

PATHEON UK LIMITED

Report and Financial Statements

31 October 2013

COMPANIES HOUSE

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COMPANIES HOUSE

Patheon UK Limited

Registered No. 3764421

**COMPANY INFORMATION**

**DIRECTORS**

I Jones  
M Lyttón  
J Mullen

**SECRETARY**

N Plummer

**AUDITORS**

Ernst & Young LLP  
The Paragon  
Counterslip  
Bristol  
BS1 6BX

**BANKERS**

Barclays  
4<sup>th</sup> Floor  
Apex Plaza  
Forbury Road  
Reading  
RG1 1AX

**SOLICITORS**

Macfarlanes  
20 Cursitor Street  
London  
EC4A 1LT

**REGISTERED OFFICE**

Kingfisher Drive  
Covingham  
Swindon  
Wiltshire  
SN3 5BZ

## Patheon UK Limited

Registered No 3764421

### STRATEGIC REPORT

#### STRATEGIC REPORT

The directors present their Strategic report for the year ended 31 October 2013

#### PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The principal activity of the company is one of providing commercial manufacturing and development services for prescription and over-the-counter drugs to the international pharmaceutical and biotechnology industry

#### REVIEW OF THE BUSINESS

Patheon announced in April 2012 that it would be phasing out current operations within the Non-Cephs and Product Development Services (PDS) Swindon division over a period of the next two to three years. Commercial Manufacturing Services (CMS) operation will continue in the Non-Cephs area to support client contracts through to 2018. During 1H of FY2014 Patheon UK Ltd has entered into a long term contract to make EXPAREL® from the facility, involving significant client investment at the facility. The site's future strategy will be focused on technologies requiring dedicated suites and increased partnering with clients on niche technologies.

The PDS facility in Milton Park will continue to operate post the phase down activity, providing PDS together with Phase I/II capability. This phase down activity will however be offset by increased European activity quoted and contracted through the UK entity and subcontracted within the company's European network.

The Company during the year has continued to implement a lean manufacturing program. This program involves the identification of various Operational Efficiency (OE) programs. These programs are then rolled out through the company structures into "Mini-T's" and procurement activities. These activities are corporately sponsored and reported monthly as part of the site's global reporting.

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

	2013 £'000	2012 £'000	Change %
Turnover	82,365	69,479	+18%
Total operating loss	(1,051)	(1,005)	+5%
Shareholders' deficit	(11,224)	(4,794)	+134%
Current assets as % of current liabilities	138%	122%	+16%
Average number of employees	486	537	-9%

Turnover increased by 18% during the year. The European headquarter operations contributed an additional £15,382,000 compared to the prior year. CMS revenue increased marginally by £14,000, while PDS revenue in Swindon decreased by £3,349,000 as the planned "Phase Down" took effect whilst the PDS revenue in Milton Park increased by £839,000.

**PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS**  
(continued)

Operating loss increased by £46,000 during the year to an overall loss of £1,051,000. Material costs increased by £11,446,000 in line with the increased revenue. Staff costs increased by £2,394,000, depreciation decreased by £1,712,000 and other operating charges increased by £804,000.

Loss for the financial year decreased by £33,301,000 with exceptional non-operating items of £38,151,000 relating to asset impairments, write back of negative goodwill and restructuring costs in 2012 compared to £633,000 for restructuring costs in 2013. The tax charge also increased by £2,944,000 relative to the prior year.

Shareholders' deficit has increased by 134% as a result of increased intercompany borrowings.

The company's current asset to liability ratio has increased by 16% in comparison to prior year with total assets less current liabilities, increasing by £3,362,000, largely as result of the increased European headquarter operations. Current liabilities have decreased by £944,000 with amounts owed to group undertakings decreasing by £2,062,000 and deferred income increasing by £1,420,000.

The total number of employees during the year decreased by 9%.

**FUTURE DEVELOPMENTS**

CMS revenue will increase slightly vs FY13 driven by client stock build activity through FY13 together with a number of client product launches. The underlying production revenue is expected to increase year on year by approx 9% due to planned client repatriation programs. The revenue is expected to be stable through to the end of financial year 2014. During the FY14 and FY15 year the site will be supporting its clients to launch a number of new commercial products this equating to approx £6.4m in FY14. Patheon UK Ltd will continue to assist client programs through the 'Phase Down' period.

The transformation plans were achieved through FY13 on 3<sup>rd</sup> Party spends. Key for the site through FY14 and supported through Corporate KPI's are 'Right First Time' and 'On Time Delivery'. This will be supported on site with 'Lean Principles' and rolled out over various areas through Mini T programs.

The PDS division is split into two facilities at Swindon and Milton Park. The Swindon facility will be phasing out PDS operations through FY14 in line with the current site strategy. The site forecast through this period will see revenue decline as services are completed or transferred within the Patheon network. Revenue is expected to decline in the Swindon facility by approx 38% in FY14. Patheon UK Ltd will continue to assist client programs through the 'Phase Down' period.

The PDS division at the Milton Park facility will continue to operate and offer PDS together with Phase I/II capabilities. General investment in the facility will support the growth in revenue and site capabilities.

Subcontracting work within the EU Patheon network is expected to grow through FY14. Growth within the CMS division is expected to be 47% year on year, driven by new CMS contracts and increased Technical Transfer activity. Growth within the PDS division is expected to be 47% year on year, driven by new business capabilities within the facilities and increased sales generated through Patheon UK Ltd.

The company has a clearly stated policy for caring and protecting the environment, with regular audits and continuous monitoring of its activities to ensure best practices are employed for effective environmental protection. In addition to any site policies the company is also driven by corporate policies to continuously improve its waste generation and management. Patheon, as a whole, takes very seriously its responsibilities with regards being a good corporate citizen and neighbour.

## PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties facing the company are broadly grouped as competitive, legislative, foreign exchange rates, going concern, R&D, economic and other financial risks.

### • *Competitive risks:*

Client strategies and market trends - As a contract manufacturer and provider of outsourced services to the global pharmaceutical market, Patheon is dependent on our clients' outsourcing strategies on global industry trends. Any changes in our clients' strategies or changes in global trends regarding outsourcing may have an impact on our activities. These risks are minimised by the group through development of strategic partnerships with key clients and acquiring niche capabilities.

Competition -- within the current competitive global market, we are encountering competition from existing or new entrants in the market. The risk of not remaining competitive is minimised (but not eliminated) through our strategic focus on competitive advantage through capabilities, service and efficiency.

### • *Legislative/regulatory risks*

Currently the company is regulated by various national regulatory bodies, with the main ones being Medical Healthcare Regulatory Agency (MHRA) in UK and Food and Drug Administration (FDA) in the USA. Regulatory changes may raise risks as to Patheon's abilities to service these markets, either impacting the company's capabilities or impacting indirectly through changes to the client's product requirements. Patheon are upgrading capabilities and systems continuously to ensure we meet all current and reasonably foreseen regulatory changes.

### • *Foreign currency exposure*

Due to the global nature of the revenues, the company is exposed to financial foreign exchange risk, mainly for its USD and Euro denominated revenues. There are no currency hedges or other financial instruments in place at a company level to protect against exchange rates variations. Such risks are managed by the group's treasury function at a corporate level.

### • *Going concern*

The company has considered financial resources together with long term contracts with a number of customers and suppliers across different geographic areas. As a consequence the directors believe the company is well placed to manage its business risks successfully despite the current economic outlook.

After making enquiries and reviewing the long range projected results for contracts the directors have a reasonable expectation that the company have adequate resources for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

A parental support letter is also in place covering a period of 12 months from the date of signing the statutory accounts. This letter covers the provision of financial support by DPx Holdings B.V. to meet liabilities as they fall due, but only to the extent that money is not otherwise available.

### • *Research and development*

The company undertakes R&D activities on behalf of its clients as part of the range of services offered through its PDS Business Unit. These do not include any animal testing activities. The services are on a 'fee for service' basis and billed on completion of agreed milestones. The company does not enter into risk sharing deals with the clients based on the success of client products, therefore the risks are minimised to collection of fees only.

Patheon UK Limited

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**STRATEGIC REPORT** (continued)

**PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

• *Economic risks*

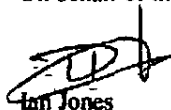
Through the normal course of its activities, the company has exposure to economic risks specifically interest rates. The company's borrowings are mainly with its parent company where it pays a variable interest rate.

• *Other financial risks*

Product and services price risks are limited through structured contracts which are based on firm pricing, usually with mechanisms for annual price increases relating to component and/or index-linked increases. The majority of revenues are through long term contracts with large pharmaceutical companies that have a high quality credit score. For smaller clients, usually using the PDS services, Patheon may charge a security deposit or project initiation fee and structures the contracts for billing on frequent milestones, therefore minimising our exposure for collecting debt.

The cash flow and liquidity is currently dependent on support from the parent company via intercompany loans.

On behalf of the Board



Ian Jones

Director

Date 7<sup>th</sup> July 2014

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## Patheon UK Limited

Registered No 3764421

### **DIRECTORS' REPORT**

#### **DIRECTORS' REPORT**

The directors present their Directors' report and financial statements for the year ended 31 October 2013

#### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, is £3,697,000 (2012 loss £36,998,000) There was no preference dividend paid during the year (2012 £Nil)

#### **DIRECTORS' QUALIFYING THIRD PARTY INDEMNITY PROVISIONS**

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006 Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report

#### **DISABLED EMPLOYEES**

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job Opportunities are available to disabled employees for training, career development and promotion

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim

#### **EMPLOYEE INVOLVEMENT**

The company has adopted the policy of providing employees with information including a quarterly newsletter and employee meetings are conducted through monthly sessions In addition, regular focus group sessions are conducted between management and employees to allow for a free flow of information and ideas as well as regular meetings of the Company Consultative Group (which is an employee/employer information sharing forum) A discretionary bonus scheme for all employees is in operation that is linked to the financial performance of the company

#### **DIRECTORS**

The directors who served during the year and to the date of this report were as follows

A Mancuso (resigned 10 July 2013)

I Jones

M Lytton

J Mullen

A Magnelli (appointed 4 October 2013, resigned 7 January 2014)

Patheon UK Limited

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**DIRECTORS' REPORT**

**DISCLOSURE OF INFORMATION TO THE AUDITORS**

The directors who were members of the board at the time of approving the directors' report are listed on page 6. Having made enquires of fellow directors and of the company's auditors, each of these directors confirm that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are not aware, and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

**RE-APPOINTMENT OF AUDITORS**

Under s487(2) of the Companies' Act 2006, Ernst & Young LLP will be deemed to be re-appointed as auditors, unless the members resolve not to re-appoint in accordance with s488 of the Companies' Act 2006

On behalf of the Board



Ian Jones

Director

Date 7<sup>th</sup> July 2014



## **STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PATHEON (UK) LIMITED**

We have audited the financial statements of Patheon UK Limited for the year ended 31 October 2013 which comprise Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

### **Respective responsibilities of directors and auditors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and the Directors' Responsibilities Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent misstatements or inconsistencies we consider the implications of our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 October 2013 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PATHEON (UK) LIMITED

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Ernst & Young LLP

Jane Barwell (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP (Statutory Auditor)  
Bristol

Date 9 July 2014

Patheon UK Limited

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**BALANCE SHEET**

as at 31 October 2013

		2013	Restated 2012
	Notes	£'000	£'000
<b>TURNOVER</b> continuing operations	2	82,365	69,479
Raw materials, consumables and change in work in progress		(45,118)	(33,672)
Staff costs	5	(21,483)	(19,089)
Depreciation and amortisation	3	(587)	(2,299)
Other operating charges		(16,228)	(15,424)
<b>OPERATING LOSS</b> continuing operations	3	(1,051)	(1,005)
Non-operating exceptional items	6	(633)	(38,151)
<b>LOSS ON ORDINARY ACTIVITIES:</b>		(1,684)	(39,156)
Before investment income, interest and taxation			
Interest receivable and other income	7	289	408
Interest payable and similar charges	8	(1,697)	(589)
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(3,092)	(39,337)
Tax on loss on ordinary activities	9	(309)	2,903
<b>LOSS FOR THE FINANCIAL YEAR</b>		(3,401)	(36,434)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
for the year ended 31 October 2013

	£'000	Restated £'000
<b>LOSS FOR THE FINANCIAL YEAR</b>	(3,401)	(36,434)
Actuarial (loss)/gain recognised in the pension scheme	(2,733)	1,190
Deferred tax movement in respect of the pension scheme	(296)	(564)
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>	(6,430)	(35,808)

Patheon UK Limited

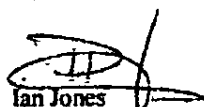
Registered No 3764421

**BALANCE SHEET**

as at 31 October 2013

	<i>Notes</i>	2013 £'000	2012 £'000
<b>FIXED ASSETS</b>			
Investments	10	-	-
Intangible assets	11	-	-
Tangible assets	12	5,433	5,771
		<u>5,433</u>	<u>5,771</u>
<b>CURRENT ASSETS</b>			
Stocks	13	6,355	6,101
Deferred taxation	18	1,624	1,868
Debtors	14	19,897	17,577
Cash		5,537	5,111
		<u>33,413</u>	<u>30,657</u>
<b>CREDITORS</b> amounts falling due within one year	15	(24,167)	(25,111)
<b>NET CURRENT ASSETS</b>		<u>9,246</u>	<u>5,546</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>14,679</u>	<u>11,317</u>
<b>CREDITORS</b> amounts falling due after more than one year			
Bank and other loans	16	(19,983)	(11,294)
Long term deferred revenue	17	(1,611)	(1,066)
		<u>(21,594)</u>	<u>(12,360)</u>
<b>NET LIABILITIES EXCLUDING PENSION LIABILITY</b>		<u>(6,915)</u>	<u>(1,043)</u>
Pension liability	22	(4,309)	(3,751)
<b>NET LIABILITIES</b>		<u>(11,224)</u>	<u>(4,794)</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	19	2,100	2,100
Other reserves	20	26,520	26,520
Profit and loss account	20	(39,844)	(33,414)
<b>SHAREHOLDERS DEFICIT</b>		<u>(11,224)</u>	<u>(4,794)</u>

The financial statements were approved by the directors and authorised for issue on 7<sup>th</sup> July 2014 and signed on their behalf by



Ian Jones

Director

Date 7<sup>th</sup> July 2014

**NOTES TO THE FINANCIAL STATEMENTS**

as at 31 October 2013

**1. ACCOUNTING POLICIES**

***Basis of preparation***

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards

The financial statements present information about the company as an individual undertaking and not about its group. The company has taken advantage of the exemption from preparing consolidated accounts by virtue of section 401 of the Companies Act 2006, as during the year it was a wholly owned subsidiary of Patheon Inc, which prepares consolidated accounts which are publicly available.

***Going Concern***

The financial statements have been prepared on a going concern basis. After making enquiries, the directors have a reasonable expectation that the company have adequate resources to continue in operational existence for the foreseeable future. The ultimate parent company has confirmed to the directors that adequate financial support will continue to be made available to enable the company to meet its liabilities as they fall due, but only to the extent that money is not otherwise available to meet such liabilities.

***Revenue recognition***

Revenue is recognised when services are completed in accordance with specific agreements with clients and when all costs connected with these services have been incurred, the price is fixed and determinable and collectability is reasonably assured.

For PDS, revenue is recognised on the achievement of specific milestones in accordance with the relevant service contracts. Client deposits on PDS in progress are included in accounts payable and accrued liabilities.

For CMS, revenue is recognised when services are complete and the risks and rewards of ownership of the goods have passed to the buyer.

***Tangible fixed assets***

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended.

***Depreciation***

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Buildings – Freehold	-	40 years
Buildings – Short leasehold	-	the lower of 20 years and the life of the lease
Computer hardware	-	4 years
Computer software	-	3 years
Plant and equipment	-	15 years
Laboratory equipment	-	5 years
Furniture and fittings	-	10 years
Change parts	-	5 years

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For buildings impaired in the year ended 31 October 2012, the remaining book value is being depreciated over the remaining estimated useful economic life of 6 years from that balance sheet date.

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## NOTES TO THE FINANCIAL STATEMENTS

as at 31 October 2013

### I ACCOUNTING POLICIES (continued)

#### *Goodwill*

Goodwill is the difference between the consideration paid for the acquired entity and the aggregated amount of the fair value of that entity's identifiable assets and liabilities. Negative goodwill up to the fair values of the non-monetary assets acquired is recognised in the profit and loss account in the period in which the non-monetary assets are recovered, whether through depreciation or sale.

#### *Stocks*

Stocks are stated at the lower of cost and net realisable value after making due allowance for obsolete and slow moving items.

Cost includes all costs incurred in bringing each product to its present location and condition as follows:

- |  |   |
|--|---|
| Raw materials, consumables and goods for re-sale | - purchase cost on a first in first out basis   |
| Work in progress and finished goods              | - cost of direct materials and labour plus attributable overheads based on a normal level of activity |

#### *Taxation*

The tax charge / credit is calculated based on the results for the year.

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 to receive more, tax, with the exception that 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 in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All exchange differences are taken to the profit and loss account.

#### *Operating and finance leases*

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

#### *Cash flow statement*

The company has adopted the exemption provisions under FRS1 (Revised) and has not prepared a cash flow statement, as the company is wholly owned subsidiary of Patheon Inc, within whose consolidated cash flow statement the cash flows of the company are included.

# Patheon UK Limited

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## NOTES TO THE FINANCIAL STATEMENTS

as at 31 October 2013

### 1. ACCOUNTING POLICIES (continued)

#### *Pension costs*

The Patheon UK Pension Plan scheme is a defined benefit scheme which was established by the company following the acquisition by Patheon UK Limited of the HMR Swindon facility. A bulk transfer of assets from the Hoechst Marion Roussel scheme to the Patheon UK Scheme to cover pension liabilities associated with the past service to the date of acquisition of members transferring to the new scheme occurred in the financial year ended 31 October 2006. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. Pension scheme assets are valued at market value at the balance sheet date.

The Pension scheme deficit is recognised in full on the balance sheet. The deferred tax relating to the defined benefit liability, to the extent recognised, is set off against the defined benefit liability and not included within other deferred tax assets or liabilities.

Increases in the present value of scheme liabilities expected to arise from employee service in the period up until 31 January 2012 are charged to operating profit/loss. The expected return on scheme assets less the increase in the present value of liabilities arising from the passage of time is included in interest receivable and other income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. The scheme was closed to future accrual with effect from 31 January 2012 and employees now participate in a defined contribution scheme. A curtailment event took place in 2012 and appropriate allowance was made to account for this event.

#### *Share based payments*

##### *Equity-settled transactions*

Under FRS 20, the fair value of equity-settled share option transactions are determined at the date of the grant using an appropriate pricing model. At each balance sheet date before vesting, the cumulative expense is calculated. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

##### *Cash-settled transactions*

Under FRS 20, the fair value of cash-settled restricted share unit (RSU's) transactions are established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount for the liability are recognised in profit or loss for the period.

During the year 20,000 new share options in the company's ultimate parent undertaking were granted to company employees or directors. However as the number of unvested share options and RSU's under FRS20 at the balance sheet date are 53,530 and Nil respectively, the directors consider the related FRS 20 fair values to be expensed over the vesting period are not material and have therefore excluded further disclosures from the financial statements.

#### *Research and Development*

Research and development activities are carried out through clinical research phases 1, 2 and 3. All research is carried out on behalf of customers, and is expensed through the profit and loss account as incurred.

#### *Segmental Analysis*

Patheon UK Limited operates in competitive international markets and information on competitor activity is not available. In the opinion of the directors, disclosure of the information required by the Companies Act 2006 and SSAP 25 would be seriously prejudicial to the interests of the company.



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**NOTES TO THE FINANCIAL STATEMENTS**

as at 31 October 2013

**2. TURNOVER**

Turnover, which is stated net of value added tax, represents revenue recognised from the provision of services which fall within the company's continuing ordinary activities

The analysis by geographic market is as follows

	2013 £'000	2012 £'000
United Kingdom	3,435	4,249
Europe	26,678	25,069
USA	25,010	28,950
Rest of World	27,242	11,211
	<u>82,365</u>	<u>69,479</u>

**3. OPERATING LOSS**

This is stated after charging

	2013 £'000	2012 £'000
Depreciation of owned fixed assets	587	2,639
Amortisation of negative goodwill	-	(340)
Depreciation and amortisation	<u>587</u>	<u>2,299</u>
Auditors' remuneration - audit of the financial statements	80	52
- tax	11	19
- other services	-	2
Operating lease rentals - land and buildings	185	137
- plant and machinery	389	411
Research and development expenditure	<u>5,612</u>	<u>6,331</u>

**4. DIRECTORS' REMUNERATION**

The directors did not receive any remuneration for their services during the year to 31 October 2013. None of the directors were members of the pension scheme.

Directors' remuneration has been borne by other group companies (Patheon Inc., Patheon Italia SpA). These directors' services to the company do not occupy a significant amount of their time. As such the directors do not consider that they have received any remuneration for their incidental services to the company for the years ended 31 October 2012 and 31 October 2013.

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**5 STAFF COSTS**

	2013 £'000	2012 £'000
Wages and salaries	19,432	20,984
Social security costs	1,930	1,983
Other pension costs/(gains)	121	(3,878)
	<u>21,483</u>	<u>19,089</u>

Other pension costs in 2012 include a gain for curtailment which took place in the year of £5,000,000 as a result of the company closing the plan to future accrual with effect from 31 January 2012

*The average monthly number of employees during the year was as follows:*

	2013 No	2012 No
Production and service	283	330
Administration and other	203	207
	<u>486</u>	<u>537</u>

**6. EXCEPTIONAL ITEMS**

	2013 £'000	2012 £'000
Fixed asset impairment	-	45,034
Negative goodwill written back	-	(8,847)
Restructuring costs	633	1,964
	<u>633</u>	<u>38,151</u>

The value of negative goodwill was fully written back to profit and loss in 2012 as a result of the assets to which it relates being fully impaired in the year (see Note 12)

**7. INTEREST RECEIVABLE AND OTHER INCOME**

	2013 £'000	2012 £'000
Interest receivable on bank deposits	3	7
Interest on pension scheme liabilities	286	122
Gain on foreign exchange		279
	<u>289</u>	<u>408</u>

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**8 INTEREST PAYABLE AND SIMILAR CHARGES**

	2013 £'000	2012 £'000
Interest payable to group undertakings	592	247
Bank loans and overdrafts	630	342
Loss on foreign exchange	475	-
	<u>1,697</u>	<u>589</u>

**9. TAX ON LOSS ON ORDINARY ACTIVITIES**

	2013 £'000	<i>Restated</i> 2012 £'000
<b>Current tax:</b>		
UK corporation tax	-	-
Deferred tax	309	(2,903)
	<u>309</u>	<u>(2,903)</u>

**Factors affecting current tax**

The tax assessed on the loss on ordinary activities for the year is different from the standard rate of corporation tax in the UK of 23.42% (2012: 24.83%). The differences are reconciled below:

	2013 £'000	2012 £'000
Loss on ordinary activities before tax	(3,092)	(39,337)
Loss on ordinary activities multiplied by standard rate of corporation tax in UK of 23.42% (2012: 24.83%)	<u>(724)</u>	<u>(9,767)</u>
<i>Effect of:</i>		
Disallowed expenses and non-taxable income	(77)	1,501
Capital allowances in excess of depreciation	(474)	7,898
Other timing differences	(83)	88
Unrelieved tax losses	2,167	1,987
Pension provision	(809)	(1,707)
Total UK corporation tax	<u>-</u>	<u>-</u>

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**9. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)**

	2013	Restated 2012
	£'000	£'000
<i>Deferred tax</i>		
Prior year adjustment	-	(242)
(Decelerated)/accelerated capital allowances	-	(4,502)
Other timing differences	-	81
Rate change	244	162
Pension provision	66	1,598
Total deferred tax	547	(2,903)

**Factors that may affect future tax charges**

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the statement of financial position date

The Finance Act 2013, which includes a reduction in the UK corporate tax rate to 20% from April 2015, has now been enacted and so UK deferred tax assets and liabilities have been calculated accordingly at 20%

**10. INVESTMENTS**

*Shares in  
subsidiary  
£'000*

At 31 October 2012 and 2013

Name of subsidiary undertaking	Country of registration	Class of share capital held	Proportion held	Nature of business
Patheon UK Pension Trustees Limited	United Kingdom	Ordinary	100%	Dormant

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11. INTANGIBLE ASSETS

	<i>Negative goodwill</i> £'000
<i>Cost</i>	
At 1 November 2012	(19,302)
At 31 October 2013	(19,302)
<i>Amortisation</i>	
At 1 November 2012	19,302
At 31 October 2013	19,302
<i>Net book value</i>	
31 October 2013	-
1 November 2012	-

Negative goodwill arising on the acquisition of the trade and assets of Hoechst Marion Roussel (HMR) Swindon is being written back to profit and loss in line with the period in which the non-monetary assets are recovered, whether through depreciation or sale

The value of negative goodwill was fully written back as a result of the assets to which it relates being fully impaired in 2012

12. TANGIBLE FIXED ASSETS

	<i>Land and buildings</i> £'000	<i>Plant and machinery</i> £'000	<i>Fixtures and fittings</i> £'000	<i>Total</i> £'000
<i>Cost</i>				
At 1 November 2012	28,541	57,339	2,219	88,099
Additions	-	414	-	414
Disposals	-	(839)	-	(839)
At 31 October 2013	28,541	56,914	2,219	87,674
<i>Depreciation</i>				
At 1 November 2012	26,352	54,155	1,821	82,328
Provided during the year	189	339	59	587
Disposals	-	(674)	-	(674)
At 31 October 2013	26,541	53,820	1,880	82,241
<i>Net book value</i>				
At 31 October 2013	2,000	3,094	339	5,433
At 1 November 2012	2,189	3,184	398	5,771

In 2012 the company revalued their Tangible Fixed Assets and impaired them by £45,034k

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**12. TANGIBLE FIXED ASSETS (continued)**

***Land and buildings***

The net book value of land and buildings include £1,785,000 of freehold land as at 31 October 2013 (2012 £1,785,000)

The net book value of buildings comprises

	2013 £'000	2012 £'000
Freehold	70	255
Short leasehold	145	149
	215	404

**13. STOCKS**

	2013 £'000	2012 £'000
Raw materials	3,934	3,695
Engineering stores	1,029	1,015
Work in progress	662	574
Finished goods	730	817
	6,355	6,101

**14. DEBTORS**

	2013 £'000	2012 £'000
Trade debtors	13,408	13,382
Amounts due from parent undertaking	1,730	1,605
Prepayments	991	762
Other debtors	3,493	1,592
Other taxes and social security costs	275	236
	19,897	17,577

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**15. CREDITORS: amounts falling due within one year**

	2013 £'000	2012 £'000
Trade creditors	3,424	3,675
Amounts due to group undertakings	10,850	12,912
Other taxes and social security costs	483	515
Accruals	6,721	6,740
Deferred income	2,689	1,269
	<u>24,167</u>	<u>25,111</u>

The company has access to a \$200m Parent Company revolving credit facility in place with UBS. Additionally the letter of credit from UBS also contains guarantees in favour of HMRC for £500,000 (2012: £500,000). The total letter of credit is for £500,000 (2012: £750,000).

**16. BANK AND OTHER LOANS**

	2013 £'000	2012 £'000
Intercompany Loan (Patheon BV)	12,054	5,294
JP Morgan Drawdown	-	6,000
Morgan Stanley Senior	7,929	-
	<u>19,983</u>	<u>11,294</u>

The inter-company loans from Patheon BV have maturity dates of 31<sup>st</sup> October 2016, 19<sup>th</sup> April 2018 and 14<sup>th</sup> December 2018 with interest payable at LIBO plus 3.68%, LIBO plus 6.43% and 7.901% respectively. The Morgan Stanley Senior loan is a current balance on a revolving credit facility and bears a variable rate of interest.

**17. LONG TERM DEFERRED REVENUE**

	2013 £'000	2012 £'000
Contract advances	<u>1,611</u>	<u>1,066</u>

**18. PROVISIONS FOR LIABILITIES AND CHARGES**

**Provision for deferred tax**

	<i>Deferred tax asset</i> £'000
At 1 November 2012	1,536
Charged to the profit and loss account	(605)
As at 31 October 2013	<u>2,931</u>

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**18. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)**

The components of recognised and unrecognised deferred tax comprise

	<i>Recognised</i>	<i>Not recognised</i>	<i>Recognised</i>	<i>Not recognised</i>
	<i>2013</i>	<i>2013</i>	<i>2012</i>	<i>2012</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Accelerated capital allowances	-	1,839	-	3,174
Available losses	1,624	4,099	1,868	1,841
Other timing differences		173	-	278
<b>Total deferred tax assets</b>	<b>1,624</b>	<b>6,098</b>	<b>1,868</b>	<b>5,293</b>

A deferred tax asset was first recognised in 2009 as the directors are reasonably certain that the losses will be utilised. The deferred tax asset in relation to the pension fund of £1,307,000 (2012: £1,668,000) has been offset against the pension liability as required by FRS17.

**19. SHARE CAPITAL**

	<i>Authorised</i>		<i>Allotted, called up And fully paid</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>No</i>	<i>No</i>	<i>£'000</i>	<i>£'000</i>
Ordinary shares of £1 each	2,000,000	2,000,000	100	100
6% preference shares of £1 each	8,000,000	8,000,000	2,000	2,000
<b>Total</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>2,100</b>	<b>2,100</b>

The preference shares were issued at par. They carry a dividend right of 6% per annum payable half yearly in April and October. If at the time the dividends become payable there are insufficient profits the dividend will cease to be due and payable. There are no specific repayment terms except on a winding up of the company where the preference shareholders have the right to receive, in preference to ordinary shareholders, £1 per share plus any accrued dividend. The preference shares carry voting rights at meetings of 1 vote per share whereas the ordinary shares carry 100 votes per share. As there is no foreseeable intention to redeem the preference shares they have been included as part of the equity of the company.



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**20. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES**

	<i>Share capital £'000</i>	<i>Other reserves £'000</i>	<i>Profit and loss account £'000</i>	<i>Total £'000</i>
At 31 October 2011	2,100	26,520	2,394	31,014
Actuarial gain on pension scheme	-	-	1,190	1,190
Loss for the year	-	-	(36,998)	(36,998)
At 31 October 2012	2,100	26,520	(33,414)	(4,794)
Actuarial loss on pension scheme	-	-	(2,733)	(2,733)
Loss for the year	-	-	(3,697)	(3,697)
At 31 October 2013	2,100	26,520	(39,844)	(11,224)

**21. OTHER FINANCIAL COMMITMENTS**

The company had annual commitments under operating leases as set out below

	<i>Land and buildings</i>		<i>Other</i>	
	<i>2013</i>	<i>2012</i>	<i>2013</i>	<i>2012</i>
	<i>£'000</i>	<i>£'000</i>	<i>£,000</i>	<i>£,000</i>
<i>Operating leases which expire</i>				
- within one year		-	33	158
- in two to five years	138	138	117	238
	138	138	150	396

**22. PENSIONS**

The Patheon UK Pension Plan, a defined benefit scheme, was established by the company following the acquisition by Patheon UK Limited of the HMR Swindon facility. The valuation of the scheme for these financial statements has been based on the most recent full actuarial valuation as at 31 October 2013. Scheme assets are stated at their market values at the respective balance sheet dates.

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22. PENSIONS (CONTINUED)

The amount recognised in the Balance Sheet, Profit and Loss Account and in the Statement of Total Recognised Gains and Losses for the year are analysed as follows

*Amounts recognized in the balance sheet*

	2013 £'000	2012 £'000
<i>Scheme assets at fair value</i>		
Equities	12,141	10,557
Diversified target return funds	21,681	18,768
Bonds	9,106	8,993
Other	434	782
Total market value of assets	43,362	39,100
Actuarial present value of liabilities	(48,978)	(44,519)
Deficit in the scheme	(5,616)	(5,419)
Related deferred tax asset	1,307	1,668
Unrecognised liability	-	-
Recognised liability	(4,309)	(3,751)

*Analysis of movement in deficit during the year:*

	2013 £'000	2012 £'000
Deficit in scheme at beginning of the year	(5,419)	(12,569)
<i>Movement in year</i>		
Current service cost (gross of member contributions, incl DIS premiums)	-	(428)
Past service cost	-	(755)
Aggregate contributions paid	2,250	2,014
Other finance expense	286	122
Effects of any curtailments or settlements	-	5,007
Actuarial (loss)/gain recognised in STRGL	(2,733)	1,190
Deficit in scheme at end of the year	(5,616)	(5,419)

*Amounts recognised in the profit and loss*

	2013 £'000	2012 £'000
Current service cost (inc DIS premiums)	-	456
Interest cost	2,021	2,225
Expected return on scheme assets	(2,307)	(2,347)
Past service cost	-	755
Effects of any curtailments or settlements	-	(5,007)
Total	(286)	(3,918)

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22. PENSIONS (continued)

	2013	2012
<i>Actual return on assets over the period</i>	<i>£'000</i>	<i>£'000</i>
Actual return	3,194	2,899
<i>Analysis of amount recognised in the statement of total recognised gains and losses (STRGL)</i>	<i>2013</i>	<i>2012</i>
	<i>£'000</i>	<i>£'000</i>
Asset gain	887	552
Liability (loss)/gain	(871)	1,596
Changes in assumptions for the valuation of liabilities	(2,749)	(958)
Actuarial (loss)/gain recognised in STRGL	(2,733)	1,190

*Principal actuarial assumptions at the balance sheet date:*

	2013	2012
Discount rate	4.5%	4.6%
Price inflation (RPI)	3.4%	2.7%
Price inflation (CPI)	2.4%	2.0%
Rate of increase in salaries	N/A	N/A
Rate of increase for pensions in payment		
In line with RPI capped at 5.0% p.a.	3.3%	2.7%
In line with RPI capped at 2.5% p.a.	2.2%	2.0%
Post retirement mortality (life expectancy)		
Current pensioners age 65 – males	22.4	22.2
Current pensioners age 65 – females	24.4	25.0
Future pensioners age 65 (currently age 45) – males	23.5	25.1
Future pensioners age 65 (currently age 45) – females	26.0	27.9
Commutation allowance	100%	100%
Expected return on assets		
Equities	6.9%	6.6%
Diversified target return funds	6.4%	6.1%
Bonds	4.5%	4.6%
Other	2.0%	2.0%

	2013	2012
<i>Changes in the present value of scheme liabilities</i>	<i>£'000</i>	<i>£'000</i>
Present value of scheme liabilities at the start of the period	44,519	47,885
Interest cost	2,021	2,225
Current service cost (excl DIS premiums)	-	428
Member contributions	-	170
DWP rebate	-	129
Actuarial gain/ (loss)	3,620	(638)
Effects of any curtailments or settlements	-	(5,007)
Past service cost	-	755
Benefits paid	(1,182)	(1,428)
Present value of scheme liabilities at the end of the period	48,978	44,519

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22 PENSIONS (continued)

<i>Changes in the market value of assets</i>	2013 £'000	2012 £'000
Market value of assets at the start of the period	39,100	35,316
Expected return on scheme assets	2,307	2,347
Actuarial gain	887	552
Member contributions	-	170
DWP rebate	-	129
Employer contributions (excl DIS premiums)	2,250	2,014
Benefits paid	(1,182)	(1,428)
Market value of assets at the end of the period	43,362	39,100

<i>History of experience gains and losses</i>	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
<i>Difference between expected and actual return on scheme assets</i>					
Amount - gain/ (loss)	(888)	(552)	2,579	1,156	3,604
Percentage of scheme assets	(2%)	(1%)	7%	4%	15%
<i>Experience (losses)/gains arising on scheme liabilities</i>					
Amount - gain/ (loss)	(871)	1,596	(896)	1,949	-
Percentage of the present value of the scheme liabilities	(2%)	4%	(2%)	6.5%	0%
<i>Total actuarial (loss)/gain recognised in the statement of total Recognised gains and losses</i>					
Amount - gain/ (loss)	(2,733)	1,190	(5,717)	2,974	(7,792)
Percentage of the present value of the scheme liabilities	(6%)	3%	(12%)	7%	(20%)

The cumulative amount of actuarial gains and losses recognised since 1 January 2002 in the statement of total recognised gains and losses is a net loss of £12,448,000 (2012 – net loss of £9,715,000). The company expects to pay approximately £2,450,000 into the pension scheme in the year ended 31 October 2014.

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**23. RELATED PARTY TRANSACTIONS**

Patheon UK Limited, as a wholly owned subsidiary undertaking of Patheon Inc, has taken exemption from disclosing transactions with other wholly owned Patheon Inc subsidiaries available from the related party disclosure requirements of Financial Reporting Standard No 8. There were no other related party transactions.

**24. CAPITAL COMMITMENTS**

Amounts contracted for but not provided in the financial statements amounted to £0.3 million as at 31 October 2013 (2012, £0.9 million).

**25. IMMEDIATE AND ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The company's immediate parent undertaking is Patheon B.V., a company incorporated in the Netherlands. The ultimate parent company is Patheon Inc, a company incorporated in Canada. The controlling party is JLL Partners, a private equity group based in the US. The smallest and largest group of which the company is a member and for which group financial statements are prepared is Patheon Inc. A copy of the group financial statements can be obtained from the headquarters at the following address:-

Patheon Inc  
PO Box 110145  
Research Triangle Park,  
NC 27709-5145

**26. POST BALANCE SHEET EVENT**

On the 11<sup>th</sup> March 2014 a transaction took place between JLL Partners and Royal DSM, a Global Life Sciences and Material Sciences Company, to create DPx Holdings B.V. owned 51% by JLL Partners and 49% by Royal DSM. The transaction combined Patheon Inc with the Royal DSM owned DSM Pharmaceutical Products so that the ultimate parent company of Patheon UK Limited is DPx Holdings B.V.