Registered number 302461

# Teva UK Limited

# Annual report and financial statements

# for the year ended 31 December 2007

# Teva UK Limited

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## Contents

# Teva UK Limited

## Directors and advisers

**Directors**
T Andriessen
J Beighton
P Horsman

**Secretary**
Gray's Inn Secretaries Limited
Five Chancery Lane
Cliffords Inn
LONDON
EC4A 1BU

**Independent auditors**
PricewaterhouseCoopers LLP
Charted Accountants and Registered Auditors
Benson House
33 Wellington Street
LEEDS
LS1 4JP

**Bankers**
Lloyds TSB PLC
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Gillingham Business Park
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**Registered office**
Leeds Business Park
18 Bruntcliffe Way
Morley
LEEDS
LS27 0JG

**Registered number**
302461

# Teva UK Limited

## Directors' report for the year ended 31 December 2007

The directors present their annual report and the audited financial statements for the year ended 31 December 2007.

**Principal activities**
The company's principal activity is the packaging and distribution of generic pharmaceutical products.

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Teva Pharmaceuticals Industries Limited. The directors have received confirmation that the parent company intends to support the company for at least one year after these financial statements are signed.

***Business review***
The UK generic market environment in which the company trades continues to be fiercely competitive as competition from new entrants on selected products puts pressure on market prices. The company's strategy is to provide the widest range of products to its customers and to encourage loyalty from its customers through excellent customer service and supply.

**Key performance indicators**
The management of the businesses within the Teva group of companies is undertaken on a business unit rather than legal entity basis. In the United Kingdom, the business of the distribution of pharmaceutical products includes activity which is included within the statutory accounts of Norton Healthcare Limited, a fellow UK company. Consequently, KPI's specifically related to Teva UK Limited are not used for the ongoing management of the sales and distribution businesses of Teva group with the UK. However, the board consider the following KPI's pertinent to Teva UK Limited.

| | 2007 | 2006 | Definition, method of calculation and analysis |
|---|---|---|---|
| Growth in sales (%) | **20.7** | (5.9) | Year on year sales growth expressed as a percentage |
| Gross margin (%) | **27.1** | 20.1 | Gross margin is the ratio of gross profit to sales as expressed as a percentage |
| Product availability (%) | **92** | 92 | Products which the worldwide group manufactures available to the company's customers expressed as a percentage |

The company continued with its successful new product launch strategy backed by its expertise and knowledge in gaining market authorisation for new products. Work continued during the year to bring to market products for future years as soon as patents expired on those products.

Although it is expected that trading conditions will remain very competitive, the directors believe the company is in a good position to benefit from further timely introductions of all significant new products and so consolidate its position as a major supplier in the UK generic market.

**Financial risk management**
The company's operations expose it to a variety of financial risks that include the effects of changes in interest rates, liquidity risk, credit risk and foreign exchange risk. The company seeks to limit the effects of such risks through the continuing support of its ultimate parent company.

The company is exposed to commodity price risk as a result of its operations. The company manages the risk through supply agreements which provide against such commodity price risk.

Interest rate risk arises as a consequence of borrowings from banks, fellow subsidiary and parent companies, the borrowings from which are at variable rates of interest. The company does not use derivative financial instruments to manage interest rate costs and as such no hedge accounting is applied.

The company manages liquidity risk by ensuring sufficient facilities are available for at least the next 12 months and enjoys the support of shareholders.

# Teva UK Limited

## Directors' report for the year ended 31 December 2007 (continued)

**Financial risk management (continued)**
The company has implemented policies that require appropriate credit checks on customers before sales are made and the amount of exposure to any individual counterparty is subject to a limit, which is assessed regularly by management.

The company is exposed to movements in foreign exchange rates as result of owning foreign assets and transactions. The company does not hedge against currency risks associated with such transactions.

**Principal risks and uncertainties**
The management of the business and the execution of the company strategy are subject to a number of risks.

The directors consider the key business risks and uncertainties affecting the company to relate to competition from other manufacturers and distributors of pharmaceutical products. The company seeks to mitigate this by the continual improvement in product range and supply chain management.

**Results and dividends**
The profit for the year, after taxation, amounted to £19,945,000 (2006: loss of £2,677,000).

The directors do not recommend the payment of a dividend (2006: £nil).

**Directors**
The directors who held office during the year and up to the date of signing of the financial statements were as follows:

T Andriessen
J Beighton
P Horsman
M Mann (resigned 1 February 2007)

**Employees**
The company has continued to retain and recruit the highest quality employees in its market. On going training is given to all employees relevant to their roles. Training programmes focus on key issues such as, health & safety, competition law, and customer service and stock handling.

During the year, employees were regularly provided with information regarding the financial and economic factors affecting the performance of the company and on other matters of concern to them as employees, through the medium of regular employee reports. Additionally, regular consultations took place with employee representatives so that the views of employees could be taken into account when making decisions which are likely to affect their interests.

Applications for employment from disabled persons are given full and fair consideration and, where practicable, employees who are disabled are given appropriate training whilst employed by the company. Every effort is made to continue the employment of people who become temporarily or permanently disabled.

The company encourages employees' participation in the group performance by the use of employee stock option schemes and a SAYE scheme.

***Creditor payment policy***
It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2007, the company had an average of 41 days purchases outstanding in trade creditors (2006: 61 days).

# Directors' report for the year ended 31 December 2007 (continued)

**Research and development**

The company does not undertake any research and development activity.

**Political and charitable donations**

During the year the company made no political donations (2006:£nil) and charitable donations of £2,168 (2006: £200) of which 2 exceeded £200, one of £660 being to a national charity and £1,000 to a local charity.

**Statement of directors' responsibilities**

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). The financial statements are required by law to 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 those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that 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 1985. 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.

**Audit information**

The directors confirm that, so far as they are aware, there is no relevant audit information (that is information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware and that each director has taken all reasonable steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Auditors**

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

**By order of the Board**

**P Horsman**
Director
13 OCTOBER 2008

# Teva UK Limited

## Independent auditors' report to the members of Teva UK Limited

We have audited the financial statements of Teva UK Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the statement of accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

**PricewaterhouseCoopers LLP**
Chartered Accountants and Registered Auditors
Leeds
13 October 2008

## Teva UK Limited

# Profit and loss account for the year ended 31 December 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| **Turnover** | 1 | **180,779** | 149,748 |
| Cost of sales | | **(131,810)** | (119,579) |
| **Gross profit** | | **48,969** | 30,169 |
| Net operating expenses | 2 | **(25,448)** | (31,633) |
| **Operating profit/(loss)** | | **23,521** | (1,464) |
| Interest receivable and similar income | 5 | **1,448** | 1,651 |
| Interest payable and similar charges | 6 | **(4,646)** | (2,391) |
| Other finance expenses | 17 | **(378)** | (473) |
| ***Profit/(loss) on ordinary activities before taxation*** | 7 | **19,945** | (2,677) |
| Tax on profit/ (loss) on ordinary activities | 8 | **-** | - |
| **Profit/(loss) for the financial year** | 22 | **19,945** | (2,677) |

All activities in the years above relate to continuing operations.

There is no significant difference between the profit/(loss) on ordinary activities before taxation and the profit/(loss) for the financial year stated above, and their historical cost equivalents.

# Statement of total recognised gains and losses for the year ended 31 December 2007

| | Note | 2007 £'000 | 2006 £'000 |
|---|---|---|---|
| Profit/(loss) for the financial year | | **19,945** | (2,677) |
| Actuarial gain on pension scheme | 17 | **558** | 1,143 |
| **Total recognised gains and losses relating to the year** | | **20,503** | (1,534) |

# Teva UK Limited

## Balance sheet as at 31 December 2007

| | Note | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 9 | **2,491** | 2,657 |
| Tangible assets | 10 | **14,475** | 14,075 |
| Investments | 11 | **533** | 573 |
| | | **17,499** | 17,305 |
| **Current assets** | | | |
| Stock | 12 | **56,122** | 37,798 |
| Debtors | 13 | **135,598** | 120,052 |
| Cash at bank and in hand | | **36,501** | 8,333 |
| | | **228,221** | 166,183 |
| **Creditors - amounts falling due within one year** | 14 | **(208,141)** | (163,024) |
| **Net current assets** | | **20,080** | 3,159 |
| **Total assets less current liabilities** | | **37,579** | 20,464 |
| **Creditors - amounts falling due after more than one year** | 15 | **(846)** | (481) |
| **Net assets excluding pension liability** | | **36,733** | 19,983 |
| Pension liability | 17 | **(8,319)** | (12,557) |
| **Net assets including pension liability** | | **28,414** | 7,426 |
| **Capital and reserves** | | | |
| Called up share capital | 18 | **340** | 340 |
| Share premium account | 21 | **24,965** | 24,965 |
| Profit and loss account | 21 | **3,109** | (17,879) |
| **Total shareholders' funds** | 22 | **28,414** | 7,426 |

The financial statements on pages 6 to 27 were approved by the board of directors on 13 October 2008 and were signed on its behalf by:

**P Horsman**
Director

# Teva UK Limited

## Statement of accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and proceeding year.

**Basis of accounting**
The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

The financial statements contain information about Teva UK Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under Section 228A of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent company, Teva Pharmaceutical Industries Limited, a company incorporated in Israel and whose accounts are publicly available. Consequently the company is also exempt under FRS 1, cash flow statements (Revised 1996), from publishing a cash flow statement.

**Fundamental accounting concept – going concern**
The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the ultimate parent company Teva Pharmaceuticals Industries Limited. The directors have received confirmation that the ultimate parent company intends to support the company for at least one year after these financial statements are signed.

**Intangible fixed assets**
Know-how licences and trademarks acquired for valuable consideration are capitalised at cost only where such expenditure is specifically identified with a marketable product. Amortisation is provided to write-off the cost of intangible fixed assets over the useful economic lives of the related products, which are between 5 and 20 years.

The carrying value of intangible fixed assets is periodically reviewed for events or changes in circumstances which indicate that the carrying value may not be recoverable and, where appropriate, provisions for impairment are made. The basis for determining impairment write down is by reference to the higher of net realisable value and value in use.

**Tangible fixed assets**
The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | % |
|---|---|
| Freehold buildings | 4 |
| Leasehold buildings | Period of lease |
| Plant and equipment | 10 – 20 |

Freehold land is not depreciated. Work in progress in respect of large capital projects for which costs are accumulated until the project is complete is not depreciated until the assets are brought into use, at which point the assets are transferred to the appropriate category.

The company undertakes a review for impairment of fixed assets if events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that the carrying amount exceeds the recoverable amount, that is the higher of net realisable value and value in use, the asset is written down to its recoverable amount. The value in use is determined from estimated discounted future net cash flows.

Additions to fixed assets are depreciated from the time when they are brought into use.

## Statement of accounting policies (continued)

**Investments**

Fixed asset investments are shown at cost less provision for impairment. The carrying value of investments is periodically reviewed for events or changes in circumstances which indicate that the carrying value may not be recoverable and provision made accordingly.

**Stocks and work in progress**

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out method and includes materials, direct labour and production overheads. Where necessary, provision is made for obsolete, slow moving and defective stocks.

**Finance and operating leases**

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitment is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or receive more, tax in the future.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into sterling at rates of exchange ruling at the balance sheet date. All profits and losses arising on foreign currency translation are dealt with in the profit and loss account.

**Turnover**

Turnover, which excludes value added tax and trade discounts, represents the value of goods supplied, and is recognised at the point of delivery of non-returnable goods to customers, or at the point of completion of the performance of services.

# Statement of accounting policies (continued)

**Development expenditure**
Development expenditure and expenditure on applications for patents, licences and trademarks is written off in the year in which it is incurred.

Payments to third parties to acquire existing product licenses are capitalised at cost in intangible fixed assets and amortised over the period in which the company expects to derive economic benefits from their ownership.

**Pension costs**
The company participates in the Teva UK Limited Retirement Benefits Scheme ("the Scheme") which offers both a defined contribution section and a funded defined benefit section to employees. All contributions are made to separately administered funds.

i) Defined benefit section
Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit actuarial method and are discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. A formal actuarial valuation of the scheme is undertaken triennially, the last valuation undertaken as at 1 April 2006.

The amount charged to operating profits, as part of staff costs, are the current service costs and gains and losses on settlements and curtailments. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount as other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Pension schemes' surpluses, to the extent that they are considered recoverable, or deficits are recognised in full and presented on the face of the balance sheet net of the related deferred tax.

ii) Defined contribution section
Contributions are charged to the profit and loss account as they become payable in accordance with employees' contracts to the defined contribution section of the Scheme employment. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The company provides no other post retirement benefits to its employees.

**Share-based payments**
The company's ultimate parent undertaking, Teva Pharmaceuticals Industries Limited, issues share options to certain employees which are measured at fair value and recognised as an expense in the profit and loss account with a corresponding increase in profit and loss reserve. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The fair values of these payments are measured at the dates of grant and are recognised over the period during which employees become unconditionally entitled to the awards. At each balance sheet date, Teva UK Limited revises its estimates of the number of options that are expected to vest and the company recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to profit and loss account reserve.

As the options are granted in the ultimate parent undertaking, the exercise of options does not impact on the financial statements of Teva UK Limited as the exercise does not result in any financial transactions that are reflected in these financial statements.

# Notes to the financial statements for the year ended 31 December 2007

## 1 Turnover

The company's turnover was all derived from its principal activity. Sales were made in the following geographical markets:

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| United Kingdom | **175,976** | 142,426 |
| Rest of Europe | **4,665** | 7,125 |
| Rest of the World | **138** | 197 |
| | **180,779** | 149,748 |

## 2 Net operating expenses

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Selling and distribution costs | **9,779** | 13,176 |
| Administrative expenses | **15,669** | 18,457 |
| | **25,448** | 31,633 |

## 3 Directors' emoluments

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Aggregate emoluments | **321** | 332 |

The emoluments of Mr P Horsman and Mr J Beighton were paid by Teva UK Limited. The emoluments of Mr T Andriessen and Mr M Mann were paid by Teva Pharmaceuticals Europe B.V.

Retirement benefits are accruing to two directors (2006: two) under the defined benefit section of the company's hybrid pension scheme. Two directors exercised share options during the period (2006: two).

The above amounts include the following in respect of the highest paid director.

| | **2007** | 2006 |
|---|---|---|
| | **£'000** | £'000 |
| Aggregate emoluments | **213** | 221 |
| Retirement benefits accrued under defined benefit pension scheme | **54** | 59 |

The highest paid director exercised share options during the period (2006: share options exercised).

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 4 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

| | 2007 Number | 2006 Number |
|---|---|---|
| **By activity** | | |
| Office and management | **201** | 177 |
| Packaging and distribution | **173** | 167 |
| | **374** | 344 |

In addition to the above, the average number of persons employed during the year on a temporary basis was 90 (2006: 55).

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Staff costs (for the above persons)** | | |
| Wages and salaries | **13,745** | 11,213 |
| Social security costs | **1,100** | 938 |
| FRS17 pension (credit)/cost (see note 17) | **(1,996)** | 1,104 |
| Employer's contributions to direct contribution pension schemes (see note 17) | **334** | 288 |
| **Staff costs** | **13,183** | 13,543 |

Included in wages and salaries is a total expense relating to share-based payments of £485,000 (2006: £759,000). All of this expense arises from transactions accounted for as equity-settled share-based payments.

## 5 Interest receivable and similar income

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| On bank deposits | **253** | 13 |
| Intercompany interest receivable | **1,195** | 1,638 |
| | **1,448** | 1,651 |

## Teva UK Limited

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 6 Interest payable and similar charges

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| On bank loans and overdrafts | **2,561** | 224 |
| On finance leases | **57** | 57 |
| Intercompany interest payable | **2,028** | 2,110 |
| | **4,646** | 2,391 |

### 7 Profit/ (loss) on ordinary activities before taxation

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| Profit on ordinary activities before taxation is stated after charging/(crediting): | | |
| Depreciation charge for the year: | | |
| Tangible owned fixed assets | **2,943** | 2,711 |
| Tangible fixed assets held under finance leases | **427** | 385 |
| Impairment of distribution centre assets | **-** | 1,371 |
| Amortisation of intangible assets | **166** | 166 |
| Impairment of investment | **40** | 40 |
| (Profit)/loss on disposal of fixed assets | **(167)** | 95 |
| Operating Leases – hire of plant and machinery | **117** | 30 |
| Operating Leases – hire of other assets | **123** | 332 |
| Waiver of balance due from subsidiary undertaking | **-** | 2,660 |

On 22 October 2007 the company signed a 20 year lease for a new head office and distribution premises and as a result an impairment charge of £1,371,000 was recognised in 2006 against the carrying value of owned distribution centre assets.

In 2006 the company waived amounts due from its subsidiary company APS/Berk Limited totalling £2,660,000.

## 7 Profit/ (loss) on ordinary activities before taxation (continued)

During the year the company obtained the following services from the group auditor at costs detailed below:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| **Audit services** | | |
| - Fees payable for statutory audit | **156** | 65 |
| **Non-audit services** | | |
| - Other services pursuant to legislation | **74** | 32 |
| - Services relating to taxation | **42** | 155 |
| - Services relating to information technology | **14** | 1 |

## 8 Tax on profit/ (loss) on ordinary activities

The tax charge for the year is £nil (2006: £nil).

The tax assessed for the year differs from the standard rate of corporation tax in the UK 30% (2006:30%). The differences are explained below:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Profit/ (loss) on ordinary activities before taxation | **19,945** | (2,677) |
| Profit/ (loss) on ordinary activities before taxation multiplied by standard taxation rate in the UK of 30% | **5,984** | (803) |
| Expenses not deductible for tax purposes – other | **30** | 59 |
| Expenses not deductible for tax purposes – impairment of assets | - | 411 |
| Capital allowances in excess of/(lower than) depreciation | **60** | (93) |
| Movement in tax losses not recognised | **(4,931)** | 408 |
| Other timing differences | **(1,143)** | 18 |
| Total current tax charge | - | - |

The standard rate of corporation tax in the UK changes to 28% with effect from 1 April 2008. The effect of the change on the unrecognised deferred tax asset is disclosed in note 16.

# Teva UK Limited

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 9 Intangible assets

| | Product licences £'000 |
|---|---|
| **Cost** | |
| **At 31 December 2007** and 1 January 2007 | **3,321** |
| **Accumulated amortisation** | |
| At 1 January 2007 | 664 |
| Charge for the year | 166 |
| **At 31 December 2007** | **830** |
| **Net book value** | |
| **At 31 December 2007** | **2,491** |
| At 31 December 2006 | 2,657 |

## 10 Tangible assets

| | Land and buildings £'000 | Plant and equipment £'000 | Work in progress £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2007 | 6,533 | 20,979 | 1,670 | 29,182 |
| Additions | - | 954 | 2,828 | 3,782 |
| Reclassifications | 986 | 2,821 | (3,807) | - |
| Disposals | - | (509) | - | (509) |
| **At 31 December 2007** | **7,519** | **24,245** | **691** | **32,455** |
| **Accumulated depreciation** | | | | |
| At 1 January 2007 | 3,333 | 11,774 | - | 15,107 |
| Charge for the year | 383 | 2,987 | - | 3,370 |
| Disposals | - | (497) | - | (497) |
| **At 31 December 2007** | **3,716** | **14,264** | - | **17,980** |
| **Net book value** | | | | |
| **At 31 December 2007** | **3,803** | **9,981** | **691** | **14,475** |
| At 31 December 2006 | 3,200 | 9,205 | 1,670 | 14,075 |

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 10 Tangible assets (continued)

The net book value of tangible fixed assets includes an amount of £961,000 (2006: £478,000) in respect of assets held under finance leases.

Land and buildings at net book value comprise:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Freeholds | 2,461 | 1,910 |
| Short leaseholds | 1,342 | 1,290 |
| | 3,803 | 3,200 |

The net book value of land at 31 December 2007 amounted to £500,000 (2006: £500,000).

## 11 Investments

| | Interests in subsidiary undertakings £'000 | Shares in ultimate parent undertaking £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| **At 31 December 2007** and 1 January 2007 | 250 | 403 | 653 |
| **Provision** | | | |
| At 1 January 2007 | - | 80 | 80 |
| Provided in year | - | 40 | 40 |
| **At 31 December 2007** | - | **120** | **120** |
| **Net book value** | | | |
| **At 31 December 2007** | **250** | **283** | **533** |
| At 31 December 2006 | 250 | 323 | 573 |

The directors believe that the carrying value of investments is supported by their underlying net assets.

| Name of subsidiary | Country of incorporation | Description of shares held | Percentage held by company % |
|---|---|---|---|
| APS/Berk Limited | Great Britain | Ordinary £1 shares | 74% |
| Berk Pharmaceuticals Limited | Great Britain | Ordinary £1 shares | 100% |
| APS Berk Trustee Limited | Great Britain | Ordinary £1 shares | 100% |

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 11 Investments (continued)

The principal business activities of these subsidiaries are:

- APS/Berk Limited - distribution of pharmaceutical products
- Berk Pharmaceuticals Limited - dormant
- APS Berk Trustee Limited - corporate trustee for the APS/Berk Employee Benefit Trust

The investment in shares in the ultimate parent undertaking represents 51,806 (2006: 51,806) ordinary shares in Teva Pharmaceuticals Industries Limited, acquired at a cost of £11.08 each and held by the APS/Berk Employee Benefit Trust in order to satisfy obligations under the company's Save As You Earn Scheme. The value of the shares at 31 December 2007 was £632,000 (2006: £244,000) and dividends receivable were waived. The cost to the company of providing options under the scheme is being amortised over the performance period of the associated scheme.

## 12 Stocks

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Raw materials and consumables | **2,023** | 2,373 |
| Work in progress | **10,811** | 7,107 |
| Finished goods and goods for resale | **43,288** | 28,318 |
| | **56,122** | 37,798 |

## 13 Debtors

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| Trade debtors | **63,438** | 55,683 |
| Amounts owed by parent and fellow subsidiary undertakings | **69,871** | 62,759 |
| Other debtors | **306** | 306 |
| Prepayments and accrued income | **1,983** | 1,304 |
| | **135,598** | 120,052 |

Interest is receivable on a loan due from the immediate parent company Teva UK Holdings Limited at a rate of 5.75% per annum (2006: 5.75% per annum), otherwise there is no interest receivable on intercompany balances. No security is held for non-trading amounts owed by group undertakings which have no fixed date of repayment and are repayable on demand.

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 14 Creditors – amounts falling due within one year

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| Bank loans and overdrafts | **39,441** | 39,401 |
| Trade creditors | **13,091** | 16,360 |
| Amounts owed to parent and fellow subsidiary undertakings | **142,217** | 96,401 |
| Amounts owed to subsidiary undertakings | **381** | 250 |
| Obligations under finance leases | **333** | 247 |
| Other taxation and social security | **9,100** | 7,571 |
| Accruals and deferred income | **3,578** | 2,794 |
| | **208,141** | 163,024 |

Interest is payable to Teva Pharmaceutical Works at a rate of LIBOR plus 0.5% (2006: LIBOR plus 0.5%) on amounts owed on trade balances and to Teva Pharmaceutical Industries Limited on a loan due at a rate of 6.04% (2006: 6.04%), otherwise there is no interest payable on intercompany balances. No security is held for non-trading amounts owed by group undertakings which are repayable on demand.

## 15 Creditors – amounts falling due after more than one year

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| Obligations under finance leases | **846** | 481 |

The net finance lease obligations to which the company is committed are:

| | 2007<br>£'000 | 2006<br>£'000 |
|---|---|---|
| In one year or less | **333** | 247 |
| Between two and five years inclusive | **846** | 481 |
| | **1,179** | 728 |

## 16 Deferred taxation

No deferred taxation has been recognised in the financial statements. The unrecognised deferred tax asset is as follows:

| | Amount unrecognised | |
|---|---|---|
| | **2007** | 2006 |
| | **£'000** | £'000 |
| Tax effect of timing differences because of: | | |
| Capital allowances in excess of depreciation | **1,154** | 530 |
| Losses | **211** | (4,083) |
| Other timing differences | **(2,329)** | (3,806) |
| **Deferred tax asset** | **(964)** | (7,359) |

On 21 March 2007 the phase out of Industrial Buildings Allowances (IBA's) from April 2008 was announced. Had the proposed change been enacted at 31 December 2007 it would have reduced the company's deferred tax asset by £1,167,000.

Changes in the UK corporation tax rates are effective from 1 April 2008. Deferred tax relating to temporary differences which are expected to reverse prior to 1 April 2008 is measured at 30% and deferred tax relating to temporary differences expected to reverse after 1 April 2008 is measured at the tax rate of 28%, as these are the tax rates that will apply on reversal. The effect of these changes is to reduce the company's deferred tax asset by £96,000.

The directors consider that it is unlikely that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has not been recognised in these financial statements.

## 17 Pension and similar obligations

The company participates in the Teva UK Limited Retirement Benefits Scheme ("the Scheme") which offers both a defined contribution section and a funded defined benefit section to employees. The defined contribution section provides benefits in relation to the contributions paid in and the investment returns accumulated for the members. The defined benefit section provides benefits based on final pensionable salary. The assets of the Teva UK Scheme are held in a separate trustee administered fund.

i) Defined benefit section

The actuarial valuation of the defined benefit section scheme at 1 April 2006 was updated to 31 December 2007 by a qualified actuary, using a set of assumptions consistent with those required under FRS 17. During the year, total contributions of £2,062,000 (2006: £1,426,000) were paid to the defined benefit section of the Scheme, of which £1,841,000 (2006: £1,282,000) were made by the company.

The disclosures below relate only to assets and liabilities in respect of the defined benefit section of the Scheme. Assets and liabilities relating to the money purchase section and members' additional voluntary contributions invested on a money purchase basis have been excluded.

The final salary section of the Scheme is closed to new entrants. Under the projected unit method, the current service cost can be expected to increase as the members of the scheme approach retirement.

## Teva UK Limited

## Notes to the financial statements for the year ended 31 December 2007 (continued)

### 17 Pension and similar obligations (continued)

The major assumptions used by the actuary were:

| | **2007** | 2006 | 2005 |
|---|---|---|---|
| Rate of increase in earnings | **4.45%** | 4.10% | 4.00% |
| Rate of increase in pensions in payment | **3.45%** | 3.10% | 3.00% |
| Discount rate | **5.60%** | 5.20% | 4.75% |
| Inflation assumption | **3.45%** | 3.10% | 3.00% |

The net pension liability which is recognised in the balance sheet under FRS 17 is as follows:

| | **2007** | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | **Expected rate of return** | **£'000** | Expected rate of return | £'000 | Expected rate of return | £'000 |
| Equities | **6.6%** | **13,842** | 6.6% | 13,625 | 6.1% | 12,754 |
| Bonds | **4.6%** | **2,012** | 4.6% | 1,368 | 4.1% | 1,372 |
| Cash and other investments | **5.6%** | **3,138** | 5.2% | 1,482 | 4.75% | 693 |
| Total market value of assets | | **18,992** | | 16,475 | | 14,819 |
| Present value of liabilities | | **(27,311)** | | (29,032) | | (28,458) |
| Deficit in the scheme | | **(8,319)** | | (12,557) | | (13,639) |
| Related deferred tax asset | | **-** | | - | | - |
| Net pension liability | | **(8,319)** | | (12,557) | | (13,639) |

The following amounts are recognised in the performance statements under the requirements of FRS 17:

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| *Operating profit:* | | |
| Current service cost | **(823)** | (1,104) |
| Past service cost | **2,819** | - |
| **Total operating credit/(charge)** | **1,996** | (1,104) |
| *Other financial expenses:* | | |
| Expected return on pension scheme assets | **1,039** | 885 |
| Interest on pension scheme liabilities | **(1,417)** | (1,358) |
| **Other finance expenses** | **(378)** | (473) |

## 17 Pension and similar obligations (continued)

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| *Statement of total recognised gains and losses (STRGL):* | | |
| Actual return less expected return on pension scheme assets | **(383)** | 182 |
| Experience gains and losses arising on pension scheme liabilities | **-** | (86) |
| Changes in assumptions underlying the present value of the scheme liabilities | **941** | 1,047 |
| **Actuarial gain recognised in STRGL** | **558** | 1,143 |

An analysis of the movement in the scheme deficit is as follows:

| | 2007 £'000 | 2006 £'000 |
|---|---|---|
| *Deficit in scheme at beginning of the year* | **(12,557)** | (13,639) |
| Movement in year: | | |
| Current service cost | **(823)** | (1,014) |
| Contributions | **2,062** | 1,426 |
| Past service cost | **2,819** | - |
| Other finance expenses | **(378)** | (473) |
| Actuarial gain | **558** | 1,143 |
| **Deficit in scheme at end of the year** | **(8,319)** | (12,557) |

The company has agreed that an amount of £1,200,000 will be paid to the scheme to eliminate the funding shortfall identified in the actuarial valuation of 1 April 2006. The funding shortfall is anticipated to be eliminated by 1 February 2014.

## 17 Pension and similar obligations (continued)

A history of experience gains and losses is presented below:

| | **2007** | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Difference between the expected and actual return on scheme assets:** | | | | | |
| Amount £'000 | **(383)** | 182 | 1,849 | 386 | 905 |
| Percentage of scheme assets (%) | **(2.0%)** | 1.1% | 12.5% | 3.3% | 9.1% |
| **Experience gains and losses on scheme liabilities:** | | | | | |
| Amount £'000 | - | (86) | 2,175 | 88 | 61 |
| Percentage of present value of scheme liabilities (%) | - | (0.3%) | 7.6% | 0.4% | 0.4% |
| **Total amount recognised in STRGL:** | | | | | |
| Amount £'000 | **558** | 1,143 | (2,964) | (2,743) | (1,783) |
| Percentage of present value of scheme liabilities (%) | **2.0%** | 3.9% | (10.4%) | (12.6%) | (10.5%) |

ii) Defined contribution scheme

During the year, total contributions of £475,000 (2006: £334,000) were paid to the defined benefit section of the Scheme, of which £334,000 (2006: £288,000) were made by the company. At 31 December 2007 contributions of £31,405 (2006: £20,895) were outstanding.

## 18 Called up share capital

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| **Authorised** | | |
| 1 ordinary share of £1 | - | - |
| 1,000,000 deferred shares of £1 each | **1,000** | 1,000 |
| | **1,000** | 1,000 |
| **Allotted and fully paid** | | |
| 340,000 (2006: 340,000) deferred shares of £1 each | **340** | 340 |

The holders of deferred shares are not entitled to any participation in the profits or assets of the company, other than on a liquidation or other return of capital after the holders of every other class of shares in the capital of the company have received the sum of £1 million in respect of each share (other than deferred shares) held by them and then only to the extent of £2 per deferred share. None of the deferred shares carry any right to receive notice of or attend and vote at any general meeting of the company.

The company has the power and authority at any time to purchase all or any of the deferred shares for an aggregate consideration of £1 which shall be applied for the benefit of the company.

## 19 Share based payments

The company makes share based payments under two separate arrangements:

### a) SAYE Scheme

Employees who have been employed continuously by the company one month prior to the date of grant are entitled to participate. The options are granted with a fixed exercise price equal to closing NASDAQ share price at the date of grant. The contractual life of an option is 3.5 years. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations.

The table below summarises the last share-based payment awards under this scheme that were made in 2004. Early exercise of options is not possible.

| | |
|---|---|
| Date of grant | 9 December 2004 |
| Number granted | 64,731 |
| Fair value | £979,907 |
| Share price at grant | £15.03 |
| Exercise price (pence) | £12.32 |
| Expected volatility (%pa.) | 28.0% |
| Expected dividends (%pa.) | 1.0% |
| Risk-free interest rate (%pa.) | 3.16% |
| Contractual life | 3.5 years |
| Vesting period | 3 years |
| Expected Life | 3.5 years |

### b) Employee stock option scheme

Certain senior employees of the company are entitled to share options in the ultimate parent company. Options are granted with a fixed exercise price equal to the closing NASDAQ share price at the date of grant. The contractual life of an option is 5-7 years. Options granted will become exercisable in equal proportions on the second, third and fourth anniversary of the date of grant. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations.

There are no other features, other than those stated above which require incorporation into the measurement of fair value. No modifications were made to the options since the date of grant.

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 19 Share based payments (continued)

The table below summarises the share-based payment awards under this scheme that were made in 2007 and 2006, together with the assumptions that have been used to calculate the fair values.

| | **2007** | 2006 |
|---|---|---|
| Date of grant | **18 December 2007** | 7 December 2006 |
| Number granted | **104,600** | 62,138 |
| Fair value | **£2,351,408** | £1,019,063 |
| Share price at grant | **£22.48** | £16.40 |
| Exercise price (pence) | **£22.48** | £16.40 |
| Expected volatility (%pa.) | **24%** | 25% |
| Expected dividends (%pa.) | **0.9%** | 0.9% |
| Risk-free interest rate (%pa.) | **3.7%** | 4.4% |
| Contractual life | **5-7 years** | 5-7 years |
| Vesting period | **3 years** | 3 years |
| Expected life | **5 years** | 5 years |

Expected volatility is based on an analysis of the parent company's historical daily share price volatility. The risk-free interest rate is based on observed interest rates appropriate for the expected term of the stock options granted.

At 31 December 2007, options over 330,426 (2006:245,918) shares in the Company's ultimate parent were outstanding and comprised:

| | Year of grant | Exercise period | Exercise price £ | **Number of Options 2007** | Number of options 2006 |
|---|---|---|---|---|---|
| Employee Stock Option Plan | 2003 | 5 -7 years | 25.86 | **8,502** | 15,298 |
| Employee Stock Option Plan | 2003 | 5 -7 years | 34.42 | **4,501** | 4,501 |
| Employee Stock Option Plan | 2004 | 5 -7 years | 17.37 | **41,584** | 45,000 |
| SAYE Scheme | 2004 | 3 - 3.5 years | 12.32 | **64,731** | 64,731 |
| Employee Stock Option Plan | 2006 | 5 -7 years | 24.77 | **48,750** | 54,250 |
| Employee Stock Option Plan | 2007 | 5 -7 years | 16.40 | **57,758** | 62,138 |
| Employee Stock Option Plan | 2007 | 5 -7 years | 22.48 | **104,600** | - |
| | | | | **330,426** | 245,918 |

# Teva UK Limited

# Notes to the financial statements for the year ended 31 December 2007 (continued)

## 19 Share based payments (continued)

The table below shows the movement in the number and weighted average exercise prices ('WAEP') of options *outstanding:*

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | **Number** | **Weighted average exercise price** | Number | Weighted average exercise price |
| Outstanding at 1 January | **245,918** | **£17.60** | 228,315 | £18.06 |
| Granted | **104,600** | **£22.48** | 62,138 | £16.40 |
| Forfeited | **(10,298)** | **£18.96** | (31,002) | £17.98 |
| Exercised | **(9,794)** | **£18.87** | (13,533) | £19.08 |
| Outstanding at 31 December | **330,426** | **£18.72** | 245,918 | £17.60 |
| Exercisable at 31 December | **50,045** | **£19.57** | 24,900 | £16.82 |

The weighted average fair value of options granted in the year was £2,351,000 (2006: £1,019,000).

The table below shows the range of exercise prices and weighted average remaining contractual life for options outstanding at the year end.

| | 2007 | | | | 2006 | | | |
|---|---|---|---|---|---|---|---|---|
| **Range of exercise prices** | **Weighted average exercise price** | **Number of shares** | **Weighted average remaining life (years)** | | Weighted average exercise price | Number of shares | Weighted average remaining life (years) | |
| | | | **Expected** | **Contractual** | | | Expected | Contractual |
| £15.00- £20.00 | £16.02 | 164,073 | 2.5 | 4.5 | £16.05 | 171,869 | 3.5 | 5.5 |
| £20.00 - £25.00 | £22.82 | 153,350 | 3.0 | 4.0 | £24.77 | 54,250 | 3.9 | 5.9 |
| £25.00- £30.00 | £25.65 | 8,502 | 0.2 | 2.2 | £25.65 | 15,298 | 1.2 | 3.2 |
| £30.00 - £35.00 | £34.09 | 4,501 | 0.7 | 2.7 | £34.09 | 4,501 | 1.70 | 3.70 |

The weighted average share price during the period for options exercised over the year was £18.87 (2006: £17.59). The total charge for the year relating to employee share based payments was £485,000 (2006: £759,000) all of which related to the equity settled based payment transactions. After deferred tax the total charge was £485,000 (2006: £759,000).

## 20 Bearer warrant

On 23 July 1996, a resolution was passed to create a bearer warrant in respect of a US dollar share. The bearer warrant was issued at par on 23 July 1996. The rights attached to the bearer warrant are: to receive notice of and attend any general meeting of the company; to vote at any such meeting with one vote in respect of every share; to receive dividends as determined by the directors from time to time; and to receive amounts up to a maximum of £1,000,000 in respect of proceeds from a liquidation or winding up. The bearer warrant is convertible into a US dollar share at the option of the holder.

## 21 Share premium account and reserves

| | **Share premium account £'000** | **Profit and loss account £'000** |
|---|---|---|
| At 1 January 2007 | 24,965 | (17,879) |
| Profit for the financial year | - | 19,945 |
| Actuarial gain on pension scheme | - | 558 |
| Adjustment in respect of employee share schemes | - | 485 |
| **At 31 December 2007** | **24,965** | **3,109** |
| Pensions deficit | - | (8,319) |
| Profit and loss reserve excluding pension deficit | - | 11,428 |

## 22 Reconciliation of movements in shareholders' funds

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Profit/ (loss) for the financial year | **19,945** | (2,677) |
| Actuarial gain on pension scheme | **558** | 1,143 |
| Share option expense | **485** | 759 |
| Net increase/ (reduction) to shareholders' fund | **20,988** | (775) |
| Opening shareholders' funds | **7,426** | 8,201 |
| Closing shareholders' funds | **28,414** | 7,426 |

## 23 Capital commitments

| | **2007 £'000** | 2006 £'000 |
|---|---|---|
| Capital expenditure that has been contracted but not provided for in the financial statements | **391** | 1,188 |

### 24 Financial commitments

At 31 December 2007 the company had annual commitments under non-cancellable operating leases expiring as follows:

| | 2007 Land and buildings £'000 | 2007 Other £'000 | 2006 Land and buildings £'000 | 2006 Other £'000 |
|---|---|---|---|---|
| Expiring within one year | - | 34 | - | 27 |
| Expiring between two and five years | - | 53 | - | 48 |
| Expiring in over five years | 280 | - | 308 | - |
| | 280 | 87 | 308 | 75 |

### 25 Related party transactions

The company is a wholly owned subsidiary of Teva Pharmaceutical Industries Limited, whose consolidated financial statements are publicly available for inspection. Consequently, the company has taken advantage of the exemption available under the terms of FRS 8 not to disclose related party transactions with group companies.

### 26 Parent companies

The immediate parent undertaking is Teva UK Holdings Limited, a company incorporated in England and Wales.

The directors regard Teva Pharmaceutical Industries Limited, a company incorporated in Israel, as the ultimate parent company and ultimate controlling party.

The largest group in which the results of the company are consolidated is that of the ultimate parent company. Copies of the ultimate parent's consolidated financial statements may be obtained from Science Based Industries Campus, Har Hotzvim, P O Box 1142, Jerusalem 91010, Israel.