

**Cobra Biomanufacturing Plc**

**Preliminary Results  
for the year ended 30 September 2007**

Cobra Biomanufacturing Plc, the international provider of biopharmaceutical manufacturing services, today announces its preliminary results for the twelve months ended 30 September 2007.

**Operational Highlights Jan 2008**

- **Contracted forward order book up 57% to a record £9.4m** (Jan 2007: £6.0m).
- **Including a \$9.5m two year virus contract providing greater revenue predictability.**
- **Simon Saxby appointed today as Chief Operating Officer, bringing international commercial, funding and technical expertise.**
- **David Thatcher to step down today as Chief Executive, whilst continuing to provide guidance on scientific affairs and business development as a non executive director and consultant.**

**Financial Summary 2007**

- **In line with current market expectations.**
- **Revenue £9.2m** (2006: £10.1m).
- **Loss before tax £1.9m** (2006: £0.1m profit).
- **Cash and short term investments £1.6m at year end** (2006: £3.2m).

**Commenting on the results, Peter Fothergill, Chairman said:**

*“Cobra today has a record £9.4m order book (Jan 2007: £6.0m). Worldwide investment in biotechnology remains buoyant, although this may be tempered somewhat by the emerging macroeconomic climate. Cobra’s challenge is to win more long term contracts which provide for a more consistent year on year performance that in turn should see a return to profitability and a sound basis for further expansion of its contract manufacturing services to the global marketplace. The \$9.5m virus contract, which will run for the next two financial years, is a big step towards achieving this aim.”*

**For further information, please contact:**

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## Chairman's Statement

### Financial Summary 2007

The financial results for 2007 were in line with current market expectations, but were still disappointing after six consecutive half year reporting periods of consistent growth, which moved Cobra back into profit in 2006. Revenue fell to £9.2m (2006: £10.1m), resulting in a pre tax loss of £1.9m (2006: £0.1m profit), an operating cash outflow of £0.9m (2006: £1.1m inflow) and a closing cash at bank and short term investments of £1.6m (2006: £3.2m).

### Revenue and Contracted Order Book

Financial year 2007 was unusual for Cobra, with revenue in the second half of the year falling away after a first half which was profitable and in line with market expectations. Our aim has been to reduce the inherent 'lumpiness' of our business by competing for more longer term contracts, including those for commercial supply, particularly for the manufacture of virus based products. However this is taking longer than anticipated and was exacerbated by overruns on a number of short term contracts and the unanticipated loss at short notice of the GSK/IAVI contract in May 2007. This left a revenue gap which we were unable to close. Management actions to mitigate these events were implemented involving operational efficiencies and cost base reductions. However there was simply insufficient time or revenue to cover the remaining costs which are necessary to stay competitive.

Notwithstanding, the overall shape of the business is improving. Revenue in 2007 from our North American customers was £6.0m (2006: £8.7m) 65% of the total (2006: 85%). Revenue from our European based customers (excluding the UK) increased fourfold to £2.8m (2006: £0.7m) 31% of the total (2006: 7%) as 2007 turned out to be the best ever year for funding for biotech in Europe\*, beating the \$5.9bn\*\* raised in 2006 (2005: \$4.0bn).

Virus based revenue was £2.8m (2006: £1.9m) 30% of the total (2006: 19%), which reflects Cobra's leading position in this highly specialised market. Protein based revenue remained healthy at £4.3m (2006: £6.7m) 47% of the total (2006: 66%). These are encouraging signals as demand for our services continues to expand.

The global biotech industry raised a total of \$30.7bn\* in 2007 (2006: \$29.8bn), the highest figure since 2000, which followed on from the \$27.8bn\*\* spent on the research and development of biotech products in 2006 (2005: \$21.0bn). The key to Cobra's future is simply to win more of this business, more quickly in a growing biomanufacturing service sector expected to be worth \$2.8bn\*\*\* in 2008.

Since the end of the financial year Cobra has made considerable progress towards achieving this aim. The contracted forward order book is now at a record £9.4m, £6.0m of which is scheduled for the current financial year.

### Structure

I am pleased to announce today the appointment of Simon Saxby as Chief Operating Officer and main Board Director. At the same time, David Thatcher will step down as Chief Executive, whilst continuing to provide guidance on scientific affairs and business development as a non executive director.

Simon Saxby has 25 years experience in the biotechnology industry, latterly as CEO of Alpha Biologics Sdn Bhd, a Malaysian contract manufacturing organisation (CMO) with an office and laboratories in Cambridge UK. Simon was a founder director of Murex Diagnostics which was sold to Abbott Laboratories for \$350m, a co-founder and operations director of Quantum Biosystems Ltd, he led the development of a CMO business for Unisyn Technologies in Massachusetts, USA for 4 years and has held appointments with KS Biomedix Plc, Xenova Plc and Synexis Ltd. Simon's well rounded international experience in business development and manufacturing is ideally suited to the challenges of the service business.

David Thatcher started Cobra's manufacturing activities 15 years ago and became CEO in 2002, when the Group listed on AIM as a specialist provider of biomanufacturing services. His 5 years in the post have seen a dramatic change in the operating environment, with Cobra's original DNA business virtually disappearing in 2004. He re-orientated the business to focus on virus and protein manufacturing, coupled

with a strong business development capability in North America. At the same time he has applied his scientific expertise to the development of novel technologies which can be applied to the Group's manufacturing processes and from which we now have potentially valuable product development and licensing opportunities. David will continue to support this initiative as a consultant (see Oral Vaccines section).

### **Oral Vaccines**

During the year we have advanced our potentially exciting oral vaccine technology with a series of collaborations to prove the principle in both human and animal health applications. At the same time our successful application for a DTI grant, to develop formulations and undertake preclinical testing for human flu, will allow the work on this project to commence in early 2008. The Group has now formed a separate subsidiary called Cobra Oral Technology Limited (COT) to focus our efforts on this opportunity.

### **Outlook**

Cobra today has a record £9.4m order book (Jan 2007: £6.0m). Worldwide investment in biotechnology remains buoyant, although this may be tempered somewhat by the emerging macroeconomic climate. Cobra's challenge is to win more long term contracts which provide for a more consistent year on year performance that in turn should see a return to profitability and a sound basis for further expansion of its contract manufacturing services to the global marketplace. The \$9.5m virus contract which will run for the next two financial years is a big step towards achieving this aim.

**Peter Fothergill**  
**Chairman**  
**18 January 2008**

\* BioCentury 07/01/2008

\*\* Ernst and Young's Beyond Borders Global Biotechnology Report 2007

\*\*\* Hi Tech Business Decisions 2007

## Financial Review

### Basis of Preparation

These are the first results of the Group to be stated under International Financial Reporting Standards (IFRS) and the comparatives have been restated on this basis. The principal impact of IFRS and the effect of these on the Group's 2006 income statement and profit for the year and the balance sheets and equity for 1 October 2005 and 30 September 2006 are set out in note 13.

### Income Statement

**Revenue and gross margin:** for the year fell by 9% to £9.2m (2006: £10.1m), due to cancellation of an existing contract and longer lead times for new contracts in the second half of the year, resulting in the Group not being able to maximise the coverage of its direct manufacturing costs, a high proportion of which are fixed and essential to maintain our cGMP and quality standards. These factors in addition to overruns on a number of our service contracts primarily for our European customers reduced gross margin to 42% (2006: 53%).

**Research and development:** expenditure increased in the year by 51% to £0.6m (2006: £0.4m), to continue the process science work required to maintain the Group's competitive position in the existing manufacturing service business and to continue the development of our oral vaccine platform technology, ORT-VAC.

**Other operating expenses:** sales, marketing and distribution costs at £1.1m (2006: £1.1m) and administrative expenses at £3.9m (2006: £3.9m) remained flat as we controlled our costs in the second half of the year.

**Reorganisation costs:** the Group incurred £0.1m of reorganisation costs in the latter part of the year as we reduced our headcount, to reduce the cost base and enhance our competitive position.

**(Loss)/profit before/after tax:** as a result of the above the Group incurred a loss before tax of £1.9m (2006: £0.1m profit) and with a R&D tax credit claim of £0.1m in the year (2006: £0.1m) a loss after tax of £1.8m (2006: £0.1m profit).

### Balance Sheet

**Capital investment:** Cobra invested a further £1.1m in plant and equipment in the year (2006: £1.5m), lower than the previous year as we controlled expenditure in the second half. However this investment is essential as we maintain our facilities to cGMP.

**Deferred income:** ended the year at £0.5m (2006: £1.2m), reflecting the fall off in the business in the second half. There was a corresponding fall in inventories to £0.4m (2006: £0.6m).

**Cash and short term investments:** due to the operating losses incurred and capital investment required, offset by net financing of £0.3m (2006: £0.6m inflow). Cash and short term investments closed at £1.6m (2006: £3.2m).

**Non current liabilities:** remained at £2.8m (2006: £2.8m). The composition of non current liabilities is split between a bank loan with National Westminster Bank Plc, secured against freehold buildings of £1.9m (2006: £1.8m) repayable over a 13 year period commencing November 2007 and finance lease obligations of £0.9m (2006: £1.0m) repayable between 2 and 5 years.

### Cash Flow

Operating cash outflow for the period was £0.9m (2006: £1.1m inflow). We also spent £1.1m on plant and equipment in the year (2006: £1.5m). This expenditure was partially financed during the year, through a mixture of additional mortgage loans of £0.2m net (2006: £0.6m net) and finance leases of £0.6m (2006: £0.5m), offset by existing finance lease repayments of £0.5m (2006: £0.4m). The result is cash and short term investments of £1.6m (2006: £3.2m).

**Taxation**

At 30 September 2007, the Group had trading tax losses carried forward of £16.0m ensuring that the Group should not be obliged to pay UK corporation tax for the foreseeable future on any trading profits. The Group is also entitled to claim research and development tax relief, available under Schedule 20 of the Finance Act 2000, in respect of financial year 2007, which resulted in a credit to the Group Income Statement of £0.1m (2006: £0.1m).

**Treasury Policies and Financial Risk**

Surplus funds are intended to support the Group's short term working capital requirements. These funds are invested through the use of short term deposits and the policy is to maximise returns as well as to provide the flexibility required to fund on-going operations. It is not the Group's policy to enter into financial derivatives for speculative or trading purposes.

**Interest Rate, Liquidity, Credit and Foreign Currency Risk**

**Interest rate risk:** at 30 September 2007 the Group had a mortgage with the National Westminster Bank Plc of £2.0m (2006: £1.8m). The Group pays a fixed rate of 1.65% over the National Westminster Bank Plc's sterling base rate on the outstanding mortgage balance.

**Liquidity risk:** surplus funds are invested on a short term basis at money market rates and therefore such funds are available at very short notice.

**Credit risk:** the Group's credit risk relates to trade receivables, short term investments and cash and cash equivalents. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group has no significant concentration of credit risk related to receivables, as the exposure is spread over a number of customers.

**Foreign currency risk:** the Group generated overseas revenue during the year, primarily from North America and Continental Europe. The position regarding currency risk is regularly reviewed and currency hedging activity is initiated where appropriate. In the year the Group realised an exchange rate gain of £38k (2006: £127k gain), through the provision of forward currency contracts against the Group's contracted US dollar and Euro order book. Currency risk is also partially offset by overseas expenditure.

**Peter Coleman**  
**Finance Director**  
**18 January 2008**

**Group Income Statement**  
**For the year ended 30 September 2007**

	Notes	2007 £000's	2006 £000's
<b>Revenue</b>	<b>4&amp;5</b>	<b>9,194</b>	10,145
Cost of sales		(5,329)	(4,808)
<b>Gross profit</b>	<b>5</b>	<b>3,865</b>	5,337
Sales, marketing and distribution costs		(1,058)	(1,079)
Research and development		(606)	(401)
Administrative expenses (excluding share based payments)		(3,914)	(3,733)
Share based payments		(32)	(122)
Total administrative expenses		(3,946)	(3,855)
Reorganisation costs		(90)	-
<b>Operating (loss)/profit</b>		<b>(1,835)</b>	2
Finance income	<b>6</b>	<b>101</b>	192
Finance costs	<b>7</b>	<b>(151)</b>	(123)
<b>(Loss)/profit before tax</b>		<b>(1,885)</b>	71
<b>Taxation</b>	<b>8</b>	<b>110</b>	55
<b>(Loss)/profit for the year</b>		<b>(1,775)</b>	126
<b>Basic (loss)/earnings per share</b>	<b>9</b>	<b>(9.1)p</b>	0.6p

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

There was no recognised income or expenditure other than the (loss)/profit for the year and the preceding year, accordingly no Statement of Recognised Income and Expense has been prepared.

**Group Balance Sheet**  
**As at 30 September 2007**

	Notes	2007 £000's	2006 £000's
<b>Non current assets</b>			
Property, plant and equipment		8,504	8,355
Intangible assets		143	160
		<u>8,647</u>	<u>8,515</u>
<b>Current assets</b>			
Inventories		382	595
Trade and other receivables	10	1,456	2,273
Short term investments		275	275
Cash and cash equivalents		1,338	2,940
		<u>3,451</u>	<u>6,083</u>
<b>Total assets</b>		<u>12,098</u>	<u>14,598</u>
<b>Current liabilities</b>			
Bank loans and overdraft		(194)	(37)
Obligations under finance leases		(639)	(470)
Trade and other payables	11	(2,190)	(3,302)
		<u>(3,023)</u>	<u>(3,809)</u>
<b>Net current assets</b>		<u>428</u>	<u>2,274</u>
<b>Non current liabilities</b>			
Bank loans		(1,916)	(1,773)
Obligations under finance leases		(890)	(1,004)
		<u>(2,806)</u>	<u>(2,777)</u>
<b>Total liabilities</b>		<u>(5,829)</u>	<u>(6,586)</u>
<b>Net assets</b>		<u>6,269</u>	<u>8,012</u>
<b>Equity</b>			
Called up share capital		1,959	1,959
Share premium		9,634	9,634
Merger reserve		29,729	29,729
Other reserves		453	421
Income statement		(35,506)	(33,731)
<b>Total equity</b>		<u>6,269</u>	<u>8,012</u>

**Group Cash Flow Statement**  
**For the year ended 30 September 2007**

	Notes	2007 £000's	2006 £000's
<b>Net cash (outflow)/inflow from operating activities</b>	<b>12</b>	<b>(871)</b>	1,141
<b>Investing activities</b>			
Payments to acquire property, plant and equipment		<b>(1,069)</b>	(1,484)
Payments to acquire intangible assets		<b>(4)</b>	(157)
<b>Net cash outflow from investing activities</b>		<b>(1,073)</b>	(1,641)
<b>Financing activities</b>			
New borrowings		<b>487</b>	1,650
Repayment of borrowings		<b>(253)</b>	(1,100)
Lease finance acquired via sale and leaseback		<b>558</b>	504
Repayment of capital elements of finance leases		<b>(502)</b>	(372)
Increase in bank overdraft		<b>80</b>	-
Issue of ordinary shares		-	8
Purchase of treasury shares		-	(8)
Finance income		<b>63</b>	65
Interest on bank loans		<b>(45)</b>	(33)
Interest element of finance leases		<b>(106)</b>	(94)
<b>Net cash inflow from financing activities</b>		<b>282</b>	620
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(1,662)</b>	120
<b>Opening cash and cash equivalents</b>		<b>2,940</b>	2,760
<b>Effect of foreign exchange rates</b>		<b>60</b>	60
<b>Closing cash and cash equivalents</b>		<b>1,338</b>	2,940

**Group Statement of Changes in Equity  
As at 30 September 2007**

	<b>Share capital £000's</b>	<b>Share premium £000's</b>	<b>Merger reserve £000's</b>	<b>Other reserves £000's</b>	<b>Income statement £000's</b>	<b>Total £000's</b>
At 1 October 2005	1,951	9,634	29,729	307	(33,857)	7,764
Increase in share capital	8	-	-	-	-	8
Shares purchased	-	-	-	(8)	-	(8)
Share based payments	-	-	-	122	-	122
Profit for the year	-	-	-	-	126	126
<b>At 30 September 2006</b>	<b>1,959</b>	<b>9,634</b>	<b>29,729</b>	<b>421</b>	<b>(33,731)</b>	<b>8,012</b>
Share based payments	-	-	-	32	-	32
Loss for the year	-	-	-	-	(1,775)	(1,775)
<b>At 30 September 2007</b>	<b>1,959</b>	<b>9,634</b>	<b>29,729</b>	<b>453</b>	<b>(35,506)</b>	<b>6,269</b>

## Notes to the Financial Statements

### 1. General information

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Group will publish full financial statements that comply with IFRSs on 18 January 2008.

Cobra Biomanufacturing Plc is a company incorporated in the UK under the Companies Act 1985. The address of the registered office is The Stephenson Building, Keele Science Park, Keele, Staffordshire, ST5 5SP. The nature of the Group's operations and its principal activities are set out in note 5 and in the Financial Review.

This financial information is presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

At the date of signing this financial information, the following standards and interpretations which have not been applied in these financial statements were in issue but not effective:

IFRS 7	<i>Financial Instruments: Disclosures</i> ; and the Related Amendments to IAS 1 on Capital Disclosures
IFRS 8	<i>Operating Segments</i>
IFRIC 10	<i>Interim Financial Reporting and Impairment</i>
IFRIC 12	<i>Service Concession Arrangements</i>
IFRIC 13	<i>Customer Loyalty Programmes</i>
IFRIC 14/IAS 19	<i>The Limit on a Defined Benefit Asset and Minimum Funding Requirements and their Interactions</i>

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, other than additional disclosures in relation to the adoption of IFRS 7.

### 2. Significant accounting policies

**Basis of preparation:** The Group's previous financial statements have been prepared under UK Generally Accepted Accounting Practice (UK GAAP). However for the financial year ended 30 September 2007, the Group has decided to prepare its annual consolidated financial statements in accordance with IFRS as adopted by the European Union (EU) and implemented in the UK.

The presentation of financial information under IFRS is governed by IFRS 1. In some cases this will require the presentation of an item in a different position, or the use of a different description in the IFRS income statement or balance sheet to that adopted in the UK GAAP profit and loss account or balance sheet. These reclassifications have been described in the explanatory notes.

An explanation of how the transition from UK GAAP to IFRS has affected the Group's results and income statement for the year ended 30 September 2006, and the equity and balance sheets as at 1 October 2005 and 30 September 2006 is set out in note 13.

The financial information set out above does not constitute the Group's statutory accounts for the years ended 30 September 2007 or 2006, but is derived from those accounts. Statutory accounts for 2006 have been delivered to the Registrar of Companies and those for 2007 will be delivered following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237(2) or (3) Companies Act 1985.

**Basis of consolidation:** The Company has taken the exemption available under Section 230 of the Companies Act 1985 from presenting an income statement for the Company, Cobra Biomanufacturing Plc only. The consolidated financial statements comprise the accounts of Cobra Biomanufacturing Plc and its subsidiary undertakings (the Group), Cobra Biologics Limited, Cobra Oral Technology Limited, Cobra Biomanufacturing EBT Limited and Cobra Biomanufacturing LLC up to 30 September 2007.

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

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

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

**Intangible assets:** Are stated at cost less provisions for amortisation and impairments. Patents and know how are amortised over their estimated useful economic lives from the time they are available for use. The estimated useful lives for determining the amortisation charge are reviewed annually.

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

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

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

**Taxation:** The tax income represents the sum of the current tax receivable and deferred tax. The tax currently receivable is based on the taxable (loss)/profit for the year. Taxable losses differ from the net (loss)/profit as reported in the income statement because it excludes items of income and expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it

relates to items charged or credited direct to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

**Inventories:** Are stated in the balance sheet at the lower of cost incurred in bringing each element of inventory to its present location and condition, and net realisable value. Cost is calculated on a first in first out basis.

Raw materials: purchase cost on a first in first out basis

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

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

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

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

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

**Share based payments:** The Group has applied the requirements of IFRS 2 'Share Based Payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002, that were unvested at 1 October 2005.

The Group makes equity settled share based payments to its employees and directors. Equity settled share based payments are measured at fair value at the date of grant and expensed on a straight line basis over the vesting period of the award. At each balance sheet date, Cobra revises its estimate of the number of options that are expected to become exercisable.

The value of any shares or options granted is charged to the income statement over the period the shares vest, with a corresponding credit to reserves. When share options are exercised, the proceeds received, net of any transaction costs, are credited to share capital (nominal value) and share premium.

**Short term investments:** Assets in this category are held at amortised cost and are short term deposits with original maturities of more than three months.

**Cash and cash equivalents:** Include cash in hand and at bank and short term deposits with original maturities of three months or less.

**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 income statement.

**Financial instruments:** The Group uses financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Group does not currently hedge account, nor does it hold or issue derivative financial instruments for speculative purposes. The criteria for forward foreign currency contracts are:

- The instrument must be related to a firm foreign currency commitment;
- It must involve the same currency as the hedged item; and
- It must reduce the risk of foreign currency exchange rate movements on the Group's operation.

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

### 3 Critical accounting judgements and key sources of estimation uncertainty

#### *Critical judgements in applying the Group's accounting policies*

In the process of applying the Group's accounting policies, which are described in note 2, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

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

#### *Key sources of estimation uncertainty*

**Impairment of assets:** Determining whether the non current assets of the Group and the Company's investment in subsidiaries are impaired requires an estimation of the value in use of the cash generating units to which the assets have been allocated. The value in use requires management to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

Additionally, estimates and assumptions have been made by management in respect of the fair values of share options, the estimated useful life of tangible and intangible assets, accruals and prepayments.

### 4. Revenue

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

	<b>2007</b>	2006
	<b>£000's</b>	£000's
The rendering of services	<b>9,099</b>	10,145
License revenue	<b>95</b>	-
	<b>9,194</b>	10,145

Finance income is disclosed separately in the income statement and has been excluded from this note.

The licensing revenue generated in the year was received from a North American customer, whose product type was protein and the payment is associated with contract manufacturing services.

### 5. Business and geographical segments

The Group provides contract manufacturing services for the biopharmaceutical industry.

Management segments the Group's service contracts by revenue and gross profit contribution into business segments, defined by the customer's product type (i.e. protein, virus, DNA and Cell Line) and geographically, by the four key territories in which its customers are located (North America, Europe excluding UK, UK and Rest of the World) to provide some level of trend performance, recognising that there will always be a degree of variability in segmental performance due to the technical complexity and scientific uniqueness of each service contract.

Management does not allocate sales, marketing and distribution costs, research and development, administrative expenses, share based payments, finance income, finance costs, taxation and net assets to individual service contract or business or geographic segments, as they are regarded by the Group as central overheads/assets.

**Business segments:** The business segmental results for 2007 and 2006 are as follows:

<i>2007</i>	<b>Protein £000's</b>	<b>Virus £000's</b>	<b>DNA £000's</b>	<b>Cell Line £000's</b>	<b>Total £000's</b>
Revenue by customer product type	4,288	2,802	1,817	287	9,194
Cost of sales	(2,378)	(1,318)	(1,522)	(111)	(5,329)
<b>Gross profit</b>	<b>1,910</b>	<b>1,484</b>	<b>295</b>	<b>176</b>	<b>3,865</b>
Sales, marketing and distribution costs					(1,058)
Research and development					(606)
Admin exps (ex share based payments)					(3,914)
Share based payments					(32)
Total administrative expenses					(3,946)
Reorganisation costs					(90)
<b>Operating loss</b>					<b>(1,835)</b>
Finance income					101
Finance costs					(151)
<b>Loss before tax</b>					<b>(1,885)</b>
Taxation					110
<b>Loss for the year</b>					<b>(1,775)</b>
<b>Net assets</b>					<b>6,269</b>
<i>2006</i>	<b>Protein £000's</b>	<b>Virus £000's</b>	<b>DNA £000's</b>	<b>Cell Line £000's</b>	<b>Total £000's</b>
Revenue by customer product type	6,742	1,946	1,013	444	10,145
Cost of sales	(3,184)	(824)	(637)	(163)	(4,808)
<b>Gross profit</b>	<b>3,558</b>	<b>1,122</b>	<b>376</b>	<b>281</b>	<b>5,337</b>
Sales, marketing and distribution costs					(1,079)
Research and development					(401)
Admin exps (ex share based payments)					(3,733)
Share based payments					(122)
Total administrative expenses					(3,855)
<b>Operating profit</b>					<b>2</b>
Finance income					192
Finance costs					(123)
<b>Profit before tax</b>					<b>71</b>
Taxation					55
<b>Profit for the year</b>					<b>126</b>
<b>Net assets</b>					<b>8,012</b>

**Geographic segments:** the geographical segmental results for 2007 and 2006 are as follows:

<i>2007</i>	<b>North America £000's</b>	<b>Europe (excl UK) £000's</b>	<b>UK £000's</b>	<b>Rest of the World £000's</b>	<b>Total £000's</b>
Revenue by customer location	5,985	2,834	212	163	9,194
Cost of sales	(2,645)	(2,515)	(125)	(44)	(5,329)
<b>Gross profit</b>	<b>3,340</b>	<b>319</b>	<b>87</b>	<b>119</b>	<b>3,865</b>
Sales, marketing and distribution costs					(1,058)
Research and development					(606)
Admin exps (ex share based payments)					(3,914)
Share based payments					(32)
Total administrative expenses					(3,946)
Reorganisation costs					(90)
<b>Operating loss</b>					<b>(1,835)</b>
Finance income					101
Finance costs					(151)
<b>Loss before tax</b>					<b>(1,885)</b>
Taxation					110
<b>Loss for the year</b>					<b>(1,775)</b>
Net assets					<b>6,269</b>
<i>2006</i>	<b>North America £000's</b>	<b>Europe (excl UK) £000's</b>	<b>UK £000's</b>	<b>Rest of the World £000's</b>	<b>Total £000's</b>
Revenue by customer location	8,657	703	589	196	10,145
Cost of sales	(3,990)	(392)	(361)	(65)	(4,808)
<b>Gross profit</b>	<b>4,667</b>	<b>311</b>	<b>228</b>	<b>131</b>	<b>5,337</b>
Sales, marketing and distribution costs					(1,079)
Research and development					(401)
Admin exps (ex share based payments)					(3,733)
Share based payments					(122)
Total administrative expenses					(3,855)
<b>Operating profit</b>					<b>2</b>
Finance income					192
Finance costs					(123)
<b>Profit before tax</b>					<b>71</b>
Taxation					55
<b>Profit for the year</b>					<b>126</b>
Net assets					<b>8,012</b>

**6. Finance income**

	2007 £000's	2006 £000's
Bank interest receivable	63	65
Exchange rate gains	38	127
	<u>101</u>	<u>192</u>

**7. Finance costs**

	2007 £000's	2006 £000's
Interest payable on bank loans	45	33
Interest payable on finance leases	106	94
	<u>151</u>	<u>127</u>
Less: interest capitalised	-	(4)
	<u>151</u>	<u>123</u>

**8. Taxation**

The Group is entitled to Research and Development tax relief under Schedule 20 of the Finance Act 2000, in respect of the years ended 30 September 2006 and 2007.

	2007 £000's	2006 £000's
<b>Taxation on (loss)/profit on ordinary activities</b>		
Tax credit in relation to R&D claim	(100)	(55)
Adjustments in respect of previous periods	(10)	-
<b>Total tax</b>	<u>(110)</u>	<u>(55)</u>

The trading losses carried forward available for set off against future profits arising from the same trade amount to approximately £16.0m (2006: £14.2m)

**9. (Loss)/earnings per ordinary share**

	2007 £000's	2006 £000's
(Loss)/profit for the year	<u>(1,775)</u>	<u>126</u>
<b>(Loss)/earnings per share</b>		
Weighted average number of shares (000's)	<u>19,591</u>	<u>19,504</u>
(Loss)/earnings per share (pence)	<u>(9.1)</u>	<u>0.6</u>

**10. Trade and other receivables**

	<b>2007</b> <b>£000's</b>	2006 £000's
Trade receivables	<b>790</b>	1,445
Other receivables	<b>292</b>	319
Prepayments	<b>374</b>	509
	<b>1,456</b>	2,273

**11. Trade and other payables**

	<b>2007</b> <b>£000's</b>	2006 £000's
Trade payables	<b>1,085</b>	1,394
Taxation	<b>125</b>	121
Deferred income	<b>516</b>	1,195
Accruals and other provisions	<b>464</b>	592
	<b>2,190</b>	3,302

**12. Net cash (outflow)/inflow from operating activities**

	<b>2007</b> <b>£000's</b>	2006 £000's
Operating (loss)/profit	<b>(1,835)</b>	2
Reorganisation costs	<b>90</b>	-
Depreciation of property, plant and equipment	<b>850</b>	737
Amortisation of intangible fixed assets	<b>17</b>	1
Share based payments	<b>32</b>	122
Decrease/(increase) in inventories	<b>213</b>	(364)
Decrease/(increase) in trade and other receivables	<b>812</b>	(203)
(Decrease)/increase in deferred income	<b>(679)</b>	839
Decrease in trade and other payables	<b>(436)</b>	(42)
<b>Net cash (outflow)/inflow from operations</b>	<b>(936)</b>	1,092
R&D tax credit	<b>65</b>	49
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(871)</b>	1,141

**13. Explanation of the transition to IFRS**

For all periods up to and including the year ended 30 September 2006, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

In preparing this financial information, the Group has started from an opening balance sheet as at 1 October 2005 the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1, for the first time adoption of IFRS.

IFRS 1 allows first time adopters certain exemptions from the general requirements to retrospectively apply IFRS as effective for the 30 September 2005 year end. The optional exemptions taken by the Group are as follows:

**Business combinations:** The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations that took place prior to the transition date. Consequently, goodwill arising on business combinations before the transition date remains at its previous UK GAAP carrying value as at the date of transition.

**Share based payments:** The Group has adopted the exemption in IFRS 1 such that the application of IFRS 2 "Share Based Payments" applies only to awards made after 7 November 2002, which have not vested by 1 January 2005.

The principal impact of IFRS on these interim financial statements has been in relation to the following:

- a. There is a provision for holiday pay shown under administrative expenses.
- b. In accordance with IFRS 2, share based payments are measured at a fair value at the date of grant and expensed on a straight line basis over the vesting period of the award.
- c. Under IFRS Cobra has chosen to reclassify foreign exchange gains under finance income, under UK GAAP they were previously shown under administrative expenses.
- d. Under UK GAAP short term bank deposits were included in cash at bank including short term deposits, under IFRS, those with original maturities of less than three months are included in cash and cash equivalents and those with original maturities of three months or more are shown under short term investments.

The reconciliation between UK GAAP and IFRS for the Group's profit for the year and income statements for the year ended 30 September 2006 and the total equity and balance sheets as at 1 October 2005 (the date of transition) and 30 September 2006 are presented below:

**Reconciliation of profit for the year ended 30 September 2006**

		2006 £000's
<b>Profit after tax under UK GAAP</b>		<b>265</b>
Holiday pay accrual	<b>a</b>	(18)
Share based payments	<b>b</b>	(121)
<b>Profit after tax under IFRS</b>		<b>126</b>

**Reconciliation of income statement for the year ended 30 September 2006**

	UK GAAP £000's	IFRS effect £000's	IFRS £000's
Revenue	10,145	-	<b>10,145</b>
Cost of sales	(4,808)	-	<b>(4,808)</b>
Gross profit	<u>5,337</u>	-	<u><b>5,337</b></u>
Sales, marketing and distribution costs	(1,079)	-	<b>(1,079)</b>
Research and development	(401)	-	<b>(401)</b>
Admin expenses (ex share based payments)	<b>a &amp; c</b>		
Share based payments	<b>b</b>		
Total administrative expenses	(3,588)	(145)	<b>(3,733)</b>
	(1)	(121)	<b>(122)</b>
	(3,589)	(266)	<b>(3,855)</b>
<b>Operating profit</b>	<u>268</u>	(266)	<u><b>2</b></u>
Finance income	<b>c</b>	65	<b>192</b>
Finance costs	(123)	-	<b>(123)</b>
<b>Profit before tax</b>	<u>210</u>	(139)	<u><b>71</b></u>
Taxation	55	-	<b>55</b>
<b>Profit after tax</b>	<u>265</u>	(139)	<u><b>126</b></u>

**Reconciliation of equity as at 1 October 2005 (date of transition to IFRS) and 30 September 2006**

	1 October 2005 £000's	30 September 2006 £000's
<b>Total equity under UK GAAP</b>	<b>7,813</b>	<b>8,079</b>
Holiday pay accrual	<b>a</b>	(67)
<b>Total equity under IFRS</b>	<u><b>7,764</b></u>	<u><b>8,012</b></u>

**Reconciliation of balance sheet presentation at 1 October 2005 (date of transition to IFRS)**

		UK GAAP £000's	IFRS effect £000's	IFRS £000's
<b>Non current assets</b>				
Property, plant and equipment		7,495	-	<b>7,495</b>
		<u>7,495</u>	<u>-</u>	<u><b>7,495</b></u>
<b>Current assets</b>				
Inventories		233	-	<b>233</b>
Trade and other receivables		2,013	-	<b>2,013</b>
Short term investments	<b>d</b>	-	275	<b>275</b>
Cash and cash equivalents	<b>d</b>	3,036	(275)	<b>2,761</b>
		<u>5,282</u>	<u>-</u>	<u><b>5,282</b></u>
<b>Total assets</b>				
		<u>12,777</u>	<u>-</u>	<u><b>12,777</b></u>
<b>Current liabilities</b>				
Obligations under finance leases		(306)	-	<b>(306)</b>
Trade and other payables	<b>a</b>	(2,475)	(49)	<b>(2,524)</b>
		<u>(2,781)</u>	<u>(49)</u>	<u><b>(2,830)</b></u>
<b>Net current assets</b>				
		<u>2,501</u>	<u>(49)</u>	<u><b>2,452</b></u>
<b>Non current liabilities</b>				
Bank loans		(1,280)	-	<b>(1,280)</b>
Obligations under finance leases		(903)	-	<b>(903)</b>
		<u>(2,183)</u>	<u>-</u>	<u><b>(2,183)</b></u>
<b>Total liabilities</b>				
		<u>(4,964)</u>	<u>(49)</u>	<u><b>(5,013)</b></u>
<b>Net assets</b>				
		<u>7,813</u>	<u>(49)</u>	<u><b>7,764</b></u>
<b>Capital and reserves</b>				
Share capital		1,951	-	<b>1,951</b>
Share premium		9,634	-	<b>9,634</b>
Merger adjustment		29,729	-	<b>29,729</b>
Other reserves	<b>b</b>	-	307	<b>307</b>
Profit and loss account	<b>a &amp; b</b>	(33,501)	(356)	<b>(33,857)</b>
<b>Total equity</b>				
		<u>7,813</u>	<u>(49)</u>	<u><b>7,764</b></u>

## Reconciliation of balance sheet presentation at 30 September 2006

	UK GAAP £000's	IFRS effect £000's	IFRS £000's
<b>Non current assets</b>			
Property, plant and equipment	8,355	-	<b>8,355</b>
Intangible assets	160	-	<b>160</b>
	<u>8,515</u>	<u>-</u>	<u><b>8,515</b></u>
<b>Current assets</b>			
Inventories	595	-	<b>595</b>
Trade and other receivables	2,273	-	<b>2,273</b>
Short term investments	-	275	<b>275</b>
Cash and cash equivalents	3,215	(275)	<b>2,940</b>
	<u>6,083</u>	<u>-</u>	<u><b>6,083</b></u>
<b>Total assets</b>	<u>14,598</u>	<u>-</u>	<u><b>14,598</b></u>
<b>Current liabilities</b>			
Bank loans	(37)	-	<b>(37)</b>
Obligations under finance leases	(470)	-	<b>(470)</b>
Trade and other payables	(3,235)	(67)	<b>(3,302)</b>
	<u>(3,742)</u>	<u>(67)</u>	<u><b>(3,809)</b></u>
<b>Net current assets</b>	<u>2,341</u>	<u>(67)</u>	<u><b>2,274</b></u>
<b>Non current liabilities</b>			
Bank loans	(1,773)	-	<b>(1,773)</b>
Obligations under finance leases	(1,004)	-	<b>(1,004)</b>
	<u>(2,777)</u>	<u>-</u>	<u><b>(2,777)</b></u>
<b>Total liabilities</b>	<u>(6,519)</u>	<u>(67)</u>	<u><b>(6,586)</b></u>
<b>Net assets</b>	<u>8,079</u>	<u>(67)</u>	<u><b>8,012</b></u>
<b>Capital and reserves</b>			
Share capital	1,959	-	<b>1,959</b>
Share premium	9,634	-	<b>9,634</b>
Merger adjustment	29,729	-	<b>29,729</b>
Other reserves	(7)	428	<b>421</b>
Profit and loss account	(33,236)	(495)	<b>(33,731)</b>
	<u>8,079</u>	<u>(67)</u>	<u><b>8,012</b></u>
<b>Total equity</b>	<u>8,079</u>	<u>(67)</u>	<u><b>8,012</b></u>

**Basis of preparation and further information**

The Annual Report will be posted to shareholders on 29 February 2008. Further copies will be available on request from the Company Secretary, Cobra Biomanufacturing Plc, The Science Park, Keele, Staffordshire, ST5 5SP.

The Annual General Meeting will be held on 10 April 2008 at 11.00am at Buchanan Communications Limited, 45 Moorfields, London, EC2Y 9AE.

The financial information for the year ended 30 September 2007 does not constitute full accounts within the meaning of Section 240 of the Companies Act 1985. The figures for the year ended 30 September 2007 are audited. The preliminary announcement is prepared on the same basis as set out in the statutory accounts for the year ended 30 September 2007. Those accounts, upon which the auditors issued an unqualified opinion, will be delivered to the Registrar of Companies.

Statutory Accounts for 2007 will be delivered to the Registrar of Companies following the Annual General Meeting.

The board of directors of Cobra Biomanufacturing Plc approved the Preliminary Results on 18 January 2008.