

Cephalon (UK) Limited
Company Registration Number 3207745

Accounts for the year ended 31 December 2006
together with Directors' Report

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Cephalon (UK) Limited

Directors' report for the year ended 31 December 2006

The Directors present their report on the affairs of Cephalon (UK) Limited ("the Company") together with the audited financial statements and independent auditors' report for the year ended 31 December 2006

Principal Activities

The Company was established to provide pharmaceutical services to the markets in which it operates and to further the presence of its parent company in Europe. These services involve the promotion and selling of products owned by the group (Cephalon, Inc. Group) or by third parties.

Business Review

Throughout the year the Company continued to maximise sales in its three key brands:
Provigil® - for use in treating excessive daytime sleepiness associated with Narcolepsy and Obstructive Sleep Apnoea,
Actiq® - for use in treating breakthrough cancer pain,
Gabitril® - for use in certain forms of Epilepsy.

Turnover has increased by £1.3 million mainly due to strong sales of Provigil® and Actiq®. Expectations are that this will continue. Administrative expenditure remains under control and is £300,000 lower than 2005. The UK is recognized as one of Cephalon's key markets and the necessary investment will continue to be made available in order to sustain long term growth in the region.

The Company also continued to integrate the UK business operations with Cephalon Limited (formerly known as Zeneus Pharma Limited).

In November 2000, the Company entered into various agreements with another UK pharmaceutical company, pursuant to which the parties agreed to collaborate in relation to the marketing and distribution of Provigil® and four other products. With effect from 31 December 2005, the collaboration was terminated by mutual consent resulting in the decline in other operating income.

With effect from 1 September 2006, the Company's Irish business was transferred to Cephalon Pharma (Ireland) Ltd (formerly known as Zeneus Pharma (Ireland) Ltd), a company registered in Ireland – No 114734.

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business.

Future Developments

All business operations as of the end of 2006 are continuing as of the date of this report.

The integration of Cephalon UK Limited and Cephalon Limited (formerly Zeneus Pharma Limited) will be completed this year with the relocation of both UK business operations to offices in Welwyn Garden City during 2nd Quarter, 2007.

Effective 1 January 2007, all assets and liabilities of Cell Therapeutics (UK) Limited (Registered in England – No 03947284) were acquired by the Company, pursuant to a Business Purchase Agreement signed 13 February 2008 and further amendments made to the agreement by both parties on 10 June 2008. The main activity of Cell Therapeutics (UK) Ltd was the sales and promotion of Trisenox® which is used for patients with acute promyelocytic leukaemia.

Cephalon (UK) Limited

Directors' report for the year ended 31 December 2006 (continued)

Results and Dividends

The loss for the year is £6,886,100 (2005 loss of £5,915,700) and is disclosed on page 7 of the financial statements. The Directors do not propose a dividend for the year to 31 December 2006 (2005 Nil)

Directors

The Directors who served during the year and up to the date of signing these accounts are shown below -

Kevin Buchi	(USA)	
Robert Roche Jnr	(USA)	
John Dawson	(UK)	Resigned 30 June 2007
Alain Aragues	(France)	Appointed 13 March 2007
David Williams	(UK)	Appointed 9 November 2007
Huw Williams	(UK)	Appointed 7 January 2008

Research & Development

During the year, the Company incurred cost of £1,518,200 (2005 £2,776,700) on research and development activities relating to clinical trials

Charitable Donations

No charitable donations were made in the year (2005 £1,478)

Branches outside of the UK

The Company also operated in the Republic of Ireland until 31 August 2006 when all business was transferred to Cephalon Pharma (Ireland) Ltd (formerly known as Zeneus Pharma (Ireland) Ltd)

Auditors

The Company has dispensed with the requirement to reappoint auditors annually and, PricewaterhouseCoopers LLP having indicated their willingness to do so, will continue in office as auditors of the Company

Cephalon (UK) Limited

Directors' report for the year ended 31 December 2006 (continued)

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity and interest rate risk. The Company has in place controls that seek to minimise the adverse effects of financial risk on the Company's financial performance. The Company does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

The policies set by the Board of Directors are implemented by the Company's finance department.

Credit risk

The Company has implemented policies that require appropriate credit checks on customers before sales are made. Outstanding debt and receipts are monitored closely and any issues are highlighted and resolved promptly.

Liquidity risk

The company generates positive net cashflows from operations. The Company currently has no requirements for debt finance but maintains sufficient funds for operations. The Directors see no reason why this will change in the near future.

Interest rate cash flow risk

The Company has interest bearing assets in the form of cash balances. The Company does not have any interest bearing liabilities and the Directors believe that this will continue to be the case.

Price risk

The Company's exposure to price risk is minimal due to the fact that all products are purchased from affiliated companies. There are agreements in place for the supply of these products.

Post Balance Sheet

On 20 December 2007, the Company sold its shareholding in Cephalon GmbH to Cephalon International Holdings, Inc. The transaction was conducted at book value, i.e. €25,000 (Notes 9 and 23).

Cephalon (UK) Limited

Directors' report for the year ended 31 December 2006 (continued)

Statement of Directors' Responsibilities in respect of the Annual Report and the financial statements

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 the 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 the profit and loss of the Company for that year.

In preparing those financial statements, the Directors are required to

- Select suitable accounting policies and then apply them consistently, except for changes arising from the adoption of new accounting standards during the year (see Note 1),
- 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 and
- 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 to 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.

Disclosure of Information to Auditors

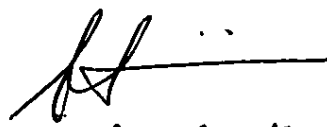
Each of the persons who is a director at the date of approval of this report confirms that

- 1 so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- 2 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s 234ZA of the Companies Act 1985.

BY ORDER OF THE BOARD

Cephalon (UK) Limited
Registered Address
1 Albany Place
Hyde Way
Welwyn Garden City
Hertfordshire
AL7 3BT


Name *David Williams*
Director
Date *20th June 2008*

Cephalon (UK) Limited

Independent auditors' report to the members of Cephalon (UK) Limited

We have audited the financial statements of Cephalon UK Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The Director's 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 explanation 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.

Cephalon (UK) Limited

Independent auditors' report to the members of Cephalon (UK) Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the statement of the Company's affairs as at 31 December 2006 and of its loss 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
Chartered Accountants and Registered Auditors
Uxbridge

Date 23 June 2008

Cephalon (UK) Limited

Profit and loss account for the year ended 31 December 2006

	Note	2006 £'000	2005 Restated (Note 1) £'000
Turnover	2	9,845 0	8,550 0
Cost of sales		(4,968.2)	(3,744 5)
Gross profit		4,876.8	4,805 5
Administrative expenses		(14,804.7)	(15,110 6)
Litigation settlement	3	-	(4,137 5)
Administrative expenses		(14,804.7)	(19,248 1)
Other operating income	2	2,643 9	9,608 6
Operating loss	4	(7,284 0)	(4,834 0)
Net interest receivable	6	397.9	81 8
Loss from ordinary activities before taxation		(6,886 1)	(4,752 2)
Tax charge on profit from ordinary activities	7	-	(1,163 5)
Loss for the financial year		(6,886 1)	(5,915 7)

There are no material differences between the loss on ordinary activities before taxation and the retained loss for the year stated above, and their historic cost equivalents

All figures are derived from continuing operations

Statement of total recognised gains and losses for the year ended 31 December 2006

	Note	2006 £'000	2005 Restated £'000
Loss for the year		(6,886.1)	(5,915 7)
Other recognised gains (losses)	17	53 1	(17 5)
Prior year adjustment (refer to Note 1)		(526 4)	-
Total losses recognised for the year		(7,359 4)	(5,933 2)

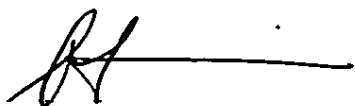
Cephalon (UK) Limited

Balance sheet as at 31 December 2006

	Note	2006 £'000	2005 Restated (Note 1) £'000
Fixed assets			
Tangible assets	8	260.9	334.9
Investments	9	15.4	15.4
		276.3	350.3
Current assets			
Stocks	10	2,566.4	3,241.0
Debtors	11	8,959.6	4,053.8
Cash at bank and in hand		861.2	10,464.8
		12,387.2	17,759.6
Current liabilities			
Creditors amounts falling due within one year	12	(6,081.7)	(4,928.9)
Net current assets		6,305.5	12,830.7
Total assets less current liabilities		6,581.8	13,181.0
Creditors amounts falling due after more than one year	13	(40.5)	(60.3)
Provision for liabilities and charges	14	(89.6)	(155.7)
Net assets		6,451.7	12,965.0
Capital and reserves			
Called-up share capital	15	5,000.0	5,000.0
Share premium account	16	19,950.0	19,950.0
Capital contribution from parent undertaking	16	846.1	526.4
Profit and loss account	16	(19,344.4)	(12,458.3)
Foreign currency translation reserve	16	-	(53.1)
Total equity shareholders' funds	17	6,451.7	12,965.0

The accompanying notes on pages 9 to 21 form an integral part of the financial statements

The financial statements on pages 7 to 21 were approved by the Board of Directors on
20th June 2008 and were signed on its behalf by


Name David Williams
Director
Date 20th June 2008

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006

1. Accounting policies for company

Basis of accounting and preparation

The accounts are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable United Kingdom accounting standards. The principal accounting policies are set out below and are consistently applied except for changes arising on the adoption of new standards.

a Accounting Standards

The Company has now adopted FRS20 ("Share-based Payments") in these financial statements. The adoption of this standard represents a change in accounting policy requiring a prior year adjustment. The impact of the change in the accounting policy has been to increase the Administrative Expenses in respect of the related share based remuneration expenses with an equivalent increase in the Capital Contribution from parent undertaking. In addition, the Company has recorded a deferred tax asset in respect of these share based remuneration charges. The adjustment has resulted in the following:

- i The loss for the year ended 31 December 2005 of £4,487,400 being increased by £264,800 in respect of share based remuneration charges and an increase in Capital Contribution of an equivalent amount.
- ii An additional charge for the share based remuneration in the year ended 31 December 2006 of £319,700 and an equivalent increase in the Capital Contribution reserve, and
- iii A reduction in the Profit and Loss account reserves as at 1 January 2005 of £261,600 in respect of share based remuneration charges and a corresponding increase in Capital Contribution reserve.

These adjustments have not been offset by any deferred tax assets in the financial statements as the Directors consider that it is less likely than not there will be sufficient taxable profits in the future such as to realise the deferred tax asset.

b. Tangible fixed assets

Fixed assets are shown at original historical cost less accumulated depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over their estimated useful economic life. These are as follows for each class of asset,

Fixtures and fittings	- between 2 and 8 years
Office equipment	- 2 years
Building improvements	- 6 years or to next lease review

c. Investments

Investments held as fixed assets are shown at cost less provisions for their permanent impairment.

d. Stocks

Stocks are valued at the lower of cost and net realisable value, using the first-in-first-out (FIFO) method. Provision is made for any obsolete, slow-moving or defective items where appropriate.

e Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation.

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

1. Accounting policies for company (continued)

f. Cash flow statement

The Company is a wholly-owned subsidiary of Cephalon, Inc and is included within the consolidated financial statements of Cephalon, Inc, which are publicly available (see Note 21). Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (Revised 1996).

g. 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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements.

A deferred tax asset should only be recognised when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

h. Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included in the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the year and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations and on foreign currency borrowings are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

i. Hire purchase and leasing commitments

The Company has no hire purchase or finance leases at the balance sheet date. Rentals paid under operating leases are charged to the profit and loss account on a straight-line basis over the lease term, even if the payments are not made on such a basis.

j. Research and development

Research and development expenditure is written off as incurred.

k. Turnover

Turnover represents amounts receivable for goods provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Revenue is recognised to the extent that all the economic benefits will flow to the Company. Revenue from the sale of products is recognised when the goods are received by the customer.

The Company believes that all revenue will be collectible, other than that for which specific provision is made.

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

1. Accounting policies for company (continued)

l Other Operating Income

Other operating income comprises of amounts charged for regulatory, research and development, administration and miscellaneous head office functions performed on behalf of another group company. All third party related income was comprised of amounts charged for marketing, selling and promotional activities and this activity ceased at the end of 2005.

m. Pension Costs

The Company provides benefits through defined contribution pension arrangements, the assets of which are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund.

n National insurance on share options

Provision is made for the potential employer's national insurance (or equivalent) charge on the Cephalon, Inc. Inland Revenue unapproved share options issued to employees but not exercised, by reference to the potential gain on these options using the share price as at the balance sheet date. The national insurance charge is spread over any vesting year associated with each option in accordance with Urgent Issues Task Force abstract 25 "National insurance contributions on share option gains".

2. Turnover and other operating income

	2006 £'000	2005 £'000
Turnover		
Arising in the UK	8,581.4	7,403.9
Arising in the Republic of Ireland	1,263.6	1,146.1
	9,845.0	8,550.0
Other operating income		
Services supplied to third parties	-	5,439.4
Services supplied to parent	2,599.6	4,110.7
Services supplied to affiliates	44.3	58.5
	2,643.9	9,608.6

The Company has only one class of business. The turnover analysis is based on the country in which the order is received. If it were based on the country in which the customer is located £811k (2005 £597k) of UK would be shown as Continental Europe.

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

3. Exceptional item

	2006 £'000	2005 £'000
Exceptional Item – Administrative expenses	-	4,137.5

The exceptional item related to a litigation settlement. In July 2005 the Company commenced patent infringement proceedings against Tenlec Pharma Limited and Teva UK Limited following the grant of a UK product License for a generic form of Modafinil in June 2005. The infringement proceedings against Teva UK Limited and Tenlec Pharma Limited were subsequently withdrawn as part of a settlement between the Cephalon group of companies and the Teva group of companies. As part of the settlement, certain payments were made by Cephalon group companies to Teva group companies in respect of, inter alia, a non-exclusive worldwide license to certain intellectual property rights held by Teva group companies related to Modafinil, and the savings that would be made by Cephalon group companies in terms of the avoidance of costs, and expenditure of time and resources associated with prosecuting such litigation.

4. Operating loss

Operating loss is stated after charging

	2006 £'000	2005 £'000
Operating lease rentals – plant and machinery	173.9	243.7
Operating lease rentals – other	286.9	279.6
Depreciation on owned assets	140.6	104.2
Research and development expenditure	1,518.2	2,776.6
Auditors' remuneration – audit services	75.1	63.5
Auditors' remuneration – non-audit services	15.0	17.5

The non-audit services provided by PricewaterhouseCoopers LLP comprise mainly tax compliance and advisory services.

5. Staff costs

Particulars of employees and directors' remuneration are shown below

The average monthly number of employees (excluding non-executive directors) was as follows

	2006 No	2005 No
Administration	19	14
Clinical Research & Medical Affairs	7	10
Regulatory	4	4
Sales and Marketing	40	45
	70	73

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

5. Staff costs (continued)

	2006	2005
	£'000	Restated £'000
Staff costs		
Wages and salaries	4,177.8	4,262.2
Social security costs	552.7	627.4
Other pension costs	405.1	354.2
Share based remuneration (refer to Note 22)	319.7	264.8
	5,455.3	5,508.6

Included within social security costs is a movement on the provision for employers' national insurance contributions (or equivalent) due on vested unapproved stock options in Cephalon, Inc that had not been exercised as at 31 December 2006. The total charge, based on the closing stock price was £25,200 (2005 £133,100) (see Note 14)

Directors' Remuneration

Remuneration in respect of directors (being that of the highest paid director) of the Company was as follows

	2006	2005
	£'000	Restated £'000
Emoluments	291.1	263.4
Money purchase contributions	28.8	27.7
Share based remuneration (refer to Note 22)	71.4	52.5
Total remuneration	391.3	343.6

Retirement benefits are accruing to one (2005 one) director under a money purchase scheme. Kevin Buchi and Robert Roche Jr are remunerated by a fellow group undertaking in respect of their services to group companies. The portion that relates to the Company is £ nil (2005 £ nil)

During the year, two (2005 two) Directors exercised options over stock in Cephalon, Inc, the ultimate parent company. The highest paid director did not exercise options during 2006 (2005 no stock options exercised)

6. Net interest receivable

	2006	2005
	£'000	£'000
Bank interest receivable	397.9	84.0
Bank interest payable	-	(2.2)
Net interest receivable	397.9	81.8

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

7. Tax on profit on ordinary activities

	2006 £'000	2005 £'000
UK corporation tax charged at 30%	-	-
Adjustment in respect of prior years	-	(39 5)
Total current tax	-	(39 5)
Deferred tax – reversal of recognition of deferred tax asset	-	1,203 0
Tax charge for year	-	1,163 5

The tax assessed for the year is higher (2005 higher) than the standard rate of corporation tax in the UK (30%). The reasons for this difference are as follows

	2006 £'000	2005 Restated £'000
Loss on ordinary activities before tax	(6,886.1)	(4,752 2)
Tax thereon at UK rate of 30%	(2,065.8)	(1,425 7)
Effect of		
Expenses not deductible for tax	139.3	130 7
Fixed asset timing differences	32.0	-
Other tax timing differences	(23.0)	7 7
Group losses not paid for	117.1	-
Additional research & development relief	(55 0)	(47 5)
Overprovision in prior years	-	(39 5)
Creation / (Utilisation) of tax losses	2,086 9	1,441 7
Gain on employee share options	(231 5)	(106 9)
Current tax charge for the year	-	(39 5)

Deferred Tax Asset (unrecognised)

	2006 £'000	2005 Restated £'000
Difference between accumulated depreciation and amortisation and capital allowances	61.5	29 5
Other timing differences	18.6	41 6
Deferred tax related to share based payments (see Note 1)	34 9	25 4
Tax losses	4,438.7	2,451 8
Deferred Tax Asset	4,553 7	2,548 3

The Directors' do not consider that it is more likely than not 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. With the change in the rate of corporation tax from 30% to 28% effective from April 2008, this deferred tax asset will be valued at £4,343,400

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

8. Tangible fixed assets

	Fixtures & Fittings £'000	Office Equipment £'000	Building Improvements £'000	Total £'000
Cost				
At 1 January 2006	3 1	88 1	510 4	601 6
Additions	-	51 4	15 2	66 6
At 31 December 2006	3 1	139.5	525.6	668 2
Accumulated Depreciation				
At 1 January 2006	0 9	44 4	221 4	266 7
Charge for year	0 7	43 7	96 2	140 6
At 31 December 2006	1.6	88 1	317 6	407 3
Net book value at 31 December 2006	1.5	51.4	208 0	260 9
Net book value at 31 December 2005	2 2	43 7	289 0	334 9

9. Investments

	£'000
Cost	
At 1 January and 31 December 2006	15.4

Investments comprise a 0.25% share in Cephalon GmbH, a German Pharmaceutical company and represent issued ordinary share capital of €25,000. The Company sold its shareholding in Cephalon GmbH to Cephalon International Holdings, Inc. on 20 December 2007.

10. Stocks

	2006 £'000	2005 £'000
Work in progress	922.4	1,287 3
Finished goods and goods for resale	1,644.0	1,953 7
	2,566.4	3,241 0

There is no material difference between the replacement cost and net book value of stock.

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

11. Debtors

	2006	2005
	£'000	Restated £'000
Amounts falling due within one year		
Trade debtors	3,204.6	3,113.1
UK Corporation tax	54.5	47.0
Amounts due from affiliates	5,290.2	327.1
Other debtors	-	2.0
Prepayments	410.3	564.6
	8,959.6	4,053.8

Amounts due from affiliates are unsecured, bear interest at LIBOR + 2% and have no fixed repayment date

12. Creditors: amounts falling due within one year

	2006	2005
	£'000	£'000
Trade creditors	233.8	410.7
Amounts due to affiliates	227.8	137.0
Amounts due to Parent Company	3,228.1	1,843.0
Other taxation and social security	759.1	830.0
Accruals	1,632.9	1,708.2
	6,081.7	4,928.9

Amounts due to related parties are unsecured, non-interest bearing, and repayable on demand

13. Creditors: amounts falling due after more than one year

	2006	2005
	£'000	£'000
Amounts due to affiliates	40.5	60.3

Amounts due to related parties are unsecured and non-interest bearing. Terms of payment are summarised in the table below

	2006	2005
	£'000	£'000
Between one and two years	19.9	19.9
Between two and five years	20.6	40.4
	40.5	60.3

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

14. Provisions for liabilities and charges

	2006 £'000	2005 £'000
At 1 January	155.7	29.8
Charged during the year	25.2	133.1
Utilised during the year	(91.3)	(7.2)
At 31 December	89.6	155.7

The provision relates to employers' National Insurance Contributions which will become payable upon exercise of Cephalon, Inc share options, which are part of a scheme unapproved by UK Inland Revenue

All share options granted vest at a rate 25% each year over four years, on the anniversary date of their original grant. All options must be exercised within ten years of their original grant date, otherwise they lapse

The amount of the provision is dependent on the ultimate parent's share price at the date of exercise of their options. The provision has been calculated based on the share price at the balance sheet date of US\$70.41 (2005 US\$64.74) and on the assumption that all employees will exercise their stock options at the earliest opportunity. The rate of employers' National Insurance Contributions for the UK is taken to be 12.8% (2005 12.8%)

15. Called up share capital

	2006 £'000	2005 £'000
Authorised		
5,000,000 ordinary shares of £1.00 each	5,000	5,000
Allotted and fully paid		
5,000,000 ordinary shares of £1.00 each	5,000	5,000

16. Reserves

	Share premium account £'000	Capital contribution from parent £'000	Profit and loss account £'000	Foreign currency translation £'000
At 1 January 2005 (as previously stated)	19,950.0	-	(6,281.0)	(35.6)
Prior year adjustment (see Note 1)	-	261.6	(261.6)	-
At 1 January 2005 (as restated)	19,950.0	261.6	(6,542.6)	(35.6)
Loss for 2005 (previously reported)	-	-	(5,650.9)	-
Foreign exchange loss arising in the year	-	-	-	(17.5)
Share based remuneration for 2005	-	264.8	(264.8)	-
Year ended 31 December 2005 (restated)	-	264.8	(5,915.7)	(17.5)
At 1 January 2006 (restated)	19,950.0	526.4	(12,458.3)	(53.1)
Loss for the year	-	-	(6,886.1)	-
Foreign exchange gain arising in the year	-	-	-	53.1
Share based remuneration for 2006	-	319.7	-	-
At 31 December 2006	19,950.0	846.1	(19,344.4)	-

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Notes to the accounts for the year ended 31 December 2006 (continued)

17. Reconciliation of movements in equity shareholders' funds

	2006 £'000	2005 Restated £'000
Loss for the financial year, including share based remuneration charges	(6,886 1)	(5,915 7)
Foreign exchange gain /(loss)	53 1	(17 5)
Share based remuneration	319 7	264 8
Net deduction to equity shareholders' funds	(6,513 3)	(5,668 4)
Opening equity shareholders' funds	12,965.0	18,633 4
Closing equity shareholders' funds	6,451.7	12,965 0

18. Capital commitments

The Company has no capital commitments as at 31 December 2006 (2005 £ nil)

19. Financial commitments

At 31 December 2006, the Company had annual commitments under non-cancellable operating leases expiring as follows

	2006		2005	
	Land and Building £'000	Other £'000	Land and Building £'000	Other £'000
Within one year	78.9	31.0	-	12 2
Between two and five years	-	84 1	90 9	158 2
After five years	196.0	-	196 0	-
	274.9	115 1	286 9	170 4

In 2004, the Company entered into a Research Collaboration Agreement with Warwick University. In so far as the University carries out its obligations under the Agreement, the Company is committed to providing funding to the university amounting to £1.1 million in the years 2005 to 2007, subject to the approval of annual budgets by the University Review Committee.

20. Related party transactions

The Company has taken advantage of the exemptions available under FRS 8 (Related Party Disclosures). The Company is a wholly owned subsidiary within a group whose consolidated accounts are publicly available from the address in Note 21. Therefore no disclosure has been made of transactions with other group entities.

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Notes to the accounts for the year ended 31 December 2006 (continued)

21. Ultimate holding company

The immediate holding company is Cephalon International Holdings Inc , a company incorporated in Delaware, USA

The ultimate holding company and the controlling party is Cephalon, Inc , a company incorporated in Delaware, USA

Copies of both companies' accounts are publicly available from Cephalon, Inc , Corporate Headquarters, 41 Moores Road, Frazer, PA 19355 This is the largest and smallest group for which consolidated accounts are prepared

22. Share Based Remuneration

An equity compensation plan has been established for the employees, directors and certain other individuals of the Company in the shares of the listed parent company, Cephalon, Inc

The Stock Option and Compensation Committee of the Cephalon, Inc Board of Directors approves all grants and the terms of such grants, subject to ratification by the Board of Directors Cephalon, Inc may grant non-qualified stock options under the Cephalon, Inc 2004 Equity Compensation Plan (the "2004 Plan") and the Cephalon, Inc 2000 Equity Compensation Plan (the "2000 Plan"), and also may grant incentive stock options and restricted stock units under the 2004 Plan Stock options and restricted stock units generally become exercisable or vest ratably over four years from the grant date, and stock options must be exercised within 10 years of the grant date Exercise of an option is subject to continued employment within the Cephalon, Inc group

The specific details of the options relating to Cephalon (UK) Limited employees are given below Options were valued using the Black-Scholes option-pricing model No performance conditions were included in the fair value calculations The fair value per option granted and the assumptions used in the calculation are as follows

Grant date	01/12/05	01/11/06	19/12/06
Share price at grant date	\$51.08	\$69.94	\$71.07
Exercise price	\$51.08	\$69.94	\$71.07
Number of employees	4	1	6
Shares under option	12,400	2,700	16,000
Vesting period (years)	4	4	4
Expected volatility	49.8%	43.4%	39.4%
Option life (years)	10	10	10
Expected life (years)	6.50	6.25	6.25
Risk free rate	4.47%	4.52%	4.57%
Expected dividends	0.00%	0.00%	0.00%
Fair value per option	\$27.96	\$34.61	\$33.19

The expected volatilities are based on a combination of implied volatilities from traded options on our shares and the historical volatility of our shares for the related vesting period The risk-free interest rate is based on the implied yield available on U S Treasury zero-coupon issues with an equivalent remaining term

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

22. Share Based Remuneration (continued)

A reconciliation of share option movements over the year to 31 December 2006 is shown below

	2006		2005	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at 1 January	147,075	\$49.09	139,900	\$48.93
Granted	18,700	\$70.91	12,400	\$51.08
Forfeited	(20,575)	\$48.84	(2,100)	\$48.84
Exercised	(56,325)	\$49.09	(3,125)	\$49.98
Outstanding at 31 December	88,875	\$53.74	147,075	\$49.09
Exercisable at 31 December	45,600	\$49.37	72,275	\$49.20

The outstanding options at 31 December 2006 had the following exercise process and remaining lives

	2006			
Range of Exercise prices	Weighted average exercise price	No. of shares	Weighted average remaining life	
			Expected	Contractual
\$40.00 - \$49.99	\$48.04	43,975	3.0	6.9
\$50.00 - \$59.99	\$51.06	26,200	2.6	6.5
\$60.00 - \$69.99	\$69.94	2,700	6.1	9.8
\$70.00 - \$79.99	\$71.07	16,000	6.2	10.0

	2005			
Range of Exercise prices	Weighted average exercise price	No. of shares	Weighted average remaining life	
			Expected	Contractual
\$40.00 - \$49.99	\$47.96	93,850	4.0	7.9
\$50.00 - \$59.99	\$51.07	53,225	3.5	7.4
\$60.00 - \$69.99	-	-	-	-
\$70.00 - \$79.99	-	-	-	-

The weighted average share price during the period for share options exercised over the year was \$72.58 (2005 \$65.43)

Restricted Stock Units

Restricted stock units are valued based on the market value of the shares on the date of grant. The following table summarises the restricted stock units activity for the year ended 31 December 2006

	2006		2005
	Shares	Weighted average fair value	Shares
Nonvested, January 1	6,250	\$49.85	3,400
Granted	4,700	\$71.07	3,700
Vested	(1,375)	\$49.76	(850)
Forfeited	(1,350)	\$49.40	-
Nonvested, December 31	8,225	\$62.06	6,250
Intrinsic value as of December 31	\$579,122		

The total charge for the year relating to share based remuneration was £319,700 (2005 £264,800), all of which relates to equity-settled share based payment transactions

Cephalon (UK) Limited

Notes to the accounts for the year ended 31 December 2006 (continued)

23. Post Balance Sheet Event

On 20 December 2007, the Company sold its shareholding in Cephalon GmbH to Cephalon International Holdings, Inc. The transaction was conducted at book value, i.e. €25,000