therefore ensure that it continues to meet these regulatory standards so that our products can continue to be manufactured and marketed. As noted above, the Company received a warning letter from the US Food and Drug Administration in January 2017 with respect to the manufacture of Erwinase and we are actively addressing the issues identified to ensure regulatory compliance.

Experienced Staff

The manufacture of biopharma products requires significant expertise and experience. The Company must ensure that it is able to attract and retain the required calibre of staff to develop and manufacture products to meet regulatory standards, continue to expand the company's manufacturing capacity and deliver manufacturing efficiencies.

Financial key performance indicators

Revenue in the period is driven by the volumes manufactured of both products (Erwinase and Anthrax Vaccine), the markets we supply and the prevailing prices for our products.

Our gross and net profits are KPIs and we target maximising these as commercial objectives, in conjunction with our objectives of maximising delivery of our products to meet patient and market needs.

This report was approved by the board and signed on its behalf by:



R J Hinton
Director

Date: 15 December 2017

PORTON BIOPHARMA LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2017

The directors present their annual report and the audited financial statements of Porton Biopharma Limited (the "company") for the year ended 31 March 2017.

Principal activity

The principal activity of the Company is the development, manufacture and sale of biopharmaceutical products

Results and dividends

The revenues for the financial year increased to £50.6 million from £35.7m in the prior period, due to increased supply of our products to the market, reflecting our continuing investment in our production capabilities. The prior period relates to the 16 months ended 31 March 2016 although there was limited trading in the company until the acquisition of the Development and Production business from Public Health England on 1 April 2015.

Our improved financial performance yields a profit for the financial year of £17,870,000 (2016: £5,194,000). A dividend of £5,849,000 was paid during the year (2016: £Nil).

Directors

The directors who served during the year and up to the date of signing the financial statements, unless otherwise stated, were:

M Brodie
D R Gleave
M Hindle
R J Hinton
P M H Mills (resigned 31 January 2017)
N S Brooksby (appointed 1 June 2016)
M Harrison (appointed 8 May 2017)

Financial risk management

As a result of normal company operations, there are a number of financial risks to which the company could be exposed. To control the possible effects of such risks, the Board of Directors constantly monitors the risks and exposures, relying on the controls and policies currently in place.

Future developments

The company strategy is to expand the manufacture and sales of its two primary products, Erwinase and Anthrax Vaccine; additionally, it is exploring the possibility of identifying new biopharmaceutical products for future development.

Post balance sheet events

After the year end the company issued a further 5,500,000 Ordinary shares of £1 each at par.

PORTON BIOPHARMA LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2017

Directors' responsibilities statement

The directors are responsible for preparing the Strategic report, 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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), comprising Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards comprising FRS 102 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 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.

Disclosure of information to auditors

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

This report was approved by the board and signed on its behalf by:



R J Hinton
Director

Date: 15 December 2017

PORTON BIOPHARMA LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PORTON BIOPHARMA LIMITED

Report on the financial statements

Our opinion

In our opinion, Porton Biopharma Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit and cash flows 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- Balance Sheet as at 31 March 2017;
- Statement of Comprehensive Income for the year then ended;
- Statement of Cash Flows for the year then ended;
- Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

PORTON BIOPHARMA LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PORTON BIOPHARMA LIMITED

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

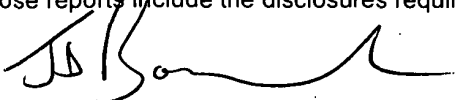
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Jonathan Bound (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cardiff

Date:

15 December 2017

PORTON BIOPHARMA LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017**

		Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
	Note		
Turnover	4	50,601	35,651
Cost of sales		(23,482)	(23,632)
Gross profit		27,119	12,019
Administrative expenses		(4,571)	(5,152)
Operating profit	5	22,548	6,867
Interest payable and similar expenses	9	(407)	(407)
Profit before tax		22,141	6,460
Tax on profit	10	(4,271)	(1,266)
Profit for the financial year		17,870	5,194
Total comprehensive income for the financial year		17,870	5,194

PORTON BIOPHARMA LIMITED
REGISTERED NUMBER:09331560

BALANCE SHEET
AS AT 31 MARCH 2017

	Note	2017 £000	2016 £000
Fixed assets			
Intangible assets	12	1,383	2,066
Tangible assets	13	45,922	27,388
		<u>47,305</u>	<u>29,454</u>
Current assets			
Stocks	14	14,241	8,303
Debtors	15	7,411	9,458
Cash at bank and in hand	16	27,402	19,733
		<u>49,054</u>	<u>37,494</u>
Creditors: amounts falling due within one year	17	(24,259)	(30,723)
Net current assets		<u>24,795</u>	<u>6,771</u>
Total assets less current liabilities		<u>72,100</u>	<u>36,225</u>
Creditors: amounts falling due after more than one year	18	(6,784)	(30,184)
Provisions for liabilities			
Deferred taxation	20	(1,717)	(847)
Net assets		<u>63,599</u>	<u>5,194</u>
Capital and reserves			
Called up share capital	21	46,384	-
Profit and loss account	22	17,215	5,194
Total shareholders' funds		<u>63,599</u>	<u>5,194</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
15 December 2017 by:



R J Hinton
Director

The notes on pages 12 to 28 form part of these financial statements.

PORTON BIOPHARMA LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017**

	Called up share capital £000	Profit and loss account £000	Total shareholders' funds £000
Comprehensive income for the financial period ended 31 March 2016			
Profit for the financial period	-	5,194	5,194
Total comprehensive income for the financial period	-	5,194	5,194
At 1 April 2016	-	5,194	5,194
Comprehensive income for the financial year ended 31 March 2017			
Profit for the financial year	-	17,870	17,870
Total comprehensive income for the financial year	-	17,870	17,870
Contributions by and distributions to owners			
Dividends: Equity capital	-	(5,849)	(5,849)
Shares issued during the year	46,384	-	46,384
Total transactions with owners	46,384	(5,849)	40,535
At 31 March 2017	46,384	17,215	63,599

PORTON BIOPHARMA LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2017**

	2017 £000	2016 £000
Cash flows from operating activities		
Profit for the financial year	17,870	5,194
Adjustments for:		
Taxation charge	4,271	1,266
Interest paid	407	407
Amortisation of intangible assets	835	827
Depreciation of tangible assets	1,210	651
Loss on disposal of tangible assets	2	-
Increase in stocks	(5,938)	(4,646)
Decrease/(increase) in debtors	2,047	(8,727)
(Decrease)/increase in creditors	(11,332)	5,564
Corporation tax (paid)/received	(1,858)	-
Net cash from operating activities	7,514	536
Cash flows used in investing activities		
Purchase of tangible assets	(19,975)	(7,544)
Sale of tangible assets	2	-
Cash acquired on acquisition	-	2,500
Net cash used in investing activities	(19,973)	(5,044)
Cash flows from financing activities		
Issue of ordinary shares	26,384	-
New loans from related party	-	24,648
Dividends paid	(5,849)	-
Interest paid	(407)	(407)
Net cash from financing activities	20,128	24,241
Net increase in cash and cash equivalents	7,669	19,733
Cash and cash equivalents at beginning of year	19,733	-
Cash and cash equivalents at the end of year	27,402	19,733
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	27,402	19,733

The notes on pages 12 to 28 form part of these financial statements.

PORTON BIOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

1. General information

Porton Biopharma Limited's (the "company") principal activity is that of the development, manufacture and sale of pharmaceutical products.

The company is a private company limited by shares and is incorporated and domiciled in England and Wales. The address of its registered office is: Manor Farm Road, Porton, Salisbury, Wiltshire, SP4 0JG.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis, under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the company's accounting policies (see note 3).

The following principal accounting policies have been applied consistently throughout the year:

2.2 Turnover

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Sale of goods

Turnover from the sale of goods is recognised when all of the following conditions are satisfied:

- the company has transferred the significant risks and rewards of ownership to the buyer;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of turnover can be measured reliably;
- it is probable that the company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Turnover from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of turnover can be measured reliably;
- it is probable that the company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

PORTON BIOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.3 Intangible assets

Intangible assets are initially recognised at cost or at fair value where acquired through a business combination. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

Negative goodwill represents the excess of the fair value of the assets acquired under a business combination compared to the fair value of the consideration.

The estimated useful lives range as follows:

Customer relationships	-	10 years
Developed processes and technology	-	10 years
Licences	-	Relevant licence life
Negative goodwill	-	10 years

2.4 Tangible assets

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold property	- 25 years
Plant and machinery	- 4 to 20 years
Assets under construction	- Not depreciated

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of comprehensive income.

PORTON BIOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

2. Accounting policies (continued)

2.5 Stocks

Stocks are stated at the lower of cost and net realisable value, being the estimated selling price less costs to complete and sell. Cost is based on the cost of purchase on a first in, first out basis. Work in progress and finished goods include labour and attributable overheads.

At each balance sheet date, stocks are assessed for impairment. If stock is impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in profit or loss.

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the company's cash management.

PORTON BIOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.8 Financial instruments

The company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties, loans to related parties and investments in non-puttable ordinary shares.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or financed at a rate of interest that is not a market rate or in case of an out-right short-term loan not at market rate, the financial asset or liability is measured, initially, at the present value of the future cash flow discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Statement of Comprehensive Income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

PORTON BIOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.10 Foreign currency translation

Functional and presentation currency

The company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

2.11 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.12 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

PORTON BIOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.13 Pensions

Defined contribution pension plan

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Certain staff who became employees of the company following its acquisition of the Development and Production Division of Public Health England remain members of the Principal Civil Service Pension Scheme (PCSPS) or the National Health Service Pension Scheme (NHSPS). These schemes are defined benefit schemes, both of which prepare separate scheme statements which are readily available to the public. Further details of these schemes are given below.

The Principal Civil Service Pension Scheme (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme which the company is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012 with full details being disclosed in the resource accounts of the Cabinet Office : Civil Superannuation (www.civilservice-pensions.gov.uk).

For the year ended 31 March 2017, employer's contributions were payable to the PCSPS at an average of 21.1% of pensionable pay, based on salary bands (2016: 21.1%). The scheme's actuary reviews employer contributions every four years following a scheme valuation.

The National Health Service Pension Scheme (NHSPS)

The NHSPS is an unfunded multi-employer defined benefit scheme which is notionally funded with payments underwritten by the Exchequer. The company is unable to identify its share of the underlying assets and liabilities. The Government Actuary's Department values the NHSPS every four years with an annual update on the scheme's liabilities published at www.nhsbsa.nhs.uk.

For the year ended 31 March 2017, employer's contributions were payable to the NHSPS of 14.3% of pensionable pay (2016: 14.3%).

Contributions to both the PCSPS and NHSPS have been accounted for as if they were defined contributions schemes and recorded within staff costs during the year payable.

2.14 Provisions for liabilities

Provisions are made where an event has taken place that gives the company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Statement of comprehensive income in the year that the company becomes aware of the obligation, and are measured at the best estimate at the Balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance sheet.

PORTON BIOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. Accounting policies (continued)

2.15 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that could have a material adjustment to the carrying value of assets and liabilities are addressed below.

i) Fair value assigned to assets acquired in the business combination

Fair values have been assigned to assets and liabilities acquired from Public Health England in the prior period. The most significant are the customer relationships, licences, developed processes and technology intangible assets having a fair value of £208,913,000, in total at the time of acquisition. The fair values have been estimated using assumptions of future cashflows arising from the business, discounted at appropriate rates. No changes were required to the fair values during the course of the year.

ii) Useful economic lives of tangible and intangible assets

The annual depreciation and amortisation charge is sensitive to changes in the estimated useful economic lives and any residual values of the assets. These are re-assessed each year and are amended when necessary to take account of current estimates, technological advancement and physical condition.

PORTON BIOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

4. Turnover.

An analysis of turnover by class of business is as follows:

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Sale of goods	48,752	33,724
Services	1,849	1,927
	<u>50,601</u>	<u>35,651</u>

Analysis of turnover by country of destination:

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
United Kingdom	13,849	10,961
Rest of Europe	35,458	24,690
Rest of the world	1,294	-
	<u>50,601</u>	<u>35,651</u>

5. Operating profit

The operating profit is stated after charging:

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Depreciation of tangible assets	1,210	651
Amortisation of intangible assets, including goodwill	835	827
Impairment of stocks	-	1,294
Cost of stocks recognised as an expense	<u>23,482</u>	<u>23,622</u>

During the year the Company amended the allocation of certain costs between 'cost of sales' and 'administrative expenses'. The comparative figures within these financial statements have been adjusted. There is however no impact on operating profit.

PORTON BIOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

6. Auditors' remuneration

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Fees payable to the company's auditors for the audit of the company's annual financial statements	29	28
Fees payable to the company's auditors in respect of:		
Tax compliance services	8	6
Account preparation and advice	2	5

7. Employees

Staff costs, including directors' remuneration, were as follows:

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Wages and salaries	8,925	7,439
Social security costs	920	600
Other pension costs	1,317	1,294
	11,162	9,333

The average monthly number of employees, including the directors, during the year was as follows:

	Year 31 March 2017 Number	16 month period ended 31 March 2016 Number
Administrative	56	48
Production	221	186
	277	234

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

8. Directors' remuneration

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Aggregate directors' emoluments	221	178
	<u>221</u>	<u>178</u>

The highest paid director received remuneration of £136,000 (2016 - £114,000).

During the year none of the directors were part of the company's defined contribution pension scheme (2016: none). In the current and prior year, one director, also being the highest paid director, was part of the Principal Civil Service Pension Scheme to which the company made contributions.

8. Directors' remuneration (continued)

	2017 £000	2016 £000
Key management personnel (including directors)		
Wages and salaries	980	843
Other pension costs	189	167
	<u>1,169</u>	<u>1,010</u>

9. Interest payable and similar expenses

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Interest payable on other loans	407	407
	<u>407</u>	<u>407</u>

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

10. Tax on profit

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Corporation tax		
Current tax on profits for the year	3,402	419
Adjustments in respect of previous periods	(1)	-
Total current tax	3,401	419
Deferred tax		
Origination and reversal of timing differences	1,116	941
Changes to tax rates	(213)	(94)
Adjustment in respect of previous periods	(33)	-
Total deferred tax	870	847
Tax on profit	4,271	1,266

Factors affecting tax charge for the year/period

The tax assessed for the year/period is the same as (2016: lower than) the standard rate of corporation tax in the UK of 20% (2016: 20%). The differences are explained below:

	Year 31 March 2017 £000	16 month period ended 31 March 2016 £000
Profit on ordinary activities before taxation	22,141	6,460
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016: 20%)	4,428	1,292
Effects of:		
Expenses not deductible for tax purposes	90	68
Adjustment in respect of previous periods	(34)	-
Tax rate changes	(213)	(94)
Total tax charge for the year/period	4,271	1,266

PORTON BIOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

10. Tax on profit (continued)

Factors that may affect future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11. Dividends

	2017 £000	2016 £000
Dividends paid equivalent to £0.13 per £1 share	5,849	-
	<u>5,849</u>	<u>-</u>

12. Intangible assets

	Customer relationships £000	Development processes and technology £000	Licenses £000	Negative goodwill £000	Total £000
Cost					
At 1 April 2016	27,796	178,224	2,893	(206,019)	2,894
Transfer from tangible assets	-	-	151	-	151
At 31 March 2017	<u>27,796</u>	<u>178,224</u>	<u>3,044</u>	<u>(206,019)</u>	<u>3,045</u>
Accumulated amortisation					
At 1 April 2016	2,780	17,822	827	(20,602)	827
Charge for the year	2,780	17,822	834	(20,601)	835
At 31 March 2017	<u>5,560</u>	<u>35,644</u>	<u>1,661</u>	<u>(41,203)</u>	<u>1,662</u>
Net book value					
At 31 March 2017	<u>22,236</u>	<u>142,580</u>	<u>1,383</u>	<u>(164,816)</u>	<u>1,383</u>
At 31 March 2016	<u>25,016</u>	<u>160,401</u>	<u>2,066</u>	<u>(185,417)</u>	<u>2,066</u>

PORTON BIOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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13. Tangible assets

	Leasehold property £000	Plant and machinery £000	Assets under construction £000	Total £000
Cost				
At 1 April 2016	-	5,885	22,154	28,039
Additions	-	-	19,899	19,899
Disposals	-	(4)	-	(4)
Transfers between classes	5,018	1,742	(6,760)	-
Transfer to intangible assets	-	-	(151)	(151)
At 31 March 2017	<u>5,018</u>	<u>7,623</u>	<u>35,142</u>	<u>47,783</u>
Accumulated depreciation				
At 1 April 2016	-	651	-	651
Charge for the year	201	1,009	-	1,210
At 31 March 2017	<u>201</u>	<u>1,660</u>	<u>-</u>	<u>1,861</u>
Net book value				
At 31 March 2017	<u>4,817</u>	<u>5,963</u>	<u>35,142</u>	<u>45,922</u>
At 31 March 2016	<u>-</u>	<u>5,234</u>	<u>22,154</u>	<u>27,388</u>

14. Stocks

	2017 £000	2016 £000
Raw materials and consumables	2,139	2,467
Finished goods and goods for resale	12,102	5,836
	<u>14,241</u>	<u>8,303</u>

There is no provision for stock impairment at the year end (2016 : £1,294k).

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**NOTES TO THE FINANCIAL STATEMENTS
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15. Debtors

	2017 £000	2016 £000
Trade debtors	3,020	9,395
Other debtors	1,239	18
Prepayments and accrued income	3,152	45
	<u>7,411</u>	<u>9,458</u>

There is no provision for debtor impairment at year end (2016: £Nil).

16. Cash at bank and in hand

	2017 £000	2016 £000
Cash at bank and in hand	<u>27,402</u>	<u>19,733</u>

17. Creditors: Amounts falling due within one year

	2017 £000	2016 £000
Trade creditors	2,804	1,500
Amounts owed to Public Health England - trading balance	7,807	24,648
Loan from Public Health England (note 18)	3,400	-
Corporation tax	1,962	419
Other creditors	1,049	501
Accruals and deferred income	7,237	3,655
	<u>24,259</u>	<u>30,723</u>

The trading balance due to Public Health England is interest free, unsecured and repayable on demand.

18. Creditors: Amounts falling due after more than one year

	2017 £000	2016 £000
Loan from Public Health England	<u>6,784</u>	<u>30,184</u>

The loan from Public Health England is bearing interest at 4%. The amount is due for repayment in three annual installments of £3.4m commencing on 31 March 2018.

PORTON BIOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

19. Financial instruments

	2017 £000	2016 £000
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>31,661</u>	<u>29,146</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(29,157)</u>	<u>(60,907)</u>

Financial assets measured at amortised cost comprise trade debtors, other debtors and cash.

Financial liabilities measured at amortised cost comprise trade creditors, accruals, other creditors and amounts due to Public Health England.

20. Deferred taxation

	2017 £000
At beginning of year	847
Charged to profit or loss	<u>870</u>
At end of year	<u><u>1,717</u></u>

The provision for deferred taxation is made up as follows:

	2017 £000	2016 £000
Accelerated capital allowances	<u>1,717</u>	<u>847</u>

PORTON BIOPHARMA LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

21. Called up share capital

	2017 £	2016 £
Shares classified as equity		
Allotted, called up and fully paid		
46,384,000 (2016: 1) Ordinary shares of £1 each	<u>46,384,000</u>	<u>1</u>

On 1 September 2016 19,999,999 ordinary shares of £1 each were issued. Consideration was settled by a reduction in the loan balance with Public Health England.

On 14 March 2017 26,384,000 ordinary shares of £1 each were issued. Consideration was settled in cash.

22. Reserves

Profit and loss account

The profit and loss account represents all net gains and losses and transactions with owners (e.g. dividends) that are not recognised elsewhere.

23. Capital commitments

At 31 March the company had capital commitments as follows:

	2017 £000	2016 £000
Contracted for but not provided in these financial statements	<u>12,609</u>	<u>7,994</u>

24. Pension commitments

The company operates a defined contribution pension scheme and also has staff who remain members of the Principal Civil Service Pension Scheme (PCSPS) and the National Health Service Pension Scheme (NHSPS), which are both defined benefit schemes. Full details are provided on page 17. The company's contribution to each scheme was as follows:

	Year ended 31 March 2017 £000	Period ended 31 March 2016 £000
Defined contribution scheme	125	40
PCSPS and NHSPS	<u>1,192</u>	<u>1,254</u>
Total	<u><u>1,317</u></u>	<u><u>1,294</u></u>

PORTON BIOPHARMA LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

25. Related party transactions

The Company sells a major product to the Department of Health and during the year and recognised turnover of £14,746,000 (2016: £8,880,000) in relation to that product. At the year end, trade debtors contain an amount due from the Department of Health of £2,103,000 (2016: £5,703,000).

In 2016 the Company acquired the trade and assets of the Public Health England ("PHE") Development and Production division and £10,184,000 of the consideration remains outstanding at 31 March 2017 (see note 18). The Company shares certain operational and administration services with PHE at its site in Porton Down and PHE paid certain expenses on behalf of the Company during the year. The amount due to PHE at the year end in respect of the shared activity amounted to £7,807,000 (2016: £24,648,000).

26. Post balance sheet events

After the year end the company issued a further 5,500,000 Ordinary shares of £1 each at par.

27. Controlling party

The directors consider the ultimate controlling party of the company to be the Secretary of State for Health by virtue of their 100% shareholding in the company.