

Therakos (UK) Limited

**Annual Report and Financial Statements
for the financial year ended
31 December 2017**

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THERAKOS (UK) LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

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THERAKOS (UK) LIMITED

DIRECTORS AND OTHER INFORMATION

DIRECTORS

Mr P.R. Colante
Mr T.J. Englese
Mr A.J. Fenlon
Mr C. Hirt
Mr G.J. McCutcheon

COMPANY SECRETARY

Intertrust (UK) Limited

COMPANY NUMBER

08246321

REGISTERED OFFICE

3 The Causeway
Lotus Park
Staines Upon Thames
England
TW18 3AG

AUDITORS

Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

BANKERS

Deutsche Bank AG
Winchester House
1 Great Winchester Street
London
EC2N 2DB

SOLICITORS

Reed Smith
The Broadgate Tower
20 Primrose Street
London
EC2A 2RS

THERAKOS (UK) LIMITED

STRATEGIC REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present their strategic report and financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The principal activity of the company is to provide services for the business of marketing, distributing and selling photopheresis systems (the products) for use by professional health care providers in connection with the treatment of immune based diseases.

The parent company, Therakos Inc., which is based in Bedminster, New Jersey, is a global leader in advanced technologies for extracorporeal photopheresis. Therakos' photopheresis systems are the only integrated systems for extracorporeal photopheresis, a leukapheresis-based immunomodulatory therapy that has been approved by the FDA for the palliative treatment of the skin manifestations of cutaneous T-cell lymphoma ("CTCL"). The systems are also approved as a therapy in Europe for such indications as acute and chronic graft versus host disease, solid organ transplant, CTCL and a variety of other immunological diseases. Therakos' unique system has a demonstrated track record of efficacy and safety and has been used globally for more than 25 years. On 25 September 2015 the Therakos Inc. business was acquired by Mallinckrodt Pharmaceuticals PLC, a business incorporated in Ireland and listed in the USA.

The European and Export business ("EUE"), which is conducted through Therakos (UK) grew by 14.2% in 2017 (2016: 22.1% growth). We are anticipating growth in 2018 and beyond, as our clinical and marketing initiatives continue to drive consumption of our products (new disease states and treatment regimes).

The company's key financial and other performance indicators for the year were as follows:

	Year ended 31 December 2017 Stg£	Year ended 31 December 2016 Stg£	+/-	Change
Turnover	51,088,526	44,745,297	+	14.2%
Operating profit/(loss)	976,160	1,286,565		
Profit/(loss) for the financial year	599,806	884,498		

PRINCIPAL RISKS AND UNCERTAINTIES

Competition risk

The challenges facing the EUE business include open system competition (although the company continues to take market share from the open systems), biologics, alternative treatments and general economic conditions (health care spend, budgetary constraints). Despite these challenges, we are confident that our EUE operations will grow in the future (through increases both in volume and price), and therefore continue to provide positive contributions to the group.

EU membership risk

Therakos (UK) is a UK registered company with significant EU sales and as such the potential exit of the UK from the EU may represent a financial risk. The exact nature and scope of this risk is difficult to establish without a clear definition of the EU exit parameters. Once these parameters are defined then we can and will assess this risk with more certainty. At the very minimum there is a likely impact on the tax and governance environment with an increased burden of compliance likely.

THERAKOS (UK) LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Legislative Risk

In the ordinary course of business, the company is subject to loss contingencies such as legal proceedings and claims arising from government requests, audits by regulatory authorities, and potential product liability claims. The company is not aware of any current or future claims at the moment. Although the outcome and costs of any asserted and unasserted claims are difficult to predict, the company does not expect the ultimate liability, if any, for any legal or regulatory matters to have a material adverse effect on its financial condition, results of operations, or cash flows. The company also has both a regulatory and compliance department who work closely to manage such risk.

Other risks and uncertainties

There are no contingent liabilities for the business. No other significant risks or uncertainties have been identified.

FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

Foreign Exchange Risk

The company has significant sales across most European markets and is therefore exposed to movements in exchange rates, most significantly movements between the pound and the euro. In future the company may consider taking steps to minimise the risk of exposure to foreign exchange differences, but it has not implemented any hedging activities to date.

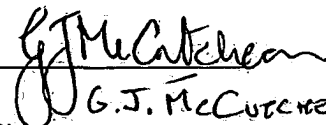
Liquidity risk

The company relies primarily on funding from other group entities and not third parties and hence is not exposed to significant liquidity risk.

Credit risk

Credit risk is assessed on an individual customer basis and reviewed regularly. The majority of Therakos (UK) customers are local or national government owned hospitals throughout Europe. As such they represent a relatively low level of credit risk.

On behalf of the board


G.J. McCutcheon
Director

28/9/18
Date

THERAKOS (UK) LIMITED

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

The directors present their report and the annual financial statements for the year ended 31 December 2017. There are no post balance sheet events to disclose.

DIRECTORS

The directors who served the company during the year and to the date of signing of the accounts are given on the company information page.

RESULTS AND DIVIDENDS

The results for the year are set out on page 11.

The directors do not recommend payment of a final dividend (2016: Stg£nil).

FUTURE DEVELOPMENTS

The company plans to achieve projected growth primarily by increasing the current installed base for its product, expanding geographically, and improving penetration in current indications and developing new indications.

Management expect revenue growth through the following strategies:

- Increasing sales to existing customers;
- Building new customer relationships and business with both government funded and private hospitals across Europe;
- Sales of supplies for treatment both of acute graft-versus-host disease (AGVHD) and chronic graft-versus-host disease (CGVHD) patients.
- Investigating the use of the photopheresis treatment for other conditions

RESEARCH AND DEVELOPMENT (R&D)

The company does not engage in any R&D activity.

All R&D is carried out by the company's parent company Therakos Inc.

BRANCHES OUTSIDE THE UK

The company has branches in Spain, Sweden and the Netherlands.

THERAKOS (UK) LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

AUDITOR

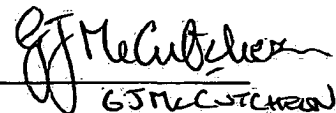
Each of the persons who is a director at the date of approval of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

The auditors, Deloitte Ireland LLP, Chartered accountants and Statutory audit firm, who were appointed during the period, have expressed their willingness to continue in office as auditor and a resolution for their re-appointment will be proposed at the next Annual General Meeting.

On behalf of the board


G. J. McCutcheon

Director

28/9/18
Date

THERAKOS (UK) LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 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 and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

Independent auditor's report to the members of Therakos UK Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Therakos UK Limited ('the company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and;
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 17, including a summary of significant accounting policies as set out in Note 1.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements for the financial year end 31 December 2017, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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Independent auditor's report to the members of Therakos UK Limited (continued)

Other information (Continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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Independent auditor's report to the members of Therakos UK Limited (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

Report on other legal and regulatory requirements

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 the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

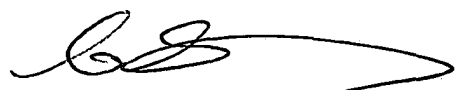
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Emer O'Shaughnessy, FCA (Senior statutory auditor)
For and on behalf of Deloitte Ireland LLP
Statutory Auditor
Deloitte and Touche House, Earlsfort Terrace, Dublin 2

Date: 28 September 2018

THERAKOS (UK) LIMITED**INCOME STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<i>Notes</i>	2017 Stg£	2016 Stg£
TURNOVER	2	51,088,526	44,745,297
Cost of sales		(35,126,061)	(32,785,434)
GROSS PROFIT		15,962,465	11,959,863
Administrative expenses		(14,986,305)	(10,673,299)
OPERATING PROFIT	3	976,160	1,286,565
Rental income		41,667	-
Interest income	5	8,080	288
Interest payable	6	(475,867)	(430,529)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		550,040	856,324
Tax on profit on ordinary activities	7	49,766	28,174
PROFIT FOR THE FINANCIAL YEAR	14	599,806	884,498

All results derive from continuing operations.

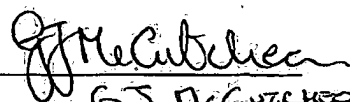
THERAKOS (UK) LIMITED

STATEMENT OF FINANCIAL POSITION

	Notes	2017 Stg£	2016 Stg£
Fixed Assets			
Intangible assets	8	4,241,777	6,362,664
Tangible assets	9	719,558	1,433,130
		<u>4,961,335</u>	<u>7,795,794</u>
Current Assets			
Inventories	10	7,813,741	3,410,268
Receivables	11	11,779,490	42,560,800
Cash		1,721,165	8,394,721
		<u>21,314,396</u>	<u>54,365,789</u>
Trade payables: amounts falling due within one year	12	<u>(19,959,914)</u>	<u>(56,378,586)</u>
Net current assets/(liabilities)		<u>1,354,482</u>	<u>(2,012,797)</u>
Total assets less current liabilities		<u>6,315,817</u>	<u>5,782,997</u>
Capital and reserves			
Called-up share capital [presented as equity]	13	200	200
Share premium account	14	8,999,900	8,999,900
Profit and loss account - deficit	14	(2,684,283)	(3,217,103)
SHAREHOLDERS' FUNDS		<u>6,315,817</u>	<u>5,782,997</u>

The financial statements were approved and authorised for issue by the Board of Directors on

28/9/18 and signed on its behalf by:


G.J. McCutcheon

Director

THERAKOS (UK) LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

	<i>Notes</i>	2017 Stg£	2016 Stg£
Profit for the financial year		599,806	884,498
Exchange differences on retranslation of foreign branches		(66,986)	9,377
Total comprehensive profit for the financial year		<u>532,820</u>	<u>893,876</u>

There are no changes to equity other than those presented in the statement of comprehensive income.

THERAKOS (UK) LIMITED

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

	<i>Notes</i>	Share capital Stg£	Share premium account Stg£	Profit and loss account Stg£	Total Stg£
Balance at 1 January 2016		200	8,999,900	(4,110,978)	4,889,122
Profit for the financial period		-	-	884,498	884,498
Foreign currency translation differences		-	-	9,377	9,377
Balance at 31 December 2016		200	8,999,900	(3,217,103)	5,782,997
Profit for the financial period		-	-	599,806	599,806
Foreign currency translation differences		-	-	(66,986)	(66,986)
Balance at 31 December 2017		200	8,999,900	(2,684,283)	6,315,817

THERAKOS (UK) LIMITED

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

1. ACCOUNTING POLICIES

Therakos (UK) Limited is a limited company incorporated in England and Wales. The registered office and principal place of business is 3 Lotus Park, The Causeway, Staines Upon Thames, Surrey, TW18 3AG.

1.1 Accounting convention

The financial statements are prepared under the historical cost convention.

The directors have reviewed a number of factors to enable them to make an accurate assessment of going concern. The assessment includes regular reviews of the current business performance and projections for the year to December 2017 and budgeting and future projections up to December 2019.

1.2 Compliance with accounting standards

The financial statements are prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and the requirements of the Companies Act 2006.

1.3 Exemptions adopted

The company has taken advantage of the exemption in Financial Reporting Standard 102 from the requirement to produce a statement of cash flows and the requirement to disclose remuneration of key management personnel as it is included within the consolidated accounts of Mallinckrodt plc please see note 17 for details.

The shareholders of the company have been informed of the intention to take these exemptions and have not objected.

1.4 Goodwill

Goodwill on acquisition is written off in equal annual instalments over its estimated useful economic life of 7 years. This period is consistent with the company's product lives of 7 to 12 years. Management also test for indicators of impairment each year.

THERAKOS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Rental Instruments Straight line over 7 years

1.6 Leasing

Rentals payable and receivable under operating leases are recognised on a straight line basis over the lease term. Lease incentives are recognised over the lease term on a straight line basis.

1.7 Inventories

Inventories are measured at lower of cost or selling price less cost to complete and sell. The cost of inventories includes purchase cost, conversion cost and other costs incurred to bring the inventory to its present location and condition.

1.8 Revenue recognition

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

The company recognises revenue when the earnings process is complete. Under FRS102 this is when the company has transferred to the buyer the significant risks and rewards of ownership of the goods, there is no control or managerial involvement over the goods, the amount of revenue can be reliably measured, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be reliably measured.

- Product sales are recognised once the goods have been delivered to the customer.
- Instrument and machine sales are recognised on installation.
- Service and equipment rentals revenues are spread equally over the annual contract or, when time and materials are supplied, after a visit has been completed.

Goodwill credit policy - the company estimates and recognises an accrued provision for Goodwill Credits as a percentage of gross sales based upon historical experience. The company also considers other factors, including significant market changes, manufacturing issues, and quality concerns which may impact future expected levels of credits issued. The company monitors actual goodwill credits issued on a regular basis and may record specific provisions for credits it believes are not covered by historical percentages.

Rebate policy - a provision for rebates is estimated and recorded in the same period when revenue is recognized based upon the terms of the contracts in effect with our wholesalers when the sales are made, historical experience, and other factors as appropriate.

Product returns policy - returns of the company's products are rare since they are generally sold without the right of return. The company's products also have limited competition since they are currently the only closed-system photopheresis products in the marketplace. Customers normally operate a weekly or monthly order cycle which minimises the consumable kits on hand at customer location. The company also monitors its commercial channels which further reduces the risk of returns. Based upon the historical experience of minimal returns (2.5%), the company generally will record a provision based on historical returns levels.

1.9 Pensions

The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the profit and loss account in the year they are payable.

THERAKOS (UK) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017

1. ACCOUNTING POLICIES (CONTINUED)

1.10 Deferred taxation

Deferred taxation is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is not provided in respect of unrelieved tax losses. Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.11 Foreign currency translation

The company operates using a number of functional currencies, including Euros, and Pounds Sterling, being the principal currencies adopted by the country of each branch; additionally the company issues invoices in the local currencies of its customers which are principally the above. Monetary assets and liabilities denominated in currencies other than the functional currency of each branch are translated at the rates of exchange ruling at the balance sheet date. Transactions in currencies other than the functional currency of each branch are recorded at the rate applicable on the day of the transaction. Exchange differences arising on translation are taken to the statement of income and retained earnings.

The presentational currency of the company is British Pounds, being the principal currency of the country of incorporation and the head office of the company. Monetary assets and liabilities held at the year end (including those of each branch) are translated into British Pounds at the rate of exchange ruling at the balance sheet date. Profit and loss transactions are translated into British Pounds at the average rate for the year. Exchange differences arising on translation are taken to the statement of comprehensive income.

1.12 Judgements and key estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Critical judgements in applying the entity's accounting policies

The company's management have made the following judgements in order to apply the accounting policies and present results which give a true and fair view of the company's financial position.

(i) Operating lease commitments

The company has entered into commercial property leases as a lessee and equipment leases as a lessor. The classification of such leases as operating or finance lease required the company to determine based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant rights and rewards of ownership of these assets and accordingly whether the lease required an asset and liability to be recognised in the statement of financial position.

(ii) Deferred tax asset

The company recognises a deferred tax asset in respect of tax losses and certain timing differences existing at the reporting date. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Management consider it probable that the company will begin reporting taxable profits in the future. The directors will review the position of the company and recognition criteria for deferred tax assets each year in order to ensure that the financial statements recognise all assets and liabilities necessary to present a true and fair view.

THERAKOS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

1. ACCOUNTING POLICIES (CONTINUED)

1.12 Judgements and key estimates (Continued)

b) Critical accounting estimates and assumptions

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Goodwill

The company establishes a reliable estimate of the useful life of goodwill arising on business combinations. This estimate is based on the useful life of the company's main products, and legal, regulatory or contractual provisions that can limit useful life and assumptions that market participants would consider in respect of similar businesses. Management considered the value of goodwill included at the year end for indications of impairment. No impairment provision was considered necessary and therefore goodwill is included at amortised cost.

(ii) Depreciation and the useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 9 for the carrying amount of the tangible fixed assets, and note 1.5 for the useful economic lives for each class of assets.

(iii) Inventory provisioning

When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 10 for the net carrying amount of the inventory and associated provision.

(iv) Impairment of debtors

The company makes an estimate of the recoverable value of trade and other debtors and makes specific provisions accordingly.

THERAKOS (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017****2. TURNOVER**

	Turnover	
	2017 Stg£	2016 Stg£
Class of business		
Product revenue	50,013,243	42,605,221
Non product revenue	1,075,283	2,140,077
	<u>51,088,526</u>	<u>44,745,297</u>

The business generates revenue through the sale of equipment, service and supplies.

Product Revenue includes Cellex and XTS instrument sales, procedural kits used to administer treatments and the Uvadex drug, a sterile solution drug used in conjunction with the XTS system.

Service revenue is derived primarily from maintenance contracts as well as on a per call basis on the equipment sold to customers or where services are provided on rental of equipment.

Geographical markets

	Turnover	
	2017 Stg£	2016 Stg£
Europe	40,273,063	35,375,877
United Kingdom	9,149,122	7,815,908
Rest of World	1,666,341	1,553,512
	<u>51,088,526</u>	<u>44,745,297</u>

3. OPERATING LOSS

Operating loss is stated after charging:

Amortisation of intangible assets	2,120,887	2,120,887
Depreciation of tangible assets	403,031	382,917
Loss on disposal of tangible assets	263,407	16,685
(Gain)/loss on foreign exchange transactions	(570,587)	(1,227,517)
Operating lease rentals		
- Land and buildings	59,668	51,904
	<u></u>	<u></u>

Auditors' remuneration

	2017 Stg£	2016 Stg£
Fees payable to the company's auditor for the audit of the financial statements	40,000	45,000
	<u>35,000</u>	<u>45,000</u>

THERAKOS (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017****4 DIRECTORS AND EMPLOYEES****Number of employees**

The average monthly number of employees during the year was:

	2017 Number	2016 Number
Finance and administration	4	4
Sales and services	19	13
	<u>23</u>	<u>17</u>

Employment costs

	2017 Stg£	2016 Stg£
Wages and salaries	2,987,911	2,408,214
Social security costs	481,852	236,520
Other pension costs	150,483	172,409
	<u>3,620,246</u>	<u>2,817,143</u>

Only one director actually received remuneration from the company which is set out as below. The remaining Directors of the company are also directors and or employees of other companies within the Mallinckrodt group and their services to the company do not occupy a significant amount of their time and as such the directors received no remuneration from the UK company during the year.

Director remuneration and remuneration of highest paid director:

	2017 Stg£	2016 Stg£
Emoluments	181,618	214,448
Pension contributions to Money Purchase Schemes	14,242	11,076
	<u>195,860</u>	<u>225,524</u>

5. INTEREST RECEIVABLE

	2017 Stg£	2016 Stg£
Bank interest	8,080	288
	<u>8,080</u>	<u>288</u>

THERAKOS (UK) LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

6. INTEREST PAYABLE	2017 Stg£	2016 Stg£
Intercompany interest payable	475,867	430,529
	<u> </u>	<u> </u>
7. TAXATION	2017 Stg£	2016 Stg£
Current tax:		
Foreign tax suffered	17,690	12,227
Foreign tax adjustments in respect of prior periods	10,806	(348)
Total current tax	<u>28,496</u>	<u>11,879</u>
Deferred tax:		
Origination and reversal of timing difference	(127,098)	(76,938)
Adjustment in respect of previous periods	34,000	21,883
Effects of changes in tax rates	14,836	15,002
Total deferred tax	<u>(78,262)</u>	<u>(40,053)</u>
Total tax credit per income statement	<u>(49,766)</u>	<u>(28,174)</u>
The charge for the year can be reconciled to the profit per the income statement as follows:		
Profit/(loss) for the period – continuing operations	550,040	856,324
	<u> </u>	<u> </u>
Tax on loss at standard UK tax rate of 19.25% (2016: 20.00%)	105,883	171,265
	<u> </u>	<u> </u>
Effects of:		
Expenses not deductible	103,960	115,114
Foreign tax		
Effects of group relief/other reliefs	(6,054)	(58)
Losses	(330,887)	(363,259)
Foreign tax movements		
Effects of overseas tax rates	17,690	12,227
Adjustment from previous periods	44,806	21,535
Tax rate changes	14,836	15,002
	<u>(49,766)</u>	<u>(28,174)</u>
	<u> </u>	<u> </u>
Income tax (Income) expense reported in the income statement	(49,766)	(28,174)

THERAKOS (UK) LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017**

7. TAXATION (CONTINUED)	2017 Stg£	2016 Stg£
Current Liabilities		
Overseas tax	13,307	6,680
	<u>13,307</u>	<u>6,680</u>
Deferred tax (assets) / liabilities		
Provision at start of period	(124,248)	(84,195)
Adjustment in respect of prior year's	34,000	21,883
Deferred tax charge to income statement for the period	(112,261)	(61,936)
Provision at end of period	<u>(202,509)</u>	<u>(124,248)</u>
Fixed asset timing differences	(200,700)	(123,013)
Short term timing differences	(1,809)	(1,235)
Losses	-	-
	<u>(202,509)</u>	<u>(124,248)</u>
Deferred tax (assets)		
Recoverable within 12 months	(1,809)	(1,235)
Recoverable after 12 months	(200,700)	(123,013)
	<u>(202,509)</u>	<u>(124,248)</u>
Deferred tax amounts not recognised (at the closing tax rate)		
Losses	<u>(52,240)</u>	<u>(294,747)</u>

THERAKOS (UK) LIMITED

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

8. INTANGIBLE FIXED ASSETS

	Goodwill Stg£
Cost	
At 1 January 2016 & at 31 December 2017	14,846,212
Amortisation	
At 1 January 2017	8,483,548
Charge for the year	2,120,887
At 31 December 2017	10,604,435
Net book value	
At 31 December 2017	4,241,777
At 31 December 2016	6,362,664

9. TANGIBLE FIXED ASSETS

	Leasehold improvements	Fixtures, fittings, computer & telephone equipment	Instruments rentals	Total
	Stg£	Stg£	Stg£	Stg£
Cost				
At 1 January 2017	105,349	184,093	2,430,002	2,719,444
Additions	-	-	-	-
Disposals	-	-	(519,824)	(519,824)
At 31 December 2017	105,349	184,093	1,910,178	2,199,624
Depreciation				
At 1 January 2017	105,349	184,093	996,872	1,286,314
On disposals	-	-	(209,284)	(209,284)
Charge for the year	-	-	403,031	403,031
At 31 December 2017	105,349	184,093	1,190,619	1,480,061
Net book value				
At 31 December 2017	-	-	719,558	719,558
At 31 December 2016	-	-	1,433,130	1,433,130

THERAKOS (UK) LIMITED

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

10. INVENTORIES	2017 Stg£	2016 Stg£
Work in progress	717,891	171,970
Finished goods and goods for resale	7,095,850	3,238,298

Inventories recognised as a cost of sales expense in the period totalled Stg£25,665,867 (2016: Stg£27,257,669).

11. RECEIVABLES	2017 Stg£	2016 Stg£
Trade receivables	5,394,293	5,551,664
Recoverable amounts owed by parent and fellow subsidiary undertakings	4,238,331	36,687,119
Other receivables	35,643	192,891
Prepayments and accrued income	87,208	4,878
Deferred tax asset (see note 7)	202,509	124,248
VAT	1,821,506	-
	<u>11,779,490</u>	<u>42,560,800</u>

The deferred tax asset included in receivables above is due after more than one year.

12. TRADE PAYABLES: amounts falling due within one year	2017 Stg£	2016 Stg£
Trade payables	500,907	56,469
Amounts owed to parent and fellow subsidiary undertakings	9,313,482	45,747,654
Corporation tax	17,990	16,262
Other taxes and social security costs	84,315	469,244
Loan from parent company	6,306,130	9,060,302
Accruals and deferred income	3,737,090	1,028,654
	<u>19,959,914</u>	<u>56,378,586</u>

The loan made by the parent company is repayable on demand. Interest is calculated on a daily basis at a variable rate of LIBOR plus 400 basis points. Other intercompany balances are technically repayable on demand but not attract interest.

THERAKOS (UK) LIMITED

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

12. SHARE CAPITAL	2017 Stg£	2016 Stg£
Allotted, called up and fully paid		
200 Ordinary shares of £1 each	200	200

Each ordinary share carries equal voting, dividend and capital repayment rights.

14. RECONCILIATION OF MOVEMENTS IN EQUITY	2017 Stg£	2016 Stg£
Profit/(loss) for the financial year	599,806	884,498
Other comprehensive (loss)/gain	(66,986)	9,377
Net increase/(decrease) in shareholders' funds	532,820	893,876
Opening shareholder's funds	5,782,997	4,889,122
Closing shareholder's funds	6,315,817	5,782,997

15. FINANCIAL COMMITMENTS

At 31 December 2017 the company was committed to making the following payments under non-cancellable operating leases:

	Land and buildings		Other	
	2017 Stg£	2016 Stg£	2017 Stg£	2016 Stg£
Operating leases payments due:				
Within one year	11,871	39,570	20,499	28,850
Between one and five years	-	9,893	2,952	23,531
	<u>11,871</u>	<u>49,463</u>	<u>23,451</u>	<u>52,381</u>

Operating lease payments made during the period and recognised as an expense are disclosed in note 3.

Operating lease agreements where the company is the lessor

The company leases photophoresis equipment for a contracted period of time with an option to purchase at the end of the period of lease.

Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2017 Stg£	2016 Stg£
Within one year	32,370	162,402
Between one and five years	2,951	314,253
	<u>35,321</u>	<u>476,655</u>

THERAKOS (UK) LIMITED

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

16. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

The company has taken advantage of the exemption from disclosing remuneration of key management personnel as detailed in note 1 and is not required under FRS102 to disclose transactions with wholly owned subsidiaries within the Mallinckrodt group. No other related party transactions have occurred.

17. CONTROL

The immediate parent company and the parent of the smallest group in which the company's results will be consolidated is Therakos, Inc., a company incorporated in the United States of America. The ultimate parent company, controlling party, and parent of the largest group in which the company's results will be consolidated is Mallinckrodt Plc, a company incorporated in the Republic of Ireland.

Mallinckrodt Plc prepares group financial statements and copies can be obtained from the Mallinckrodt website.