

# **Perrigo Company plc**

**Directors' Report and Consolidated Financial Statements**

**For the Twelve Months Ended December 31, 2017**

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## DIRECTORS' REPORT

### For the twelve months ended December 31, 2017

Amounts are in millions of dollars unless otherwise indicated.

The directors present their report and audited consolidated financial statements of Perrigo Company plc (the "Company," "we," "our," "us," and similar pronouns) for the twelve months ended December 31, 2017. The consolidated financial statements can be found from pages 57 to 62.

The directors have elected to prepare the consolidated financial statements in accordance with Section 279 of the Companies Act 2014, which provides that a true and fair view of the state of affairs and profit or loss may be given by preparing the financial statements in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP), as defined in section 279(1) of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of Part 6 of the Companies Act 2014. While the financial statements of the Group are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), the directors have elected to prepare the Parent company financial statements in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014.

## BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of Perrigo Company plc and our majority owned subsidiaries or affiliated companies where we have the ability to control the entity through voting or similar rights.

## PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

Perrigo Company plc was incorporated under the laws of Ireland on June 28, 2013. We became the successor registrant to Perrigo Company, a Michigan corporation, on December 18, 2013 in connection with the acquisition of Elan Corporation, plc ("Elan"). Unless the context requires otherwise, the terms "Perrigo", the "Company", "we," "our," "us," and similar pronouns used herein refer to Perrigo Company plc, its subsidiaries, and all predecessors of Perrigo Company plc and its subsidiaries.

## Strategy

Our strategy is to deliver Quality Affordable Healthcare Products<sup>®</sup> by leveraging our global infrastructure to expand our product offerings, thereby providing new innovative products and product line extensions to existing consumers and servicing new healthcare consumers through entry into adjacent or new markets. We accomplish this strategy by investing in and continually improving all aspects of our five strategic pillars:

- High quality;
- Superior customer service;
- Leading innovation;
- Best cost; and
- Empowered people.

We utilize shared services and Research and Development ("R&D") centers of excellence in order to help ensure consistency in our processes around the world, and to maintain focus on our five strategic pillars.

Our strategy is to grow through a combination of organic growth and targeted acquisitions. We continually reinvest in our R&D pipeline and work with partners as necessary to strive to be first-to-market with new products. Our organic growth has been and will continue to be driven by successful new product launches in the Consumer Health Care Americas ("CHCA"), Consumer Health Care International ("CHCI"), and Prescription ("RX") segments. Over time, we expect to continue to grow inorganically through expansion into adjacent products, product categories, and channels, as well as potentially through entry into new geographic markets. We evaluate potential acquisition targets using a return on invested capital ("ROIC") metric.

## Competitive Advantage

We believe our consumer facing business model is best-in-class in that it combines the unique competencies of a fast-moving consumer goods company and a pharmaceutical manufacturing company, with the supply chain breadth necessary to support customers in the markets we serve. These durable business model competencies align with our five strategic pillars and provide us a competitive advantage in the marketplace. We fully integrate quality in our operational systems across all products. Our ability to manage our supply chain complexity across multiple dosage forms, formulations, and stock-keeping units, as well as acquisitions, integration, and hundreds of global partners provides value to our customers. Product development and life cycle management are at the core of our operational investments. Globally we have 28 manufacturing plants that are all in good regulatory compliance standing and have systems and structures in place to guide our continued success. Our leadership team is fully engaged in aligning all our metrics and objectives around sustainable compliance with industry associations and regulatory agencies.

Among other things, we believe the following give us a competitive advantage and provide value to our customers:

- Leadership in first-to-market product development and product life cycle management;
- Turn-key regulatory, and promotional capabilities;
- Management of supply chain complexity and utilizing economies of scale;
- Quality and cost effectiveness throughout the supply chain creating a sustainable, low-cost network; and
- Expansive pan-European commercial infrastructure, brand-building capabilities, and a diverse product portfolio.

## Who we are

We are a leading global healthcare company, delivering value to our customers and consumers by providing Quality Affordable Healthcare Products<sup>®</sup>. Founded in 1887 as a packager of home remedies, we have built a unique business model that is best described as the convergence of a fast-moving consumer goods company, a high-quality pharmaceutical manufacturing organization and a world-class supply chain network. We believe we are one of the world's largest manufacturers of over-the-counter ("OTC") healthcare products and suppliers of infant formulas for the store brand market. We are a leading provider of branded OTC products throughout Europe, and also a leading producer of generic pharmaceutical topical products such as creams, lotions, and gels, as well as nasal sprays and injection ("extended topical") prescription drugs. We are headquartered in Ireland, and sell our products primarily in North America and Europe, as well as in other markets, including Australia, Israel and China.

## New products

We consider a product to be new if it was (i) reformulated, (ii) involved product line extension due to changes in characteristics such as strength, flavor, or color, (iii) involved a change in product status from "prescription only" ("Rx") to OTC, (iv) was a new generic or branded launch, (v) was provided in a new dosage form or (vi) was sold to a new geographic area with different regulatory authorities, in all cases, within 12 months prior to the end of the period for which net sales are being measured. During the year ended December 31, 2017, new product sales were \$209.7 million.

## Our segments

Our reporting segments are as follows:

- **Consumer Healthcare Americas ("CHCA")**, comprises our U.S., Mexico and Canada consumer healthcare business (OTC, contract, infant formula and animal health categories).
- **Consumer Healthcare International ("CHCI")**, comprises our branded consumer healthcare business primarily in Europe and our consumer focused businesses in the U.K., Australia, and Israel. This segment also includes our U.K. liquid licensed products business.
- **Prescription Pharmaceuticals ("RX")**, comprises our U.S. Prescription Pharmaceuticals business.

We also had two legacy operating segments, Specialty Sciences and Other, which contained our Tysabri<sup>®</sup> financial asset and Active Pharmaceuticals business ("API") businesses, respectively, which we divested (refer to Note 2 and Note 11). Following these divestitures, there were no substantial assets or operations left in either of these segments. Effective January 1, 2017, all expenses associated with our former Specialty Sciences segment were moved to unallocated expenses. Financial information related to our business segments and geographic locations can be found in Note 22. Our segments reflect the way in which our management makes operating decisions, allocates resources and manages the growth and profitability of the Company.

## **Major developments in our business**

### **Restructuring**

On February 21, 2017, we approved a workforce reduction plan as part of a larger cost optimization strategy across the Company, which was completed during the year. Our plan was to reduce our global workforce by approximately 750 employees, which included some actions already taken and 235 employees who had elected to participate in a voluntary early retirement program. This represented a reduction of approximately 14% of our global non-production workforce. The changes to our workforce varied by country, based on legal requirements and required consultations with works councils and other employee representatives, as appropriate. During the year ended December 31, 2017, we recognized \$61.0 million of restructuring expenses (refer to Note 20). In addition, during the year ended December 31, 2017, we executed a supply chain reorganization which continues to generate savings for both our North American and International segments.

### **Elan Acquisition**

On December 18, 2013, we acquired Elan in a cash and stock transaction totaling \$9.5 billion. The acquisition led to the creation of our then new corporate structure headquartered in Dublin, Ireland. We have utilized this structure to continue to grow in our core markets and further expand outside of the U.S. The acquisition also provided us with the Tysabri<sup>®</sup> financial asset.

In November 2016, we initiated a strategic review of the Tysabri<sup>®</sup> financial asset. During this review, we identified impairment indicators of the fair value of that royalty stream, which led to a goodwill impairment recorded during the year ended December 31, 2016 (refer to Note 3 and Note 11 for additional information on the impairment and fair value adjustments, respectively). On March 27, 2017, we announced the completed divestment of the Tysabri<sup>®</sup> financial asset to Royalty Pharma for up to \$2.85 billion, consisting of \$2.2 billion in cash and up to \$250.0 million and \$400.0 million in royalties earned if global net sales of Tysabri<sup>®</sup> meet specific thresholds in 2018 and 2020, respectively. As a result of this transaction, we transferred the entire financial asset to Royalty Pharma and recorded a \$17.1 million gain during the three months ended April 1, 2017 (refer to Note 11 for additional information on the Royalty Pharma contingent milestone payments).

### **Divestitures**

In addition to the above mentioned Tysabri<sup>®</sup> financial asset disposal, as a result of our continued efforts to implement certain initiatives, streamline our organization and review our portfolio, during the year ended December 31, 2017, we divested the following (refer to Note 2):

- Certain Abbreviated New Drug Applications ("ANDAs") for \$15.0 million in proceeds.
- Our animal health pet treats property, plant and equipment for \$7.7 million in proceeds.
- Our India API business for \$22.2 million in proceeds.
- Our Russian business for €12.7 million (\$15.1 million) in proceeds.
- Our Israel API business for \$110.0 million in proceeds.

## PRINCIPAL RISKS AND UNCERTAINTIES

### Risks Related to Operations

**We face vigorous competition from other pharmaceutical and consumer goods companies that may threaten the commercial acceptance and pricing of our products.**

We operate in a highly competitive environment. Our products compete against store brand, generic, and branded pharmaceuticals. Competition is also impacted by changes in regulations and government pricing programs that may give competitors an advantage.

- As a manufacturer of generic versions of brand-name drugs through our CHCA and RX segments, we experience competition from brand-name drug companies that may try to prevent, discourage or delay the use of generic versions through various measures, including introduction of new branded products, legislative initiatives, changing dosage forms or dosing regimens, regulatory processes, filing new patents or patent extensions, lawsuits, citizens' petitions, and negative publicity prior to introduction of a generic product. In addition, brand-name competitors may lower their prices to compete with generic products, increase advertising, or launch, either through an affiliate or licensing arrangements with another company, an authorized generic at or near the time the first generic product is launched, depriving the generic product potential market exclusivity.
- Our CHCA and RX segments may experience increased price competition as other generic companies produce the same product, sometimes for dramatically lower margins in order to gain market share. Other generic companies may introduce new drugs and/or drug delivery techniques that make our current products less desirable. A drug may be subject to competition from alternative therapies during the period of patent protection or regulatory exclusivity, and thereafter, we may be subject to further competition from generic products or biosimilars.
- The pharmaceutical industry is consolidating. This creates larger competitors and places further pressure on prices, development activities, and customer retention. Our animal health category within the CHCA segment has seen an increase in direct to consumer advertising by several branded competitors, which may increase in the future, and our nutritionals category has experienced increased competition through alternative channels such as health food stores, direct mail and direct sales.
- We develop and distribute branded products primarily through our CHCI segment. We experience competition from other brand-name drug companies, many of which are larger and have more resources to devote to advertising and marketing. These direct competitors may be able to adapt more quickly to changes in customer requirements. Our current and future competitors may develop products comparable or superior to those offered by us at more competitive prices.
- Our CHCA and RX segments also experience competition from our generic competitors, some of whom are significantly larger than we are, who may develop their products more rapidly or complete regulatory approval processes sooner, or may market their products earlier than we do.
- If we are unable to compete successfully, our business will be harmed through loss of customers or increased negative pricing pressure that would adversely affect our ability to generate revenue and adversely affect our operating results.

**If we do not continue to develop, manufacture, and market innovative products that meet customer demands, we may lose market share and our net sales may be negatively impacted.**

Our continued growth is due in large part to our ability to develop, manufacture, and market products that meet customer requirements for quality, safety, efficacy, and cost effectiveness. Continuous introductions of new products and product categories are critical to our business. If we do not continue to develop, manufacture, and market new products, we could lose market share, and our net sales may be negatively impacted.

- We maintain a diversified product line to function as a primary supplier for our customers. Capital investments are driven by growth, technological advancements, cost improvement and the need for

manufacturing flexibility. Our future capital expenditures could vary materially due to the uncertainty of these factors. In addition, if we fail to stay current with the latest manufacturing, information and packaging technology, we may be unable to competitively support the launch of new product introductions.

- Our product margins may decline over time due to our products' aging life cycles, changes in consumer choice, changes in competition for our existing products, or the introduction of next generation innovative products; therefore, new product introductions are necessary to maintain our current financial condition. If we are unable to continue to create new products, we may lose market share or experience pricing pressure, and our net sales may be negatively impacted.
- We must prove that the regulated generic drug products in our CHCA and RX segments are bioequivalent to their branded counterparts, which may require bioequivalence studies, and in the case of topical products, even more extensive clinical endpoint trials to demonstrate their efficacy. The development and commercialization process, particularly with respect to innovative products, is both time consuming and costly, and subject to a high degree of business risk. Products currently under development may require re-design to meet evolving FDA standards, may not perform as expected, may not pass required bioequivalence studies, or may be the subject of intellectual property challenges. Necessary regulatory approvals may not be obtained in a timely manner, if at all. Any of these events may negatively impact our net sales.
- Even if we are successful in developing a product, our customers' failure to launch one of our products successfully, or delays in manufacturing developed products, could adversely affect our operating results. In addition, the FDA or similar regulatory agency could impose higher standards and additional requirements, such as requiring more supporting data and clinical data than previously required, in order to gain regulatory clearance to launch new formulations into the market, which could negatively impact our future net sales.

**Our CHCA and CHCI segments are impacted by changes in consumer preferences. If we are unable to adapt to these changes, we may lose market share and our net sales may be negatively impacted.**

While the market for store brand products has grown in recent years, there can be no assurance that the pace of this growth will continue. Consumer preferences related to health and nutritional concerns may change, which could negatively impact demand for our CHCA and CHCI products or cause us to incur additional costs to change our products or product packaging.

- The future growth and stability of U.S. store brand market share will be impacted, in part, by general economic conditions, which can influence consumers to switch to and from store brand products. Our CHCA segment sales could be negatively affected if economic conditions improve and consumers return to purchasing higher-priced brand-name products. Conversely, while store brand products present an alternative to higher-priced branded products, if economic conditions deteriorate, our CHCA segment sales could be negatively impacted if consumers forgo obtaining healthcare or reduce their healthcare spending.
- Our CHCI segment's success is dependent on the continued growth in demand for its lifestyle products, which include weight-loss products and various dietary supplements. If demand for these products decreases, our CHCI segment's results of operations would be negatively impacted.
- Our CHCA customers may request changes in packaging to meet consumer demands, which could cause us to incur inventory obsolescence charges and redesign costs, which in turn would negatively impact our CHCA segment's results of operations.
- Our infant formula product category within our CHCA segment is subject to changing consumer preferences and health and nutrition-related concerns. Our business depends, in part, on consumer preferences and choices, including the number of mothers who choose to use infant formula products rather than breastfeed their babies. To the extent that private, public, and government sources may promote the benefits of breastfeeding over the use of infant formula, there could be a reduced demand for infant formula products. We could also be adversely impacted by an increase in the number of families that are provided with infant formula by the U.S. federal government through the Women, Infants and Children program, as we do not participate in this program.



**We operate in highly regulated industries, and any inability to timely meet current or future regulatory requirements could have a material adverse effect on our business, financial position, and operating results.**

We are subject to the regulations of a variety of U.S. and non-U.S. agencies related to the manufacturing, processing, formulation, packaging, labeling, testing, storing, distribution, advertising, and sale of our products. Government regulation in the markets in which we operate impacts our business, and our future results could be materially adversely affected by changes in such regulations or policies. Below are some of the ways in which government regulation could impact our business and/or financial results:

- We must obtain approval from the appropriate regulatory agencies in order to manufacture and sell our products in the regions in which we operate. Obtaining this approval can be time consuming and costly. There can be no assurance that, in the event we submit an application for a marketing authorization to any global regulatory agency, we will obtain the approval to market a product and/or that we will obtain it on a timely basis. Laws unique to the U.S. regulatory framework encourage generic competition by providing eligibility for first generic marketing exclusivity if certain conditions are met. If we are granted generic exclusivity, the exclusivity may be shared with other generic companies, including authorized generics; or it is possible that we may forfeit 180-day exclusivity if we do not obtain regulatory approval or begin marketing the product within the statutory requirements. Finally, if we are not the first to file our ANDA, the FDA may grant 180-day exclusivity to another company, thereby effectively delaying the launch of our product and/or possibly reducing our market share.
- Global regulatory agencies regularly inspect our manufacturing facilities and the facilities of our third-party suppliers. The failure of one of our facilities, or a facility of one of our third-party suppliers, to comply with applicable laws and regulations may lead to a breach of representations made to our customers, or to regulatory or government action against us related to the products made in that facility. Such action could include suspension of or delay in regulatory approvals. If the compliance violations are severe, agencies of the government may initiate product seizure, injunction, recall, suspension of production or distribution of our products, loss of certain licenses or other governmental penalties, or civil or criminal prosecution, thereby impacting the reputation of all of our products.
- In the U.S., the DSCSA requires development of an electronic pedigree to track and trace each prescription drug at the salable unit level through the distribution system, which will be effective incrementally over a 10-year period beginning on January 1, 2015, for manufacturers, wholesale distributors, and re-packagers, and on July 1, 2015 for dispensers. Similarly, the European Commission passed legislation requiring new product packaging 'safety features' to prevent falsification of medicinal products primarily within the prescription medicines sector. The act was adopted February 9, 2016. EU member states (with the exception of Belgium, Italy and Greece), and EEA members Norway, Iceland, Liechtenstein and Switzerland must be in compliance within three years, or by February 9, 2019. Belgium, Italy, and Greece have until February 9, 2025 to comply. Marketing Authorization holders will have three years from the publication date to implement the necessary changes or risk forfeiting their product licenses. Compliance with the new U.S. and EU electronic pedigree requirements may increase our operational expenses and impose significant administrative burdens.
- Global regulatory agencies highly scrutinize any product application submitted to switch a product from physician prescribed Rx to unsupervised OTC use by the general public. The expansion of Rx-to-OTC switches is critical to our future growth. Reluctance of regulatory agencies to approve Rx-to-OTC switches in new product categories could impact that growth.
- Our infant formula products may be subject to barriers or sanctions imposed by countries or international organizations limiting international trade and dictating the specific content of infant formula products. Governments could enhance regulations on the industry aimed at ensuring the safety and quality of dairy products, including, but not limited to, compulsory batch-by-batch inspection and testing for additional safety and quality issues. Such inspections and testing may increase our operating costs related to infant formula products.
- If we are unable to successfully obtain the necessary quota for controlled substances and List I chemicals, we risk having delayed product launches or failing to meet commercial supply obligations. If we are unable



to comply with regulatory requirements for controlled substances and List I chemicals, the DEA, or similar regulatory agency, may take regulatory actions, resulting in temporary or permanent interruption of distribution of our products, withdrawal of our products from the market, or other penalties.

- In order to commercially distribute our medical device products in the EU, they need to conform with the requirements of applicable EU directives. The method of assessing conformity varies depending on the class of the product, but normally involves a combination of self-assessment by the manufacturer and a third-party assessment by a Notified Body, an organization accredited by a member state, which includes an audit of the manufacturer's quality system and, for some products, specific product testing. If our products fail to meet the applicable EU directives, then we may not meet our projected growth targets and/or incur fines and penalties.
- Our operations extend to numerous countries outside the U.S. and are subject to the risks inherent in conducting business globally and under the laws, regulations, and customs of various jurisdictions. These risks include compliance with a variety of national and local laws of countries in which we do business, such as restrictions on the import and export of certain intermediates, drugs, and technologies. We must also comply with a variety of U.S. laws related to doing business outside of the U.S., including Office of Foreign Asset Controls; United Nations and EU sanctions; the Iran Threat Reduction and Syria Human Rights Act of 2012; and rules relating to the use of certain "conflict minerals" under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Further changes in laws, regulations, and practices affecting the pharmaceutical industry and the healthcare system, including imports, exports, manufacturing, quality, cost, pricing, reimbursement, approval, inspection, and delivery of healthcare, may affect our business and operations.
- Changes in existing regulations or the adoption of new regulations in the countries in which we operate could impose restrictions or delays on our ability to manufacture, distribute, sell or market our products, may be difficult or expensive for us to comply with, and may adversely affect our revenues, results of operations, or financial condition.

**Continuing Healthcare reforms and related changes to reimbursement methods in and outside of the United States may have an adverse effect on our financial condition and results of operations.**

Increasing healthcare expenditures have received considerable public attention in many of the countries in which we operate. In the U.S., government programs such as Medicare and Medicaid, as well as private insurers, have been focused on cost containment. In some markets in the EU and outside the U.S., the government provides healthcare at low direct cost to consumers and regulates pharmaceutical prices or patient reimbursement levels to control costs for the government-sponsored healthcare system. Both private and governmental entities are seeking ways to reduce or contain healthcare costs.

Our RX segment in particular could be materially adversely impacted by measures taken by governmental entities or private insurers to restrict patients' access to our products or increase pressure on drug pricing, including denial of price increases, prospective and retrospective price decreases, and increased mandatory discounts or rebates. These actions may drive us and our competitors to decrease prices or may reduce the ability of customers to pay for our products, which could materially negatively impact the RX segment's results of operations.

**If we fail to comply with the reporting and payment obligations under the Medicaid rebate program or other governmental purchasing and rebate programs, we could be subject to fines or penalties, which could have an adverse effect on our financial condition and results of operations.**

We have entered into various government drug pricing agreements with the U.S. government. There are inherent risks associated with participating in these programs, including the following:

- By their nature, these programs require us to provide discounts and rebates and therefore reduce our net product revenues. Further, because the amounts of these discounts are based on our commercial sales practices and can be adversely affected by both significant discounts and price increases, it is important that we maintain pricing practices that appropriately take into account these government pricing programs.

- We are required to report pricing data to CMS, including AMP, on a monthly and quarterly basis and BP and ASP on a quarterly basis. We also are required to report quarterly and annual Non-FAMPs to the VA. If we fail to submit required information on a timely basis, make misrepresentations, or knowingly submit false information to the government as to AMP, ASP, or BP, we may be liable for substantial civil monetary penalties or subject to other enforcement actions, such as under the False Claims Act, and CMS may terminate our Medicaid drug rebate agreement. In that event, U.S. federal payments may not be available under Medicaid or Medicare Part B for our covered outpatient drugs.
- Because many of our products may be subject to Medicaid FULs or CMS's new Medicaid "actual acquisition cost" payment methodology standard, our products may be subject to reimbursement pressures, and in some cases, those pressures may result from practices outside of our control, including how our competitors price their equivalent products. Based on our initial evaluation, we do not believe that the changes have had a material impact on our business. However, states are continuing to evaluate their payment methods, and we cannot predict how the new FUL or state payment methodologies will affect our pharmacy customers or to what extent these customers may seek additional discounts in light of reimbursement changes. We also cannot predict how the sharing of FUL data and retail survey prices may impact competition in the marketplace in the future.
- Under the 340B program, if we fail to provide required discounts to covered entities, we may be subject to refund claims or civil money penalties under that program.
- If we inadvertently overcharge the government in connection with our FSS contract or TriCare Agreement, whether due to a misstated FCP or otherwise, we would be required to refund the difference. Failure to make necessary disclosures and/or to identify contract overcharges can result in False Claims Act allegations or potential violations of other laws and regulations. Unexpected refunds to the government, and responses to a government investigation or enforcement action, are expensive and time-consuming, and could have a material adverse effect on our business, financial condition, results of operations, and growth prospects.
- Our reporting and payment obligations under the Medicaid rebate program and other governmental purchasing and rebate programs are complex and may involve subjective decisions. Our calculations and methodologies are subject to review by the governmental agencies, and it is possible that these reviews could result in challenges to our submissions. If we do not comply with those reporting and payment obligations, we could be subject to civil and/or criminal sanctions, including fines, penalties, and possible exclusion from U.S. federal healthcare programs.

**Lack of availability, or significant increases in the cost, of raw materials used in manufacturing our products could adversely impact our profit margins and operating results.**

Affordable high quality raw materials and packaging components are essential to all of our business units due to the nature of the products we manufacture. In addition, maintaining good supply relationships is essential to our ongoing operations.

- We maintain several single-source supplier relationships, either because alternative sources are not available or because the relationship is advantageous due to regulatory, performance, quality, support, or price considerations. Unavailability or delivery delays of single-source components or products could adversely affect our ability to ship the related product in a timely manner. The effect of unavailability or delivery delays would be more severe if associated with our higher-volume or more profitable products. Even where alternative sources of supply are available, qualifying the alternate suppliers and establishing reliable supplies could cost more or result in delays and a loss of net sales. Additionally, global regulatory requirements for obtaining product approvals could substantially lengthen the approval of an alternate material source. As a result, the loss of a single-source supplier could have a material adverse effect on our results of operations.
- The rapid increase in cost of many raw materials from inflationary forces, such as increased energy costs, and our ability or inability to pass on these increases to our customers could have a negative material impact on our financial results.

- Our infant formula products require certain key raw ingredients that are derived from raw milk, such as skim milk powder, whey protein powder, and lactose. Our supply of milk-based ingredients may be limited by the ability of individual dairy farmers and cooperatives to provide raw milk in the amount and quality we deem necessary. Raw milk production is influenced by factors beyond our control including seasonal and environmental factors, governmental agricultural and environmental policy, and global demand. We cannot guarantee that there will be sufficient supplies of these key ingredients necessary to produce infant formula.
- Our products, and the raw materials used to make the products mentioned above, generally have limited shelf lives. Our inventory levels are based, in part, on expectations regarding future sales. We may experience build-ups in inventory if sales slow. Any significant shortfall in sales may result in higher inventory levels of raw materials and finished products, thereby increasing the risk of inventory spoilage and corresponding inventory write-downs and write-offs. Cargo thefts and/or diversions, and economically or maliciously motivated product tampering on store shelves may occur, causing unexpected shortages and harm to our reputation, which may have a material impact on our operations.
- We rely on third parties to source many of our raw materials, as well as to manufacture sterile, injectable products that we distribute. We maintain a strict program of verification and product testing throughout the ingredient sourcing and manufacturing process to identify potential counterfeit ingredients, adulterants, and toxic substances. Nevertheless, discovery of previously unknown problems with the raw materials or product manufacturing processes, or new data suggesting an unacceptable safety risk associated therewith, could result in a voluntary or mandatory withdrawal of the contaminated product from the marketplace, either temporarily or permanently. Any future recall or removal would result in additional costs and lost revenue, harm our reputation, and may give rise to product liability litigation.
- Changes in regulation could impact the supply of the API and certain other raw materials used in our products. For example, the EU recently promulgated new standards requiring all API imported into the EU be certified as complying with GMP established by the EU. The regulations placed the certification requirement on the regulatory bodies of the exporting countries, which led to an API supply shortage in Europe as certain governments were not willing or able to comply with the regulation in a timely fashion, or at all. A shortage in API or other raw ingredients could cause us to have to cease manufacture of certain products, or to incur costs and delays to qualify other suppliers to substitute for those API manufacturers are unable to export. This could have a material adverse effect on our business, results of operations, financial condition, and cash flow.

**A disruption at any of our main manufacturing facilities could materially and adversely affect our business, financial position, and results of operations.**

Our manufacturing operations are concentrated in a few locations. A significant disruption at one or more of these facilities, whether it be due to fire, natural disaster, power loss, intentional acts of vandalism, war, terrorism, insufficient quality, or pandemic could materially and adversely affect our business.

Additionally, regulatory authorities routinely inspect all of our manufacturing facilities for cGMP compliance. While our manufacturing sites are cGMP compliant, if a regulatory authority were to identify serious adverse findings not corrected upon follow up inspections, we may be required to issue product recalls, shutdown manufacturing facilities, and take other remedial actions. If any manufacturing facility were forced to cease or limit production, our business could be adversely affected.

**Any breach, disruption or misuse of our information systems, cyber security efforts or personal data could have a material adverse effect on our business.**

We are increasingly dependent upon information technology systems to operate our business. Our systems, information, and operations, as well as our independent vendor relationships (where they support information technology and manufacturing infrastructure), are highly complex. These systems may contain confidential information (including trade secrets or other intellectual property or proprietary business information). The size and complexity of these systems makes them potentially vulnerable to disruption or damage from security breaches, hacking, data theft, denial of service attacks, human error, sabotage, industrial espionage, and computer viruses. Such events may be difficult to detect, and once detected, their impact may be difficult to assess. While we

continue to employ resources to monitor our systems and protect our infrastructure, these measures may prove insufficient depending upon the attack or threat posed.

We are subject to numerous laws and regulations designed to protect personal data, such as the national laws implementing the European Union Directive on Data Protection (which will be replaced by the EU GDPR from May 2018 onward). The EU GDPR will introduce more stringent data protection requirements in the EU, as well as substantial fines for breaches of the data protection rules. The EU GDPR will increase our responsibility and liability in relation to personal data that we process, and we may be required to put in place additional mechanisms to ensure compliance with the new EU data protection rules.

These risks include:

- Breaches or disruptions could impair our ability to develop, meet regulatory approval efforts, produce, and/or ship products, take and fulfill orders, and/or collect and make payments on a timely basis;
- Any system issue, whether as a result of an intentional breach or a natural disaster, could damage our reputation and cause us to lose customers, experience lower sales volume, and incur significant liabilities;
- We could incur significant expense by ensuring compliance with any required disclosures mandated by the numerous global privacy and security laws and regulations; and
- Any interruption, security breach, or loss, misappropriation, or unauthorized access, use or disclosure of confidential information, could result in financial, legal, business, and reputational harm to us and could have a material adverse effect on our business, financial condition, and results of operations.

**Because our business depends upon certain customers for a significant portion of our sales, our business would be adversely affected by a disruption of our relationship with these customers or any material adverse change in these customers' businesses.**

Sales to our largest customer, Walmart, comprised approximately 13% of our net sales for the year ended December 31, 2017. While no other customer individually comprised more than 10% of net sales, we do have other significant customers. If our relationship with Walmart or any of our other significant customers, including the terms of doing business with the customers, changes significantly, it could have a material adverse impact on us.

Many of our customers, which include chain drug stores, wholesalers, distributors, hospital systems, and group purchasing organizations, continue to merge or consolidate. Such consolidation has provided, and may continue to provide, customers with additional purchasing leverage, and consequently may increase the pricing pressures we face. The emergence of large buying groups representing independent retail pharmacies enable those groups to extract price discounts on our products. In addition, a number of our customers have instituted sourcing programs limiting the number of suppliers of generic pharmaceutical products carried by that customer. These developments have resulted in heightened pricing pressure on our products, as well as competition among generic drug producers for business from a smaller and more selective customer base.

Additionally, if we are unable to maintain adequately high levels of customer service over time, customers may choose to assess penalties, obtain alternate sources for products, and/or end their relationships with us.

**Although we have divested our rights to the Tysabri<sup>®</sup> royalty stream, we are entitled to additional milestone payments if certain specified thresholds are met, and any negative developments related to Tysabri<sup>®</sup> could have a material adverse effect on our receipt of those payments.**

We occasionally enter into arrangements that entitle us to potential royalties from third parties. Our most significant royalty has been the Tysabri<sup>®</sup> royalty stream which we received quarterly from Biogen. During the year ended December 31, 2016, \$84.4 million of cash was earned, which was received during the year ended December 31, 2017. On March 27, 2017, we divested our rights to the Tysabri<sup>®</sup> royalty stream to Royalty Pharma for \$2.2 billion in cash at closing and up to \$250.0 million and \$400.0 million in milestone payments if global net sales of Tysabri<sup>®</sup> meet specific thresholds in 2018 and 2020, respectively. Our receipt of these milestone payments may be negatively impacted if the royalty streams decrease and are insufficient to meet the specified thresholds. Given the fact these milestone payments are recorded at fair value, if it is determined that Tysabri<sup>®</sup> global sales levels do not meet specific thresholds, we would recognize a material charge in the Consolidated Profit and Loss Account. Factors that may have an adverse effect on the Tysabri<sup>®</sup> royalty stream include:

- Companies working to develop new therapies or alternative formulations of products for multiple sclerosis that, if successfully developed, would compete with, or could gain greater acceptance than, Tysabri<sup>®</sup> and damage its market share. In February 2016, a competitor's pipeline product, Ocrevus<sup>®</sup>, received breakthrough therapy designation from the FDA, this product was launched in 2017. The product is expected to compete with Tysabri<sup>®</sup> and have a significant negative impact on the Tysabri<sup>®</sup> royalty stream;
- Biogen is the owner of the patents on Tysabri<sup>®</sup>. The loss of protection of these patents, such as a patent invalidation, could adversely affect the royalty stream from Tysabri<sup>®</sup>. In addition, once the Tysabri<sup>®</sup> patents expire, other generic companies may introduce products similar to Tysabri<sup>®</sup> that could adversely affect the royalty stream;
- Foreign currency movement, which could have a negative impact on Biogen's Tysabri<sup>®</sup> sales, thereby reducing the royalties;
- Any negative developments relating to Tysabri<sup>®</sup>, such as safety, efficacy, or reimbursement issues, could reduce demand for Tysabri<sup>®</sup>; and
- Adverse regulatory or legislative developments could limit or prohibit the sale of Tysabri<sup>®</sup>, such as restrictions on the use of Tysabri<sup>®</sup> or safety-related label changes, including enhanced risk management programs, which may significantly reduce expected royalty revenue and require significant expense and management time to address the associated legal and regulatory issues.

Additionally, Tysabri<sup>®</sup> sales growth cannot be assured given the significant restrictions on its use and the significant safety warnings on the label, including the risk of developing Progressive Multifocal Leukoencephalopathy ("PML"), a serious brain infection. The risk of developing PML may increase with prior immunosuppressant use, longer treatment duration, or the presence of certain antibodies. Increased incidence of PML could limit sales growth, prompt regulatory review, require significant changes to the label, or result in market withdrawal. In addition, the result of ongoing or future clinical trials involving Tysabri<sup>®</sup> or other adverse events reported in association with the use of Tysabri<sup>®</sup> may have an adverse impact on prescribing behavior and reduce sales of Tysabri<sup>®</sup>.

Furthermore, there can be no assurance that Royalty Pharma will pay either or both of the milestone payments even if the specified thresholds are met.



**We are dependent on the services of certain key members of management. Our inability to successfully manage transition, or the failure to attract and retain other key members of management, may have a material adverse impact on our results of operations.**

We are dependent on the services of certain key employees, and our future success will depend in large part upon our ability to attract and retain highly skilled employees. Key functions for us include executive managers, operational managers, R&D scientists, information technology specialists, financial and legal specialists, regulatory professionals, quality compliance specialists, and sales/marketing personnel. If we are unable to attract or retain key qualified employees, our future operating results may be adversely impacted.

**Management transition creates uncertainties, and any difficulties we experience in managing such transitions may negatively impact our business.**

Recently, we have experienced changes in our executive leadership. In June 2017, we announced the forthcoming retirement of John T. Hendrickson as our Chief Executive Officer. On January 8, 2018, we announced the appointment of Uwe Roehrhoff as President and Chief Executive Officer and member of our Board. Mr. Hendrickson will continue to serve in an advisory role until March 15, 2018. In addition, in February 2017, we announced the resignation of Judy L. Brown as our Executive Vice President, Business Operations and Chief Financial Officer, effective February 27, 2017. Ronald L. Winowiecki, who had been with the Company in various treasury and senior finance roles since October 2008, most recently as our Senior Vice President of Business Finance, served as acting Chief Financial Officer from February 27, 2017 until his appointment as Chief Financial Officer on February 20, 2018. Changes in executive management create uncertainty. Moreover, changes in our company as a result of management transition could have a disruptive impact on our ability to implement, or result in changes to, our strategy and could negatively impact our business, financial condition and results of operations.

**Unfavorable publicity or consumer perception of the safety, quality, and efficacy of our products could have a material adverse impact on our business.**

We are dependent upon consumers' perception of the safety, quality, and efficacy of our products, and may be affected by changing consumer preferences. Negative consumer perception may arise from media reports, product liability claims, regulatory investigations, or recalls, regardless of whether they involve us or our products. The mere publication of information asserting defects in products or ingredients, or concerns about our products or the materials used in our products, could discourage consumers from buying our products, regardless of whether such information is scientifically supported.

- Our products involve risks such as product contamination, spoilage, mislabeling, and tampering that could require us to recall one or more of our products. Serious product quality concerns could also result in governmental actions against us that, among other things, could result in the suspension of production or distribution of our products, product seizures, loss of certain licenses, delays in the issuance of governmental approvals for new products, or other governmental penalties, all of which could be detrimental to our reputation and reduce demand for our products.
- We cannot guarantee that counterfeiting, imitation or other tampering with our products will not occur or that we will be able to detect and resolve it. Any counterfeiting or contamination of any products could negatively impact our reputation and sales, particularly if counterfeit or imitation products cause death or injury to consumers.
- Many of the brands we acquired from Omega have European recognition. This recognition is the result of the large investments Omega has made in its products over many years. The quality and safety of the products are critical to our business. If we are unable to effectively manage real or perceived issues, including concerns about safety, quality, efficacy, or similar matters, sentiments toward us and our products could be negatively impacted.
- Our CHCI segment's financial success is dependent on the success of its brands, and the success of these brands can suffer if marketing plans or product initiatives do not have the desired impact on a brand's image or its ability to attract consumers and the performance of the segment may be negatively impacted if spending on such plans and initiatives does not generate the returns we anticipate. In addition, given the association of individual products within the commercial network of our CHCI segment, an issue with one of

our products could negatively affect the reputation of other products, thereby potentially hurting our financial results.

- Powdered infant formula products are not sterile. All of our infant formula products must be prepared and maintained according to label instruction to retain their flavor and nutritional value and avoid contamination or deterioration. Depending on the product, a risk of contamination or deterioration may exist at each stage of the production cycle, including the purchase and delivery of raw materials, the processing and packaging of food products, and the use and handling by consumers, hospital personnel, and healthcare professionals. In the event that certain of our infant formula products are found or alleged to have suffered contamination or deterioration, whether or not under our control, our reputation and our infant formula product category sales could be materially adversely affected.

**Increasing use of social media could give rise to liability, breaches of data security, or reputation damage.**

The Company and our employees increasingly utilize social media as a means of internal and external communication.

- To the extent that we seek to use social media tools as a means to communicate about our products and/or business, there are uncertainties as to the rules that apply to such communications, or as to the interpretations that authorities will apply to the rules that exist. As a result, despite our efforts to monitor evolving social media communication guidelines and comply with applicable rules, there is risk that our use of social media for such purposes may cause us to be found in violation of them. A violation of such guidelines may damage our reputation as well as cause potential lawsuits and adversely affect our operating activities.
- Our employees may knowingly or inadvertently make use of social media tools in ways that may not be aligned with our social media strategy, may give rise to liability, or could lead to the loss of trade secrets or other intellectual property, or public exposure of personal information (including sensitive personal information) of our employees, clinical trial patients, customers, and others.
- Negative posts or comments about us, store brands or generic pharmaceuticals, or our products in social media could seriously damage our reputation and could adversely affect the price of our securities. In addition, negative posts or comments about our products could result in increased pharmacovigilance reporting requirements, which may give rise to liability if we fail to fully comply with such requirements.

**Our quarterly results are impacted by a number of factors, some of which are beyond the control of our management, that may result in significant quarter-to-quarter fluctuations in operating results.**

Some of the factors that may impact our quarterly results include the severity, length and timing of the cough/cold/flu and allergy seasons, the flea and tick season, the timing of new product approvals and introductions by us and our competitors, price competition, changes in the regulatory environment, changes in accounting pronouncements, changes in the levels of inventories maintained by our customers, and the timing of retailer promotional programs. These and other factors may result in significant variations in our operating results from quarter to quarter.

**We may not be able to sustain or improve operating results in our business segments.**

- We have experienced a reduction in pricing expectations during 2017 in comparison to historical patterns in our U.S. businesses, in particular in our RX segment, due to competitive pressures in the sector. The reduced pricing is attributable to a variety of factors including increased focus from customers to capture supply chain productivity savings, competition in specific product categories, the loss of exclusivity on certain products, the recent increase in the speed and number of approvals from the FDA, and consolidation of certain customers in the RX segment. We expect this pricing environment to continue to impact the Company for the foreseeable future.



- The CHCI segment has been positively impacted by market dynamics in countries such as the Nordics, Italy, and Portugal offset by softness in certain brand categories in France and Germany, as well as by unfavorable foreign currency impacts primarily in the U.K. related to Brexit. In addition, the segment had been impacted in Belgium due to cancellations of unprofitable distribution agreements. The CHCI segment has restructured its approach to addressing these markets including: (1) the implementation of a brand prioritization strategy to address these market dynamics, with an objective to balance the cost of advertising and promotional investments with expected contributions from category sales, and (2) restructured its sales force in each of these markets to more effectively serve customers. The combination of these actions is expected to improve the segment's focus on higher value OTC products, reduce selling costs and improve operating margins in the segment.
- We continue to experience a reduction in pricing expectations within our CHCA segment, primarily in the cough/cold, animal health, and analgesics categories due to various factors, including focus from customers to capture supply chain productivity savings and competition in specific product categories. We expect this pricing environment to continue to impact our CHCA segment for the foreseeable future.

There can be no assurance that we will not continue to experience challenges related to our segments, and these challenges could have a material impact on our business, cash flows, and results of operations or result in impairment charges, and the market value of our ordinary shares and/or debt securities may decline.

**We may not realize the benefits of business acquisitions and divestitures we enter into, which could have a material adverse effect on our operating results.**

In the normal course of business, we engage in discussions relating to possible acquisitions and divestitures. These transactions are accompanied by a number of risks. Many of these risks are beyond our control, and any one of them could result in increased cost, decreased net sales and diversion of management's time and energy, any or all of which could materially impact our business, financial condition, and results of operations.

## **Acquisitions**

One of our strategies is inorganic growth through the acquisition of products and companies that we expect will benefit the Company. This strategy comes with a number of financial, managerial, and operational risks. We may not realize the benefits of an acquisition because of integration and other challenges, including, but not limited to the following:

- Difficulty involved with managing the expanded operations of the respective parties, as well as identifying the extent of all weaknesses, risks, and contingent and other liabilities;
- Uncertainties involved in assessing the value, strengths, and potential profitability of the respective parties, as well as identifying the extent of all weaknesses, risks, and contingent and other liabilities of acquisition targets;
- Unanticipated changes in the business, industry, market or general economic conditions different from the assumptions underlying our rationale for pursuing the transaction;
- Difficulties due to a lack of, or limited experience in, any new product or geographic markets we enter;
- Inability to achieve identified operating and financial synergies, or return on investment, from an acquisition in the amounts or on the time frame anticipated;
- Substantial demands on our management, operational resources, technology, and financial and internal control systems, which could lead to dissatisfaction and potential loss of key customers, management, or employees;
- Integration activities that may detract attention from our day-to-day business, and substantial costs associated with the transaction process or other material adverse effects as a result of these integration efforts; and
- Difficulties, restrictions or increased costs associated with raising future capital in connection with an acquisition may impact our liquidity, credit ratings and financial position, thereby making it more difficult, restrictive or expensive to raise future capital. In addition, the issuance of equity to pay a portion of the purchase price for an acquisition would dilute our existing shareholders.

## Divestitures

We may evaluate potential divestiture opportunities with respect to portions of our business (including specific assets or categories of assets) from time to time, and may proceed with a divestiture opportunity if and when we believe it is consistent with our business strategy and initiatives. Any future divestitures could expose us to significant risk, including without limitation:

- Our ability to effectively transfer liabilities, contracts, facilities and personnel to any purchaser;
- Fees for legal and transaction-related services;
- Diversion of management resources; and
- Loss of key personnel and reduction in revenue.

If we do not realize the expected strategic, economic or other benefits of any divestiture transaction, it could adversely affect our financial condition and results of operations.

### **Our business could be negatively affected by the performance of our collaboration partners and suppliers.**

We have entered into strategic alliances with partners and suppliers to develop, manufacture, market and/or distribute certain products, or components of our products in various markets. We commit substantial effort, funds and other resources to these various collaborations. There is a risk that our investments in these collaborative arrangements will not generate financial returns. While we believe our relationships with our partners and suppliers generally are successful, disputes, conflicting priorities or regulatory or legal intervention could be a source of delay or uncertainty as to the expected benefit of the collaboration (refer to Note 21 for additional detail on our collaborative agreements and other contractual arrangements). A failure or inability of our partners or suppliers to fulfill their collaboration obligations, or the occurrence of any of the risks above, could have an adverse effect on our business, financial condition and results of operations.

### **We have acquired significant assets that could become impaired or subject us to losses and may result in an adverse impact on our results of operations.**

We have recorded significant intangible assets and goodwill on our balance sheet as a result of previous acquisitions, which could become impaired and lead to material charges in the future.

As of the year ended December 31, 2017, we recorded definite-lived intangible asset impairment charges of \$19.7 million related to developed product technology/formulation and product rights, and distribution and license agreements primarily in our RX segment and \$12.7 million of impairment charge related to certain IPR&D assets primarily in our RX segment.

As of the year ended December 31, 2016, we recorded the following impairments:

- Goodwill impairment charges of \$1.1 billion related to our Specialty Sciences, Branded Consumer Healthcare-Rest of World ("BCH-ROW"), BCH-Belgium, and Animal Health reporting units.
- Indefinite-lived and definite-lived intangible asset impairment charges of \$1.5 billion related to: Trademarks, trade names and brands, developed product technology/formulation and product rights, distribution and license agreements, and supply agreements.

We perform an impairment analysis on intangible assets subject to amortization when there is an indication that the carrying amount of any individual asset may not be recoverable. Any significant change in market conditions, estimates or judgments used to determine expected future cash flows that indicates a reduction in carrying value may give rise to impairment in the period that the change becomes known. As of December 31, 2017, the net book value of our intangible assets and goodwill were \$3.4 billion and \$4.2 billion, respectively. See Note 3 for more information on the above impairment charges.

**There can be no assurance that our strategic initiatives will achieve their intended effects.**

We are in the process of implementing certain initiatives designed to increase operational efficiency and improve our return on invested capital by globalizing our supply chain through global shared service arrangements, streamlining our organizational structure, making key executive employee changes, performing a strategic portfolio review, and disposing of certain assets. We believe these initiatives will enhance our net sales, operating margins, and earnings; however, there can be no assurance that these initiatives will produce the anticipated benefits. Any delay or failure to achieve the anticipated benefits could have a material adverse effect on our projected results.

**We identified material weaknesses in our internal controls over financial reporting; failure to remediate the material weakness could negatively impact our business and the price of our ordinary shares.**

In connection with our review of certain material misstatements related to the characterization of the Tysabri<sup>®</sup> royalty stream, income taxes and the evaluation of long-lived assets in our animal health reporting unit for impairment testing, in each case contained in certain of our historical financial statements and identified as part of our December 31, 2016 year end, we concluded that there were material weaknesses in our internal control over financial reporting that contributed to those misstatements. The material weaknesses over the income tax process that was identified during our fiscal year ended December 31, 2016 was not remediated during our fiscal year ended December 31, 2017, and we determined that we did not design or maintain effective controls over our income tax accounting process. As a result of the material weaknesses, we concluded that we did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2016, April 1, 2017, July 1, 2017, September 30, 2017 or December 31, 2017 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The failure to maintain effective control over financial reporting in turn resulted in material deficiencies in our disclosure controls and procedures.

We continue to identify and implement, actions to improve the effectiveness of our internal control over financial reporting and disclosure controls and procedures, but there can be no assurance that such remediation efforts will be successful. We have also incurred and may continue to incur substantial accounting, legal, consulting, and other costs in connection with remediating the material weaknesses. Failure to remediate the material weaknesses could have a negative impact on our business and the market for our ordinary shares.

**Global Risks**

**Our business, financial condition, and results of operations are subject to risks arising from the international scope of our operations.**

We manufacture, source raw materials, and sell our products in a number of countries. The percentage of our business outside the U.S. has been increasing. We are subject to risks associated with international manufacturing and sales, including:

- Unexpected changes in regulatory requirements;
- Problems related to markets with different cultural biases or political systems;
- Possible difficulties in enforcing agreements;
- Longer payment cycles and shipping lead-times;
- Difficulties obtaining export or import licenses;
- Changes to U.S. and foreign trade policies, including the enactment of tariffs on goods imported into the U.S., including but not limited to, goods imported from Mexico; and
- Imposition of withholding or other taxes.

Additionally, we are subject to periodic reviews and audits by governmental authorities responsible for administering import/export regulations. To the extent that we are unable to successfully defend against an audit or review, we may be required to pay assessments, penalties, and increased duties.

Certain of our facilities operate in a special purpose sub-zone established by the U.S. Department of Commerce Foreign Trade Zone Board, which allows us certain tax advantages on products and raw materials shipped through these facilities. If the Foreign Trade Zone Board were to revoke the sub-zone designation or limit our use, we could be subject to increased duties.

Although we believe that we conduct our business in compliance with applicable anti-corruption, anti-bribery and economic sanctions or other anti-corruption laws, if we are found to not be in compliance with such laws or other anti-corruption laws, we could be subject to governmental investigations, legal or regulatory proceedings, substantial fines, and/or other legal or equitable penalties. This risk increases in locations outside of the U.S., particularly in locations that have not previously had to comply with the FCPA, U.K. Bribery Act, and similar laws.

**We operate in jurisdictions that could be affected by economic and political instability, which could have a material adverse effect on our business.**

Our operations and supply partners could be affected by economic or political instability, embargoes, military hostilities, unstable governments and legal systems, and inter-governmental disputes. We have significant operations in Israel, which has experienced varying degrees of hostility in recent years. Doing business in Israel and certain other regions involves the following risks:

- Certain countries and international organizations have refused to do business with companies with Israeli operations. We are also precluded from marketing our products to certain countries due to U.S. and Israeli regulatory restrictions. International economic sanctions and boycotts of our products could negatively impact our sales and ability to export our products.
- Our facilities in Israel are within a conflict zone. If terrorist acts or military actions were to result in substantial damage to our facilities, our business activities would be disrupted since, with respect to most products, we would need to obtain prior regulatory agency approval for a change in manufacturing site. In addition, our insurance may not adequately compensate us for losses that may occur, and any losses or damages incurred by us could have a material adverse effect on our business.
- The U.S. Department of State and other governments have at times issued advisories regarding travel to certain countries in which we do business. As a result, regulatory agencies have at various times curtailed or prohibited their inspectors from traveling to inspect facilities. If these inspectors are unable to inspect our facilities, the regulatory agencies could withhold approval for new products intended to be produced at those facilities.
- Our international operations may be subject to interruption due to travel restrictions, war, terrorist acts, and other armed conflicts. Also, further threats of armed hostilities in certain countries could limit or disrupt markets and our operations, including disruptions resulting from the cancellation of contracts or the loss of assets. These events could have a material adverse effect on our international business operations.
- The UK held a referendum on June 23, 2016 on its membership in the EU. A majority of UK voters voted to exit the EU (“Brexit”). The UK is scheduled to leave the EU on March 29, 2019, and negotiations are taking place to determine the future terms of the UK’s relationship with the EU, including the terms of withdrawal, the terms of future trading and relations and any potential transition periods. Brexit has created significant instability and volatility in the global financial markets, has led to significant weakening of the British pound compared to the U.S. dollar and other currencies, and could adversely affect European or worldwide economic or market conditions. Although it is unknown what the future trading terms with the EU will be, they may impair the ability of our operations in the EU to transact business in the future in the UK, and similarly the ability of our UK operations to transact business in the future in the EU. Specifically, it is possible that there will be greater restrictions on imports and exports between the UK and EU countries, increased restrictions on freedom of movement for employees, and increased regulatory complexities. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Further, among other things, Brexit could reduce consumer spending in the UK and the EU, which could result in decreased demand for our products. Any of these effects of Brexit, and others we cannot anticipate, could adversely affect our business, business opportunities, operations, and financial results.
- While the challenging global economic environment has not had a material impact on our liquidity or capital resources, there can be no assurance that possible future changes in global financial markets and global economic conditions will not affect our liquidity or capital resources, impact our ability to obtain financing, or decrease the value of our assets.

- The challenging economic conditions have also impacted the movements in exchange rates, which have experienced significant recent volatility. Uncertainty regarding the future growth rates between countries, the influence of central bank actions, and the changing political environment globally may contribute to continued high levels of exchange rate volatility, which could have an adverse impact on our results.
- Our customers could be adversely impacted if economic conditions worsen. Our CHCA segment does not advertise its products like national brand companies and thus is largely dependent on retailer promotional activities to drive sales volume and increase market share. If our customers do not have the ability to invest in store brand promotional activities, our sales may suffer. Additionally, while we actively review the credit worthiness of our customers and suppliers, we cannot fully predict to what extent they may be negatively impacted by slowing economic growth.

### **The international scope of our business exposes us to risks associated with foreign exchange rates.**

We report our financial results in U.S. dollars. However, a significant portion of our net sales, assets, indebtedness and other liabilities, and costs are denominated in foreign currencies. These currencies include among others the euro, Indian rupee, British pound, Canadian dollar, Israeli shekel, Australian dollar, and Mexican peso. The addition of Omega, a euro-denominated business, that represents a significant portion of our net sales and earnings, and a substantial portion of our net assets, has significantly increased our exposure to changes in the euro/U.S. dollar exchange rate. Approximately 34% of Omega's sales are in other foreign currencies, with the majority of the product costs for these markets denominated in euros.

In addition, several emerging market economies are particularly vulnerable to the impact of rising interest rates, inflationary pressures, weaker oil and other commodity prices, and large external deficits. While some of these jurisdictions are showing signs of stabilization or recovery, others continue to experience levels of stress and volatility. Risks in one country can limit our opportunities for portfolio growth and negatively affect our operations in another country or countries. As a result, any such unfavorable conditions or developments could have an adverse impact on our operations. Our results of operations and, in some cases, cash flows, have in the past been, and may in the future be, adversely affected by movements in exchange rates. In addition, we may also be exposed to credit risks in some of those markets. We may implement currency hedges or take other actions intended to reduce our exposure to changes in foreign currency exchange rates. If we are not successful in mitigating the effects of changes in exchange rates on our business, any such changes could materially impact our results.

### **Risks Related to Litigation and Insurance**

#### **We are or may become involved in lawsuits and may experience unfavorable outcomes of such proceedings.**

We may become involved in lawsuits arising from a wide variety of commercial, manufacturing, development, marketing, sales and other business-related matters, including, but not limited to, competitive issues, pricing, contract issues, intellectual property matters, false advertising, unfair competition, taxation matters, workers' compensation, product quality/recall, environmental remediation, securities law, disclosure, and regulatory issues. Litigation is unpredictable and can be costly. We intend to vigorously defend against any lawsuits, however, we cannot predict how the cases will be resolved. Adverse results in the cases could result in substantial monetary judgments. No assurance can be made that litigation will not have a material adverse effect on our financial position or results of operations in the future (refer to Note 20 for more information on specific ongoing litigation).

- We may be subject to liability if our products violate applicable laws or regulations in the jurisdictions where our products are distributed. The successful assertion of product liability or other product-related claims against us could result in potentially significant monetary damages, and we could incur substantial legal expenses. Even if a product liability or consumer fraud claim is unsuccessful, not merited, or not fully pursued, we may still incur substantial legal expenses defending against such a claim, and our reputation may suffer.
- We may face environmental exposures including, for example, those relating to discharges from and materials handled as part of our operations, the remediation of soil and groundwater contaminated by hazardous substances or wastes, and the health and safety of our employees. While we do not have any



material remediation liabilities currently outstanding, we may in the future face liability for the costs of investigation, removal or remediation of certain hazardous substances or petroleum products on, under or in our currently or formerly owned property, or from a third-party disposal facility that we may have used, without regard to whether we knew of, or caused, the presence of the contaminants. The actual or alleged presence of these substances, or the failure to remediate them, could have adverse effects, including, for example, substantial investigative or remedial obligations and limitations on our ability to sell or rent affected property or to borrow funds using affected property as collateral. There can be no assurance that environmental liabilities and costs will not have a material adverse effect on us.

- Our CHCI segment regularly makes advertising claims regarding the effectiveness of its products, which we are responsible for defending. An unsuccessful defense of product-related claims could result in potentially significant monetary damages and substantial legal expenses. Even if a claim is unsuccessful, not merited, or not fully pursued, we may still incur substantial legal expenses defending against such a claim, and our reputation could suffer.
- Additionally, we may be the target of claims asserting violations of securities fraud and derivative actions, or other litigation proceedings in the future.

**Increased scrutiny on pricing practices and competition in the pharmaceutical industry, including antitrust enforcement activity by government agencies and class action litigation, may have an adverse impact on our business and results of operations.**

There has been increased scrutiny regarding sales, marketing, and pricing practices in the pharmaceutical industry from both government agencies and the media, including allegations of “price gouging” and/or collusion. This includes recent U.S. Congressional inquiries and hearings in connection with the investigation of specific price increases by several pharmaceutical companies, proposed and enacted legislation seeking greater transparency in drug pricing, and criminal investigations regarding drug pricing. U.S. federal and state prosecutors have issued subpoenas to a number of pharmaceutical companies seeking information about their drug pricing practices, and several class action lawsuits have been filed that allege price-fixing with respect to various pharmaceutical products. In December 2016, the Antitrust Division of the U.S. Department of Justice (the “Antitrust Division”) filed criminal charges against two former executives from a competitor of the Company for their roles in conspiracies to fix prices, rig bids and allocate customers for certain generic drugs.

On May 2, 2017, we disclosed that search warrants were executed at a number of Perrigo facilities and other locations in connection with the Antitrust Division’s ongoing investigation related to drug pricing in the pharmaceutical industry. Although no charges have been brought to date against Perrigo or any of our current employees (or, to the best of our knowledge, former employees), we take the investigation very seriously.

If criminal antitrust charges are filed involving Perrigo, we would incur substantial litigation and other costs, and could face substantial monetary penalties, injunctive relief, negative publicity and damage to our reputation. Regardless of the ultimate outcome, responding to those charges would divert management’s time and attention and could impair our operations. Further, we cannot predict whether legislative or regulatory changes may result from the ongoing public scrutiny of our industry, what the nature of any such changes might be, or what impact they may have on Perrigo. Any of these developments could have a material adverse impact on our business, results of operations, and reputation.

We are cooperating with the government’s investigation and are committed to operating our business in compliance with all applicable laws and regulations and the highest standards of ethical conduct. We do not condone, and will not countenance, any violation of these standards by our employees, agents, and business partners.

**Publishing earnings guidance subjects us to risks, including increased stock volatility that could lead to potential lawsuits by investors.**

Because we publish earnings guidance, we are subject to a number of risks. Actual results may vary from the guidance we provide investors from time to time, such that our stock price may decline following, among other things, any earnings release or guidance that does not meet market expectations.

It has become increasingly commonplace for investors to file lawsuits against companies following a rapid decrease in market capitalization. We have been in the past, and may be in the future, named in these types of lawsuits. These types of lawsuits can be costly and divert management attention and other resources away from our business, regardless of their merits, and could result in adverse settlements or judgments, which could have a material impact on the Company.

**Third-party patents and other intellectual property rights may limit our ability to bring new products to market and may subject us to potential legal liability, causing us to incur significant costs.**

The manufacture, use and sale of new products that are the subject of conflicting patent rights have been the subject of substantial litigation in the pharmaceutical industry.

- As a manufacturer of generic pharmaceutical products, the ability of our CHCA and RX segments to bring new products to market is often limited by third-party patents or proprietary rights and regulatory exclusivity periods awarded on products. Launching new products prior to resolution of intellectual property issues may result in us incurring legal liability if the related litigation is later resolved against us. The cost and time for us to develop prescription and Rx-to-OTC switch products is significantly greater than the rest of the new products that we introduce. Any failure to bring new products to market in a timely manner could cause us to lose market share, and our operating results could suffer.
- We could have to defend against charges that we violated patents or proprietary rights of third parties. This could require us to incur substantial expense and could divert significant effort of our technical and management personnel. If we are found to have infringed on the rights of others, we could lose our right to develop or manufacture some products or could be required to pay monetary damages or royalties to license proprietary rights from third parties. Additionally, if we choose to settle a dispute through licensing or similar arrangements, the costs associated with these arrangements may be substantial and could include ongoing royalties. An adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling a number of our products.
- At times, our CHCA or RX segments may seek approval to market drug products before the expiration of patents for those products, based upon our belief that such patents are invalid, unenforceable or would not be infringed by our products. In these cases we may face significant patent litigation. Depending upon a complex analysis of a variety of legal and commercial factors, we may, in certain circumstances, elect to market a generic pharmaceutical product while litigation is pending, before any court decision, or while an appeal of a lower court decision is pending, known as an "at risk" launch. The risk involved in an "at risk" launch can be substantial because, if a patent holder ultimately prevails, the remedies available to the patent holder may include, among other things, damages measured by the profits lost by the holder, which are often significantly higher than the profits we make from selling the generic version of the product. By electing to proceed in this manner, we could face substantial damages if we receive an adverse final court decision. In the case where a patent holder is able to prove that our infringement was "willful" or "exceptional," under applicable law, the patent holder may be awarded up to three times the amount of its actual damages or we may be required to pay attorneys' fees.

**The success of certain of our products depends on the effectiveness of measures we take to protect our intellectual property rights and patents.**

If we fail to adequately protect our intellectual property, competitors may manufacture and market similar products.

- We have been issued patents covering certain of our products, and we have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries. Any existing or future patents issued to or licensed by us may not provide us with any significant competitive advantages for our products or may even be challenged, invalidated, or circumvented by competitors. In addition, patent rights may not prevent our competitors from developing, using, or commercializing non-infringing products that are similar or functionally equivalent to our products.
- We also rely on trade secrets, unpatented proprietary know-how, and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees, and consultants. If these agreements are breached, we may not have adequate remedies for any such breach.



Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, trade secrets and proprietary technology may otherwise become known or be independently developed by competitors or, if patents are not issued with respect to products arising from research, we may not be able to maintain the value of such intellectual property rights.

**Significant increases in the cost or decreases in the availability of the insurance we maintain could adversely impact our financial condition.**

To protect the Company against various potential liabilities, we maintain a variety of insurance programs, including property, general and product, and directors' and officers' liability. We may reevaluate and change the types and levels of insurance coverage that we purchase. We are self-insured when insurance is not available or not available at reasonable premiums. Risks associated with insurance plans include:

- Insurance costs could increase significantly, or the availability of insurance may decrease, either of which could adversely impact our financial condition;
- Deductible or retention amounts could increase or our coverage could be reduced in the future and to the extent losses occur, there could be an adverse effect on our financial results depending on the nature of the loss and the level of insurance coverage we maintained.
- Product liability insurance may not be available to us at an economically reasonable cost (or at all for certain specific products) or our insurance may not adequately cover our liability in connection with product liability claims (refer to Note 20 for further information related to legal proceedings); and
- As our business inherently exposes us to claims for injuries allegedly resulting from the use of our products, we may become subject to claims for which we are not adequately insured. Unanticipated payment of a large claim may have a material adverse effect on our business.

**Tax Related Risks**

**The U.S. Internal Revenue Service ("IRS") may not agree with the conclusion that we are treated as a foreign corporation for U.S. federal tax purposes.**

Although we are incorporated in Ireland, the IRS may assert that we should be treated as a U.S. corporation (and, therefore, a U.S. tax resident) for U.S. federal tax purposes pursuant to section 7874 of the U.S. Internal Revenue Code of 1986, as amended ("Code"). For U.S. federal tax purposes, a corporation generally is considered a tax resident in the jurisdiction of its organization or incorporation. Because we are an Irish incorporated entity, we would generally be classified as a foreign corporation (and, therefore, a non-U.S. tax resident) under these rules. Section 7874 of the Code provides an exception under which a foreign incorporated entity may, in certain circumstances, be treated as a U.S. corporation for U.S. federal tax purposes.

For Perrigo Company plc to be treated as a foreign corporation for U.S. federal tax purposes under section 7874 of the Code, either (i) the former stockholders of Perrigo Company must own (within the meaning of section 7874 of the Code) less than 80% (by both vote and value) of our stock by reason of holding shares in Perrigo Company (the "ownership test") as of the closing of the Elan acquisition or (ii) we must have substantial business activities in Ireland after the Elan acquisition (taking into account the activities of our expanded affiliated group).

Upon our acquisition of Elan, Perrigo Company stockholders held 71% (by both vote and value) of our shares. As a result, we believe that under current law, we should be treated as a foreign corporation for U.S. federal tax purposes. However, we cannot assure that the IRS will agree with our position that the ownership test is satisfied. There is limited guidance regarding the section 7874 provisions, including the application of the ownership test. An unfavorable determination on Perrigo Company plc's treatment as a foreign corporation under section 7874 of the Code could have a material impact on our consolidated financial statements in future periods.

Based on the limited guidance available, we currently expect that Section 7874 of the Code likely will limit our and our U.S. affiliates' ability to use their U.S. tax attributes, such as net operating losses, to offset certain U.S. taxable income, if any, generated by the Elan acquisition or certain specified transactions for a period of time following the Elan acquisition.

**Changes to tax laws could have a material adverse effect on our results of operations and the ability to utilize cash in a tax efficient manner.**

We believe that under current law, we should be treated as a foreign corporation for U.S. federal tax purposes. However, any of the following could adversely affect our status as a foreign corporation for U.S. federal tax purposes:

- Changes to the inversion rules in section 7874 of the Code, the IRS Treasury regulations promulgated thereunder, or other IRS guidance; and
- Legislative proposals aimed at expanding the scope of U.S. corporate tax residence.

On April 4, 2016, the United States Treasury ("Treasury") and the IRS issued a package of temporary regulations that incorporate the guidance promised in the 2014 and 2015 notices and provide other rules. These temporary regulations are generally effective for certain inversion transactions completed on or after November 19, 2015 or, in certain cases, to certain specified post-inversion transactions occurring after that date provided that an inversion transaction had occurred on or after September 22, 2014. We do not believe that those regulations would apply to our transaction, which occurred prior to those effective dates. Treasury and the IRS also issued final regulations on June 3, 2015, which address the "substantial business activities" test of Section 7874 of the Code. We believe that those regulations, which have an effective date of June 4, 2015, also do not impact the treatment of our status as a foreign corporation under Section 7874, as our transaction also occurred prior to the effective date of those final regulations.

On October 16, 2016, Treasury released final regulations regarding corporate tax inversions and related earnings stripping. These final regulations include provisions that may be interpreted to impact otherwise common tax structures including intercompany financing and obligations. We believe that these regulations do not materially impact our intercompany financing and obligations. Treasury has indicated that they will continue to study certain portions of the proposed regulations that were not finalized, and we will evaluate the impacts of any additional guidance or regulations to our cross-border treasury management practices and intercompany financing structures at that time. We have no assurance that such guidance, if any, will not impact our ability to utilize existing or similar structures in the future.

The Organization for Economic Co-operation and Development, which represents a coalition of member countries, has recommended changes to numerous long-standing tax principles relating to Base Erosion and Profit Shifting ("BEPS"). These changes are being adopted and implemented by many of the countries in which we do business and may increase our taxes in these countries. In addition, the European Commission has launched several initiatives to implement BEPS actions including an anti-tax avoidance directive ("ATAD I & II") and having a common (consolidated) corporate tax base. It is unclear at present if and how these initiatives will be implemented by the EU countries. Specifically, Ireland is embarking on a consultation process to implement the ATAD I & II directives and BEPS related measures. The shape of this reform may adversely impact our consolidated effective tax rate.

On December 25, 2017, Belgium enacted a tax reform bill ("Belgium Tax Act") providing for a simplified tax system including, among other items, a corporate income tax rate reduction from 33% to 29% in 2018 (and to 25% from 2020) and an increase in the participation exemption on qualifying dividends from 95% to 100% (refer to Note 18 for further information related to the Belgium Tax Act).

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("U.S. Tax Act"). The U.S. Tax Act includes a number of significant changes to existing U.S. tax laws that impact us. These changes include a corporate income tax rate reduction from 35% to 21% and the elimination or reduction of certain U.S. deductions and credits, including limitations on the deductibility of interest expense and executive compensation. The U.S. Tax Act also transitions international taxation from a worldwide system to a modified territorial system. This modified territorial system includes, among other items, base erosion prevention measures which have the effect of subjecting certain earnings of our U.S. owned foreign corporations to U.S. taxation as global intangible low-taxed income ("GILTI") and the establishment of a minimum tax on certain payments from our U.S. subsidiaries to related foreign persons as base erosion and anti-abuse tax ("BEAT"). These changes are effective beginning in 2018. The U.S. Tax Act also includes a one-time mandatory deemed repatriation tax on accumulated U.S. owned foreign corporations' previously untaxed foreign earnings ("Transition Toll Tax"). The Transition Toll Tax will be paid over an eight-year period starting in 2018 and will not accrue interest.

Our preliminary estimate of the impact of the U.S. Tax Act (including the Transition Toll Tax) is subject to the finalization of management's analysis related to certain matters, such as developing interpretations of the provisions of the U.S. Tax Act, changes to certain estimates and amounts related to the earnings and profits of certain U.S. owned foreign subsidiaries and the filing of our tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the U.S. Tax Act may require further adjustments and changes in our estimates, which could have a material adverse effect on our business, results of operations or financial conditions. The final determination of the impact of the U.S. Tax Act (including the Transition Toll Tax) will be completed as additional information becomes available, but no later than one year from the enactment of the U.S. Tax Act (refer to Note 18 for further information related to the U.S. Tax Act).

Any of these changes could have a prospective or retroactive application to us, our shareholders, and affiliates, and could adversely affect us by changing our effective tax rate and limiting our ability to utilize cash in a tax efficient manner.

**Our effective tax rate or cash tax payment requirements may change in the future, which could adversely impact our future results from operations.**

A number of factors may adversely impact our future effective tax rates or cash tax payment requirements, which may impact our future results and cash flows from operations (refer to Note 18 for further information related to Income Taxes). These factors include, but are not limited to:

- Changes to tax laws or the interpretation of such tax laws (including additional proposals for fundamental international tax reform);
- Income tax rate changes by governments;
- The jurisdictions in which our profits are determined to be earned and taxed;
- Changes in the valuation of our deferred tax assets and liabilities;
- Adjustments to estimated taxes upon finalization of various tax returns;
- Adjustments to our interpretation of transfer pricing standards, treatment or characterization of intercompany transactions, changes in available tax credits, grants and other incentives;
- Changes in stock-based compensation expense;
- Changes in U.S. generally accepted accounting principles;
- Expiration or the inability to renew tax rulings or tax holiday incentives;
- Divestitures of current operations; and
- Repatriation of non-U.S. earnings with respect to which we have not previously provided for U.S. taxes.

**The resolution of uncertain tax positions could be unfavorable, which could have an adverse effect on our business.**

Although we believe that our tax estimates are reasonable and that our tax filings are prepared in accordance with all applicable tax laws, the final determination with respect to any tax audit or any related litigation could be materially different from our estimates or from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on operating results or cash flows in the periods for which that determination is made and in future periods after the determination. In addition, future period earnings may be adversely impacted by litigation costs, settlements, penalties or interest assessments.

We are currently involved in several audit and adjustment related disputes, including litigation, with the Internal Revenue Service ("IRS"). These include litigation regarding our 2009, 2010, 2011, and 2012 tax years, as well as proposed audit adjustments related to litigation costs and transfer pricing positions related to Athena Neurosciences, Inc. ("Athena"), a subsidiary of Elan acquired in 1996, for the 2011, 2012 and 2013 tax years.

At this time, we cannot predict the outcome of any audit or related litigation. Unfavorable resolutions of the audit matters discussed above could have a material impact on our consolidated financial statements in future periods. (refer to Note 18 for further information related to uncertain tax positions and ongoing tax audits and Note 20 for further information related to legal proceedings).

### **Risks Related to Capital and Liquidity**

**Our historical failure to timely file our periodic reports with the SEC may limit our options in accessing the public markets to raise debt or equity capital, which in turn may limit our ability to pursue future transactions or strategies.**

We did not timely file our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 or our Quarterly Report on Form 10-Q for the quarter ended April 1, 2017. As a result, there currently are limits on our ability to access the public markets. For example, we are not eligible to use Form S-3 until we establish the required history of making timely filings for twelve full calendar months. The ability to use Form S-3 to register public offerings in the United States offers certain benefits, such as relatively lower costs and shorter time-frames to prepare a registration statement and cause it to become effective, which may enhance our ability to take advantage of positive market conditions as they develop. The limited availability of access to the public markets could increase the time and costs related to raising capital or prevent us from pursuing transactions or implementing future business strategies. We expect we will again become eligible to use Form S-3 as of June 1, 2018; however, any failure by us to timely file one or more of our periodic reports or otherwise remain current in our SEC reporting requirements may further inhibit our ability to access the public markets.

**Our indebtedness could adversely affect our ability to implement our strategic initiatives.**

We anticipate that cash, cash equivalents, cash flows from operations, and borrowings available under our credit facilities will substantially fund working capital and capital expenditures. Our business requires continuous capital investments, and there can be no assurance that financial capital will always be available on favorable terms or at all. Additionally, our leverage and debt service obligations could adversely affect the business. At December 31, 2017, our total indebtedness outstanding was \$3.3 billion.

- Our senior credit facilities, the agreements governing our senior notes, and agreements governing our other indebtedness contain a number of restrictions and covenants that limit our ability to make distributions or other payments to our investors and creditors unless certain financial tests or other criteria are satisfied.
- We also must comply with certain specified financial ratios and tests. These restrictions could affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities, such as acquisitions. If we do not comply with the covenants and restrictions contained in our senior credit facilities, agreements governing our senior notes, and agreements governing our other indebtedness, we could be in default under those agreements, and the debt, together with accrued interest, could then be declared immediately due and payable.
- Any default under our senior credit facilities or agreements governing our senior notes or other indebtedness could lead to an acceleration of debt under other debt instruments that contain cross-acceleration or cross-default provisions. If our indebtedness is accelerated, there can be no assurance that we would be able to repay or refinance our debt or obtain sufficient new financing.
- Downgrades to our credit ratings may limit our access to capital and materially increase borrowing costs on current or future financing, including via trade payables with vendors. Customers' inclination to purchase goods from us may also be affected by the publicity associated with deterioration of our credit ratings.
- There are various maturity dates associated with our credit facilities, senior notes, and other debt facilities. There is no assurance that cash, future borrowings or equity financing will be available for the payment or refinancing of our indebtedness. Further, there is no assurance that future refinancing or renegotiation of our senior credit facilities, senior notes or other debt facilities, or additional agreements will not have materially different or more stringent terms.

**We cannot guarantee that we will buy back our ordinary shares pursuant to our announced share repurchase plan or that our share repurchase plan will enhance long-term shareholder value.**

In October 2015, our Board of Directors authorized a \$2.0 billion three-year share repurchase plan. During the three months ended December 31, 2015, we repurchased shares through the plan totaling \$500.0 million. During 2016, we did not purchase any shares in the open market. During 2017, we repurchased \$191.5 million worth of shares. The specific timing and amount of buybacks, if any, will depend upon several factors, including market and business conditions, the trading price of our ordinary shares, and the nature of other investment opportunities. Buybacks of our ordinary shares pursuant to our share repurchase plan could affect the market price of our ordinary shares or increase their volatility. Additionally, our share repurchase plan could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. Although our share repurchase plan is intended to enhance long-term shareholder value, there is no assurance that it will do so, and short-term share price fluctuations could reduce the plan's effectiveness.

**Any additional shares we may issue could dilute your ownership in the Company.**

- Under Irish law, our authorized share capital can be increased by an ordinary resolution of our shareholders, and the directors may issue new ordinary or preferred shares up to a maximum amount equal to the authorized but unissued share capital, without shareholder approval, once authorized to do so by the articles of association or by an ordinary resolution of our shareholders.
- Subject to specified exceptions, Irish law grants statutory preemption rights to existing shareholders to subscribe for new issuances of shares for cash, but allows shareholders to authorize the waiver of the statutory preemption rights by way of special resolution with respect to any particular allotment of shares.
- Our articles of association contain, as permitted by Irish company law, a provision authorizing our Board of Directors to issue new shares for cash without offering preemption rights. The authorization of the directors to issue shares and the authorization of the waiver of the statutory preemption rights must both be renewed by the shareholders at least every five years, and we cannot provide any assurance that these authorizations will always be approved, which could limit our ability to issue equity and thereby adversely affect the holders of our securities.

**We are incorporated in Ireland; Irish law differs from the laws in effect in the United States and may afford less protection to, or otherwise adversely affect, our shareholders.**

As an Irish company, we are governed by the Irish Companies Act 2014 (the "Act"). The Act differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including the provisions relating to interested directors, mergers, amalgamations and acquisitions, takeovers, shareholder lawsuits, and indemnification of directors.

- Under Irish law, the duties of directors and officers of a company are generally owed to the company only. As a result, shareholders of Irish companies do not have the right to bring an action against the directors or officers of a company, except in limited circumstances.
- Depending on the circumstances, shareholders may be subject to different or additional tax consequences under Irish law as a result of the acquisition, ownership and/or disposition of ordinary shares, including, but not limited to, Irish stamp duty, dividend withholding tax, and capital acquisitions tax.
- There is no treaty between Ireland and the U.S. providing for the reciprocal enforcement of foreign judgments. Before a foreign judgment would be deemed enforceable in Ireland, the judgment must be provided by a court of competent jurisdiction and be for a final and conclusive sum. An Irish court may exercise its right to refuse to recognize and enforce a foreign judgment if the foreign judgment was obtained by fraud, if it violated Irish public policy, if it is in breach of natural justice, or if it is irreconcilable with an earlier judgment.
- An Irish court may stay proceedings if concurrent proceedings are being brought elsewhere. Judgments of U.S. courts of liabilities predicated upon U.S. federal securities laws may not be enforced by Irish courts if deemed to be contrary to public policy in Ireland.



We are subject to Irish takeover rules under which our Board of Directors is not permitted to take any action without shareholder or Irish Takeover Panel approval that might frustrate an offer for our ordinary shares once we have received an approach that may lead to an offer, or have reason to believe an offer is or may be imminent. Further, it could be more difficult for us to obtain shareholder approval for a merger or negotiated transaction than if we were a U.S. company because the shareholder approval requirements for certain types of transactions differ, and in some cases are greater, under Irish law.

**We may be limited in our ability to pay dividends in the future.**

A number of factors may limit our ability to pay dividends in the future, including:

- The availability of distributable reserves, as approved by our shareholders and the Irish High Court;
- Our ability to receive cash dividends and distributions from our subsidiaries;
- Compliance with applicable laws and debt covenants; and
- Our financial condition, results of operations, capital requirements, general business conditions, and other factors that our Board of Directors may deem relevant.

**RESULTS FOR THE YEAR AND STATE OF AFFAIRS**

The results for the twelve months ended December 31, 2017 are provided in the Consolidated Profit and Loss Account. Included below is a summary of the results for the twelve months ended December 31, 2017 and our state of affairs.

**RESULTS OF OPERATIONS**

**CONSOLIDATED FINANCIAL RESULTS**

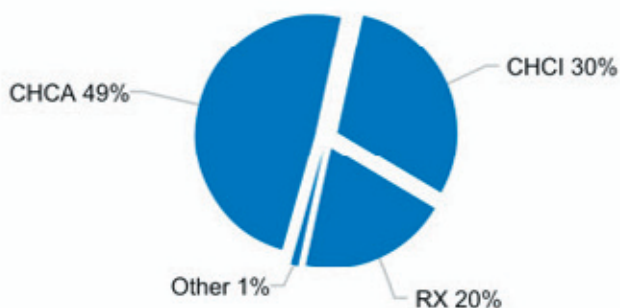
(\$ in millions)	Fiscal Year Ended		% Change Fiscal Year Ended
	December 31, 2016	December 31, 2017	
Net sales	\$ 5,280.6	\$ 4,946.2	(6)%
Gross profit	\$ 2,051.8	\$ 1,979.5	(4)%
Gross profit %	38.9 %	40.0%	
Operating expenses	\$ 4,051.5	\$ 1,381.3	(66)%
Operating expenses %	76.7 %	27.9%	
Operating income (loss)	\$ (1,999.7)	\$ 598.2	130 %
Operating income (loss) %	(37.9)%	12.1%	
Change in financial assets	\$ 2,608.2	\$ 24.9	(99)%
Interest and other, net	\$ 239.3	\$ 158.0	(34)%
Loss on extinguishment of debt	\$ 1.1	\$ 135.2	12,191 %
Income tax expense (benefit)	\$ (835.5)	\$ 160.5	119 %
Net income (loss)	\$ (4,012.8)	\$ 119.6	102.3 %

**Highlights**

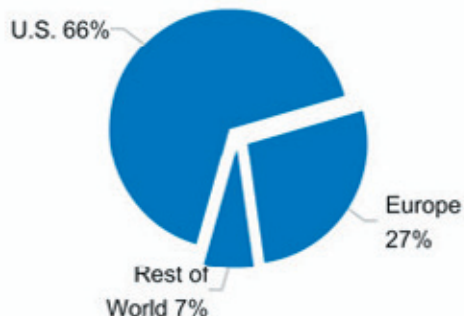
*Year Ended December 31, 2017*

- On March 27, 2017, we completed the sale of our Tysabri® financial asset, effective January 1, 2017, to Royalty Pharma for up to \$2.85 billion, consisting of \$2.2 billion in cash and up to \$250.0 million and \$400.0 million in milestone payments if the royalties on global net sales of Tysabri® that are received by Royalty Pharma meet specific thresholds in 2018 and 2020, respectively. As a result of this transaction, we derecognized the Tysabri® financial asset and recorded a \$17.1 million gain (refer to Note 11).
- On April 6, 2017, we completed the sale of our India API business to Strides Shasun Limited for \$22.2 million, inclusive of an estimated working capital adjustment. The sale did not have a material impact on our operations (refer to Note 2).
- On August 25, 2017, we completed the sale of our Russian business to Alvogen Pharma LLC. for €12.7 million (\$15.1 million), inclusive of an estimated working capital adjustment. The sale did not have a material impact on our operations (refer to Note 2).
- On November 21, 2017, we completed the sale of our Israel API business to SK Capital, for a sale price of \$110.0 million, which resulted in an immaterial gain recorded in our Other segment in Other expense (Income), net on the Consolidated Profit and Loss Account (refer to Note 2 and Note 11).
- We completed \$2.6 billion of debt repayments (refer to Note 9).
- We repurchased \$191.5 million worth of shares as part of our authorized share repurchase plan (refer to Note 15).
- We executed initiatives related to our cost optimization strategy that was announced on February 21, 2017. Restructuring charges totaled \$61.0 million (refer to Note 20).

**Total Net Sales by Segment for the Year Ended December 31, 2017**



**Total Net Sales by Geography for the Year Ended December 31, 2017\***



\* Total net sales by geography is derived from the location of the entity that sells to a third party. For geographic information for the years ended December 31, 2017 and December 31, 2016, refer to Note 22.

**Unallocated Expenses**

Unallocated expenses are comprised of certain corporate services not allocated to our reporting segments and are recorded above Operating income on the Consolidated Profit and Loss Account. Unallocated expenses were \$174.7 million and \$116.6 million for the years ended December 31, 2017 and December 31, 2016, respectively.



The \$58.1 million increase for the year ended December 31, 2017 compared to the prior year was due primarily to an increase in share-based compensation expense of \$12.6 million driven primarily by the resignation of certain executives, an increase of \$41.1 million of administrative expenses driven by legal fees, consulting fees and employee-related expenses, and an increase in restructuring of \$6.0 million related to strategic organizational enhancements.

### Interest, Other and Change in Financial Assets (Consolidated)

<i>(\$ in millions)</i>	<b>December 31, 2016</b>	<b>December 31, 2017</b>
Change in financial assets	\$ 2,608.2	\$ 24.9
Interest expense, net	\$ 216.6	\$ 168.1
Other expense (Income), net	\$ 22.7	\$ (10.1)
Loss on extinguishment of debt	\$ 1.1	\$ 135.2

#### *Change in Financial Assets*

Prior to its divestiture on March 27, 2017, we accounted for the Tysabri<sup>®</sup> royalty stream as a financial asset and had elected to use the fair value option model with changes in fair value presented in Net income (loss) under the caption Change in financial assets. Royalty rights were \$24.9 million of expense and \$2.6 billion of expense for the years ended December 31, 2017 and December 31, 2016, respectively, resulting in a change in financial asset of \$2.6 billion for the year ended December 31, 2017 (refer to Note 11 for additional information on the assumptions).

In the first quarter of 2016, a competitor's pipeline product, Ocrevus<sup>®</sup>, received breakthrough therapy designation from the U.S. Food and Drug Administration ("FDA"). Breakthrough therapy designation is granted when a drug is intended alone or in combination with one or more other drugs to treat a serious or life threatening disease or condition and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. In June 2016, the FDA granted priority review with a target action date in December 2016. A priority review is a designation when the FDA will direct overall attention and resources to the evaluation of applications for drugs that, if approved, would be significant improvements in the safety or effectiveness of the treatment, diagnosis, or prevention of serious conditions when compared to standard applications. The product was approved late in the first quarter of 2017. The product is expected to compete with Tysabri<sup>®</sup>, and we expected it to have a significant negative impact on the Tysabri<sup>®</sup> royalty stream. Industry analysts believe that, based on released clinical study information, Ocrevus<sup>®</sup> will compete favorably against Tysabri<sup>®</sup> in the relapsing, remitting multiple sclerosis market segment due to its high efficacy and convenient dosage form.

Given the new market information for Ocrevus<sup>®</sup>, we used industry analyst estimates to reduce our first ten year growth forecasts from an average growth of approximately 3.4% in the fourth calendar quarter of 2015 to an average decline of approximately minus 2.0% in the third and fourth calendar quarters of 2016. In November 2016, we announced we were evaluating strategic alternatives for the Tysabri<sup>®</sup> financial asset. As of December 31, 2016, the financial asset was adjusted based on the strategic review and sale process. These effects, combined with the change in discount rate each quarter, led to a reduction in fair value of \$204.4 million, \$910.8 million, \$377.4 million and \$1.1 billion in the first, second, third and fourth quarters of 2016, respectively.

On March 27, 2017, we announced the completed divestment of our Tysabri<sup>®</sup> financial asset to Royalty Pharma for up to \$2.85 billion, consisting of \$2.2 billion in cash and up to \$250.0 million and \$400.0 million in milestone payments if the royalties on global net sales of Tysabri<sup>®</sup> that are received by Royalty Pharma meet specific thresholds in 2018 and 2020, respectively. As a result of this transaction, we transferred the entire financial asset to Royalty Pharma and recorded a \$17.1 million gain during the three months ended April 1, 2017. We elected to account for the contingent milestone payments using the fair value option method, and these were recorded at an estimated fair value of \$134.5 million as of December 31, 2017. We chose the fair value option as we believe it will help investors understand the potential future cash flows we may receive associated with the two contingent milestones.

We valued the contingent milestone payments using a modified Black-Scholes Option Pricing Model ("BSOPM"). Key inputs in the BSOPM are the estimated volatility and rate of return of royalties on global net sales of Tysabri<sup>®</sup> that are received by Royalty Pharma over time until payment of the contingent milestone payments is completed. Volatility and the estimated fair value of the milestones have a positive relationship such that higher volatility translates to a higher estimated fair value of the contingent milestone payments. In the valuation of contingent milestone payments performed, we assumed volatility of 30.0% and a rate of return of 8.07% as of December 31, 2017. We assess volatility and rate of return inputs quarterly by analyzing certain market volatility benchmarks and the risk associated with Royalty Pharma achieving the underlying projected royalties. During the year ended December 31, 2017, the fair value of the Royalty Pharma contingent milestone payments decreased \$42.0 million, as a result of the decrease in the estimated projected Tysabri<sup>®</sup> revenues due to the launch of Ocrevus<sup>®</sup> late in the first quarter of 2017.

In addition, payment of the contingent milestone payments is dependent on global net sales of Tysabri<sup>®</sup>. Of the \$134.5 million of estimated fair value contingent milestone payments as of December 31, 2017, \$79.7 million and \$54.8 million relates to the 2018 and 2020 contingent milestone payments, respectively. If Tysabri<sup>®</sup> global net sales do not meet the prescribed threshold in 2018, we will write off the \$79.7 million asset as an expense to Change in financial assets on the Consolidated Profit and Loss Account. If the prescribed threshold is exceeded, we will write up the asset to \$250.0 million and recognize income of \$170.3 million in Change in financial assets on the Consolidated Profit and Loss Account. If Tysabri<sup>®</sup> global net sales do not meet the prescribed threshold in 2020, we will write off the \$54.8 million asset as an expense to Change in financial assets on the Consolidated Profit and Loss Account. If the prescribed threshold is exceeded, we will write up the asset to \$400.0 million and recognize income of \$345.2 million in Change in financial assets on the Consolidated Profit and Loss Account.

Global Tysabri<sup>®</sup> net sales need to exceed \$1.9 billion and \$2.0 billion in 2018 and 2020, respectively, in order for Royalty Pharma to receive the level of royalties needed to trigger the milestone payments owed to us. Tysabri<sup>®</sup> net sales are anticipated to decline on a global basis in 2018, compared to 2017, due to increased competition from Ocrevus<sup>®</sup>, offset by volume growth in Tysabri<sup>®</sup> international markets (refer to Note 11).

#### *Interest Expense, Net*

Interest expense, net was \$168.1 million for the year ended December 31, 2017, compared to \$216.6 million in the prior year. The \$48.5 million decrease for the year ended December 31, 2017 compared to the prior year was the result of the early debt repayments made during the year ended December 31, 2017.

See the the "Capital Resources" section below and Note 9 for more information.

#### *Other Expense (Income), Net*

Other expense (Income), net, was \$10.1 million of income for the year ended December 31, 2017, compared to \$22.7 million expense in the prior year. The \$32.8 million decrease was due primarily to the absence of a \$22.3 million equity investment impairment recorded in the prior year, \$8.2 million of favorable changes in revaluation of monetary assets and liabilities held in foreign currencies, and a \$3.2 million reduction in equity method losses.

See Note 13 for more information on the derivatives and Note 12 for information on the investments.

#### *Loss on Extinguishment of Debt*

During the year ended December 31, 2017, we recorded a \$135.2 million loss on extinguishment of debt, which consisted of tender premium on debt repayments, transaction costs, write-off of deferred financing fees, and bond discounts related to the \$500.0 million 3.500% senior notes due December 2021, \$500.0 million 3.500% senior notes due March 2021, \$400.0 million 4.900% senior notes due 2044, \$800.0 million 4.000% senior notes due 2023, and \$400.0 million 5.300% senior notes due 2043.

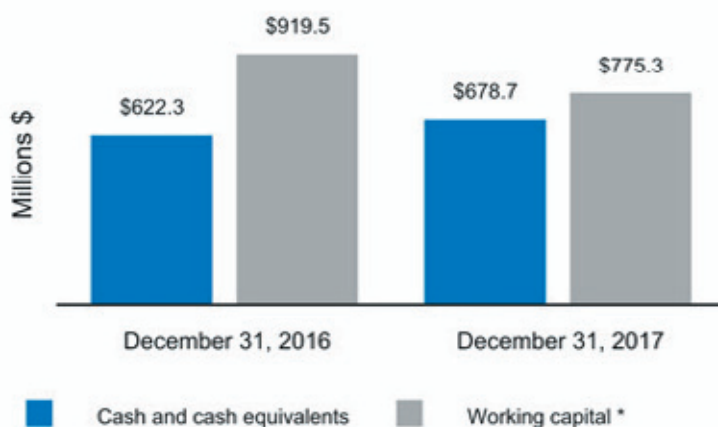
During the year ended December 31, 2016, we recorded a \$1.1 million loss on extinguishment of debt, which consisted of deferred financing fees we wrote off primarily related to the prepayment of 1.300% 2016 Notes.

See Note 9 for information on the extinguishment of debt.

**CHANGES IN FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

We finance our operations with internally generated funds, supplemented by credit arrangements with third parties and capital market financing. We routinely monitor current and expected operational requirements and financial market conditions to evaluate other available financing sources including revolving bank credit and securities offerings. Based on our current financial condition and credit relationships, management believes that our operations and borrowing resources are sufficient to provide for our current and foreseeable capital requirements. However, we continue to evaluate the impact of commercial and capital market conditions on liquidity and may determine that modifications to our capital structure are appropriate if market conditions deteriorate or if favorable capital market opportunities become available.

**Cash and Cash Equivalents**



\* Working capital represents current assets less current liabilities, excluding cash and cash equivalents, and current indebtedness.

Cash, cash equivalents, cash flows from operations, and borrowings available under our credit facilities are expected to be sufficient to finance the known and/or foreseeable liquidity and capital expenditures. Although our lenders have made commitments to make funds available to us in a timely fashion under our revolving credit agreements and overdraft facilities, if economic conditions worsen or new information becomes publicly available impacting the institutions' credit rating or capital ratios, these lenders may be unable or unwilling to lend money pursuant to our existing credit facilities.

## Cash Flows

## Operating Activities

Year Ended December 31, 2017 vs. Year Ended December 31, 2016

(\$ in millions)	Year Ended		
	December 31, 2016	December 31, 2017	Increase/ (Decrease)
<b>Cash Flows From (For) Operating Activities</b>			
Net income (loss)	\$ (4,012.8)	\$ 119.6	\$ 4,132.4
Non-cash adjustments	4,769.2	683.2	(4,086.0)
Subtotal	756.4	802.8	46.4
Increase (decrease) in cash due to:			
Accounts receivable	(0.6)	3.2	3.8
Inventories	100.7	(16.0)	(116.7)
Accounts payable	(75.7)	(39.6)	36.1
Payroll and related taxes	(41.1)	(27.4)	13.7
Accrued customer programs	(13.9)	34.6	48.5
Accrued liabilities	(79.5)	(47.8)	31.7
Accrued income taxes	20.9	(6.1)	(27.0)
Other, net	(12.3)	(4.8)	7.5
Subtotal	\$ (101.5)	\$ (103.9)	\$ (2.4)
<b>Net cash from operating activities</b>	<b>\$ 654.9</b>	<b>\$ 698.9</b>	<b>\$ 44.0</b>

We generated \$698.9 million of cash from operating activities during the year ended December 31, 2017, a \$44.0 million increase over the prior year period, due to the following:

- Increased net earnings after adjustments for items such as deferred income taxes, impairment charges, restructuring charges, changes in our financial assets, loss on extinguishment of debt, and depreciation and amortization;
- Changes in accrued customer-related programs due primarily to new product launches, resulting in higher customer related-accruals, pricing dynamics in the RX segment, as well as timing of rebate and chargeback payments;
- Changes in accounts payable due primarily to changes to the Omega accounts payable structure that occurred in the prior year period; and
- Changes in accrued liabilities due primarily to deferred revenue associated with BCH-Belgium distribution contracts and the absence of accruals related to the sale of our U.S. VMS business; partially offset by increased litigation accruals (refer to Note 20), and fair market value adjustments related to contingent consideration (refer to Note 11); offset partially by
- Changes in inventory due to the build up of inventory levels to support customer demands in the current period; offset by improved inventory management in the comparable prior year period; and
- Changes in accrued income taxes due primarily to Federal tax obligation payments made in the current year period, offset by expected tax refunds (refer to Note 18).

## Investing Activities

**Year Ended December 31, 2017 vs. Year Ended December 31, 2016**

(\$ in millions)	Year Ended		
	December 31, 2016	December 31, 2017	Increase/ (Decrease)
<b>Cash Flows From (For) Investing Activities</b>			
Proceeds from royalty rights	\$ 353.7	\$ 87.3	\$ (266.4)
Acquisitions of businesses, net of cash acquired	(427.4)	(0.4)	\$ 427.0
Asset acquisitions	(65.1)	—	\$ 65.1
Proceeds from sale of securities	4.5	—	\$ (4.5)
Additions to property, plant and equipment	(106.2)	(88.6)	\$ 17.6
Net proceeds from sale of business and other assets	69.1	154.6	\$ 85.5
Proceeds from sale of the Tysabri <sup>®</sup> financial asset	—	2,200.0	\$ 2,200.0
Other investing, net	(3.6)	(14.8)	\$ (11.2)
<b>Net cash from (for) investing activities</b>	<b>\$ (175.0)</b>	<b>\$ 2,338.1</b>	<b>\$ 2,513.1</b>

Cash generated from investing activities totaled \$2.3 billion for the year ended December 31, 2017, compared to cash used of \$175.0 million in the prior year. The inflow in the current year was due primarily to the completed divestment of our Tysabri<sup>®</sup> financial asset to Royalty Pharma, for which we received \$2.2 billion in cash at closing (refer to Note 11). In addition, we received \$154.6 million in cash primarily related to the sale of our Israel API business (refer to Note 2). The outflow in the prior year was due primarily to the acquisition of a portfolio of generic dosage forms and strengths of Retin-A<sup>®</sup> ("Tretinoin"), a topical prescription acne treatment from Mattawan Pharmaceuticals, LLC, and the Generic Benzaclin<sup>™</sup> product rights, which used \$478.4 million in cash. The outflow was offset partially by proceeds from royalty rights of \$353.7 million.

Cash used for capital expenditures totaled \$88.6 million during the year ended December 31, 2017 compared to \$106.2 million in the prior year. The decrease in cash used for capital expenditures was due primarily to the decrease in the number of manufacturing projects in the current year compared to the prior year. Capital expenditures for the next twelve months are anticipated to be between \$90.0 million and \$115.0 million related to manufacturing productivity capacity and quality/regulatory projects. We expect to fund these estimated capital expenditures with funds from operating cash flows.

Financing Activities

**Year Ended December 31, 2017 vs. Year Ended December 31, 2016**

(\$ in millions)	Year Ended		
	December 31, 2016	December 31, 2017	Increase/ (Decrease)
<b>Cash Flows From (For) Financing Activities</b>			
Issuances of long-term debt	\$ 1,190.3	\$ —	\$ (1,190.3)
Borrowings (repayments) of revolving credit agreements and other financing, net	(802.5)	6.8	809.3
Payments on long-term debt	(559.2)	(2,611.0)	(2,051.8)
Deferred financing fees	(2.8)	(4.8)	(2.0)
Premium on early debt retirement	(0.6)	(116.1)	(115.5)
Issuance of ordinary shares	8.3	0.7	(7.6)
Equity issuance costs	(10.3)	—	10.3
Repurchase of ordinary shares	—	(191.5)	(191.5)
Cash dividends	(83.2)	(91.1)	(7.9)
Other financing, net	(8.7)	2.3	11.0
<b>Net cash for financing activities</b>	<b>\$ (268.7)</b>	<b>\$ (3,004.7)</b>	<b>\$ (2,736.0)</b>

Cash used for financing activities totaled \$3.0 billion for the year ended December 31, 2017, compared to \$268.7 million of cash used for financing activities for the prior year. In the current year, cash used for financing included \$2.6 billion of repayments on long-term debt, \$116.1 million of premium on early debt retirement related to the current year debt extinguishment and \$191.5 million in share repurchases, as discussed below. In the prior year, the cash used for financing activities was due primarily to borrowings of \$1.2 billion of long-term debt, more than offset by net repayments on our revolving credit agreements and other short-term financing of \$802.5 million and net repayments on our long-term debt of \$559.2 million.

Share Repurchases

In October 2015, the Board of Directors approved a three-year share repurchase plan of up to \$2.0 billion. During the year ended December 31, 2017, we repurchased 2.7 million ordinary shares at an average repurchase price of \$71.72 per share, for a total of \$191.5 million. We did not repurchase any shares under the share repurchase plan during the year ended December 31, 2016.

Dividends

In January 2003, the Board of Directors adopted a policy of paying quarterly dividends. We paid dividends as follows:

	Year Ended	
	December 31, 2016	December 31, 2017
Dividends paid (in millions)	\$ 83.2	\$ 91.1
Dividends paid per share	\$ 0.58	\$ 0.64

The declaration and payment of dividends, if any, is subject to the discretion of our Board of Directors and will depend on our earnings, financial condition, availability of distributable reserves, capital and surplus requirements, and other factors our Board of Directors may consider relevant.

Dividends paid were as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payable</u>	<u>Dividend Declared</u>	
<u>Year Ended December 31, 2017</u>				
November 2, 2017	December 1, 2017	December 19, 2017	\$	0.160
August 8, 2017	August 25, 2017	September 12, 2017	\$	0.160
May 3, 2017	May 26, 2017	June 13, 2017	\$	0.160
February 21, 2017	March 3, 2017	March 21, 2016	\$	0.160
<u>Year Ended December 31, 2016</u>				
November 8, 2016	November 25, 2016	December 13, 2016	\$	0.145
August 2, 2016	August 26, 2016	September 13, 2016	\$	0.145
April 26, 2016	May 27, 2016	June 14, 2016	\$	0.145
February 16, 2016	February 26, 2016	March 15, 2016	\$	0.145

## Capital Resources

### *Overdraft Facilities*

We have overdraft facilities available that we use to support our cash management operations. We report any balances outstanding in "Other Financing" in Note 9. The balance outstanding under the facilities was \$6.9 million at December 31, 2017 and there were no balances outstanding under the facilities at December 31, 2016.

### *Accounts Receivable Factoring*

We have accounts receivable factoring arrangements with non-related third-party financial institutions (the "Factors"). Pursuant to the terms of the arrangements, we sell to the Factors certain of our accounts receivable balances on a non-recourse basis for credit approved accounts. An administrative fee per invoice is charged on the gross amount of accounts receivables assigned to the Factors, and interest is calculated at the applicable EUR LIBOR rate plus a spread. The total amount factored on a non-recourse basis and excluded from accounts receivable was \$27.5 million and \$50.7 million at December 31, 2017 and December 31, 2016, respectively.

### *Revolving Credit Agreements*

On December 9, 2015, our 100% owned finance subsidiary, Perrigo Finance Unlimited Company ("Perrigo Finance"), entered into a \$750.0 million revolving credit agreement (the "2015 Revolver"). On March 15, 2016, we used the proceeds of the long-term debt issuance described below under "2016 Notes" to repay the \$750.0 million then outstanding under the 2015 Revolver and terminated the facility.

On December 5, 2014, Perrigo Finance entered into a \$600.0 million revolving credit agreement, which increased to \$1.0 billion on March 30, 2015 (the "2014 Revolver"). On March 15, 2016, we used the proceeds of the long-term debt issuance described below under "2016 Notes" to repay the \$435.0 million then outstanding under the 2014 Revolver. There were no borrowings outstanding under the 2014 Revolver as of December 31, 2017 or December 31, 2016.

### *Term Loans, Notes and Bonds*

- We had \$2.9 billion and \$5.4 billion outstanding under our notes and bonds, and \$420.0 million and \$420.7 million outstanding under our term loan, as of December 31, 2017 and December 31, 2016, respectively. On September 29, 2016, we repaid the 1.300% senior notes due 2016 in full.



- On March 7, 2016, Perrigo Finance issued \$500.0 million in aggregate principal amount of 3.500% senior notes due 2021 and \$700.0 million in aggregate principal amount of 4.375% senior notes due 2026 (together, the "2016 Notes") and received net proceeds of \$1.2 billion after fees and market discount, which were used to repay the amounts outstanding under the 2015 Revolver and 2014 Revolver mentioned above.
- On September 2, 2014, we offered to exchange what were previously private placement senior notes for public bonds registered with the Securities and Exchange Commission. Substantially all of the private placement senior notes have been exchanged.
- On December 2, 2014, Perrigo Finance, our 100% owned finance subsidiary, issued \$500.0 million in aggregate principal amount of 3.50% senior notes due 2021, \$700.0 million in aggregate principal amount of 3.90% senior notes due 2024, and \$400.0 million in aggregate principal amount of 4.90% senior notes due 2044 (collectively, the "2014 Bonds").
- The 2014 Bonds are fully and unconditionally guaranteed on a senior unsecured basis by Perrigo Company plc, and no other subsidiary of Perrigo Company plc guarantees the 2014 Bonds. We may redeem the 2014 Bonds at any time under the terms of the applicable indenture, subject to the payment of a make-whole premium.
- On December 5, 2014, Perrigo Finance entered into a term loan agreement consisting of a €500.0 million (\$614.3 million) tranche, with the ability to draw an additional €300.0 million (\$368.6 million) tranche, maturing December 5, 2019, and we entered into a \$300.0 million term loan tranche maturing December 18, 2015, which we repaid in full on June 25, 2015.
- On December 5, 2014, we repaid the remaining \$895.0 million outstanding under our 2013 Term Loan described below, then terminated it.
- On June 24, 2015, we repaid the \$300.0 million portion of the 2014 Term Loan.
- On March 30, 2015, we assumed \$20.0 million in aggregate principal amount of 6.19% senior notes due 2016 (the "2016 Notes"), €135.0 million (\$147.0 million) aggregate principal amount of 5.1045% senior notes due 2023, €300.0 million (\$326.7 million) in aggregate principal amount of 5.125% retail bonds due 2017, €180.0 million (\$196.0 million) in aggregate principal amount of 4.500% retail bonds due 2017, and €120.0 million (\$130.7 million) in aggregate principal amount of 5.000% retail bonds due 2019 (collectively, the "Retail Bonds") in connection with the Omega acquisition.
- The fair value of the 2023 Notes and Retail Bonds exceeded par value by €93.6 million (\$101.9 million) on the date of the acquisition. As a result, a fair value adjustment was recorded as part of the carrying value of the underlying debt and will be amortized as a reduction of interest expense over the remaining terms of the respective debt instruments. The adjustment does not affect cash interest payments.
- On May 29, 2015, we repaid the \$20.0 million in aggregate principal amount of the 2016 Notes.

**Debt Repayments and Related Extinguishment During the Year Ended December 31, 2017**

During the year ended December 31, 2017, we reduced our outstanding debt through a variety of transactions (in millions):

<u>Date</u>	<u>Series</u>	<u>Transaction Type</u>	<u>Principal Retired</u>
April 1, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	\$ 13.3
May 8, 2017	\$600.0 2.300% senior notes due 2018	Early redemption	600.0
May 23, 2017	€180.0 4.500% retail bonds due 2017	Scheduled maturity	201.3
June 15, 2017	\$500.0 3.500% senior notes due 2021	Tender offer	190.4
June 15, 2017	\$500.0 3.500% senior notes due 2021	Tender offer	219.6
June 15, 2017	\$800.0 4.000% senior notes due 2023	Tender offer	584.4
June 15, 2017	\$400.0 5.300% senior notes due 2043	Tender offer	309.5
June 15, 2017	\$400.0 4.900% senior notes due 2044	Tender offer	96.1
July 1, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	14.3
September 30, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	14.8
December 12, 2017	€300.0 5.125% senior notes due 2017	Scheduled maturity	352.3
December 31, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	15.0
			\$ 2,611.0

As a result of the of the early redemption and tender offer transactions discussed above, we recorded a loss of \$135.2 million during the three months ended July 1, 2017 in Loss on extinguishment of debt (in millions):

Premium on debt repayment	\$ 116.1
Transaction costs	3.8
Write-off of deferred financing fees	10.6
Write-off of remaining discount on bond	4.7
Total loss on extinguishment of debt	\$ 135.2

We entered into amendments on March 16, 2017 related to the 2014 Revolver and the 2014 Term Loan providing for additional time to deliver certain financial statements, as well as the modification of certain financial and other covenants. We also entered into additional amendments to the 2014 Revolver and the 2014 Term Loan on April 25, 2017 to modify provisions of such agreements necessary as a result of the correction in accounting related to the Tysabri® financial asset, as well as waivers of any default or event of default that may arise from any restatement of or deficiencies in our financial statements for the periods specified in such amendments and waivers. No default or event of default existed prior to entering into these amendments and waivers. We are in compliance with all covenants under our debt agreements as of December 31, 2017.

See Note 9 for more information on all of the above debt facilities.

**Credit Ratings**

Our credit ratings on December 31, 2017 were Baa3 (stable) and BBB- (stable) by Moody's Investors Service and Standard and Poor's Rating Services, respectively.

Credit rating agencies review their ratings periodically and, therefore, the credit rating assigned to us by each agency may be subject to revision at any time. Accordingly, we are not able to predict whether current credit ratings will remain as disclosed above. Factors that can affect our credit ratings include changes in operating performance, the economic environment, our financial position, and changes in business strategy. If changes in our credit ratings were to occur, they could impact, among other things, future borrowing costs, access to capital markets, and vendor financing terms.

## FINANCIAL RISK MANAGEMENT

### *Foreign Exchange Risk*

We are a global company with operations throughout North America, Europe, Australia, Mexico, and Israel. We transact business in each location's local currency and in foreign currencies, thereby creating exposures to changes in exchange rates. Our largest exposure is the movement of the U.S. dollar relative to the euro, which has increased due to the Omega acquisition. In addition, our U.S. operations continue to expand their export business, primarily in Canada, China, and Europe, and are subject to fluctuations in the respective exchange rates relative to the U.S. dollar. A large portion of the sales of our Israeli operations is in foreign currencies, primarily U.S. dollars and euros, while these operations largely incur costs in their local currency. Further, a portion of Biogen's global sales of Tysabri® are denominated in local currencies creating exposures to changes in exchange rates relative to the U.S. dollar and thereby impacting the amount of U.S. dollar royalties necessary to achieve our contingent payment thresholds in 2018 and 2020.

Due to different sales and cost structures, certain segments experience a negative impact and certain segments a positive impact as a result of changes in exchange rates. We estimate the translation effect of a ten percent devaluation of the U.S. dollar relative to the other foreign currencies in which we transact business would have increased operating income of our non-U.S. operating units by approximately \$87.1 million for the year ended December 31, 2017. This sensitivity analysis has inherent limitations. The analysis disregards the possibility that rates of multiple foreign currencies will not always move in the same direction relative to the value of the U.S. dollar over time and does not account for foreign exchange derivatives that we utilize to mitigate fluctuations in exchange rates.

In addition, we enter into certain purchase commitments for materials that, although denominated in U.S. dollars, are linked to foreign currency valuations. These commitments generally contain a range for which the price of materials may fluctuate over time given the value of a foreign currency.

The translation of the assets and liabilities of our non-U.S. dollar denominated operations is made using local currency exchange rates as of the end of the year. Translation adjustments are not included in determining net income but are disclosed in Other Reserves within shareholders' equity on the Consolidated Balance Sheets until a sale or substantially complete liquidation of the net investment in the subsidiary takes place. In certain markets, we could recognize a significant gain or loss related to unrealized cumulative translation adjustments if we were to exit the market and liquidate our net investment. As of December 31, 2017, cumulative net currency translation adjustments decreased shareholders' equity by \$260.6 million.

We monitor and strive to manage risk related to foreign currency exchange rates. Exposures that cannot be naturally offset within a local entity to an immaterial amount are often hedged with foreign exchange derivatives or netted with offsetting exposures at other entities (refer to Note 13 for further information regarding our derivative and hedging activities). We cannot predict future changes in foreign currency movements and fluctuations that could materially impact earnings.

### *Interest Rate Risk*

We are exposed to interest rate changes primarily as a result of interest income earned on our investment of cash on hand and interest expense on borrowings used to finance acquisitions and other general corporate purposes.

We have in the past, and may in the future, enter into certain derivative financial instruments related to the management of interest rate risk, when available on a cost-effective basis (refer to Note 13 for further information regarding our derivative and hedging activities). These instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. We do not use derivative financial instruments for speculative purposes. Gains and losses on hedging transactions are offset by gains and losses on the underlying exposures being hedged.

## ACCOUNTING RECORDS

The directors are responsible for ensuring that we keep proper accounting records and appropriate accounting systems. On a periodic basis, regular reports, certifications and attestations on our financial matters, internal control and fraud are made to the Audit Committee of the Board of Directors, who in turn, briefs the full Board of Directors on these matters. These measures ensure the compliance with requirements of Section 281 to 285 of the Companies Acts 2014. The accounting records of Perrigo Company plc are maintained at our registered offices located at Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland.

## SIGNIFICANT EVENTS SINCE YEAR END

Subsequent events have been evaluated through March 15, 2018, the date this report was approved by the Audit Committee of the Board of Directors and the Board of Directors. Refer to Note 26 to the Consolidated Financial Statements for any disclosures related to subsequent events.

## DIRECTORS' INTEREST IN SHARES

No director, secretary or any member of their immediate families had any interest in shares or debentures of any subsidiary. Directors' remuneration is set forth in Note 24 to the Consolidated Financial Statements. The interest of the directors and our secretary, who held office at December 31, 2017 in ordinary share capital of Perrigo Company plc are as follows:

	December 31, 2017			December 31, 2016		
	Ordinary shares	Stock options	Restricted share units	Ordinary shares	Stock options	Restricted share units
<b>Directors</b>						
Laurie Brlas	12,557	7,225	5,331	10,457	7,225	4,041
Gary M. Cohen	15,047	10,278	4,265	13,351	10,278	3,263
Donal O'Connor <sup>(1)</sup>	4,376	—	4,265	2,810	—	3,263
Geoffry Parker <sup>(2)</sup>	3,662	—	4,265	2,650	—	511
Michael J. Jandernoa <sup>(3)</sup>	—	—	—	687,617	18,279	3,263
Gary K. Kunkle, Jr. <sup>(3)</sup>	—	—	—	25,687	18,279	3,263
Herman Morris, Jr. <sup>(3)</sup>	—	—	—	10,202	18,279	3,263
Shlomo Yanai <sup>(3)</sup>	—	—	—	443	—	3,263
Ellen R. Hoffing <sup>(4)</sup>	—	—	—	9,084	14,435	3,263
Theodore R. Samuels <sup>(5)</sup>	4,118	—	4,265	—	—	—
Jeffrey C. Smith <sup>(6)(10)</sup>	9,641,953	—	4,265	—	—	—
Bradley A. Alford <sup>(6)</sup>	529	—	4,265	—	—	—
Jeffrey B. Kindler <sup>(6)</sup>	528	—	4,265	—	—	—
Rolf Classon <sup>(7)</sup>	—	—	4,265	—	—	—
Adriana Karaboutis <sup>(7)</sup>	—	—	4,265	—	—	—
John Hendrickson <sup>(8)</sup>	18,610	150,731	11,853	14,774	56,061	15,350
<b>Secretary</b>						
Todd W. Kingma <sup>(9)</sup>	16,994	73,067	4,922	16,560	52,878	8,809

<sup>(1)</sup>Shares owned include 1,198 shares in an approved retirement fund.

<sup>(2)</sup>Shares owned include 150 shares in a revocable trust, of which Geoffry Parker and Jill Parker are the trustees.

<sup>(3)</sup>Mr. Jandernoa, Mr. Kunkle, Mr. Morris and Mr. Yanai left the Board on February 6, 2017.

<sup>(4)</sup>Ms. Hoffing left the Board on May 2, 2017.

<sup>(5)</sup>Mr. Samuels was appointed to the Board on January 4, 2017. Upon joining the Board, Mr. Samuels held 2,759 shares in the Ted and Lori Samuels Family Trust, of which Theodore Rapp Samuels II and Lori Winters Samuels are the trustees.

<sup>(6)</sup>Mr. Smith, Mr. Alford and Mr. Kindler were appointed to the Board on February 6, 2017. Upon joining the Board, Mr. Smith held 9,641,425 shares, whilst Mr. Alford and Mr. Kindler held no shares.

<sup>(7)</sup>Mr. Classon and Ms. Karaboutis were appointed to the Board on May 2, 2017. Upon joining the board, Mr. Classon and Ms. Karaboutis held no shares.

<sup>(8)</sup>Shares owned include 9,879 shares owned by the John T. Hendrickson Trust, of which Mr. Hendrickson is the trustee.

<sup>(9)</sup>Shares owned include 2,000 shares in Todd Kingma's Charitable Remainder Uni-Trust.

<sup>(10)</sup>Represents shares held by certain funds and managed accounts for which Starboard Value LP serves as manager or investment manager. Mr Smith serves as Managing Member, Chief Executive Officer, and Chief Investment Officer of Starboard Value LP. Mr. Smith has shared voting and shared dispositive power over Starboard's shares.

## POLITICAL DONATIONS

No political contributions that require disclosure under Irish law were made during the twelve months ended December 31, 2017.

## DIVIDENDS

Dividend payments were \$91.1 million during the twelve months ended December 31, 2017 and \$83.2 million during the twelve months ended December 31, 2016. On February 15, 2018, we declared a quarterly cash dividend of \$0.19 per share to shareholders of record on March 2, 2018. We expect that we will continue to pay dividends comparable to this amount to holders of our ordinary shares. The timing, declaration and payment of future dividends to holders of our ordinary shares, however, will depend upon many factors, including the statutory requirements of Irish law, our earnings and financial condition, the capital requirements of our business, industry practice and any other factors deemed relevant.

## RESEARCH AND DEVELOPMENT

The Company is involved in research and development activities and we incurred \$167.7 million of research and development costs that were expensed during the twelve months ended December 31, 2017.

## SIGNIFICANT TRENDS AND DEVELOPMENTS

- We continue to experience a reduction in pricing expectations within our CHCA segment, primarily in the cough/cold, animal health, and analgesics categories due to various factors, including focus from customers to capture supply chain productivity savings and competition in specific product categories. We expect this pricing environment to continue to impact our CHCA segment for the foreseeable future.
- We completed the sale of the animal health pet treats plant fixed assets on February 1, 2017 and received \$7.7 million in proceeds (refer to Note 2).
- Within the CHCI segment management has developed a strategy to: (1) implement a brand prioritization to address certain market dynamics, with an objective to balance the cost of advertising and promotional investments with expected contributions from category sales, (2) restructure the sales force in certain markets to more effectively serve customers, and (3) in-source certain product manufacturing and development. The combination of these actions is expected to improve the segment's focus on higher value OTC products, reduce selling costs and improve operating margins in the segment.
- As part of our previously announced strategic initiatives, management implemented improvements and evaluated the overall cost structures within our CHCI segment in the following ways:
  - On December 8, 2016, we announced the cancellation of the unprofitable EuroGenerics NV distribution agreement in Belgium. The year-over-year effect of the cancellation, combined with the exit of certain OTC distribution agreements, reduced our net sales by \$200.3 million in 2017, with an immaterial impact to operating income.



- We made progress on our previously announced restructuring plans to right-size the Omega business due to the impact of market dynamics on sales volumes. During the year ended December 31, 2017, we recognized \$17.1 million of restructuring expense in the CHCI segment (refer to Note 20).
- Management continues to evaluate the most effective business model for each country, aligning our sales infrastructure and actively integrating sales strategies with promotional programs.
- On August 25, 2017, we completed the sale of our Russian business, which was previously classified as held-for-sale, to Alvogen Pharma LLC. The total sale price was €12.7 million (\$15.1 million), inclusive of an estimated working capital adjustment, which resulted in an immaterial gain in the segment (refer to Note 2).

The combination of these actions improved the segment's focus on higher value OTC products, reduced selling costs and improved operating margins in the segment.

- The CHCI segment has been positively impacted by market dynamics in countries such as the Nordics, Italy, and Portugal, offset by softness in certain brand categories in France and Germany, as well as unfavorable foreign currency impacts primarily in the U.K. related to Brexit.
- We continue to experience a significant reduction in pricing expectations from historical levels in our RX segment due to competitive pressures. This softness in pricing is attributable to various factors, including increased focus from customers to capture supply chain productivity savings, competition in specific products, and consolidation of certain customers. We expect this softness to continue to impact the segment for the foreseeable future, and we are forecasting a high single digit pricing decline in this segment for the year ending December 31, 2018.
- We are continuing our previously announced portfolio review process, which includes the ongoing comprehensive internal evaluation of the RX segment's market position, growth opportunities, and interdependencies with our manufacturing and shared service operations to determine if strategic alternatives should be explored related to this segment.
- During the year ended December 31, 2017, we sold various ANDAs for a total gain of \$23.0 million.
- We had an Other segment that was primarily comprised of sales of API products, which did not meet the quantitative threshold required to be a separate reportable segment. We developed, manufactured, and marketed API products, which were used worldwide by both generic and branded pharmaceutical companies. Certain of these ingredients were used in our own pharmaceutical products. The manufacturing of API occurred primarily in Israel with some production in India.
- On April 6, 2017, we completed the sale of our India API business to Strides Shasun Limited. We received \$22.2 million of proceeds, inclusive of an estimated working capital adjustment, which resulted in an immaterial gain recorded in Other expense (Income), net on the Consolidated Statements of Operations. Prior to closing the sale, we determined that the carrying value of the India API business exceeded its fair value less the cost to sell, resulting in an impairment charge of \$35.3 million, which was recorded in Impairment charges on the Consolidated Profit and Loss Account for the year ended December 31, 2016 (refer to Note 2).
- On November 21, 2017, we completed the sale of our Israel API business, which was previously classified as held-for-sale to SK Capital, for a sale price of \$110.0 million, which resulted in an immaterial gain recorded in Other expense (Income), net on the Consolidated Profit and Loss Account (refer to Note 2 and Note 11).

## **SUBSIDIARY COMPANIES AND BRANCHES**

Information regarding subsidiary undertakings, including information regarding branches, is provided in Note 27.

## GOING CONCERN

The directors have a reasonable expectation that we have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they have chosen to adopt the going concern basis in preparing the financial statements.

## AUDIT COMMITTEE

Pursuant to the Company's Articles of Association the Board had established in December 2013 an Audit Committee that in all material respects meets the requirements of Section 167 of the Companies Act 2014 (the "Audit Committee"). Pursuant to the Articles of Association on the Company's Corporate Governance Guidelines the Audit Committee was fully constituted and active during the current and prior financial periods under review in these Financial Statements.

## COMPLIANCE STATEMENT

The Directors acknowledge that they are responsible for securing compliance by the Company with its Relevant Obligations as defined in the Companies Act, 2014 (hereinafter called the Relevant Obligations).

The Directors confirm that they have drawn up and adopted a compliance policy statement setting out the Company's policies that, in the Directors' opinion, are appropriate to the Company in respect of its compliance with its Relevant Obligations.

The Directors further confirm the Company has put in place appropriate arrangements or structures that are, in the Directors' opinion, designed to secure material compliance with its Relevant Obligations and that they have reviewed the effectiveness of these arrangements or structures during the financial period to which this Report relates.

## RELEVANT AUDIT INFORMATION

The directors hereby individually and collectively acknowledge, that so far as each director is aware, there is no Relevant Audit Information of which the Company's statutory auditors are unaware; and that he or she has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any Relevant Audit Information and to establish that the Company's statutory auditors are aware of that information.

## AUDITORS

In accordance with Section 383(2) of the Companies Act 2014, the auditor, Ernst & Young, Chartered Accountants, will continue in office.

On behalf of the Directors:

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Uwe Roehhoff

Chief Executive Officer

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Donal O'Connor

Director, Audit Committee Chair

March 15, 2018

## DIRECTORS' RESPONSIBILITIES STATEMENT

Company law in the Republic of Ireland requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Parent Company and of the Group and of the profit or loss of the Group for that period.

In preparing the financial statements of the Group, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- comply with applicable U.S. generally accepted accounting principles to the extent that the use of U.S. generally accepted accounting principles does not contravene any provision of Part 6 of the Companies Act 2014, 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 Group will continue in business.

The considerations set out above for the Group are also required to be addressed by the Directors in preparing the financial statements of the Parent Company (which are set out on pages 131 to 143), in respect of which the applicable accounting standards are those which are generally accepted in the Republic of Ireland.

While the financial statements of the Group are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP), the Directors have elected to prepare the Parent Company's financial statements in accordance with accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (Generally Accepted Accounting Practice in Ireland).

Under company law the directors must not approve the financial statements unless they are satisfied they give a true and fair view of the assets, liabilities and financial position, of the group and parent company as at the end of the financial period, and the profit or loss for the group for the financial period, and otherwise comply with Companies Act 2014.

The Directors are responsible for keeping accounting records which disclose with reasonable accuracy the assets, liabilities, financial position and profit and loss of the Parent Company and which enable them to ensure that the financial statements of the Group are prepared in accordance with applicable U.S. generally accepted accounting principles and comply with the provisions of the Companies Acts 2014. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors on March 15, 2018, and signed on its behalf by;

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Uwe Roehhoff

Chief Executive Officer

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Donal O'Connor

Director, Audit Committee Chair

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC

### Opinion

We have audited the financial statements of Perrigo Company plc ('the Parent Company') and its subsidiaries ('the Group') for the year ended 31 December 2017, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Shareholders' Equity, the Consolidated Statement of Cash Flows, the Parent Company Balance Sheet, the Parent Company Statement of Shareholders' Equity, the related notes 1 to 27 in respect of the group financial statements and the related notes 1 to 12 in respect of the parent company financial statements, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in the preparation of the group financial statements is Irish law and U.S. Generally Accepted Accounting Principles (U.S. GAAP), as defined in section 279 of Part 6 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of that Part of the Companies Act 2014. The financial reporting framework that has been applied in the preparation of the parent company financial statements is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

In our opinion:

- the group financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2017 and of the profit for the year then ended, and have been properly prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP), as defined in section 279 of Part 6 of the Companies Act 2014, to the extent that the use of those principles in the preparation of the financial statements does not contravene any provision of that Part of the Companies Act 2014;
- the parent company balance sheet gives a true and fair view of the assets, liabilities and financial position of the parent company as at 31 December 2017 and has been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ('ISAs (Ireland)') and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and Parent company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority ('IAASA'), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters, in relation to which ISAs (Ireland) require us to report to you where:

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

**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (continued)**

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Valuation of goodwill (2017 total value of \$4,175.4 million, 2016 comparative \$4,049.4 million)</b></p> <p>Refer to the Accounting policies (page 67); and Note 3 of the Consolidated Financial Statements (page 73)</p> <p>At 31 December 2017 the Group had total goodwill of approximately \$4.2 billion, representing 36% of total assets.</p> <p>Goodwill is not amortized but rather is tested for impairment at least annually at the reporting unit level. Goodwill is initially assigned to reporting units as of the acquisition date. In 2017, the Group sold its contingent payments related to Tysabri and also its API operations which resulted in the number of reporting units decreasing from eight to six.</p> <p>The annual goodwill impairment test of goodwill is complex and highly judgmental due to the significant measurement uncertainty in determining the fair value of the reporting units. In particular, the fair value estimate is sensitive to significant assumptions such as weighted average cost of capital, revenue growth rate, operating margin, and terminal value, which are affected by expected future market or economic conditions, particularly those in the BCH, UK AUS and Animal Health reporting units.</p>	<p>We tested relevant controls including controls over the Group's budgetary process. To test the fair value of the Group's reporting units, our audit procedures included, among others, assessing the methodologies used and testing the significant assumptions and underlying data used by the Group.</p> <p>We compared the significant assumptions used to current industry and economic trends, changes in the Group's business model, customer base or product mix and other relevant factors. We performed sensitivity analyses of significant assumptions to evaluate the change in the fair value of the reporting unit resulting from changes in the assumptions.</p> <p>We also reviewed the reconciliation of the fair value of the reporting units to the market capitalization of the Group and assessed the resulting control premium. In addition, we involved valuation specialists to perform an analysis to help us evaluate the work performed by management and their third party specialists to test the components and assumptions that are most significant to the fair value estimate. We also assessed the historical accuracy of management's estimates.</p>	<p>Our observations included the excess of fair value over carrying value at 1 October 2017 for each reporting unit, the result of the updated impairment test at 31 December 2017 (in particular the indicator of potential impairment in the Animal Health reporting unit in the fourth quarter of 2017), and our evaluation of the reasonableness of key assumptions used in the fair value estimation process.</p>



**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (continued)**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Deferred tax valuation allowance (2017 total value of \$407.7 million, 2016 comparative \$495.6 million)</b></p> <p>Refer to the Accounting policies (page 69); and Note 18 of the Consolidated Financial Statements (page 101)</p> <p>At 31 December 2017 the Group had deferred tax assets of approximately \$554.0 million and valuation allowances and deferred tax liabilities of approximately \$865.5 million resulting in a net deferred tax liability of approximately \$311.5 million.</p> <p>Deferred tax assets must be reduced by a valuation allowance if, based upon the weight of all available evidence, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.</p>	<p>The analysis of the realizability of the Group’s deferred tax assets was significant to our audit because the amounts are material to the financial statements and the assessment process is complex and involves significant judgment. In particular, the potential sources of income, how future income reverses in future periods, and the existence of indefinite lived deferred tax assets and liabilities, all need to be evaluated in the analysis.</p> <p>We tested internal controls which address the risks of material misstatement relating to the recoverability of deferred tax assets. We also tested management’s consideration of the four potential sources of income to assess the realizability of the deferred tax assets and whether a valuation allowance was required.</p> <p>We also tested the treatment of indefinite lived deferred tax liabilities and evaluated the Group’s assessment of deferred tax asset realizability and the resultant valuation allowance.</p>	<p>Our observations included the procedures performed by key component teams, our use of tax subject matter experts, the impact of US and Belgian tax reform and our conclusions on the Group’s internal controls over deferred tax valuation allowance calculations.</p>

**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (continued)**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Uncertain tax positions (2017 total value of \$419.7 million, 2016 comparative \$334.5 million)</b></p> <p>Refer to the Accounting policies (page 69); and Note 18 of the Consolidated Financial Statements (page 101)</p> <p>The Group establishes reserves for uncertain tax positions for positions that are taken on income tax returns that might not be sustained upon examination by taxing authorities. Determining uncertain tax positions is complex because of the judgmental nature of tax accruals relating to transfer pricing, deductibility of expenses, profit allocations, state income tax and various other tax return positions that might not be sustained upon review by taxing authorities.</p> <p>In determining whether an uncertain tax position exists, the Group first determines, based solely on its technical merits, whether the tax position is more likely than not to be sustained upon examination, and if so, a tax benefit is measured as the largest amount, determined on a cumulative probability basis, that is more likely than not to be realized upon the ultimate settlement. The Group identifies its certain and uncertain tax positions and then evaluates the recognition and measurement steps to determine the amount that should be recognised. The Group then evaluates uncertain tax positions in subsequent periods for recognition, de-recognition or re-measurement if changes have occurred, or when effective settlement or expiration of the statute of limitations occurs.</p>	<p>We tested the internal controls related to the recognition and measurement of uncertain tax positions and the evaluation of changes during the year. This included testing controls over management’s review of the tax positions, their evaluation of whether they met the measurement threshold and recalculating the amounts recognised. Our testing also included the evaluation of ongoing positions and consideration of changes, the recording of penalties and interest and the ultimate settlement and payment of certain tax matters.</p> <p>Auditing the uncertain tax reserves for the Group’s transfer pricing for the Omeprazole and Tysabri products was challenging because of the subjectivity of the reserves and the taxing authority audit activity. The Group filed a complaint in the United States District court for the Western District of Michigan to recover \$163.6 million of federal income tax, penalties and interest assessed and collected by the Internal Revenue Service (“IRS”) for the 2009, 2010, 2011 and 2012 tax years. Those audits resulted in notices of deficiency for un-agreed income adjustments related primarily to transfer pricing for the Group’s products sold in the United States. In order to evaluate and test the Group’s reserves, we utilized transfer pricing specialists to evaluate the tax technical merits for the Omeprazole transaction and to perform independent calculations to assess the reasonableness of the overall transfer pricing methodology and estimates used to determine the tax reserves.</p> <p>We also evaluated the draft notice of proposed adjustment received from the IRS for Athena Neurosciences, Inc., the Group’s wholly-owned subsidiary related to the Tysabri product. We utilized transfer pricing specialists to evaluate the historical transfer pricing studies, review the related calculations and perform independent calculations of the uncertain tax positions to assess the reasonableness of the amounts recorded.</p>	<p>Our observations included our approach to the assessment of the Group’s calculations for uncertain tax positions, our evaluation of the Group’s accounting policy and reasonableness of estimates in this area, and our conclusions on the Group’s internal controls over the accounting for uncertain tax positions.</p>

**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (continued)**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Revenue recognition (2017 total revenue recognised of \$4,946.2 million, 2016 comparative \$5,280.6 million)</b></p> <p>Refer to the Accounting policies (page 64); and Note 22 of the Consolidated Financial Statements (page 119)</p> <p>The Group recognises revenue from product sales when persuasive evidence of an arrangement exists, delivery to the customer has occurred, the price is fixed or determinable and collectability is reasonably assured. Sales occur through various channels including wholesaler and distributor networks and direct to customer.</p> <p>Given the nature of revenue as a key performance indicator and driver of net income, a fraud risk exists that the Group may attempt to maximise revenue at period end through inappropriately accelerating revenue recognition through some or all of these distribution channels, potentially including management override of internal controls.</p>	<p>We updated our understanding of the Group’s revenue recognition process, including performing walkthroughs. We also tested internal controls in the revenue area, including the precision set by management when performing controls including the review of reports and data.</p> <p>We also performed various customised substantive audit procedures. These included confirming a sample of invoices and contract terms with customers, reviewing the contractual language in sales contracts and the Group’s standard terms and conditions with its largest wholesale customers and other material sales contracts.</p> <p>We also tested a sample of revenue transactions to verify that revenue recognition was in accordance with the related contractual terms, evaluated wholesaler inventory levels, related gross-to-net adjustments, and credit memos issued subsequent to year-end.</p> <p>Our procedures also included enquiry of key sales personnel regarding retroactive pricing adjustments and obtaining representations from various members of management regarding their awareness of pricing negotiations which could impact revenue recognised.</p> <p>In addition to the above procedures which were performed across the various gross and net revenue streams, we performed additional procedures specific to chargebacks and sales rebate accruals, as set out in the following key audit matter.</p>	<p>Our observations included the nature of transactions which are netted against revenue, a summary of our audit procedures over revenue recognition and our evaluation of the Group’s revenue recognition policies.</p>

**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (continued)**

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Chargebacks and sales rebate accruals (2017 total sales rebate, product returns and discount accruals of \$512.3 million, 2016 comparative \$484.3 million)</b></p> <p>Refer to the Accounting policies (page 64); and Note 10 of the Consolidated Financial Statements (page 85)</p> <p>The Group establishes provisions for chargebacks and product returns in the same period as the related sales occur. A large portion of these accruals are chargeback payments to wholesalers representing the difference between the list price and the contracted price with the pharmacies, and product returns.</p> <p>In calculating the appropriate accrual amount, the Group considers their historical sales mix, current forecast and contract prices with pharmacies to establish an estimate of the related accrual at the point of sale. The Group then performs lookbacks and analyzes payment data to adjust the accrual based on the actual payments.</p> <p>The Group’s products have expiration dates that are generally up to eighteen months after manufacture. Products generally have a product return window, where products can be returned for credit, of six months before expiration and up to twelve months after expiration. The Group records a reserve for a product at the point of sale based on the historical estimated returns level. The Group’s returns reserve can vary based on new product launches, changes in return experience or changes in pricing at which returns will be accepted.</p>	<p>Auditing the chargeback and product return accruals is challenging because of the subjectivity of certain assumptions required to estimate the rebate liabilities.</p> <p>We tested internal controls addressing the identified audit risks for product returns and chargebacks. This included testing controls over management’s review of the significant assumptions used to calculate the chargeback accrual liabilities and product returns, including contract testing, sales mix, payment testing, return period, lookback analysis and analytics around the lag in payment timing. This testing also included management’s controls to compare actual activity to forecasted activity or estimates accrued to the actual amounts paid, and controls to ensure the data used to evaluate the significant assumptions was complete and accurate.</p> <p>Our audit procedures included, among others, evaluating for reasonableness of the significant assumptions, as well as the underlying data used in management’s evaluation.</p>	<p>Our observations included a summary of our audit procedures in this area and our evaluation of the quality and application of the Group’s related accounting policies and reasonableness of estimates.</p>

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (*continued*)

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Accounting for Royalty Pharma Contingent Payments Receivable (2017 value of \$134.5 million, no 2016 comparative amount)</b></p> <p>Refer to the Accounting policies (page 67); and Note 11 of the Consolidated Financial Statements (page 85)</p> <p>During the first quarter of 2017, the Group completed the sale of its financial asset related to contingent payments for sales of Tysabri by Biogen to Royalty Pharma for \$2.2 billion in cash plus two future milestone payments totaling up to \$650 million based on 2018 and 2020 sales of Tysabri, if certain sales thresholds are obtained. The Group is accounting for the future payments to be received from Royalty Pharma as a financial asset, using the fair value option.</p> <p>Determining the fair value of the Royalty Pharma contingent payments is complex due to the significant estimation uncertainty in determining the fair value of the financial asset, primarily due to the complexity of the valuation model used as well as the sensitivity of the fair value to the underlying significant assumptions. The Group uses an option pricing model to measure the contingent consideration receivable, and the significant assumptions used in the simulation include volatility, discount rate, revenue projections and timing of expected payments. These significant assumptions are forward-looking and could be affected by future economic and market conditions.</p>	<p>We tested the internal controls over the accounting for this financial asset. In particular we tested the controls over the recognition and measurement of the financial asset and the valuation models and underlying assumptions used to develop such estimates.</p> <p>To test the fair value of the contingent consideration receivable, our audit procedures included, among others, assessing the terms of the arrangement, including the conditions that must be met for the contingent consideration to become receivable, evaluating the Group's use of the option pricing model and testing the significant assumptions used in the model, including the completeness and accuracy of the underlying data.</p> <p>In particular we compared the significant assumptions to current industry, market and economic trends and to the Group's other budgets and forecasts. In addition, we involved a valuation specialist to assist in the evaluation of the reasonableness of the significant assumptions.</p>	<p>Our observations included the accounting for this asset under ASC 860 <i>Transfers and Servicing</i> and ASC 825 <i>Financial Instruments</i>, our utilisation of valuation specialists and our evaluation of the Group's accounting policies and reasonableness of estimates in this area.</p>

**Our application of materiality**

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

*Materiality*

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be \$20 million (2016: \$22 million), which is 5% (2016: 5%) of adjusted profit before tax. We considered adjusted profit before tax to be the most appropriate performance metric on which to base our materiality calculation as we consider it to be the most relevant performance measure to the stakeholders of the Group.



**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (continued)**

<b>Starting Basis</b>	<ul style="list-style-type: none"> <li>•Starting basis - \$280.1 million</li> <li>•Starting basis represents actual profit before tax</li> </ul>
<b>Adjustments</b>	<ul style="list-style-type: none"> <li>•Loss on extinguishment of debt - \$135.2 million</li> <li>•Decrease in Tysabri royalty stream fair value - \$42.0 million</li> <li>•Gain on sale of Tysabri - \$17.1 million</li> </ul>
<b>Materiality</b>	<ul style="list-style-type: none"> <li>•Totals \$440.2 million adjusted profit before tax (rounded down to \$400 million at planning based on professional judgment)</li> <li>•Materiality of \$20m (5% of adjusted profit before tax, rounded down)</li> </ul>

During the course of our audit, we reassessed initial materiality and adjusted it to reflect the actual performance of the Group in the year.

*Performance materiality*

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company’s overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely \$10 million (2016: \$11 million). We have set performance materiality at this percentage due to our past history of misstatements, our ability to assess the likelihood of misstatements, both corrected and uncorrected, the effectiveness of the control environment and other factors affecting the entity and its financial reporting.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statements accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was \$2 million to \$7.5 million (2016: \$2.4 million to \$8 million).

*Reporting threshold*

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of \$1 million (2016: \$1.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

**An overview of the scope of our audit report**

**Tailoring the scope**

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 94 reporting components of the Group, we selected 30 components covering entities within Americas, Europe and Australia, which represent the principal business units within the Group.

**INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC (continued)**

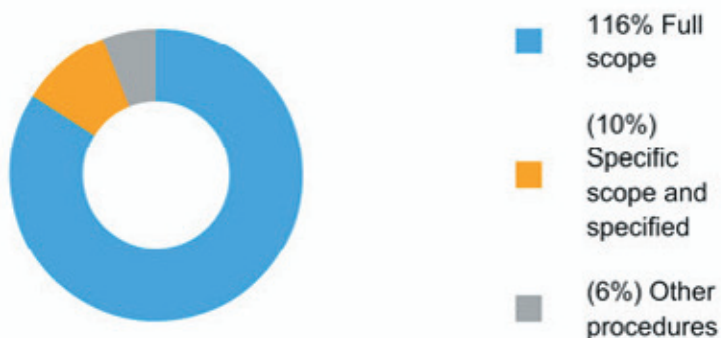
Of the 30 components selected, we performed an audit of the complete financial information of 1 component (“full scope component”) which was selected based on its size and risk characteristics. For the remaining 29 components (“specific scope” and “specified procedures” components), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 106% (2016: 115%) of the Group’s adjusted Profit before tax, 88% (2016: 93%) of the Group’s Revenue and 89% (2016: 93%) of the Group’s Total assets. For the current year, the full scope component contributed 116% (2016: 120%) of the Group’s adjusted Profit before tax, 63% (2016: 83%) of the Group’s Revenue and 43% (2016: 69%) of the Group’s Total assets. The specific scope and specified procedures components contributed -10% (2016: -6%) of the Group’s adjusted Profit before tax, 25% (2016: 10%) of the Group’s Revenue and 46% (2016: 24%) of the Group’s Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining 64 components that together represent -6% (2016: -15%) of the Group’s adjusted Profit before tax, none are individually greater than 5% of the Group’s adjusted Profit before tax. For these components, we performed other procedures, including assigning ‘review scope’ to 8 components representing 5% (2016: -10%) of the Group adjusted Profit before tax and performing analytical review, testing of consolidation journals and intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

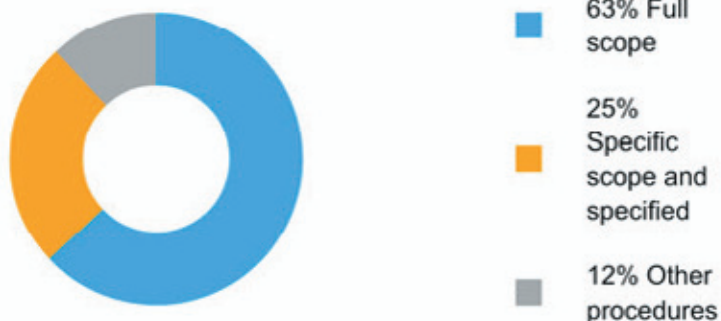
The charts below illustrate the coverage obtained from the work performed by our component audit teams.

**Adjusted Profit before tax**

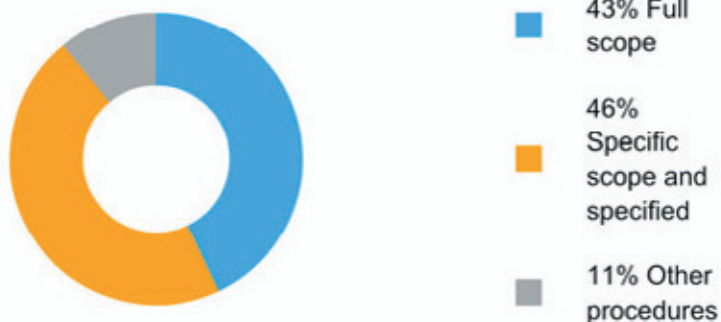


INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC *(continued)*

**Revenue**



**Total Assets**



*Involvement with component teams*

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, EY Dublin, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For one specific scope component, audit procedures were performed directly by the primary audit team. For the 1 full scope component and the 20 specific scope components, where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. The primary team interacted with component teams where appropriate during various stages of the audit, most particularly the full scope component team, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at a group level, gave us appropriate evidence for our opinion on the Group financial statements.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC *(continued)***

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2014**

Based solely on the work undertaken in the course of the audit, we report that:

- in our opinion, the information given in the directors' report is consistent with the financial statements; and
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

We have obtained all the information and explanations which we consider necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Parent Company Balance Sheet is in agreement with the accounting records.

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

Based on the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by sections 305 to 312 of the Act are not made. We have nothing to report in this regard.

### **Respective responsibilities**

#### ***Responsibilities of directors for the financial statements***

As explained more fully in the directors' responsibilities statement set on page 44, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### ***Auditor's responsibilities for the audit of the financial statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PERRIGO COMPANY PLC *(continued)***

error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: [http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description\\_of\\_auditors\\_responsibilities\\_for\\_audit.pdf](http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf). This description forms part of our auditor's report.

***The purpose of our audit work and to whom we owe our responsibilities***

Our report is made solely to the Company's members, as a body, in accordance with section 391 of the Companies Act 2014. 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.

Breffni Maguire

for and on behalf of

Ernst & Young Chartered Accountants and Statutory Audit Firm

Dublin

15 March 2018

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

(in millions, except per share amounts)

	Note	Year Ended	
		December 31, 2017	December 31, 2016
Net sales	22	\$ 4,946.2	\$ 5,280.6
Cost of sales		2,966.7	3,228.8
Gross profit		1,979.5	2,051.8
Operating expenses			
Distribution		87.0	88.3
Research and development		167.7	184.0
Selling		598.4	665.0
Administration		461.1	452.2
Impairment charges	3	47.5	2,631.0
Restructuring	20	61.0	31.0
Other operating income		(41.4)	—
Total operating expenses		1,381.3	4,051.5
Operating income (loss)		598.2	(1,999.7)
Change in financial assets	11	24.9	2,608.2
Interest expense, net	9	168.1	216.6
Other expense (Income), net		(10.1)	22.7
Loss on extinguishment of debt	9	135.2	1.1
Income (loss) before income taxes		280.1	(4,848.3)
Income tax expense (benefit)	18	160.5	(835.5)
Net income (loss)		\$ 119.6	\$ (4,012.8)
Earnings (loss) per share			
Basic		\$ 0.84	\$ (28.01)
Diluted		\$ 0.84	\$ (28.01)
Weighted-average shares outstanding	14		
Basic		142.3	143.3
Diluted		142.6	143.3
Dividends declared per share		\$ 0.64	\$ 0.58



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

(in millions)

	Note	Year Ended	
		December 31, 2017	December 31, 2016
Net income (loss)		\$ 119.6	\$ (4,012.8)
Other comprehensive income:			
Foreign currency translation adjustments		328.5	(63.3)
Change in fair value of derivative financial instruments <sup>(1)</sup>	17	9.7	(5.3)
Change in fair value of investment securities <sup>(2)</sup>	17	(14.1)	8.7
Change in post-retirement and pension liability <sup>(3)</sup>	17	10.8	(6.6)
Other comprehensive income (loss), net of tax		334.9	(66.5)
Comprehensive income (loss)		\$ 454.5	\$ (4,079.3)

<sup>(1)</sup> Includes tax effect of \$3.5 million and \$2.1 million for the years ended December 31, 2017 and December 31, 2016, respectively.

<sup>(2)</sup> Includes tax effect of \$0.5 million and \$4.1 million for the years ended December 31, 2017 and December 31, 2016, respectively.

<sup>(3)</sup> Includes tax effect of \$0.0 million and \$2.5 million for the years ended December 31, 2017 and December 31, 2016, respectively.

**CONSOLIDATED BALANCE SHEET**

(in millions)

<b>Assets</b>	<b>Note</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Fixed assets</b>			
Goodwill and other indefinite-lived intangible assets	3	\$ 4,265.7	\$ 4,163.9
Other intangible assets, net	3	3,290.5	3,396.8
Property, plant and equipment	5	833.1	870.1
Tysabri royalty stream - at fair value	11	—	2,350.0
Investment in associates	12	4.9	4.6
Pension assets	19	22.0	10.4
Financial assets		382.6	196.9
<b>Current assets</b>			
Inventories	7	806.9	795.0
Debtors	6	1,327.4	1,421.9
Investment securities	12	17.0	38.2
Cash at bank and in hand		678.7	622.3
<b>Total assets</b>		<b>\$ 11,628.8</b>	<b>\$ 13,870.1</b>
<b>Liabilities</b>			
<b>Shareholders' equity</b>			
Called up share capital	15		
Ordinary shares, €0.001 par value, 10 billion shares authorized		\$ 0.2	\$ 0.2
Share premium		8,563.5	8,562.8
Profit and loss account		(2,806.1)	(2,643.1)
Other reserves	17	412.9	38.2
Total Perrigo shareholders' equity		6,170.5	5,958.1
Minority interest		0.1	(0.5)
<i>Total shareholders' equity</i>		6,170.6	5,957.6
<b>Provision for liabilities</b>			
Deferred income taxes	18	321.9	389.9
Other provisions	20	75.9	108.4
<b>Creditors</b>			
Debt	9	3,341.2	5,797.3
Creditors	10	1,719.2	1,616.9
Total for provisions and creditors		5,458.2	7,912.5
<b>Total liabilities and shareholders' equity</b>		<b>\$ 11,628.8</b>	<b>\$ 13,870.1</b>

The Consolidated Financial Statements were approved by the Audit Committee of the Board of Directors and the Board of Directors on March 15, 2018, and signed on its behalf by;

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 Uwe Roehhoff

Chief Executive Officer

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 Donal O'Connor

Director, Audit Committee Chair

**CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

(in millions, except per share amounts)

	Called up share capital		Share Premium	Other Reserves	Profit and Loss Account	Total
	Shares	Amount				
Balance at December 31, 2015	143.1	0.2	8,554.5	99.8	1,452.9	10,107.4
Net loss	—	—	—	—	(4,012.8)	(4,012.8)
Other comprehensive loss	—	—	—	(66.5)	—	(66.5)
Issuance of common stock under:						
Stock options	0.2	—	8.3	—	—	8.3
Restricted stock plan	0.2	—	—	—	—	—
Compensation for stock options	—	—	—	5.0	—	5.0
Compensation for restricted stock	—	—	—	18.0	—	18.0
Cash dividends, \$0.58 per share	—	—	—	—	(83.2)	(83.2)
Tax effect from stock transactions	—	—	—	(1.5)	—	(1.5)
Shares withheld for payment of employee's withholding tax liability	(0.1)	—	—	(6.3)	—	(6.3)
Equity issuance costs	—	—	—	(10.3)	—	(10.3)
Balance at December 31, 2016	143.4	0.2	8,562.8	38.2	(2,643.1)	5,958.1
Net income	—	—	—	—	119.6	119.6
Other comprehensive income	—	—	—	334.9	—	334.9
Issuance of common stock under:						
Stock options	0.1	—	0.7	—	—	0.7
Restricted stock plan	0.1	—	—	—	—	—
Compensation for stock options	—	—	—	8.9	—	8.9
Compensation for restricted stock	—	—	—	34.9	—	34.9
Cash dividends, \$0.64 per share	—	—	—	—	(91.1)	(91.1)
Shares withheld for payment of employee's withholding tax liability	(0.1)	—	—	(4.0)	—	(4.0)
Share repurchases <sup>(1)</sup>	(2.7)	—	—	—	(191.5)	(191.5)
Balance at December 31, 2017	140.8	\$ 0.2	\$ 8,563.5	\$ 412.9	\$ (2,806.1)	\$ 6,170.5

<sup>(1)</sup> A capital redemption reserve fund has been created in respect of the nominal value of shares repurchased.

**CONSOLIDATED STATEMENT OF CASH FLOWS**

(in millions)

	Year Ended	
	December 31, 2017	December 31, 2016
<b>Cash Flows From (For) Operating Activities</b>		
Net income (loss)	\$ 119.6	\$ (4,012.8)
Adjustments to derive cash flows		
Depreciation and amortization	444.8	457.0
Loss on acquisition-related foreign currency derivatives	—	—
Share-based compensation	43.8	23.0
Impairment charges	47.5	2,631.0
Change in financial assets	24.9	2,608.2
Loss on extinguishment of debt	135.2	1.1
Restructuring charges	61.0	31.0
Deferred income taxes	(48.9)	(990.9)
Amortization of debt premium	(22.4)	(24.7)
Other non-cash adjustments, net	(2.7)	33.5
Subtotal	802.8	756.4
Increase (decrease) in cash due to:		
Accounts receivable	3.2	(0.6)
Inventories	(16.0)	100.7
Accounts payable	(39.6)	(75.7)
Payroll and related taxes	(27.4)	(41.1)
Accrued customer programs	34.6	(13.9)
Accrued liabilities	(47.8)	(79.5)
Accrued income taxes	(6.1)	20.9
Other, net	(4.8)	(12.3)
Subtotal	(103.9)	(101.5)
Net cash from operating activities	698.9	654.9
<b>Cash Flows From (For) Investing Activities</b>		
Proceeds from royalty rights	87.3	353.7
Acquisitions of businesses, net of cash acquired	(0.4)	(427.4)
Asset acquisitions	—	(65.1)
Settlement of acquisition-related foreign currency derivatives	—	—
Proceeds from sale of securities	—	4.5
Additions to property, plant and equipment	(88.6)	(106.2)
Net proceeds from sale of business and other assets	154.6	69.1
Proceeds from sale of the Tysabri® financial asset	2,200.0	—
Other investing, net	(14.8)	(3.6)
Net cash from (for) investing activities	2,338.1	(175.0)
<b>Cash Flows From (For) Financing Activities</b>		
Borrowings (repayments) of revolving credit agreements and other financing, net	6.8	(802.5)
Issuances of long-term debt	—	1,190.3
Payments on long-term debt	(2,611.0)	(559.2)
Premium on early debt retirement	(116.1)	(0.6)
Deferred financing fees	(4.8)	(2.8)
Issuance of ordinary shares	0.7	8.3
Equity issuance costs	—	(10.3)
Repurchase of ordinary shares	(191.5)	—
Cash dividends	(91.1)	(83.2)
Other financing, net	2.3	(8.7)
Net cash from (for) financing activities	(3,004.7)	(268.7)
Effect of exchange rate changes on cash and cash equivalents	24.1	(6.7)
Net increase (decrease) in cash and cash equivalents	56.4	204.5
Cash and cash equivalents, beginning of period	622.3	417.8
Cash and cash equivalents, end of period	\$ 678.7	\$ 622.3

	Year Ended	
	December 31, 2017	December 31, 2016
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid/received during the year for:		
Interest paid	\$ 187.6	\$ 205.1
Interest received	\$ 9.3	\$ 1.2
Income taxes paid	\$ 186.9	\$ 139.5
Income taxes refunded	\$ 3.6	\$ 9.3

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amounts are in USD millions unless otherwise indicated.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a. General Information

##### *The Company*

Perrigo Company plc was incorporated under the laws of Ireland on June 28, 2013 and became the successor registrant of Perrigo Company, a Michigan corporation, on December 18, 2013 in connection with the acquisition of Elan Corporation, plc ("Elan"). Unless the context requires otherwise, the terms "Perrigo," the "Company," "we," "our," "us," and similar pronouns used herein refer to Perrigo Company plc, its subsidiaries, and all predecessors of Perrigo Company plc and its subsidiaries.

We are a leading global healthcare company, delivering value to our customers and consumers by providing Quality Affordable Healthcare Products<sup>®</sup>. Founded in 1887 as a packager of home remedies, we have built a unique business model that is best described as the convergence of a fast-moving consumer goods company, a high-quality pharmaceutical manufacturing organization and a world-class supply chain network. We believe we are one of the world's largest manufacturers of OTC healthcare products and suppliers of infant formulas for the store brand market. We are a leading provider of branded OTC products throughout Europe, and also a leading producer of generic pharmaceutical topical products such as creams, lotions, and gels, as well as nasal sprays and injection ("extended topical") prescription drugs. We are headquartered in Ireland, and sell our products primarily in North America and Europe, as well as in other markets, including Australia, Israel and China.

##### *Basis of Presentation*

Our fiscal year previously consisted of a 52- or 53-week year ending on or around June 30 of each year with each quarter ending on the Saturday closest to each calendar quarter end. Beginning on January 1, 2016, we changed our fiscal year to begin on January 1 and end on December 31 of each year. As a result of our change in year end, this report discloses the results of our operations for the twelve-month period from January 1, 2017 through December 31, 2017 and the twelve-month period from January 1, 2016 through December 31, 2016. We cut off our quarterly accounting periods on the Saturday closest to the end of the calendar quarter, with the fourth quarter ending on December 31 of each year.

##### *Segment Reporting*

Our reporting segments are as follows:

- **Consumer Healthcare Americas ("CHCA")**, comprises our U.S., Mexico and Canada consumer healthcare business (OTC, contract, infant formula and animal health categories).
- **Consumer Healthcare International ("CHCI")**, comprises our branded consumer healthcare business primarily in Europe and our consumer focused businesses in the U.K., Australia, and Israel. This segment also includes our U.K. liquid licensed products business.
- **Prescription Pharmaceuticals ("RX")**, comprises our U.S. Prescription Pharmaceuticals business.

We also had two legacy operating segments, Specialty Sciences and Other, which contained our Tysabri<sup>®</sup> financial asset and Active Pharmaceuticals business ("API") businesses, respectively, which we divested (refer to Note 2 and Note 11). Following these divestitures, there were no substantial assets or operations left in either of these segments. Effective January 1, 2017, all expenses associated with our former Specialty Sciences segment were moved to unallocated expenses. Our segments reflect the way in which our management makes operating decisions, allocates resources and manages the growth and profitability of the Company.



Our consolidated financial statements have been prepared in accordance with Section 279 of the Companies Act 2014, which provides that a true and fair view of the state of affairs and profit or loss may be given by preparing the financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP), as defined in Section 279(1) of the Companies Act 2014 to the extent that the use of those principles in the preparation of the consolidated financial statements does not contravene any provisions of the Companies Acts or of any regulations made thereunder.

These consolidated financial statements were prepared in accordance with Irish Company Law, to present to the shareholders of the Company and file with the Companies Registration Office in Ireland. Accordingly, these consolidated financial statements include presentation and additional disclosures required by the Republic of Ireland's Companies Act 2014 in addition to those disclosures required under U.S. GAAP.

Terminology typically utilized in a set of U.S. GAAP financial statements has been retained for the benefit of those users of these financial statements who also access form 10-K U.S. GAAP financial statements, rather than defaulting to the terminology set out under Irish Company Law. Accordingly, references to net sales, net interest, income tax expense, net income, inventory and minority interest have the same meaning as references to turnover, other interest receivable and similar income, interest payable and similar charges, tax on profit on ordinary activities after taxation, stocks and non controlling interests under Irish Company Law.

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

We have research and development ("R&D") arrangements with certain biotechnology companies that we determined to be variable interest entities ("VIEs"). We did not consolidate the VIEs in our financial statements because we lack the power to direct the activities that most significantly impact their economic performance and thus are not considered the primary beneficiaries of these entities. These arrangements provide us with certain rights and obligations to purchase product candidates from the VIEs, dependent upon the outcome of the development activities.

The preparation of consolidated financial statements requires management to make estimates and assumptions, which affect the reported earnings, financial position and various disclosures. Although the estimates are considered reasonable, actual results could differ from the estimates.

Our functional currency is United States Dollars ("USD"). We translate our non-U.S. operations' assets and liabilities denominated in foreign currencies into USD at current rates of exchange as of the balance sheet date and income and expense at the weighted average exchange rates. All resulting translation adjustments are recognized in Other Reserves.

***b. Reconciliation to amounts reported in Perrigo's annual report on Form 10-K filed with the United States Securities and Exchange Commission***

These Consolidated Financial Statements are prepared using U.S. GAAP to the extent that the use of such principles does not contravene Irish Company Law. The Consolidated Financial Statements included in the annual report on Form 10-K as filed on March 1, 2018 with the United States Securities and Exchange Commission are prepared using U.S. GAAP. The primary differences between these statutory financial statements and the Consolidated Financial Statements included on Form 10-K are the presentation format of the income statement and balance sheet and the inclusion of certain additional disclosures.

It is noted that there are no material differences to be reconciled between the two financial statements.

***c. Revenues***

We generally record revenues from product sales when the goods are shipped to the customer. For customers with Free on Board destination terms, a provision is recorded to exclude shipments estimated to be in-transit to these customers at the end of the reporting period. A sales allowance is recorded and accounts receivable are reduced as revenues are recognized for estimated losses on credit sales due to customer claims for discounts, price discrepancies, returned goods and other items. Revenue is also reduced for any contractual customer program arrangements and related liabilities are recorded concurrently.

We maintain customer-related accruals and allowances that consist primarily of chargebacks, rebates, sales returns, shelf stock allowances, administrative fees and other incentive programs. Some of these adjustments relate specifically to the RX segment while others relate only to the CHCA and CHCI segments. Certain of these accruals and allowances are recorded in the balance sheet as current liabilities and others are recorded as a reduction in accounts receivable. Changes in these estimates and assumptions related to customer programs may result in additional accruals or allowances. Customer-related accruals and allowances were \$512.3 million and \$484.3 million at December 31, 2017 and December 31, 2016 respectively.

Revenues from service and royalty arrangements, including revenues from collaborative agreements, consist primarily of royalty payments, payments for R&D services, up-front fees and milestone payments. If an arrangement requires the delivery or performance of multiple deliverables or service elements, we determine whether the individual elements represent separate units of accounting. If the separate elements represent separate units of accounting, we recognize the revenue associated with each element separately and revenue is allocated among elements based on their relative selling prices. If the elements within a multiple deliverable arrangement are not considered separate units of accounting, the delivery of an individual element is considered not to have occurred if there are undelivered elements that are considered essential to the arrangement.

To the extent such arrangements contain refund clauses triggered by non-performance or other adverse circumstances, revenue is not recognized until all contractual obligations are satisfied. Non-refundable up-front fees are deferred and amortized to revenue over the related performance period. We estimate the performance period based on the specific terms of each collaborative agreement. Revenue associated with R&D services is recognized on a proportional performance basis over the period that we perform the related activities under the terms of the agreement. Revenue resulting from the achievement of contingent milestone events stipulated in the agreements is recognized when the milestone is achieved. Milestones are based upon the occurrence of a substantive element specified in the contract.

Shipping and handling costs billed to customers are included in net sales. Conversely, shipping and handling expenses we incur are included in cost of sales.

**d. *Cash and Cash Equivalents***

Cash and cash equivalents consist primarily of demand deposits and other short-term investments with maturities of three months or less at the date of purchase. The carrying amount of cash and cash equivalents approximates its fair value.

**e. *Accounts Receivable***

We maintain an allowance for doubtful accounts that reduces our receivables to amounts that are expected to be collected. In estimating the allowance, management considers factors such as current overall and industry-specific economic conditions, statutory requirements, historical and anticipated customer performance, historical experience with write-offs and the level of past-due amounts. Changes in these conditions may result in additional allowances. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

In addition, included in our accounts receivable balance is \$84.4 million related to our Tysabri<sup>®</sup> financial asset at December 31, 2016 for amounts earned that have not yet been received.

**f. *Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out method. Costs include material and conversion costs. Inventory related to R&D is expensed at the point when it is determined the materials have no alternative future use.

We maintain reserves for estimated obsolete or unmarketable inventory based on the difference between the cost of the inventory and its estimated net realizable value. In estimating the reserves, management considers factors such as excess or slow-moving inventories, product expiration dating, products on quality hold, current and future customer demand and market conditions. Changes in these conditions may result in additional reserves (refer to Note 7).

**g. Investments**

*Available for Sale Investments*

We determine the appropriate classification of securities as held-to-maturity, available-for-sale, or trading. The classification depends on the purpose for which the financial assets were acquired. Marketable equity securities are classified as available-for-sale. These securities are carried at fair value with unrealized gains and losses included in Other Reserves. The assessment for impairment of marketable securities classified as available-for-sale is based on established financial methodologies, including quoted market prices for publicly traded securities. If we determine that a loss in the value of an investment is other than temporary, the investment is written down to its estimated fair value. Any such losses are recorded in Other expense, net (refer to Note 12).

*Cost Method Investments*

Non-marketable equity securities are carried at cost, less any write down for impairments, and are adjusted for impairment based on methodologies, an assessment of the impact of general private equity market conditions, and discounted projected future cash flows. Non-marketable equity securities are recorded in Other non-current assets (refer to Note 12).

*Investment in Associates*

The equity method of accounting is used for unconsolidated entities over which we have significant influence; generally this represents ownership interests of at least 20% and not more than 50%. Under the equity method of accounting, we record the investments at carrying value and adjust for a proportionate share of the profits and losses of these entities each period. We evaluate our equity method investments for recoverability. If we determine that a loss in the value of an investment is other than temporary, the investment is written down to its estimated fair value. Any such losses are recorded in Other expense, net. Evaluations of recoverability are based primarily on projected cash flows. Due to uncertainties in the estimation process, actual results could differ from such estimates. Refer to Note 12 for further detail.

**h. Derivative Instruments**

We record derivative instruments on the balance sheet on a gross basis as either an asset or liability measured at fair value (refer to Note 13). Additionally, changes in a derivative's fair value, which are measured at the end of each period, are recognized in earnings unless specific hedge accounting criteria are met. If hedge accounting criteria are met for cash flow hedges, the changes in a derivative's fair value are recorded in shareholders' equity as a component of other comprehensive income ("OCI"), net of tax. These deferred gains and losses are recognized in income in the period in which the hedged item and hedging instrument affect earnings. Any ineffective portion of the change in fair value is immediately recognized in earnings.

We are exposed to credit loss in the event of nonperformance by the counterparties on derivative contracts. It is our policy to manage our credit risk on these transactions by dealing only with financial institutions having a long-term credit rating of "A" or better and by distributing the contracts among several financial institutions to diversify credit concentration risk. Should a counterparty default, our maximum exposure to loss is the asset balance of the instrument. The maximum term of our forward currency exchange contracts is 18 months.

**i. Property, Plant and Equipment, net**

Property, plant and equipment, net are recorded at cost and are depreciated using the straight-line method. Useful lives for financial reporting range from 3 to 20 years for machinery and equipment and 10 to 45 years for buildings. Maintenance and repair costs are charged to earnings, while expenditures that increase asset lives are capitalized. Depreciation expense includes amortization of assets recorded under capital leases and totaled \$95.2 million and \$100.2 million for the years ended December 31, 2017 and December 31, 2016, respectively.

We held the following property, plant and equipment, net (in millions):

	December 31, 2017	December 31, 2016
Land	\$ 45.5	\$ 45.0
Buildings	514.3	520.2
Machinery and equipment	1,078.6	1,094.7
Gross property, plant and equipment	1,638.4	1,659.9
Less accumulated depreciation	(805.3)	(789.8)
Property, plant and equipment, net	<u>\$ 833.1</u>	<u>\$ 870.1</u>

**j. Financial Assets**

Prior to its divestiture on March 27, 2017, we accounted for the Tysabri<sup>®</sup> royalty stream as a financial asset and have elected to use the fair value option model (refer to Note 11). We made the election to account for the Tysabri<sup>®</sup> financial asset using the fair value option as we believe this method is most appropriate for an asset that does not have a par value, a stated interest stream, or a termination date. The fair value of the Tysabri<sup>®</sup> financial asset is determined by using a discounted cash flow analysis related to the expected future cash flows to be received. This asset is classified as Level 3 assets within the fair value hierarchy, as our valuation estimates utilize significant unobservable inputs, including estimates as to the probability and timing of future sales of the related products. Critical estimates in determining the fair value are the underlying revenue assumptions of Tysabri<sup>®</sup> sales and the discount rates. The revenue assumptions are impacted by product demand and market growth assumptions, inventory target levels, product approval, currency movements and pricing assumptions. Factors that could cause a change in estimates of future cash flows include a change in estimated market size, entry of a competitive product that would erode market share, manufacturing and approval of a biosimilar equivalent product, a change in pricing strategy or reimbursement coverage, a delay in obtaining regulatory approval, a change in dosage of the product, or a change in the number of treatments.

**k. Goodwill and Intangible Assets**

*Goodwill*

Irish Company law requires that goodwill is written off over a period of time which does not exceed its useful economic life. However, we do not believe this gives a true and fair view as not all goodwill and intangible assets decline in value. In addition, since goodwill that does decline in value rarely does so on a straight-line basis, straight-line amortization of goodwill over an arbitrary period does not reflect the economic reality. Consistent with U.S. GAAP, we consider goodwill an indefinite-lived intangible asset that is not amortized over an arbitrary period. Rather, we account for goodwill in accordance with U.S. GAAP. Therefore in order to present a true and fair view of the economic reality, goodwill is considered indefinite-lived and is not amortized. We are not able to reliably estimate the impact on the financial statements of the true and fair override on the basis that the useful economic of goodwill cannot be predicted with a satisfactory level of reliability nor can the pattern in which goodwill diminishes be known.

Goodwill represents amounts paid for an acquisition in excess of the fair value of net assets received. Goodwill is tested for impairment annually on the first day of our fourth quarter, or more frequently if changes in circumstances or the occurrence of events suggest an impairment exists.

The test for impairment requires us to make several estimates about fair value, most of which are based on projected future cash flows and market valuation multiples. The estimates associated with the goodwill impairment tests are considered critical due to the judgments required in determining fair value amounts, including projected discounted future cash flows. Changes in these estimates may result in the recognition of an impairment loss. Our annual impairment tests were performed as of October 1, 2017 and October 2, 2016, for the years ended December 31, 2017 and December 31, 2016, respectively.

## *Intangible Assets*

We have intangible assets that we have acquired through various business acquisitions and include trademarks, trade names and brands, in-process research and development ("IPR&D"), developed product technology/formulation and product rights, distribution and license agreements, customer relationships and distribution networks, and non-compete agreements. The assets are typically initially valued using one of the following valuation methods:

- *Relief from royalty method:* This method assumes that if the acquired company did not own the intangible asset or intellectual property, it would be willing to pay a royalty for its use. The benefit of ownership of the intellectual property is valued as the relief from the royalty expense that would otherwise be incurred. We typically use this method for valuing readily transferable intangible assets that have licensing appeal, such as trade names and trademarks and certain technology assets.
- *Multi-period excess earnings method:* This method starts with a forecast of the net cash flows expected to be generated by the asset over its estimated useful life. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. We typically use this method for valuing intangible assets such as developed product technology, customer relationships, product formulations and IPR&D.
- *Lost income method:* This method estimates the fair value of an asset by comparing the value of the business, inclusive of the asset, to the hypothetical value of the same business excluding the asset.

Indefinite-lived intangible assets include IPR&D and certain trademarks, trade names, and brands. IPR&D assets are recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. If the associated research and development is completed, the IPR&D asset becomes a definite-lived intangible asset and is amortized over the asset's assigned useful life. If it is abandoned, an impairment loss is recorded.

We test indefinite-lived trademarks, trade names, and brands for impairment quarterly, or more frequently if changes in circumstances or the occurrence of events suggest impairment exists, by comparing the carrying value of the assets to their estimated fair values. An impairment loss is recognized if the carrying amount of the asset is not recoverable and its carrying amount exceeds its fair value.

Definite-lived intangible assets consist of a portfolio of developed product technology/formulation and product rights, distribution and license agreements, customer relationships, non-compete agreements, and certain trademarks, trade names, and brands. The assets are amortized on either a straight-line basis or proportionately to the benefits derived from those relationships or agreements. Useful lives vary by asset type and are determined based on the period over which the intangible asset is expected to contribute directly or indirectly to our future cash flows. We also review all other long-lived assets that have finite lives and that are not held for sale for impairment when indicators of impairment are evident by comparing the carrying value of the assets to their estimated future undiscounted cash flows.

See Note 3 for further information on our goodwill and intangible assets.

### ***I. Assets Held for Sale***

We classify assets as "held for sale" when management approves and commits to a formal plan of sale with the expectation the sale will be completed within one year. The net assets of the business held for sale are then recorded at the lower of their current carrying value and the fair market value, less costs to sell (refer to Note 8).

### ***m. Deferred Financing Fees***

We record deferred financing fees as a reduction of long-term debt.



**n. Share-Based Awards**

We measure and record compensation expense for all share-based awards based on estimated grant date fair values, and net of any estimated forfeitures over the vesting period of the awards. Forfeiture rates are estimated at the grant date based on historical experience and adjusted in subsequent periods for any differences in actual forfeitures from those estimates.

We estimate the fair value of stock option awards granted based on the Black-Scholes option pricing model, which requires the use of subjective and complex assumptions. These assumptions include estimating the expected term that awards granted are expected to be outstanding, the expected volatility of our stock price for a period commensurate with the expected term of the related options, and the risk-free rate with a maturity closest to the expected term of the related awards. Restricted stock and restricted stock units are valued based on our stock price on the day the awards are granted. The estimated fair value of outstanding Relative Total Shareholder Return performance units ("RTSR") is based on the grant date fair value of RTSR awards using a Monte Carlo simulation, which includes estimating the movement of stock prices and the effects of volatility, interest rates, and dividends (refer to Note 16).

**o. Income Taxes**

We record deferred income tax assets and liabilities on the balance sheet as noncurrent based upon the difference between the financial reporting and the tax reporting basis of assets and liabilities using the enacted tax rates. To the extent that available evidence raises doubt about the realization of a deferred income tax asset, a valuation allowance is established.

We have provided for income taxes for certain earnings of certain foreign subsidiaries which have not been deemed to be permanently reinvested. For those foreign subsidiaries we have deemed to be permanently reinvested, we have provided no further tax provision.

We record reserves for uncertain tax positions to the extent it is more likely than not that the tax position will be sustained on audit, based on the technical merits of the position. Periodic changes in reserves for uncertain tax positions are reflected in the provision for income taxes. We include interest and penalties attributable to uncertain tax positions and income taxes as a component of our income tax provision (refer to Note 18).

**p. Legal Contingencies**

We are involved in product liability, patent, commercial, regulatory and other legal proceedings that arise in the normal course of business. We record a liability when a loss is considered probable and the amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range and no amount within that range is a better estimate, the minimum amount in the range is accrued. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded. We have established reserves for certain of our legal matters (refer to Note 20). We also separately record any insurance recoveries that are probable of occurring.

**q. Research and Development**

All R&D costs, including payments related to products under development and research consulting agreements, are expensed as incurred. We may continue to make non-refundable payments to third parties for new technologies and for R&D work that has been completed. These payments may be expensed at the time of payment depending on the nature of the payment made. R&D expense was \$167.7 million and \$184.0 million for the years ended December 31, 2017 and December 31, 2016, respectively.

The year ended December 31, 2017 included R&D expense related to new product development and clinical trial expenses in our CHCA, CHCI and RX segments. The year ended December 31, 2016 included R&D expense related to clinical trials primarily in our CHCA and RX segments.

We actively collaborate with other pharmaceutical companies to develop, manufacture and market certain products or groups of products. We may choose to enter into these types of agreements to, among other things, leverage our or others' scientific research and development expertise or utilize our extensive marketing and distribution resources. Our policy on accounting for costs of strategic collaborations determines the timing of the



recognition of certain development costs. In addition, this policy determines whether the cost is classified as development expense or capitalized as an asset. Management is required to form judgments with respect to the commercial status of such products in determining whether development costs meet the criteria for immediate expense or capitalization. For example, when we acquire certain products for which there is already an Abbreviated New Drug Application ("ANDA") or New Drug Application ("NDA") approval directly related to the product, and there is net realizable value based on projected sales for these products, we capitalize the amount paid as an intangible asset. If we acquire product rights that are in the development phase and as to which we have no assurance that the third party will successfully complete its development milestones, we expense the amount paid (refer to Note 21 for more information on our current collaboration agreements).

**r. Advertising Costs**

We expense advertising costs as incurred. Advertising costs were \$145.3 million and \$155.9 million for years ended December 31, 2017 and December 31, 2016, respectively. Advertising costs relate primarily to print advertising, direct mail, on-line advertising and social media communications. For the year ended December 31, 2017, 94% of advertising expense was attributable to our CHCI segment.

**s. Earnings per Share ("EPS")**

Basic EPS is calculated using the weighted-average number of ordinary shares outstanding during each period. It excludes both the dilutive effects of additional common shares that would have been outstanding if the shares issued under stock incentive plans had been exercised and the dilutive effect of restricted shares and restricted share units, to the extent those shares and units have not vested. Diluted EPS is calculated including the effects of shares and potential shares issued under stock incentive plans, following the treasury stock method.

**t. Defined Benefit Plans**

We operate a number of defined benefit plans for employees globally.

Two significant assumptions, the discount rate and the expected rate of return on plan assets, are important elements of expense and liability measurement. We evaluate these assumptions annually. Other assumptions involve employee demographic factors, such as retirement patterns, mortality, turnover, and the rate of compensation increase.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of either high quality corporate bonds or long term government bonds depending on the depth and liquidity of the high quality corporate bond market in the different geographies where we have pension liabilities. The bonds are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized on the Consolidated Profit and Loss Account using the corridor method. Under the corridor method, to the extent that any cumulative unrecognized net actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of the plan assets, that portion is recognized over the expected average remaining working lives of the plan participants. Otherwise, the net actuarial gain or loss is recorded in OCI. We recognize the funded status of benefit plans on the Consolidated Balance Sheets. In addition, we recognize the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic pension cost of the period as a component of OCI (refer to Note 19).

## **2. ACQUISITIONS AND DIVESTITURES**

All of the below acquisitions, with the exception of the generic Benzaclin™ product purchase, have been accounted for under the acquisition method of accounting based on our analysis of the acquired inputs and processes, and the related assets acquired and liabilities assumed were recorded at fair value as of the acquisition date.

Fair value estimates are based on a complex series of judgments about future events and rely heavily on estimates and assumptions. The judgments used to determine the estimated fair value assigned to each class of assets and liabilities assumed, as well as asset lives, can materially impact our results of operations.

The effects of all of the acquisitions described below were included in the Consolidated Financial Statements prospectively from the date of each acquisition. Unless otherwise indicated, acquisition costs incurred were immaterial and were recorded in Administration expense.

### ***Acquisitions Completed During the Year Ended December 31, 2016***

#### *Generic Benzaclin™ Product*

On August 2, 2016, we purchased the remaining 60.9% product rights to a generic Benzaclin™ product ("Generic Benzaclin™"), which we had developed and marketed in collaboration with Barr Laboratories, Inc. ("Barr"), a subsidiary of Teva Pharmaceuticals, for \$62.0 million in cash. In September 2007, we entered into an initial development, marketing and commercialization agreement with Barr, in which Barr contributed to the product's development costs and we developed and marketed the product in the U.S. and Israel. Under this agreement, we paid Barr a percentage of net income from the product's sales in these territories, adjusted for Barr's contributions to the product's development costs. By purchasing the remaining product rights from Barr, we are now entitled to 100% of income from sales of the product. Operating results attributable to Generic Benzaclin™ are included within our RX segment. The intangible asset acquired is a distribution and license agreement with a nine-year useful life.

#### *Tretinoin Product Portfolio*

On January 22, 2016, we acquired a portfolio of generic dosage forms and strengths of Retin-A® (tretinoin), a topical prescription acne treatment, from Matawan Pharmaceuticals, LLC, for \$416.4 million in cash ("Tretinoin Products"), which further expanded our standard topical products such as creams, lotions and gels, as well as inhalants and injections ("extended topicals") portfolio. We were the authorized generic distributor of these products from 2005 to 2013. Operating results attributable to the acquisition are included within our RX segment. The intangible assets acquired included generic product rights valued using the multi-period excess earnings method and assigned a 20-year useful life, and non-compete agreements valued using the lost income method and assigned a five-year useful life. The goodwill acquired is deductible for tax purposes.

#### *Development-Stage Rx Products*

In May 2015, we entered into an agreement with a clinical stage biotechnology company for two specialty pharmaceutical products in development ("Development-Stage Rx Products"). We paid \$18.0 million for an option to acquire the two products, which was recorded in R&D expense. On March 1, 2016, to further invest in our specialty "prescription only" ("Rx") portfolio, we exercised the option for both products, which requires us to make contingent payments if we obtain regulatory approval and achieve certain sales milestones. We will also be obligated to make certain royalty payments over periods ranging from seven to ten years from the launch of each product.

We accounted for the option exercise as a business acquisition within our RX segment, recording IPR&D and contingent consideration on the balance sheet. The IPR&D was valued using the multi-period excess earnings method and has an indefinite useful life until such time as the research is completed (at which time it will become a definite-lived intangible asset), or is determined to have no future use (at which time it would be impaired). The contingent consideration is an estimate of the future milestone payments and royalties based on probability-weighted outcomes, sensitivity analysis, and discount rates reflective of the risk involved. The amount of contingent consideration recognized was \$24.9 million and was recorded in Other Provisions. On December 20, 2017, we completed the sale of one of the Development-Stage Rx Products to an ophthalmic pharmaceutical company (see below for additional details on the divestiture).

### Purchase Price Allocation of Acquisitions Completed During the Year Ended December 31, 2016

The Tretinoin Products, Developed-Stage Rx Products, and four product acquisitions opening balance sheets are final. The below table indicates the purchase price allocations for acquisitions completed during the year ended December 31, 2016 (in millions):

	Tretinoin Products	Development- Stage Rx Products	All Other <sup>(1)</sup>
Purchase price paid	\$ 416.4	\$ —	\$ 17.1
Contingent consideration	—	24.9	26.2
Total purchase consideration	\$ 416.4	\$ 24.9	\$ 43.3
<u>Assets acquired:</u>			
Cash and cash equivalents	\$ —	\$ —	\$ 3.8
Accounts receivable	—	—	4.9
Inventories	1.4	—	7.1
Prepaid expenses and other current assets	—	—	0.1
Property, plant and equipment, net	—	—	1.2
Goodwill	1.7	—	—
<u>Definite-lived intangibles:</u>			
Distribution and license agreements, supply agreements	\$ —	\$ —	\$ 1.8
Developed product technology, formulations, and product rights	411.0	—	18.0
Customer relationships and distribution networks	—	—	8.2
Non-compete agreements	2.3	—	—
<u>Indefinite-lived intangibles:</u>			
In-process research and development	\$ —	\$ 24.9	\$ 4.9
Total intangible assets	\$ 413.3	\$ 24.9	\$ 32.9
Total assets	\$ 416.4	\$ 24.9	\$ 50.0
<u>Liabilities assumed:</u>			
Accounts payable	\$ —	\$ —	\$ 2.8
Accrued liabilities	—	—	0.1
Long-term debt	—	—	3.3
Net deferred income tax liabilities	—	—	0.5
Total liabilities	\$ —	\$ —	\$ 6.7
Net assets acquired	\$ 416.4	\$ 24.9	\$ 43.3

(1) Consists of four product acquisitions in our CHCA, CHCI and RX segments.

### Divestitures Completed During the Year Ended December 31, 2017

On January 3, 2017, we sold certain ANDAs for \$15.0 million to a third party, which was recorded as a gain in Other operating income on the Consolidated Statements of Operations in our RX segment.

On February 1, 2017, we completed the sale of the animal health pet treats property, plant and equipment within our CHCA segment, which were previously classified as held-for sale. We received \$7.7 million in proceeds, which resulted in an immaterial loss.

On April 6, 2017, we completed the sale of our India API business to Strides Shasun Limited. We received \$22.2 million of proceeds, inclusive of an estimated working capital adjustment, which resulted in an immaterial gain recorded in our Other segment. Prior to closing the sale, we determined that the carrying value of the India API business exceeded its fair value less the cost to sell, resulting in an impairment charge of \$35.3 million, which was

recorded in Impairment charges on the Consolidated Profit and Loss Account for the year ended December 31, 2016.

On August 25, 2017, we completed the sale of our Russian business, which was previously classified as held-for-sale, to Alvogen Pharma LLC. The total sale price was €12.7 million (\$15.1 million), inclusive of an estimated working capital adjustment, which resulted in an immaterial gain recorded in our CHCI segment. Prior to closing the sale, we determined that the carrying value of the Russian business exceeded its fair value less the cost to sell, resulting in an impairment charge of \$3.7 million, which was recorded in Impairment charges on the Consolidated Profit and Loss Account for the three months ended July 1, 2017.

On November 21, 2017, we completed the sale of our Israel API business, which was previously classified as held-for-sale, to SK Capital for a sale price of \$110.0 million, which resulted in an immaterial gain recorded in our Other segment in Other expense (Income), net on the Consolidated Profit and Loss Account.

As a result of the sale, we recognized a guarantee liability (refer to Note 11). Per the agreement, we will be reimbursed for tax receivables for tax years prior to closing and will need to reimburse SK Capital for the settlement of any uncertain tax liability positions for tax years prior to closing. In addition, after closing and going forward, the Israel API business, will be assessed by and liable to the Israel Tax Authority ("ITA") for any audit findings. We are no longer the primary obligor on the liabilities transferred to SK Capital on November 21, 2017, however, we have provided a guarantee on certain obligations that were recorded at a fair value of \$13.8 million, with a maximum possible payout of \$34.9 million.

On December 20, 2017, we completed the sale of one of the Development-Stage Rx Products to an ophthalmic pharmaceutical company. We will potentially receive the following consideration: (1) a milestone payment of \$1.5 million after the buyer achieves net sales of \$25.0 million in any given calendar year; (2) a milestone payment of \$5.0 million after the buyer achieves \$50.0 million in net sales in any given year; and (3) royalty payments of 2.5% of all net sales of the product from the date of the first commercial sales of the product and continuing until market entry of a generic equivalent of the product.

### **Divestitures Completed During the Year Ended December 31, 2016**

On August 5, 2016, we completed the sale of our U.S. Vitamins, Minerals, and Supplements ("VMS") business within our CHCA segment to International Vitamins Corporation ("IVC") for \$61.8 million inclusive of an estimated working capital adjustment. Prior to closing the sale, we determined that the carrying value of the VMS business exceeded its fair value less the cost to sell, resulting in an impairment charge of \$6.2 million, which was recorded in Impairment charges on the Consolidated Profit and Loss Account for the year ended December 31, 2016.

## **3. GOODWILL AND INTANGIBLES**

### *Goodwill*

Changes in the carrying amount of goodwill, by reportable segment, were as follows (in millions):

	<b>CHCA</b>	<b>CHCI</b>	<b>RX</b>	<b>Specialty Sciences</b>	<b>Other</b>	<b>Total</b>
<b>Balance at December 31, 2015</b>	1,814.3	1,983.2	1,084.1	199.6	71.5	5,152.7
Business acquisitions	—	—	1.7	—	—	1.7
Changes in assets held-for-sale	4.5	—	—	—	9.0	13.5
Impairments	(24.5)	(868.4)	—	(199.6)	—	(1,092.5)
Currency translation adjustments	(0.9)	(27.5)	0.8	—	0.9	(26.7)
Purchase accounting adjustments	17.2	(16.5)	—	—	—	0.7
<b>Balance at December 31, 2016</b>	1,810.6	1,070.8	1,086.6	—	81.4	4,049.4
Re-allocation of goodwill <sup>(1)</sup>	35.3	—	27.7	—	(63.0)	—
Business divestitures	—	(4.1)	—	—	(26.4)	(30.5)
Currency translation adjustments	1.5	139.0	8.0	—	8.0	156.5
<b>Balance at December 31, 2017</b>	<u>\$ 1,847.4</u>	<u>\$ 1,205.7</u>	<u>\$ 1,122.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,175.4</u>

<sup>(1)</sup> Certain cash flow associated with the API business were retained. We performed a relative fair value allocation of the business retained and allocated it among the two segments where the business was allocated.

The increase in goodwill in the year ended December 31, 2017 was due primarily to foreign currency translation adjustments. The decrease in goodwill for the year ended December 31, 2016 was due primarily to impairment charges recorded in the CHCI and Specialty Sciences segments as discussed below.

As required by our policy, we tested goodwill for impairment in the fourth quarter of 2017 (refer to Note 1). We determined the fair value of each of our reporting units exceeded their net book values. The fair values of the BCH, UK AUS and Animal Health reporting units were each less than 25.0% higher than their respective net book values as of the annual assessment date. As a result, these reporting units are inherently at a higher risk for future impairments if they experience deterioration in business performance or market multiples, or increases in discount rates. These reporting units had the following remaining goodwill balances as of December 31, 2017 (in millions):

Reporting Unit	Goodwill Remaining in Reporting Unit	Segment	Fair Value in excess of Carrying Value
BCH	\$ 1,026.0	CHCI	6.6%
Animal Health	\$ 178.9	CHCA	23.6%
UK AUS	\$ 53.1	CHCI	18.3%

Subsequently, at the end of the fourth quarter of 2017, the Animal Health reporting unit had an indication of potential impairment resulting from the termination of a supply agreement. We prepared an impairment test as of December 31, 2017 and determined the fair value of the Animal Health reporting unit continued to exceed net book value, by 8.9%. The 8.9% margin was lower than the excess fair value over carrying value of 23.6% that was estimated as of October 1, 2017. Therefore, while no impairment was recorded in 2017, the supply agreement termination increased the risk of future impairment in this reporting unit.

The discounted cash flow forecasts used for these reporting units in goodwill impairment testing include assumptions about future activity levels in both the near term and longer-term. If growth in these reporting units is lower than expected, we may experience deterioration in our cash flow forecasts that may indicate goodwill in the reporting units may be impaired in future impairment tests. We continue to monitor the progress and assess the reporting units for potential impairment should impairment indicators arise, as applicable, and at least annually during our fourth quarter impairment testing.

During the year ended December 31, 2016, we identified indicators of goodwill impairment for certain of our reporting units, which required us to complete interim goodwill impairment testing (refer to Note 1 for our impairment process). Step one of the goodwill impairment test involves determining the fair value of the reporting unit using a discounted cash flow technique and comparing it to the reporting unit's carrying value. The main assumptions supporting the cash flow projections used to determine the reporting units' fair value include revenue growth based on product line extensions, product life cycle strategies, and geographical expansion within the markets in which the reporting unit distributes products, gross margins consistent with historical trends, and advertising and promotion investments largely consistent with the reporting unit's growth plans. If a reporting unit does not pass step one of the goodwill impairment test, step two is completed. The second step of the goodwill impairment test requires that we determine the implied fair value of the reporting unit's goodwill, which involves determining the value of the reporting unit's individual assets and liabilities. If the reporting unit's carrying value exceeds its book value, an impairment charge is recorded.

During the three months ended April 2, 2016, we identified indicators of impairment for our Branded Consumer Healthcare - Rest of World ("BCH-ROW") reporting unit, which comprises primarily operations attributable to the Omega acquisition in all geographic regions except for Belgium. The primary impairment indicators included the decline in our 2016 performance expectations and a reduction in our long-range revenue growth forecast. BCH-ROW did not pass step one of goodwill impairment testing. The change in fair value from previous estimates was due primarily to the changes in the market and performance of the brands such that the evaluation of brand prioritization and product extensions or launches in new regions are being more focused to maximize the potential of all brands in the segment's portfolio. Based on our evaluation and initial estimates of the fair values of the assets and liabilities and the deficit of the fair value when compared to the related book value, we



recorded \$130.5 million in impairment charges on the Consolidated Profit and Loss Account within our CHCI segment.

During the three months ended October 1, 2016, we identified additional indicators of goodwill impairment in both our BCH-ROW and our Branded Consumer Healthcare - Belgium ("BCH-Belgium") reporting units. With respect to both reporting units, the primary impairment indicators included an additional decline in our 2016 performance expectations for the remainder of the year and a reduction in our long-range revenue growth and margin forecasts due to the factors outlined below. Neither the BCH-ROW nor the BCH-Belgium reporting units passed step one of goodwill impairment testing.

As it relates to the BCH-ROW reporting unit, the changes in fair value from previous estimates were due primarily to (1) changes in the market and performance of certain brands due to moderated new product launch assumptions, (2) execution of certain key product strategies falling short of expectations causing a reduction to baseline forecast models in France, Germany and Italy and (3) certain macro-economic factors continuing to impact the business more than expected in France, Russia and Turkey in addition to unfavorable foreign currency impacts experienced (primarily in the UK related to Brexit.) As it relates to the BCH-Belgium reporting unit, the changes in fair value from previous estimates were due to changes in the forecasts as a result of a reduction in volume with a major wholesaler due to factors consistent with those outlined for the BCH-ROW reporting unit.

Based on our estimates of the fair values of the assets and liabilities and the deficit of the fair value when compared to the related book value, we recorded an impairment charge of \$675.6 million related to the BCH-ROW reporting unit and \$62.3 million related to the BCH-Belgium reporting unit on the Consolidated Profit and Loss Account within our CHCI segment.

During the three months ended December 31, 2016, we identified indicators of goodwill impairment in the BCH-Belgium reporting unit related to the early termination of a distribution agreement. We prepared a goodwill impairment test as of December 3, 2016, which was the end of the month in which the impairment indicator occurred. Step one of the goodwill impairment test indicated that the fair value of the BCH-Belgium reporting unit as greater than its net book value. As a result, we did not perform the second step of the goodwill impairment test.

During the three months ended December 31, 2016, we identified indicators of goodwill impairment in the Animal Health reporting unit related to changes in the market and performance of certain brands. We prepared a goodwill impairment test as of October 2, 2016 as part of our annual goodwill impairment testing process. Step one of the goodwill impairment test indicated that the fair value of the Animal Health reporting unit was below its net book value. As a result, we performed the second step of the goodwill impairment test to measure the amount of impairment. We concluded that Animal Health goodwill was impaired by \$24.5 million, which we recorded in Impairment charges on the Consolidated Profit and Loss Account within our CHCA segment.

During the three months ended December 31, 2016, we identified indicators of goodwill impairment in the Specialty Sciences reporting unit related to our decision to review strategic alternatives for the Tysabri<sup>®</sup> financial asset. As a result of the impairment indicators, we prepared a goodwill impairment test as of December 31, 2016. Step one of the goodwill impairment test indicated that the fair value of the Specialty Sciences reporting unit was below its net book value. As a result, we initiated the second step of the goodwill impairment test to measure the amount of impairment. We concluded that the goodwill was fully impaired and recorded an impairment of \$199.6 million in Impairment charges on the Consolidated Profit and Loss Account within our Specialty Sciences segment.



Intangible Assets

Other intangible assets and the related accumulated amortization consisted of the following (in millions):

	Distribution and license arrangements	Developed product technology	Customer relationships	Definite-lived trade names and trademarks	Non-compete agreements	Indefinite-lived trade names and trademarks	IPR&D	Total
<b>December 31, 2015</b>								
Cost	\$ 242.4	\$ 1,387.6	\$ 1,520.7	\$ 539.4	\$ 15.2	\$ 1,868.1	\$ 48.2	\$ 5,621.6
Accumulated Amortization	(77.7)	(425.9)	(193.1)	(22.8)	(12.7)	—	—	(732.2)
Net book value	\$ 164.7	\$ 961.7	\$ 1,327.6	\$ 516.6	\$ 2.5	\$ 1,868.1	\$ 48.2	\$ 4,889.4
Amortization expense	\$ (43.2)	\$ (138.5)	\$ (109.4)	\$ (63.4)	\$ (1.6)	\$ —	\$ —	\$ (356.1)
Acquisitions	66.8	429.0	9.6	(2.0)	2.3	—	38.1	543.8
Measurement period adjustments	—	—	—	—	—	—	—	—
Impairments	—	(348.4)	—	(317.2)	—	(849.5)	(13.3)	(1,528.4)
Transfers	—	—	—	1,044.6	—	(1,036.9)	(7.7)	—
Currency translation	(3.1)	(11.7)	(45.4)	(44.6)	(0.1)	68.8	(1.3)	(37.4)
<b>December 31, 2016</b>								
Cost	\$ 305.6	\$ 1,418.1	\$ 1,489.9	\$ 1,189.3	\$ 14.3	\$ 50.5	\$ 64.0	\$ 4,531.7
Accumulated Amortization	(120.4)	(526.0)	(307.5)	(55.3)	(11.2)	—	—	(1,020.4)
Net book value	\$ 185.2	\$ 892.1	\$ 1,182.4	\$ 1,134.0	\$ 3.1	\$ 50.5	\$ 64.0	\$ 3,511.3
Amortization expense	\$ (48.1)	\$ (114.0)	\$ (128.6)	\$ (68.4)	\$ (1.1)	\$ —	\$ —	\$ (360.2)
Acquisitions	0.4	0.4	0.4	—	—	—	—	1.2
Divestitures	—	(7.4)	—	—	—	—	(13.0)	(20.4)
Impairments	(0.1)	(19.6)	—	—	—	—	(13.3)	(33.0)
Currency translation	4.0	8.2	127.2	140.3	0.1	1.6	0.5	281.9
<b>December 31, 2017</b>								
Cost	\$ 311.2	\$ 1,358.4	\$ 1,642.0	\$ 1,335.4	\$ 14.7	\$ 52.1	\$ 38.2	\$ 4,752.0
Accumulated Amortization	(169.8)	(598.7)	(460.6)	(129.5)	(12.6)	—	—	(1,371.2)
Net book value	\$ 141.4	\$ 759.7	\$ 1,181.4	\$ 1,205.9	\$ 2.1	\$ 52.1	\$ 38.2	\$ 3,380.8

Certain intangible assets are denominated in currencies other than the U.S. dollars; therefore, their gross and net carrying values are subject to foreign currency movements.

The increase in gross amortizable intangible assets during the year ended December 31, 2017 was due primarily to foreign currency translation. The decrease in gross amortizable intangible assets during the year ended December 31, 2016 was due to the reclassification of Omega indefinite-lived assets to definite-lived assets as described below, offset by prior year impairments taken as described below.

Intangible asset impairments taken are as follows (in millions):

	Year Ended					
	December 31, 2017			December 31, 2016		
	Definite-Lived Intangible Assets	IPR&D		Indefinite-Lived Intangible Assets	Definite-Lived Intangible Assets	IPR&D
CHCA	\$ —	\$ —	\$ 0.4	\$ —	\$ —	\$ —
CHCI	—	1.1	849.1	321.4	—	3.5
RX	19.7	11.6	—	342.2	—	—
Other	—	—	—	2.0	—	—
	\$ 19.7	\$ 12.7	\$ 849.5	\$ 665.6	\$ 3.5	\$ 3.5

During the three months ended July 1, 2017, we identified impairment indicators for our Lumara Health, Inc. ("Lumara") product assets. The primary impairment indicators included the decline in our 2017 performance expectations and a reduction in our long-range revenue growth forecast. The assessment utilized the multi-period excess earnings method to determine fair value and resulted in an impairment charge of \$18.5 million in Impairment charges on the Consolidated Profit and Loss Account within our RX segment, which represented the difference between the carrying amount of the intangible assets and their estimated fair value.

During the three months ended April 2, 2016, we identified indicators of impairment associated with certain indefinite-lived intangible assets acquired in conjunction with the Omega acquisition. The primary impairment indicators included the decline in our 2016 performance expectations and a reduction in our long-range revenue growth forecast. The assessment utilized the excess earnings method to determine fair value and resulted in an impairment charge of \$273.4 million in Impairment charges on the Consolidated Profit and Loss Account within our CHCI segment, which represented the difference between the carrying amount of the intangible assets and their estimated fair value. The change in fair value from previous estimates was due primarily to the changes in the market and performance of the brands such that the evaluation of brand prioritization and product extensions or launches in new regions are being more focused to maximize the potential of all brands in the segment's portfolio. The main assumptions supporting the fair value of these assets and cash flow projections included revenue growth based on product line extensions, product life cycle strategies, geographical expansion within the markets in which the CHCI segment distributes products, gross margins consistent with historical trends, and advertising and promotion investments largely consistent with the segment's growth plans.

During the three months ended October 1, 2016, we identified additional indicators of impairment associated with certain indefinite-lived and definite-lived intangible brand category assets acquired in conjunction with the Omega acquisition. The primary impairment indicators are discussed above in goodwill. The assessment of the indefinite-lived assets utilized the excess earnings method to determine fair value and resulted in an impairment charge of \$575.7 million. With regards to definite-lived assets, it was determined that the carrying value of one asset group was not recoverable based on an assessment of the undiscounted future cash flows expected to be generated by the asset group. Given this, the excess earnings method was utilized to determine fair value of the definite-lived asset and resulted in an impairment charge of \$290.9 million. Both charges, which represented the difference between the carrying amount of the intangible assets and their estimated fair value, were recorded in Impairment charges on the Consolidated Profit and Loss Account within our CHCI segment. The main assumptions supporting the fair value of these assets and cash flow projections are included in the goodwill discussions above.

During the three months ended December 31, 2016, we identified impairment indicators in our Entocort<sup>®</sup> product assets which related to the entrance of new market competition and resulting negative impacts on sales volume and pricing. Utilizing a multi-period excess earnings method, we determined that the Entocort<sup>®</sup> product assets were impaired by \$342.2 million. We recorded this impairment in Impairment charges on the Consolidated Profit and Loss Account within our RX segment.

During the three months ended December 31, 2016, we identified impairment indicators in certain definite-lived intangible assets, including trademarks and trade names related to our Herron products that we originally acquired through the acquisition of Aspen. After determining the assets were impaired, we utilized the relief from royalty method to quantify the impairment, resulting in a \$30.5 million impairment. We recorded these impairments in Impairment charges on the Consolidated Profit and Loss Account within our CHCI segment.

We recorded an impairment charge of \$12.7 million and \$3.5 million on certain IPR&D assets during the years ended December 31, 2017 and December 31, 2016, respectively, due to changes in the projected development and regulatory timelines for various projects, we also recorded a decrease in the contingent consideration liability associated with certain IPR&D assets in Other operating income on the Consolidated Profit and Loss Account (refer to Note 11).

In addition, due to reprioritization of certain brands in the CHCI segment and change in performance expectations for the cough/cold/allergy, anti-parasite, personal care, lifestyle, and natural health brands, we reclassified \$364.5 million and \$674.4 million of indefinite-lived assets to definite-lived assets with useful lives of 20 years, which we began amortizing during the second and third quarters of 2016, respectively.

The remaining weighted-average useful life for our amortizable intangible assets by asset class at December 31, 2017 was as follows:

Amortizable Intangible Asset Category	Remaining Weighted-Average Useful Life (Years)
Distribution and license agreements, supply agreements	7
Developed product technology, formulations, and product rights	12
Customer relationships and distribution networks	17
Trademarks, trade names, and brands	20
Non-compete agreements	2

We recorded amortization expense of \$349.6 million and \$356.8 million, during the years ended December 31, 2017 and December 31, 2016, respectively. The amortization expense in the year ended December 31, 2017 remained relatively flat.

Estimated future amortization expense includes the additional amortization related to recently acquired intangible assets subject to amortization. Our estimated future amortization expense is as follows (in millions):

Year	Amount
2018	\$ 341.0
2019	316.4
2020	280.8
2021	251.8
2022	222.0
Thereafter	1,878.5

#### 4. ACCOUNTS RECEIVABLE FACTORING

We have accounts receivable factoring arrangements with non-related third-party financial institutions (the “Factors”). Pursuant to the terms of the arrangements, we sell to the Factors certain of our accounts receivable balances on a non-recourse basis for credit approved accounts. An administrative fee per invoice is charged on the gross amount of accounts receivables assigned to the Factors, and interest is calculated at the applicable EUR LIBOR rate plus a spread. The total amount factored on a non-recourse basis and excluded from accounts receivable was \$27.5 million and \$50.7 million at December 31, 2017 and December 31, 2016, respectively.

## 5. PROPERTY, PLANT, AND EQUIPMENT

We held the following property, plant, and equipment at December 31, 2017 and December 31, 2016 (in millions):

	Land	Buildings	Machinery and equipment	Total
<b>December 31, 2015</b>				
Cost	\$ 47.5	\$ 508.2	\$ 1,103.3	\$ 1,659.0
Accumulated depreciation	(8.4)	(213.8)	(550.6)	(772.8)
Net book value	\$ 39.1	\$ 294.4	\$ 552.7	\$ 886.2
Additions	\$ 0.1	\$ 18.3	\$ 83.3	\$ 101.7
Acquisitions	—	9.0	3.0	12.0
Step up	—	—	(4.4)	(4.4)
Assets held for sale, net	(0.4)	(2.6)	(4.0)	(7.0)
Transfers - net	0.2	0.4	(0.6)	—
Disposals, gross asset	(0.1)	(0.5)	(24.1)	(24.7)
Disposals, accumulated depreciation	—	0.4	12.7	13.1
Depreciation expense	(0.5)	(15.3)	(58.5)	(74.3)
Currency translation	(1.8)	4.1	(32.3)	(30.0)
Impairments	—	—	(2.5)	(2.5)
<b>December 31, 2016</b>				
Cost	\$ 45.0	\$ 520.2	\$ 1,094.7	\$ 1,659.9
Accumulated depreciation	(8.4)	(212.0)	(569.4)	(789.8)
Net book value	\$ 36.6	\$ 308.2	\$ 525.3	\$ 870.1
Additions	1.3	16.1	70.8	88.2
Transfers, net	—	6.8	(6.8)	—
Disposals, gross asset	(3.4)	(28.6)	(42.9)	(74.9)
Disposals, accumulated depreciation	—	6.1	15.8	21.9
Depreciation expense	(0.5)	(22.3)	(73.7)	(96.5)
Currency translation	2.6	12.6	17.3	32.5
Impairments	(0.1)	(2.9)	(5.2)	(8.2)
<b>December 31, 2017</b>				
Cost	45.5	514.3	1,078.6	1,638.4
Accumulated depreciation	(9.0)	(218.3)	(578.0)	(805.3)
Net book value	\$ 36.5	\$ 296.0	\$ 500.6	\$ 833.1

There were no capital commitments for the purchase of property, plant and equipment authorised by the directors at December 31, 2017 (December 31, 2016: Nil).

**6. DEBTORS**

Debtors consisted of the following (in millions):

<b>Debtors</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Amounts falling due within one year		
Accounts receivable net	\$ 1,130.8	\$ 1,176.0
Held for sale assets	3.3	22.1
Value added tax refund receivable	43.5	45.0
Refundable income tax	61.8	39.0
Prepaid expenses and other debtors	77.6	67.7
	<u>1,317.0</u>	<u>1,349.8</u>
Amounts falling due after one year		
Deferred income taxes	10.4	72.1
	<u>10.4</u>	<u>72.1</u>
<b>Total debtors</b>	<u>\$ 1,327.4</u>	<u>\$ 1,421.9</u>

**7. INVENTORY**

Major components of inventory were as follows (in millions):

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Finished goods	\$ 454.3	\$ 431.1
Work in process	152.8	165.7
Raw materials	199.8	198.2
Total inventories	<u>\$ 806.9</u>	<u>\$ 795.0</u>

The replacement cost of inventory does not differ materially from its carrying value. The expense recognized in respect of write downs of inventory was \$29.4 million and \$28.8 million for the years ended December 31, 2017 and December 31, 2016, respectively.

**8. ASSETS HELD FOR SALE**

Our India API business was classified as held-for-sale beginning as of December 31, 2015. We recorded impairment charges totaling \$6.3 million and \$29.0 million during the years ended December 31, 2016 and December 31, 2015, respectively, after determining the carrying value of the India API business exceeded its fair value less the cost to sell. On April 6, 2017, we completed the sale of our India API business (refer to Note 2). The India API business was reported in our Other segment.

During the three months ended October 1, 2016, management committed to a plan to sell certain items of property, plant and equipment associated with our animal health pet treats plant. Such assets were classified as held-for-sale beginning at October 1, 2016. On February 1, 2017, we completed the sale of our animal health pet treats property, plant and equipment (refer to Note 2). We determined that the carrying value of the property, plant and equipment associated with our animal health pet treats plant exceeded the fair value less the cost to sell. We recorded impairment charges totaling \$3.7 million during the year ended December 31, 2016. The assets associated with our animal health pet treats plant were reported in our CHCA segment.

The assets held-for-sale were reported within Prepaid expenses and other current assets and liabilities held-for-sale were reported in Accrued liabilities. The amounts consisted of the following (in millions):

	December 31, 2016	
	CHCA	Other
<b>Assets held for sale</b>		
Current assets	\$ —	\$ 5.1
Goodwill	—	5.5
Property, plant and equipment	13.5	33.2
Other assets	—	3.8
Less: impairment reserves	(3.7)	(35.3)
<b>Total assets held for sale</b>	<u>\$ 9.8</u>	<u>\$ 12.3</u>
<b>Liabilities held for sale</b>		
Current liabilities	\$ 0.1	\$ 1.9
Other liabilities	—	1.9
<b>Total liabilities held for sale</b>	<u>\$ 0.1</u>	<u>\$ 3.8</u>

## 9. INDEBTEDNESS

Total borrowings outstanding are summarized as follows (in millions):

	December 31, 2017	December 31, 2016
<b>Revolving credit agreements</b>		
2015 Revolver	\$ —	\$ —
2014 Revolver	—	—
<b>Total revolving credit agreements</b>	—	—
<b>Term loans</b>		
* 2014 term loan due December 5, 2019	420.0	420.7
<b>Notes and bonds</b>		
<u>Coupon</u>	<u>Due</u>	
* 4.500%	May 23, 2017 <sup>(3)</sup>	189.3
* 5.125%	December 12, 2017 <sup>(3)</sup>	315.6
2.300%	November 8, 2018 <sup>(2)</sup>	600.0
* 5.000%	May 23, 2019 <sup>(3)</sup>	126.2
3.500%	March 15, 2021 <sup>(4)</sup>	500.0
3.500%	December 15, 2021 <sup>(1)</sup>	500.0
* 5.105%	July 19, 2023 <sup>(3)</sup>	142.0
4.000%	November 15, 2023 <sup>(2)</sup>	800.0
3.900%	December 15, 2024 <sup>(1)</sup>	700.0
4.375%	March 15, 2026 <sup>(4)</sup>	700.0
5.300%	November 15, 2043 <sup>(2)</sup>	400.0
4.900%	December 15, 2044 <sup>(1)</sup>	400.0
<b>Total notes and bonds</b>	2,906.0	5,373.1
<b>Other financing</b>	11.7	3.6
<b>Unamortized premium (discount), net</b>	21.4	33.0
<b>Deferred financing fees</b>	(17.9)	(33.1)
<b>Total borrowings outstanding</b>	3,341.2	5,797.3
Current indebtedness	(70.4)	(572.8)
<b>Total long-term debt less current portion</b>	<u>\$ 3,270.8</u>	<u>\$ 5,224.5</u>



- (1) Discussed below collectively as the "2014 Notes."
- (2) Discussed below collectively as the "2013 Notes."
- (3) Debt assumed from Omega.
- (4) Discussed below collectively as the "2016 Notes."

\* Debt denominated in euros subject to fluctuations in the euro-to-U.S. dollar exchange rate.

We entered into amendments on March 16, 2017 related to the 2014 Revolver and the 2014 Term Loan, providing for additional time to deliver certain financial statements, as well as the modification of certain financial and other covenants. We also entered into additional amendments to the 2014 Revolver and the 2014 Term Loan on April 25, 2017 to modify provisions of such agreements necessary as a result of the correction in accounting related to the Tysabri<sup>®</sup> financial asset, as well as waivers of any default or event of default that may arise from any restatement of or deficiencies in our financial statements for the periods specified in such amendments and waivers. No default or event of default existed prior to entering into these amendments and waivers. We are in compliance with all covenants under our debt agreements as of December 31, 2017.

During the Year Ended December 31, 2017, interest expense net, totaled \$168.1 million, comprised of \$177.3 million of interest on our existing debt offset by \$9.2 million of interest income. See below for detail on losses incurred on the extinguishment of debt. During the Year Ended December 31, 2016, interest expense net, totaled \$216.6 million, comprised of \$217.8 million of interest on our existing debt offset by \$1.2 million of interest income. Losses incurred on the extinguishment of debt totaled \$1.1 million.

### ***Revolving Credit Agreements***

On December 9, 2015, our 100% owned finance subsidiary, Perrigo Finance Unlimited Company ("Perrigo Finance"), entered into a \$750.0 million revolving credit agreement (the "2015 Revolver"). On March 15, 2016, we used the proceeds of the long-term debt issuance described below under "2016 Notes" to repay the \$750.0 million then outstanding under the 2015 Revolver and terminated the facility.

On December 5, 2014, Perrigo Finance entered into a \$600.0 million revolving credit agreement, which increased to \$1.0 billion on March 30, 2015 (the "2014 Revolver"). On March 15, 2016, we used the proceeds of the long-term debt issuance described below under "2016 Notes" to repay the \$435.0 million then outstanding under the 2014 Revolver. There were no borrowings outstanding under the 2014 Revolver as of December 31, 2017 or December 31, 2016.

### ***Term Loans***

On December 5, 2014, Perrigo Finance entered into a term loan agreement consisting of a €500.0 million (\$614.3 million) tranche, with the ability to draw an additional €300.0 million (\$368.6 million) tranche, maturing December 5, 2019.

### ***Notes and Bonds***

#### ***2016 Notes***

On March 7, 2016, Perrigo Finance issued \$500.0 million in aggregate principal amount of 3.500% senior notes due 2021 and \$700.0 million in aggregate principal amount of 4.375% senior notes due 2026 (together, the "2016 Notes") and received net proceeds of \$1.2 billion after fees and market discount. Interest on the 2016 Notes is payable semiannually in arrears in March and September of each year, beginning in September 2016. The 2016 Notes are governed by a base indenture and a second supplemental indenture (collectively, the "2016 Indenture"). The 2016 Notes are fully and unconditionally guaranteed on a senior basis by Perrigo, and no other subsidiary of Perrigo guarantees the 2016 Notes. The proceeds were used to repay amounts borrowed under the 2015 Revolver and the 2014 Revolver, as mentioned above. There are no restrictions under the 2016 Notes on our ability to obtain funds from our subsidiaries. Perrigo Finance may redeem the 2016 Notes in whole or in part at any time for cash at the make-whole redemption prices described in the 2016 Indenture.

*Notes and Bonds Assumed from Omega*

In connection with the Omega acquisition, on March 30, 2015, we assumed:

- \$20.0 million in aggregate principal amount of 6.190% senior notes due 2016, which was repaid on May 29, 2015 in full;
- €135.0 million (\$147.0 million) in aggregate principal amount of 5.105% senior notes due 2023 (the "2023 Notes");
- €300.0 million (\$326.7 million) in aggregate principal amount of 5.125% retail bonds due 2017; €180.0 million (\$196.0 million) in aggregate principal amount of 4.500% retail bonds due 2017; and €120.0 million (\$130.7 million) in aggregate principal amount of 5.000% retail bonds due 2019 (collectively, the "Retail Bonds").

The fair value of the 2023 Notes and Retail Bonds exceeded par value by €93.6 million (\$101.9 million) on the date of the Omega acquisition. As a result, a fair value adjustment was recorded as part of the carrying value of the underlying debt and will be amortized as a reduction of interest expense over the remaining terms of the respective debt instruments. The adjustment does not affect cash interest payments.

*2014 Notes*

On December 2, 2014, Perrigo Finance issued \$500.0 million in aggregate principal amount of 3.500% senior notes due 2021 (the "2021 Notes"), \$700.0 million in aggregate principal amount of 3.900% senior notes due 2024 (the "2024 Notes"), and \$400.0 million in aggregate principal amount of 4.900% senior notes due 2044 (the "2044 Notes" and, together with the 2021 Notes and the 2024 Notes, the "2014 Notes") and received net proceeds of \$1.6 billion after fees and market discount. Interest on the 2014 Notes is payable semiannually in arrears in June and December of each year, beginning in June 2015. The 2014 Notes are governed by a base indenture and a first supplemental indenture (collectively, the "2014 Indenture"). The 2014 Notes are fully and unconditionally guaranteed on a senior unsecured basis by Perrigo, and no other subsidiary of Perrigo guarantees the 2014 Notes. There are no restrictions under the 2014 Notes on our ability to obtain funds from our subsidiaries. Perrigo Finance may redeem the 2014 Notes in whole or in part at any time for cash at the make-whole redemption prices described in the 2014 Indenture.

*2013 Notes*

On November 8, 2013, Perrigo Company issued \$500.0 million aggregate principal amount of its 1.300% senior notes due 2016 (the "1.300% 2016 Notes"), \$600.0 million aggregate principal amount of its 2.300% senior notes due 2018 (the "2018 Notes"), \$800.0 million aggregate principal amount of its 4.000% senior notes due 2023 (the "4.000% 2023 Notes") and \$400.0 million aggregate principal amount of its 5.300% senior notes due 2043 (the "2043 Notes" and, together with the 1.300% 2016 Notes, the 2018 Notes and the 4.000% 2023 Notes, the "2013 Notes") in a private placement with registration rights. We received net proceeds of \$2.3 billion from the issuance of the 2013 Notes after fees and market discount. On September 29, 2016, we repaid all \$500.0 million of the 1.300% 2016 Notes outstanding.

Interest on the 2013 Notes is payable semiannually in arrears in May and November of each year, beginning in May 2014. The 2013 Notes are governed by a base indenture and a first supplemental indenture (collectively, the "2013 Indenture"). The 2013 Notes are our unsecured and unsubordinated obligations, ranking equally in right of payment to all of our existing and future unsecured and unsubordinated indebtedness. The 2013 Notes are not entitled to mandatory redemption or sinking fund payments. We may redeem the 2013 Notes in whole or in part at any time for cash at the make-whole redemption prices described in the 2013 Indenture. The 2013 Notes were guaranteed on an unsubordinated, unsecured basis by the same entities that guaranteed our then-outstanding credit agreement until November 21, 2014, at which time the 2013 Indenture was amended to remove all guarantors.

On September 2, 2014, we offered to exchange our private placement senior notes for public bonds (the "Exchange Offer"). The Exchange Offer expired on October 1, 2014, at which time substantially all of the private placement notes had been exchanged for bonds registered with the Securities and Exchange Commission. As a result of the changes in the guarantor structure noted above, we are no longer required to present guarantor financial statements.

### Other Financing

#### Overdraft Facilities

We have overdraft facilities available that we use to support our cash management operations. We report any balances outstanding in the above table under "Other financing". The balance outstanding under the facilities was \$6.9 million at December 31, 2017, and there were no balances outstanding under the facilities at December 31, 2016.

#### Debt Repayments and Related Extinguishment During the Year Ended December 31, 2017

During the year ended December 31, 2017, we reduced our outstanding debt through a variety of transactions (in millions):

Date	Series	Transaction Type	Principal Retired
April 1, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	\$ 13.3
May 8, 2017	\$600.0 2.300% senior notes due 2018	Early redemption	600.0
May 23, 2017	€180.0 4.500% retail bonds due 2017	Scheduled maturity	201.3
June 15, 2017	\$500.0 3.500% senior notes due 2021	Tender offer	190.4
June 15, 2017	\$500.0 3.500% senior notes due 2021	Tender offer	219.6
June 15, 2017	\$800.0 4.000% senior notes due 2023	Tender offer	584.4
June 15, 2017	\$400.0 5.300% senior notes due 2043	Tender offer	309.5
June 15, 2017	\$400.0 4.900% senior notes due 2044	Tender offer	96.1
July 1, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	14.3
September 30, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	14.8
December 12, 2017	€300.0 5.125% senior notes due 2017	Scheduled maturity	352.3
December 31, 2017	2014 term loan due December 5, 2019	Scheduled quarterly payment	15.0
			<u>\$ 2,611.0</u>

As a result of the early redemption and tender offer transactions, we recorded a loss of \$135.2 million during the three months ended July 1, 2017 in Loss on extinguishment of debt (in millions):

Premium on debt repayment	\$ 116.1
Transaction costs	3.8
Write-off of deferred financing fees	10.6
Write-off of remaining discount on bond	4.7
Total loss on extinguishment of debt	<u>\$ 135.2</u>

## Future Maturities

The annual future maturities of our short-term and long-term debt, including capitalized leases, are as follows (in millions):

Payment Due	Amount
2018	\$ 70.4
2019	504.7
2020	0.7
2021	590.0
2022	—
Thereafter	2,171.9

## 10. CREDITORS

Creditors consisted of the following (in millions):

Creditors	December 31, 2017	December 31, 2016
Amounts falling due within one year <sup>(1)</sup>		
Accounts payable	\$ 450.2	\$ 471.7
Accrued payroll	133.5	101.9
Accrued payroll taxes	15.5	13.9
Accrued income taxes	116.1	32.4
Accrued customer programs	419.7	380.3
Accrued value added tax	11.9	11.0
Deferred income	0.9	6.7
Accrued liabilities	141.9	137.2
	1,289.7	1,155.1
Amounts falling due after one year		
Accrued income taxes	283.9	309.5
Other long term liabilities	145.6	152.3
	429.5	461.8
<b>Total creditors</b>	<b>\$ 1,719.2</b>	<b>\$ 1,616.9</b>

<sup>(1)</sup> No securities have been given by us in respect of any items disclosed above. All of the above amounts are interest free and due within one year.

## 11. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1, as these are the most transparent or reliable.

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3: Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The following tables summarize the valuation of our financial instruments carried at fair value by the above pricing categories (in millions):

	Fair Value Hierarchy	Fair Value	
		December 31, 2017	December 31, 2016
<b>Measured at fair value on a recurring basis:</b>			
Assets:			
Investment securities	Level 1	\$ 17.0	\$ 38.2
Foreign currency forward contracts	Level 2	\$ 6.3	\$ 3.8
Funds associated with Israeli severance liability	Level 2	16.3	15.9
Total level 2 assets		\$ 22.6	\$ 19.7
Royalty Pharma contingent milestone payments	Level 3	\$ 134.5	\$ —
Financial assets	Level 3	—	2,350.0
Total level 3 assets		\$ 134.5	\$ 2,350.0
Liabilities:			
Interest rate swap agreements	Level 2	\$ —	\$ —
Foreign currency forward contracts	Level 2	3.8	5.0
Total level 2 liabilities		\$ 3.8	\$ 5.0
Contingent consideration	Level 3	\$ 22.0	\$ 69.9
<b>Measured at fair value on a non-recurring basis:</b>			
Assets:			
Goodwill <sup>(1)</sup>	Level 3	\$ —	\$ 1,148.4
Indefinite-lived intangible assets <sup>(2)</sup>	Level 3	—	0.3
Definite-lived intangible assets <sup>(3)</sup>	Level 3	11.5	758.0
Assets held for sale, net	Level 3	—	18.2
Total level 3 assets		\$ 11.5	\$ 1,924.9

<sup>(1)</sup> As of December 31, 2016, goodwill with a carrying amount of \$2.2 billion was written down to its implied fair value of \$1.1 billion.

<sup>(2)</sup> As of December 31, 2016, indefinite-lived intangible assets with a carrying amount of \$0.7 million were written down to a fair value of \$0.3 million.

<sup>(3)</sup> As of December 31, 2017, definite-lived intangible assets with a carrying amount of \$31.2 million were written down to a fair value of \$11.5 million. As of December 31, 2016, definite-lived intangible assets with a carrying amount of \$2.3 billion were written down to a fair value of \$758.0 million. Included in this balance are indefinite-lived intangible assets with a fair value of \$364.5 million and \$674.2 million that were reclassified to definite-lived assets at April 3, 2016 and October 2, 2016, respectively.

There were no transfers among Level 1, 2, and 3 during the years ended December 31, 2017, or December 31, 2016. Our policy regarding the recording of transfers between levels is to record any such transfers at the end of the reporting period (refer to Note 12 for information on our investment securities and Note 13 for a discussion of derivatives).

### Foreign Currency Forward Contracts

The fair value of foreign currency forward contracts is determined using a market approach, which utilizes values for comparable derivative instruments.

### ***Funds Associated with Israel Severance Liability***

Israeli labor laws and agreements require us to pay benefits to employees dismissed or retiring under certain circumstances. Severance pay is calculated on the basis of the most recent employee salary levels and the length of employee service. Our Israeli subsidiaries also provide retirement bonuses to certain managerial employees. We make regular deposits to retirement funds and purchase insurance policies to partially fund these liabilities. The funds are determined using prices for recently traded financial instruments with similar underlying terms, as well as directly or indirectly observable inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

### ***Financial Assets***

On December 18, 2013, we acquired Elan, which had a royalty agreement with Biogen Idec Inc. ("Biogen"), whereby Biogen conveyed the right to receive royalties that are typically payable on sales revenue generated by the sale, distribution or other use of the drug Tysabri<sup>®</sup>. Pursuant to the royalty agreement, we were entitled to royalty payments from Biogen based on its Tysabri<sup>®</sup> sales in all indications and geographies. We received royalties of 12% on worldwide Biogen sales of Tysabri<sup>®</sup> from December 18, 2013 through April 30, 2014. From May 1, 2014, we received royalties of 18% on annual worldwide Biogen sales of Tysabri<sup>®</sup> up to \$2.0 billion and 25% on annual sales above \$2.0 billion.

Prior to its divestiture on March 27, 2017, we accounted for the Tysabri<sup>®</sup> royalty stream as a financial asset and elected to use the fair value option model. We made the election to account for the Tysabri<sup>®</sup> financial asset using the fair value option as we believed this method was most appropriate for an asset that did not have a par value, a stated interest stream, or a termination date. The financial asset acquired represented a single unit of accounting. The fair value of the financial asset acquired was determined by using a discounted cash flow analysis related to the expected probability weighted future cash flows to be generated by the royalty stream. The financial asset was classified as a Level 3 asset within the fair value hierarchy, as our valuation utilized significant unobservable inputs, including industry analyst estimates for global Tysabri<sup>®</sup> sales, probability weighted as to the timing and amount of future cash flows along with certain discount rate assumptions. Cash flow forecasts included the estimated effect and timing of future competition, considering patents in effect for Tysabri<sup>®</sup> through 2024 and contractual rights to receive cash flows into perpetuity. The discounted cash flows were based upon the expected royalty stream forecasted into perpetuity using a 20-year discrete period with a declining rate terminal value. The pre-tax discount rate utilized was 7.72% and 7.83% at December 31, 2015, and June 27, 2015, respectively.

In the first quarter of 2016, a competitor's pipeline product, Ocrevus<sup>®</sup>, received breakthrough therapy designation from the U.S. Food and Drug Administration ("FDA"). Breakthrough therapy designation is granted when a drug is intended alone or in combination with one or more other drugs to treat a serious or life threatening disease or condition and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over existing therapies on one or more clinically significant endpoints, such as substantial treatment effects observed early in clinical development. In June 2016, the FDA granted priority review with a target action date in December 2016. A priority review is a designation when the FDA will direct overall attention and resources to the evaluation of applications for drugs that, if approved, would be significant improvements in the safety or effectiveness of the treatment, diagnosis, or prevention of serious conditions when compared to standard applications. The product was approved late in the first quarter of 2017. The product is expected to compete with Tysabri<sup>®</sup>, and we expected it to have a significant negative impact on the Tysabri<sup>®</sup> royalty stream. Industry analysts believe that, based on released clinical study information, Ocrevus<sup>®</sup> will compete favorably against Tysabri<sup>®</sup> in the relapsing, remitting multiple sclerosis market segment due to its high efficacy and convenient dosage form.

Given the new market information for Ocrevus<sup>®</sup>, we used industry analyst estimates to reduce our first ten year growth forecasts from an average growth of approximately 3.4% in the fourth calendar quarter of 2015 to an average decline of approximately minus 2.0% in the third and fourth calendar quarters of 2016. In November 2016, we announced we were evaluating strategic alternatives for the Tysabri<sup>®</sup> financial asset. As of December 31, 2016, the financial asset was adjusted based on the strategic review and sale process. These effects, combined with the change in discount rate each quarter, led to a reduction in fair value of \$204.4 million, \$910.8 million, \$377.4 million and \$1.1 billion in the first, second, third and fourth quarters of 2016, respectively.



At December 31, 2015, and June 27, 2015, we performed an evaluation to assess the discount rate and general market conditions potentially affecting the fair value of our Tysabri<sup>®</sup> financial asset. As of December 31, 2015, had this discount rate increased or decreased by 0.5%, the fair value of the asset would have increased by \$270.0 million or decreased by \$260.0 million, respectively. As of June 27, 2015, had this discount rate increased or decreased by 0.5%, the fair value of the asset would have decreased by \$260.0 million or increased by \$290.0 million, respectively. The estimated fair value of the asset is subject to variation should those cash flows vary significantly from those estimates. Quarterly, we assess the expected future cash flows and to the extent such payments are greater or less than initial estimates, or the timing of such payments is materially different than the original estimates, we will adjust the estimated fair value of the asset. As of December 31, 2015, if the expected royalty cash flows used in the estimation process had increased or decreased by 5.0%, the fair value of the asset would have increased by \$270.0 million or decreased by \$280.0 million, respectively. As of June 27, 2015, if the expected royalty cash flows used in the estimation process had increased or decreased by 5.0%, the fair value of the asset would have increased by \$280.0 million or decreased by \$280.0 million, respectively. In November 2016, we announced we were evaluating strategic alternatives for the Tysabri<sup>®</sup> financial asset. As of December 31, 2016, the financial asset was adjusted based on this strategic review and sale process.

On March 27, 2017, we announced the completed divestment of our Tysabri<sup>®</sup> financial asset to Royalty Pharma for up to \$2.85 billion, consisting of \$2.2 billion in cash and up to \$250.0 million and \$400.0 million in milestone payments if the royalties on global net sales of Tysabri<sup>®</sup> that are received by Royalty Pharma meet specific thresholds in 2018 and 2020, respectively. As a result of this transaction, we transferred the entire financial asset to Royalty Pharma and recorded a \$17.1 million gain during the three months ended April 1, 2017. We elected to account for the contingent milestone payments using the fair value option method, and these were recorded at an estimated fair value of \$134.5 million as of December 31, 2017. We chose the fair value option as we believe it will help investors understand the potential future cash flows we may receive associated with the two contingent milestones.

The following table summarizes the change in our Consolidated Balance Sheet for the Tysabri<sup>®</sup> Financial Asset, which includes our fair value adjustment that is a Level 3 measurement under ASC 820 and is included in our Consolidated Profit and Loss Account for the years ended December 31, 2017 and December 31, 2016 (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
<b>Tysabri<sup>®</sup> financial asset</b>		
Beginning balance	\$ 2,350.0	\$ 5,310.0
Royalties earned	—	(351.8)
Change in fair value	—	(2,608.2)
Divestitures	(2,350.0)	—
Ending balance	<u>\$ —</u>	<u>\$ 2,350.0</u>

### ***Royalty Pharma Contingent Milestone Payments***

We valued the contingent milestone payments using a modified Black-Scholes Option Pricing Model ("BSOPM"). Key inputs in the BSOPM are the estimated volatility and rate of return of royalties on global net sales of Tysabri<sup>®</sup> that are received by Royalty Pharma over time until payment of the contingent milestone payments is completed. Volatility and the estimated fair value of the milestones have a positive relationship such that higher volatility translates to a higher estimated fair value of the contingent milestone payments. In the valuation of contingent milestone payments performed, we assumed volatility of 30.0% and a rate of return of 8.07% as of December 31, 2017. We assess volatility and rate of return inputs quarterly by analyzing certain market volatility benchmarks and the risk associated with Royalty Pharma achieving the underlying projected royalties. During the year ended December 31, 2017, the fair value of the Royalty Pharma contingent milestone payments decreased \$42.0 million, as a result of the decrease in the estimated projected Tysabri<sup>®</sup> revenues due to the launch of Ocrevus<sup>®</sup> late in the first quarter of 2017.

In addition, payment of the contingent milestone payments is dependent on global net sales of Tysabri<sup>®</sup>. Of the \$134.5 million of estimated fair valued contingent milestone payments as of December 31, 2017, \$79.7 million and \$54.8 million relates to the 2018 and 2020 contingent milestone payments, respectively. If Tysabri<sup>®</sup> global net sales do not meet the prescribed threshold in 2018, we will write off the \$79.7 million asset as an expense to Change in financial assets on the Consolidated Profit and Loss Account. If the prescribed threshold is exceeded, we will write up the asset to \$250 million and recognize income of \$170.3 million in Change in financial assets on the Consolidated Profit and Loss Account. If Tysabri<sup>®</sup> global net sales do not meet the prescribed threshold in 2020, we will write off the \$54.8 million asset as an expense to Change in financial assets on the Consolidated Profit and Loss Account. If the prescribed threshold is exceeded, we will write up the asset to \$400.0 million and recognize income of \$345.2 million in Change in financial assets on the Consolidated Profit and Loss Account.

Global Tysabri<sup>®</sup> net sales need to exceed \$1.9 billion and \$2.0 billion in 2018 and 2020, respectively in order for Royalty Pharma to receive the level of royalties needed to trigger the milestone payments owed to us.

See Note 1 for amounts recorded in our accounts receivable related to our Tysabri<sup>®</sup> financial asset.

The table below presents a reconciliation for the Royalty Pharma contingent milestone payments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in millions). Change in fair value in the table was recorded in Change in financial assets on the Consolidated Profit and Loss Account.

	<u>Year Ended</u>
	<u>December 31,</u>
	<u>2017</u>
<b>Royalty Pharma Contingent Milestone Payments</b>	
Beginning balance	\$ —
Additions	184.5
Payments	(8.0)
Change in fair value	(42.0)
Ending balance	<u>\$ 134.5</u>

### **Interest Rate Swaps**

The fair values of interest rate swaps are determined using a market approach, which utilizes values for comparable swap instruments.

### **Guarantee Liability Related to The Israel API Sale**

On November 21, 2017, we completed the sale of our Israel API business to SK Capital (refer to Note 2). As a result of the sale, we recognized a guarantee liability, which was classified as a level 3 liability. Per the agreement, we will be reimbursed for tax receivables for tax years prior to closing and will need to reimburse SK Capital for the settlement of any uncertain tax liability positions for tax years prior to closing. In addition, after closing and going forward, the Israel API business, will be assessed by and liable to the Israel Tax Authority ("ITA") for any audit findings. As of November 21, 2017, we are no longer the primary obligor on the liabilities transferred to SK Capital, however, we have provided a guarantee on certain obligations that were recorded at a fair value of \$13.8 million, with a maximum possible payout of \$34.9 million.

### **Contingent Consideration**

Contingent consideration represents milestone payment obligations obtained through product acquisitions, which are valued using estimates based on probability-weighted outcomes, sensitivity analysis, and discount rates reflective of the risk involved. The estimates are updated quarterly and the liabilities are adjusted to fair value depending on a number of assumptions, including the competitive landscape and regulatory approvals that may impact the future sales of a product. We reduced a contingent consideration liability associated with certain IPR&D assets (refer to Note 3) and recorded a corresponding gain of \$17.4 million during the year ended December 31, 2017. The liability decrease relates to a reduction of the probability of achievement assumptions and anticipated cash flows (refer to Note 2). In addition, we sold a certain IPR&D asset and the corresponding contingent

consideration of \$12.5 million was reduced. Purchases or additions for the year ended December 31, 2016 included contingent consideration associated with five transactions.

The table below presents a reconciliation for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in millions). Net realized losses in the table were recorded in Other expense (Income), net on the Consolidated Profit and Loss Account.

	Year Ended	
	December 31, 2017	December 31, 2016
<b>Contingent Consideration</b>		
Beginning balance	\$ 69.9	\$ 17.9
Net realized losses	(19.5)	(2.1)
Purchases or additions	—	56.7
Divestiture	(12.5)	—
Currency translation adjustments	1.5	0.1
Settlements	(17.4)	(2.7)
Ending balance	<u>\$ 22.0</u>	<u>\$ 69.9</u>

### ***Non-recurring Fair Value Measurements***

The non-recurring fair values represent only those assets whose carrying values were adjusted to fair value during the reporting period.

### ***Goodwill and Indefinite-Lived Intangible Assets***

We have six reporting units for which we assess the goodwill in each reporting unit for impairment. We conduct our goodwill and indefinite-lived intangible asset impairment test on the first day of the fourth quarter, unless indications of impairment exists during an interim period. We utilize a comparable company market approach, weighted equally with a discounted cash flow analysis, to determine the fair value of the reporting units. We utilize either a relief from royalty method or a multi-period excess earnings method to value our indefinite-lived intangible assets. We use a consistent set of projected financial information for the goodwill and indefinite-lived asset impairment tests. The discounted cash flow analysis that we prepared for goodwill impairment testing purposes for the year ended December 31, 2017 included long-term growth rates ranging from 2.0% to 3.0%. We also utilized discount rates ranging from 7.5% to 13.5%, which were deemed to be commensurate with the required investment return and risk involved in realizing the projected free cash flows of each reporting unit. In addition, we burdened projected free cash flows with the capital spending deemed necessary to support the cash flows of each reporting unit, and applied the tax rates that were applicable to the jurisdictions represented within each reporting unit. We recorded Impairment charges on the Consolidated Statements of Operations related to Goodwill and indefinite lived intangible assets of \$1.1 billion and \$849.5 million, for the year ended December 31, 2016, respectively. As of December 31, 2017, the remaining goodwill and indefinite-lived asset balances were \$4.2 billion and \$90.3 million, respectively (refer to Note 3).

### ***Definite-Lived Intangible Assets***

When assessing our definite-lived assets for impairment, we utilize either a multi-period excess earnings method or a relief from royalty method to determine the fair value of the asset and use the forecasts that are consistent with those used in the reporting unit analysis. We conduct our definite-lived intangible asset impairment test quarterly when indications of impairment exists. Below is a summary of the various metrics used in our valuations:

	Year Ended December 31, 2017
	Lumara
5-year average growth rate	(4.1)%
Discount rate	13.5%
Valuation method	MPEEM

	Year Ended December 31, 2016				
	Omega - Lifestyle	Omega - XLS	Entocort® - Branded Products	Entocort® - AG Products	Herron Trade Names and Trademarks
5-year average growth rate	2.5%	3.2%	(31.7)%	(30.4)%	4.6%
Long-term growth rates	2.0%	NA	(10.0)%	(4.7)%	2.5%
Discount rate	9.3%	9.5%	13.0%	10.5%	10.8%
Royalty rate	NA	4.0%	NA	NA	11.0%
Valuation method	MPEEM	Relief from Royalty	MPEEM	MPEEM	Relief from Royalty

We recorded Impairment charges on the Consolidated Profit and Loss Account related to definite-lived intangible assets of \$665.6 million during the year ended December 31, 2016. These impairments were primarily recorded in our BCH and RX goodwill reporting units (refer to Note 3 for a additional detail on impaired definite-lived intangible assets).

### **Fixed Rate Long-term Debt**

Our fixed rate long-term debt consisted of public bonds, a private placement note and retail bonds as follows (in millions):

	Fair Value Hierarchy	Year Ended	
		December 31, 2017	December 31, 2016
Public bonds	Level 1		
Carrying value		\$ 2.6	\$ 4.6
Fair value		\$ 2.7	\$ 4.6
Retail bonds and private placement note	Level 2		
Carrying value (excluding premium)		\$ 306.0	\$ 773.1
Fair value		\$ 342.1	\$ 825.0
Premium		\$ 21.4	\$ 49.8

The fair values of our public bonds for all periods were based on quoted market prices. The fair values of our retail bonds and private placement note for all periods were based on interest rates offered for borrowings of a similar nature and remaining maturities.

The carrying amounts of our other financial instruments, consisting of cash and cash equivalents, accounts receivable, accounts payable, short-term debt and variable rate long-term debt, approximate their fair value.

## **12. INVESTMENTS**

### **Available for Sale Securities**

Our available for sale securities are reported in Prepaid expenses and other current assets. Unrealized investment gains (losses) on available for sale securities were as follows (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
Equity securities, at cost less impairments	\$ 15.5	\$ 16.5
Gross unrealized gains	1.5	21.7
Gross unrealized losses	—	—
Estimated fair value of equity securities	<u>\$ 17.0</u>	<u>\$ 38.2</u>

The factors affecting the assessment of impairments include both general financial market conditions and factors specific to a particular company. We recorded an impairment charge of \$1.8 million during the year ended December 31, 2016, related to other-than-temporary impairments of marketable equity securities due to prolonged losses incurred on each of the investments.

We have evaluated the near-term prospects of the equity securities in relation to the severity and duration of any impairments, and based on that evaluation, we have the ability and intent to hold these investments until a recovery of fair value.

We sold a number of our investment securities and recorded gains of \$1.6 million and \$1.0 million during the years ended December 31, 2017 and December 31, 2016, respectively. The gains were reclassified out of Other Reserves and into earnings.

#### **Cost Method Investments**

Our cost method investments totaled \$6.3 million and \$6.9 million at December 31, 2017 and December 31, 2016, respectively, and were included in Financial assets. During the year ended December 31, 2017, due to significant and prolonged losses incurred by one of our cost method investments, we recorded a \$1.0 million impairment charge in Other (income) expense, net on the Consolidated Profit and Loss Account.

#### **Equity Method Investments**

Our equity method investments totaled \$4.9 million and \$4.6 million at December 31, 2017 and December 31, 2016, respectively. We recorded net gains of \$0.3 million, and net losses of \$4.1 million during the years ended December 31, 2017 and December 31, 2016, respectively, for our proportionate share of the equity method investment earnings or losses. The gains and losses were recorded in Other (income) expense, net on the Consolidated Profit and Loss Account.

During the year ended December 31, 2016, one of our equity method investments became publicly traded. As a result, we transferred the \$15.5 million investment to available for sale and recorded an \$8.7 million unrealized gain, net of tax in Other Comprehensive Income ("OCI"). In addition, due to significant and prolonged losses incurred on one of our equity method investments, we recorded a \$22.3 million impairment charge in Other (income) expense, net on the Consolidated Profit and Loss Account.

### **13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

We enter into certain derivative financial instruments, when available on a cost-effective basis, to mitigate our risk associated with changes in interest rates and foreign currency exchange rates as follows:

*Interest rate risk management* - We are exposed to the impact of interest rate changes through our cash investments and borrowings. We utilize a variety of strategies to manage the impact of changes in interest rates including using a mix of debt maturities along with both fixed-rate and variable-rate debt. In addition, we may enter into treasury-lock agreements and interest rate swap agreements on certain investing and borrowing transactions to manage our exposure to interest rate changes and our overall cost of borrowing.

*Foreign currency exchange risk management* - We conduct business in several major currencies other than the U.S. dollar and are subject to risks associated with changing foreign exchange rates. Our objective is to reduce cash flow volatility associated with foreign exchange rate changes on a consolidated basis to allow management to focus its attention on business operations. Accordingly, we enter into various contracts that change in value as foreign exchange rates change to protect the value of existing foreign currency assets and liabilities, commitments, and anticipated foreign currency sales and expenses.

All derivative instruments are managed on a consolidated basis to efficiently net exposures and thus take advantage of any natural offsets. Gains and losses related to the derivative instruments are expected to be offset largely by gains and losses on the original underlying asset or liability. We do not use derivative financial instruments for speculative purposes.

All of our designated derivatives were classified as cash flow hedges as of December 31, 2017 and December 31, 2016. Designated derivatives meet hedge accounting criteria, which means the fair value of the hedge is recorded in shareholders' equity as a component of OCI, net of tax. The deferred gains and losses are recognized in income in the period in which the hedged item affects earnings. Any ineffective portion of the change in fair value of the derivative is immediately recognized in earnings. All of our designated derivatives are assessed for hedge effectiveness quarterly.

We also have economic non-designated derivatives that do not meet hedge accounting criteria. These derivative instruments are adjusted to current market value at the end of each period through earnings. Gains or losses on these instruments are offset substantially by the remeasurement adjustment on the hedged item.

### ***Interest Rate Swaps and Treasury Locks***

Interest rate swap agreements are contracts to exchange floating rate for fixed rate payments (or vice versa) over the life of the agreement without the exchange of the underlying notional amounts. The notional amounts of the interest rate swap agreements are used to measure interest to be paid or received and do not represent the amount of exposure to credit loss. The differential paid or received on the interest rate swap agreements is recognized as an adjustment to interest expense.

During the three months ended July 1, 2017, we repaid \$584.4 million of senior notes with an interest rate of 4.000% due 2023 and \$309.5 million of senior notes with an interest rate of 5.300% due 2043 (refer to Note 9). As a result of the senior note repayments on June 15, 2017, the proportionate amount remaining in OCI related to the pre-issuance hedge was reclassified to earnings. Accordingly, we recorded a loss of \$5.9 million in Other expense, net, during the three months ended July 1, 2017 for the amount remaining in OCI.

During the six months ended December 31, 2015, we entered into a forward interest rate swap to hedge against changes in the benchmark interest rate between the date the interest rate swap was entered into and the date of expected future debt issuance. The interest rate swap was designated as a cash flow hedge and had a notional amount totaling \$200.0 million. The interest rate swap was settled upon the issuance of an aggregate \$1.2 billion principal amount of senior notes on March 7, 2016 for a cumulative after-tax loss of \$7.0 million in OCI during the three months ended April 2, 2016.

### ***Foreign Currency Derivatives***

We enter into foreign currency forward contracts, both designated and non-designated, in order to manage the impact of foreign exchange fluctuations on expected future purchases and related payables denominated in a foreign currency, as well as to hedge the impact of foreign exchange fluctuations on expected future sales and related receivables, and expected future royalties denominated in a foreign currency. Both types of forward contracts have a maximum maturity date of 18 months. The total notional amount for these contracts was \$592.3 million and \$533.5 million as of December 31, 2017 and December 31, 2016, respectively.

### ***Effects of Derivatives on the Financial Statements***

The below tables indicate the effects of all derivative instruments on the Consolidated Financial Statements. All amounts exclude income tax effects and are presented in millions.



The balance sheet location and gross fair value of our outstanding derivative instruments were as follows:

		<b>Asset Derivatives</b>	
		<b>Fair Value</b>	
		<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Balance Sheet Location</b>			
Designated derivatives:			
Foreign currency forward contracts	Debtors	\$ 4.1	\$ 3.1
Non-designated derivatives:			
Foreign currency forward contracts	Debtors	\$ 2.2	\$ 0.7
		<b>Liability Derivatives</b>	
		<b>Fair Value</b>	
		<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Balance Sheet Location</b>			
Designated derivatives:			
Foreign currency forward contracts	Accrued liabilities	\$ 1.4	\$ 3.0
Interest rate swap agreements	Other non-current liabilities	—	—
Total designated derivatives		<u>\$ 1.4</u>	<u>\$ 3.0</u>
Non-designated derivatives:			
Foreign currency forward contracts	Accrued liabilities	\$ 2.4	\$ 2.0

The gains (losses) recorded in OCI for the effective portion of our designated cash flow hedges were as follows:

<b>Designated Cash Flow Hedges</b>	<b>Amount of Gain/(Loss) Recorded in OCI (Effective Portion)</b>	
	<b>Year Ended</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Treasury locks	\$ —	\$ —
Interest rate swap agreements	—	(9.0)
Foreign currency forward contracts	9.4	2.1
	<u>\$ 9.4</u>	<u>\$ (6.9)</u>

The gains (losses) reclassified from Other Reserves into earnings for the effective portion of our designated cash flow hedges were as follows:

		<b>Amount of Gain/(Loss) Reclassified from Other Reserves into Earnings (Effective Portion)</b>	
		<b>Year Ended</b>	
		<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Designated Cash Flow Hedges</b>	<b>Income Statement Location</b>		
Treasury locks	Interest expense, net	\$ (0.1)	\$ (0.1)
Interest rate swap agreements	Interest expense, net	(2.1)	(2.3)
	Other expense (Income), net	(6.0)	—
Foreign currency forward contracts	Net sales	1.5	1.3
	Cost of sales	5.6	3.0
	Interest expense, net	(2.6)	(1.6)
	Other expense (Income), net	(1.5)	0.4
		<u>\$ (5.2)</u>	<u>\$ 0.7</u>

The net of tax amount expected to be reclassified out of Other Reserves into earnings during the next 12 months is a \$5.5 million gain.

The gains (losses) recognized against earnings for the ineffective portion of our designated cash flow hedges were as follows:

Designated Cash Flow Hedges	Income Statement Location	Amount of Gain/(Loss) Recognized against Earnings (Ineffective Portion)	
		Year Ended	
		December 31, 2017	December 31, 2016
Treasury locks	Other expense (Income), net	\$ —	\$ —
Interest rate swap agreements	Other expense (Income), net	—	(0.1)
Foreign currency forward contracts	Net sales	0.2	(0.1)
	Cost of sales	0.1	(0.1)
	Other expense, net	1.0	\$ 0.6
Total		<u>\$ 1.3</u>	<u>\$ 0.3</u>

The effects of our non-designated derivatives on the Consolidated Profit and Consolidated Loss Account were as follows:

Non-Designated Derivatives	Income Statement Location	Amount of Gain/(Loss) Recognized in Income	
		Year Ended	
		December 31, 2017	December 31, 2016
Foreign currency forward contracts	Other expense (Income), net	\$ 12.6	\$ (2.4)
	Interest expense, net	(5.3)	(2.2)
Foreign exchange option contracts	Other expense (Income), net	—	—
Total		<u>\$ 7.3</u>	<u>\$ (4.6)</u>

## 14. EARNINGS PER SHARE

A reconciliation of the numerators and denominators used in our basic and diluted EPS calculation is as follows (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
<b>Numerator:</b>		
Net income (loss)	\$ 119.6	\$ (4,012.8)
<b>Denominator:</b>		
Weighted average shares outstanding for basic EPS	142.3	143.3
Dilutive effect of share-based awards*	0.3	—
Weighted average shares outstanding for diluted EPS	<u>142.6</u>	<u>143.3</u>
Anti-dilutive share-based awards excluded from computation of diluted EPS*	0.8	—

\* In the period of a net loss, diluted shares equal basic shares.

## 15. SHAREHOLDERS' EQUITY

Our common stock consists of ordinary shares of Perrigo Company plc, a public limited company incorporated under the laws of Ireland.

We trade our ordinary shares on the New York Stock Exchange under the symbol PRGO. Our ordinary shares are also traded on the Tel Aviv Stock Exchange.

### *Dividends*

In January 2003, the Board of Directors adopted a policy of paying quarterly dividends. We paid dividends as follows:

	Year Ended	
	December 31, 2017	December 31, 2016
Dividends paid (in millions)	\$ 91.1	\$ 83.2
Dividends paid (per share)	\$ 0.64	\$ 0.58

The declaration and payment of dividends and the amount paid, if any, are subject to the discretion of the Board of Directors and depend on our earnings, financial condition, capital and surplus requirements and other factors the Board of Directors may consider relevant.

### *Share Repurchases*

In October 2015, the Board of Directors approved a share repurchase plan of up to \$2.0 billion (the "2015 Authorization"). During the year ended December 31, 2017, we repurchased 2.7 million ordinary shares at an average repurchase price of \$71.72 per share, for a total of \$191.5 million. We did not repurchase any shares under the share repurchase plan during the year ended December 31, 2016.

## 16. SHARE-BASED COMPENSATION PLANS

All share-based compensation for employees and directors is granted under the 2013 Long-Term Incentive Plan, as amended (the "Plan"). The Plan has been approved by our shareholders and provides for the granting of awards to our employees and directors. As of December 31, 2017, there were 3.8 million shares available to be granted. The purpose of the Plan is to attract and retain individuals of exceptional talent and encourage these individuals to acquire a vested interest in our success and prosperity. The awards that may be granted under this program include non-qualified stock options, restricted shares, restricted share units, and RTSR units. Restricted shares are generally service-based, requiring a certain length of service before vesting occurs, while restricted share units can be either service-based or performance-based. Performance-based restricted share units require a certain length of service until vesting; however, they contain an additional performance feature, which can vary the amount of shares ultimately paid out based on certain performance criteria specified in the Plan. RTSR performance share units are subject to a market condition. Awards granted under the Plan vest and may be exercised and/or sold from one to ten years after the date of grant based on a vesting schedule.

Share-based compensation expense was as follows (in millions):

Year Ended	
December 31, 2017	December 31, 2016
\$ 43.8	\$ 23.0

As of December 31, 2017, unrecognized share-based compensation expense was \$51.2 million, and the weighted-average period over which the expense is expected to be recognized was approximately 2.0 years. Proceeds from the exercise of stock options are credited to ordinary shares.

### Stock Options

A summary of activity related to stock options is presented below (options in thousands):

	Number of Options	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Term in Years	Aggregate Intrinsic Value
Options outstanding at December 31, 2015	783	\$ 99.93		
Granted	344	\$ 126.67		
Exercised	(122)	\$ 67.68		
Forfeited or expired	(256)	\$ 126.54		
Options outstanding at December 31, 2016	749	\$ 108.40	6.6	\$ 5.5
Granted	439	\$ 70.34		
Exercised	(31)	\$ 24.75		
Forfeited or expired	(85)	\$ 118.47		
Options outstanding December 31, 2017	1,072	\$ 94.90	6.9	\$ 10.9
Options exercisable	519	\$ 107.14	5.0	\$ 3.8
Options expected to vest	533	\$ 83.63	8.7	\$ 6.8

The aggregate intrinsic value for options exercised was as follows (in millions):

Year Ended	
December 31, 2017	December 31, 2016
\$ 1.7	\$ 5.2

The weighted-average fair values per share at the grant date for options granted were \$19.50 and \$33.53, for the years ended December 31, 2017 and December 31, 2016 respectively. The fair values were estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended	
	December 31, 2017	December 31, 2016
Dividend yield	0.9%	0.5%
Volatility, as a percent	30.0%	27.6%
Risk-free interest rate	1.8%	1.3%
Expected life in years	5.41	5.5

The valuation model utilizes historical volatility. The risk-free interest rate is based on the yield of U.S. government securities with a maturity date that coincides with the expected term of the option. The expected life in years is estimated based on past exercise behavior of employees.

*Non-Vested Restricted Shares*

There were no restricted shares granted, vested or outstanding for the years ended December 31, 2017 or December 31, 2016.

*Non-Vested Service-Based Restricted Share Units*

A summary of activity related to non-vested service-based restricted share units is presented below (units in thousands):

	Number of Non-vested Service- Based Share Units	Weighted- Average Grant Date Fair Value Per Share	Weighted- Average Remaining Term in Years	Aggregate Intrinsic Value
Non-vested service-based share units outstanding at December 31, 2015	382	\$ 154.07		
Granted	298	\$ 113.26		
Vested	(92)	\$ 137.15		
Forfeited	(120)	\$ 151.64		
Non-vested service-based share units outstanding at December 31, 2016	<u>468</u>	\$ 137.53	1.7	\$ 39.0
Granted	298	\$ 70.55		
Vested	(112)	\$ 128.86		
Forfeited	(55)	\$ 120.97		
Non-vested service-based share units outstanding at December 31, 2017	<u>599</u>	\$ 107.26	1.5	\$ 52.2

The weighted-average fair value per share at the date of grant for service-based restricted share units granted was as follows (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
	\$ 70.55	\$ 113.26

The total fair value of service-based restricted share units that vested was as follows (in millions):

Year Ended	
December 31, 2017	December 31, 2016
\$ 14.5	\$ 12.6

*Non-Vested Performance-Based Restricted Share Units*

A summary of activity related to non-vested performance-based restricted share units is presented below (units in thousands):

	Number of Non-vested Performance-Based Share Units	Weighted-Average Grant Date Fair Value Per Share	Weighted-Average Remaining Term in Years*	Aggregate Intrinsic Value
Non-vested performance-based share units outstanding at December 31, 2015	223	\$ 146.31		
Granted	159	\$ 126.37		
Vested	(81)	\$ 128.74		
Forfeited	(124)	\$ 143.64		
Non-vested performance-based share units outstanding at December 31, 2016	177	\$ 138.29	1.7	\$ 14.8
Granted	191	\$ 70.34		
Vested	(27)	\$ 142.18		
Forfeited	(38)	\$ 130.34		
Non-vested performance-based share units outstanding at December 31, 2017	303	\$ 93.65	2.0	\$ 26.5

The weighted-average fair value of performance-based restricted share units can fluctuate depending upon the success or failure of the achievement of performance criteria as set forth in the Plan. The weighted-average fair value per share at the date of grant for performance-based restricted share units granted was as follows:

Year Ended	
December 31, 2017	December 31, 2016
\$ 70.34	\$ 126.37

The total fair value of performance-based restricted share units that vested was as follows (in millions):

Year Ended	
December 31, 2017	December 31, 2016
\$ 3.8	\$ 10.4

*Non-vested Relative Total Shareholder Return Performance Share Units*

The fair value of the RTSR performance share units is determined using the Monte Carlo pricing model as the number of shares to be awarded is subject to a market condition. The valuation model considers a range of possible outcomes, and compensation cost is recognized regardless of whether the market condition is actually satisfied.



The assumptions used in estimating the fair value of the RTSR performance share units granted during each year were as follows:

	<u>Year Ended</u> <u>December 31,</u> <u>2017</u>
Dividend yield	0.9%
Volatility, as a percent	36.1%
Risk-free interest rate	1.4%
Expected life in years	2.57

A summary of activity related to non-vested RTSR performance share units is presented below (units in thousands):

	<u>Number of</u> <u>Non-vested</u> <u>RTSR</u> <u>Performance</u> <u>Share Units</u>	<u>Weighted-</u> <u>Average</u> <u>Grant</u> <u>Date Fair</u> <u>Value Per Share</u>	<u>Weighted-</u> <u>Average</u> <u>Remaining</u> <u>Term in</u> <u>Years*</u>	<u>Aggregate</u> <u>Intrinsic</u> <u>Value</u>
Non-vested RTSR performance share units outstanding at December 31, 2016	—	\$ —	0	\$ —
Granted	39	\$ 64.82		
Non-vested RTSR performance share units outstanding at December 31, 2017	<u>39</u>	<u>\$ 64.82</u>	2.0	\$ 3.4

\* Midpoint used in calculation.

The weighted-average fair value per share at the date of grant for RTSR performance share units granted was \$64.82.

## 17. OTHER RESERVES

Changes in our Other Reserves balances, net of tax were as follows (in millions):

	<u>Fair value of</u> <u>derivative</u> <u>financial</u> <u>instruments,</u> <u>net of tax</u>	<u>Foreign</u> <u>currency</u> <u>translation</u> <u>adjustments</u>	<u>Fair value of</u> <u>investment</u> <u>securities,</u> <u>net of tax</u>	<u>Post-</u> <u>retirement</u> <u>and pension</u> <u>liability</u> <u>adjustments,</u> <u>net of tax</u>	<u>Other</u>	<u>Total</u> <u>Other</u> <u>Reserves</u>
Balance at December 31, 2015	\$ (14.2)	\$ (4.6)	\$ 6.4	\$ (2.9)	\$ 115.1	\$ 99.8
OCI before reclassifications	(5.4)	(63.3)	7.4	(3.2)	—	(64.5)
Amounts reclassified from OCI	0.1	—	1.3	(3.4)	—	(2.0)
Other comprehensive income (loss)	<u>(5.3)</u>	<u>(63.3)</u>	<u>8.7</u>	<u>(6.6)</u>	<u>—</u>	<u>(66.5)</u>
Other equity-based compensation	—	—	—	—	21.5	21.5
Shares withheld for payment of taxes	—	—	—	—	(6.3)	(6.3)
Equity issuance costs	—	—	—	—	(10.3)	(10.3)
Balance at December 31, 2016	(19.5)	(67.9)	15.1	(9.5)	120.0	38.2
OCI before reclassifications	7.1	328.5	(12.5)	15.0	—	338.1
Amounts reclassified from OCI	2.6	—	(1.6)	(4.2)	—	(3.2)
Other comprehensive income (loss)	<u>9.7</u>	<u>328.5</u>	<u>(14.1)</u>	<u>10.8</u>	<u>—</u>	<u>334.9</u>
Other equity-based compensation	—	—	—	—	43.8	43.8
Shares withheld for payment of taxes	—	—	—	—	(4.0)	(4.0)
Balance at December 31, 2017	<u>\$ (9.8)</u>	<u>\$ 260.6</u>	<u>\$ 1.0</u>	<u>\$ 1.3</u>	<u>\$ 159.8</u>	<u>\$ 412.9</u>

## 18. INCOME TAXES

Pre-tax income (loss) and the (benefit) provision for income taxes from continuing operations are summarized as follows (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
Pre-tax income (loss):		
Ireland	\$ (454.0)	\$ (3,624.1)
Other	734.1	(1,224.2)
Total pre-tax income (loss)	280.1	(4,848.3)
(Benefit) provision for income taxes:		
Current:		
Ireland	(8.1)	0.3
United States - federal	96.4	93.0
United States - state	4.0	0.7
Other foreign	46.1	26.7
Subtotal	138.4	120.7
Deferred (credit):		
Ireland	13.1	(549.4)
United States - federal	6.8	(7.6)
United States - state	1.0	(5.1)
Other foreign	1.2	(394.1)
Subtotal	22.1	(956.2)
Total (benefit) provision for income taxes	\$ 160.5	\$ (835.5)

A reconciliation of the provision based on the statutory income tax rate to our effective income tax rate is as follows:

	Year Ended	
	December 31, 2017	December 31, 2016
Provision at statutory rate	12.5%	12.5%
Ireland tax on non-trading differences	(47.7)	(0.4)
Expenses not deductible for tax purposes/deductions not expensed for book, net	63.4	(0.7)
Goodwill impairment not deductible for tax purposes	—	(2.8)
U.S. Operations:		
State income taxes, net of federal benefit	(1.4)	0.1
Research and development credit	(0.6)	—
Other	(5.8)	0.4
Tax Law Change - US	5.4	—
Tax Law Change - Belgium	(3.2)	—
Other foreign differences (earnings taxed at other than applicable statutory rate)	(22.7)	3.3
Intangible impairment differences	(3.0)	4.8
Worldwide operations:		
Valuation allowance changes	17.8	0.8
Change in unrecognized taxes	25.3	(0.8)
Withholding taxes	17.3	—
Effective income tax rate	<u>57.3%</u>	<u>17.2%</u>

We have provided for income taxes for certain earnings of certain foreign subsidiaries that have not been deemed to be permanently reinvested. No further provision has been made for income taxes on remaining undistributed earnings of foreign subsidiaries of approximately \$6.3 billion at December 31, 2017, since it is our intention to indefinitely reinvest undistributed earnings of our foreign subsidiaries. Due to the complexity of the legal entity structure and the complexity of the tax laws in various jurisdictions, we believe it is not practicable to estimate, within any reasonable range, the additional income taxes that may be payable on the remittance of such undistributed earnings.

Deferred income taxes arise from temporary differences between the financial reporting and the tax reporting basis of assets and liabilities and operating loss and tax credit carryforwards for tax purposes. The components of our net deferred income tax asset (liability) were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Deferred income tax asset (liability):		
Depreciation and amortization	\$ (457.8)	\$ (765.2)
Inventory basis differences	21.3	27.4
Accrued liabilities	87.9	68.5
Allowance for doubtful accounts	1.5	1.7
Research and development	58.9	61.7
Loss and credit carryforwards	292.5	292.4
Share-based compensation	16.2	18.1
Foreign tax credit	—	10.6
Federal benefit of unrecognized tax positions	17.0	24.3
Interest carryforwards	30.5	435.3
Other, net	28.2	3.0
Subtotal	<u>\$ 96.2</u>	<u>\$ 177.8</u>
Valuation allowance	(407.7)	(495.6)
Net deferred income tax asset (liability):	<u>\$ (311.5)</u>	<u>\$ (317.8)</u>

The above amounts are classified on the Consolidated Balance Sheets as follows (in millions):

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Assets	\$ 10.4	\$ 72.1
Liabilities	(321.9)	(389.9)
Net deferred income tax (liability) asset	<u>\$ (311.5)</u>	<u>\$ (317.8)</u>

At December 31, 2017, we had gross carryforwards as follows:

	<u>December 31, 2017</u>	
	<u>Gross Carryforwards<sup>(1)</sup></u>	<u>Gross Valuation Allowances</u>
U.S. state net operating losses	\$ 248.5	\$ 203.6
Worldwide federal net operating losses excluding U.S. states	\$ 1,389.0	\$ 861.6
Worldwide federal capital losses	\$ 22.0	\$ 22.0
U.S. federal credits	\$ 82.6	\$ 82.6
U.S. state credits	\$ 71.9	\$ 71.9
Interest carryforwards	\$ 478.8	\$ 127.0

<sup>(1)</sup> Utilization of such carryforwards within the applicable statutory periods is uncertain.

In 2017, we recorded income tax expense related to valuation allowances of \$10.3 million in Ireland. In addition, we released valuation allowances of \$42.4 million and \$55.8 million for Omega and the U.S. and other jurisdictions, respectively, resulting in a tax benefit.

U.S. federal credit carryforwards of \$28.2 million, \$37.2 million and \$167.8 million expire through 2022, 2025 and 2027, respectively, with the remaining U.S. credits having no expiration. U.S. state net operating loss carryforwards expire through 2037, and U.S. state credit carryforwards expire through 2032. Of the non-U.S. net operating loss carryforwards, \$1.8 million, \$20.3 million, \$0.9 million, and \$0.1 million expire through 2019, 2022, 2024 and 2025, respectively, while the remaining amounts of non U.S. net operating loss carryforwards and non-U.S. capital loss carryforwards have no expiration. The valuation allowances for these net operating loss carryforwards are adjusted annually, as necessary. After application of the valuation allowances, as described above, we anticipate no significant limitations will apply with respect to the realization of our net deferred income tax assets.

The following table summarizes the activity related to amounts recorded for uncertain tax positions, excluding interest and penalties (in millions):

	<b>Unrecognized Tax Benefits</b>
<b>Balance at December 31, 2015</b>	<u>288.1</u>
Additions:	
Positions related to the current year	45.5
Positions related to prior years	8.6
Reductions:	
Settlements with taxing authorities	(2.4)
Lapse of statutes of limitation	(5.3)
<b>Balance at December 31, 2016</b>	<u>334.5</u>
Additions:	
Positions related to the current year	55.0
Positions related to prior years	76.6
Reductions:	
Settlements with taxing authorities	(11.1)
Lapse of statutes of limitation	(0.1)
Decrease in prior year positions	(35.2)
<b>Balance at December 31, 2017</b>	<u><u>\$ 419.7</u></u>

We recognize interest and penalties related to uncertain tax positions as a component of income tax expense. The total amount accrued for interest and penalties in the liability for uncertain tax positions was \$82.0 million and \$63.5 million as of December 31, 2017 and December 31, 2016, respectively.

The total liability for uncertain tax positions was \$501.7 million and \$398.0 million as of December 31, 2017 and December 31, 2016, respectively, before considering the federal tax benefit of certain state and local items, of which \$204.0 million and \$248.7 million, respectively, would impact the effective tax rate in future periods, if recognized.

We file income tax returns in numerous jurisdictions and are therefore subject to audits by tax authorities. Our primary income tax jurisdictions are Ireland, U.S., Israel, Belgium, France, and the United Kingdom.

Although we believe that our tax estimates are reasonable and that we prepare our tax filings in accordance with all applicable tax laws, the final determination with respect to any tax audit and any related litigation could be materially different from our estimates or from our historical income tax provisions and accruals. The results of an audit or litigation could have a material effect on operating results and/or cash flows in the periods for which that determination is made. In addition, future period earnings may be adversely impacted by litigation costs, settlements, penalties, and/or interest assessments.

On August 15, 2017, we filed a complaint in the U.S. District Court for the Western District of Michigan to recover \$163.6 million of Federal income tax, penalties, and interest assessed and collected by the Internal Revenue Service ("IRS"), plus statutory interest thereon from the dates of payment, for the fiscal years ended June 27, 2009, June 26, 2010, June 25, 2011, and June 30, 2012 (the "2009 tax year," "2010 tax year," "2011 tax year," and "2012 tax year," respectively). The IRS audits of those years culminated in the issuances of two statutory notices of deficiency:

(1) on August 27, 2014 for the 2009 and 2010 tax years and (2) on April 20, 2017 for the 2011 and 2012 tax years. The statutory notices of deficiency both included un-agreed income adjustments related principally to transfer pricing adjustments regarding the purchase, distribution, and sale of store-brand OTC pharmaceutical products in the United States. In addition, the statutory notice of deficiency for the 2011 and 2012 tax years included the capitalization of certain expenses that were deducted when paid or incurred in defending against certain patent infringement lawsuits. We fully paid the assessed amounts of tax, interest, and penalties set forth in the statutory notices and filed timely claims for refund on June 11, 2015 and June 7, 2017 for the 2009-2010 tax years and 2011-2012 tax years, respectively. Our claims for refund were disallowed by certified letters dated August 18, 2015 and July 11, 2017, for the 2009-2010 tax years and 2011-2012 tax years, respectively. The complaint was timely, based upon the refund claim denials, and seeks refunds of tax, interest, and penalties of \$37.2 million for the 2009 tax year, \$61.5 million for the 2010 tax year, \$40.2 million for the 2011 tax year, and \$24.7 million for the 2012 tax year. The amounts sought in the complaint for the 2009 and 2010 tax years were recorded as deferred charges on our balance sheet during the three months ended March 28, 2015, and the amounts sought in the complaint for the 2011 and 2012 tax years were recorded as deferred charges on our balance sheet during the three months ended July 1, 2017.

On December 22, 2016, we received a notice of proposed adjustment for the IRS audit of Athena Neurosciences, Inc. ("Athena"), a subsidiary of Elan acquired in 1996, for the years ended December 31, 2011, December 31, 2012, and December 31, 2013. Perrigo acquired Elan in December 2013. This proposed adjustment relates to the deductibility of litigation costs. We disagree with the IRS's position asserted in the notice of proposed adjustment and intend to contest it.

On July 11, 2017, we received a draft notice of proposed adjustment associated with transfer pricing positions for the IRS audit of Athena for the years ended December 31, 2011, December 31, 2012, and December 31, 2013. Athena was the originator of the patents associated with Tysabri® prior to the acquisition of Athena by Elan in 1996. In response to the draft notice of proposed adjustment, we provided the IRS with substantial additional documentation supporting our position. The amount of adjustments that may be asserted by the IRS in the final notice of proposed adjustment cannot be quantified at this time; however, based on the draft notice received, the amount to be assessed may be material. We disagree with the IRS's position as asserted in the draft notice of proposed adjustment and intend to contest it.

We have ongoing audits in multiple other jurisdictions the resolution of which remains uncertain. These jurisdictions include, but are not limited to, the U.S., Israel, Ireland and other jurisdictions in Europe. In addition to the matters discussed above, the IRS is currently auditing our fiscal years ended June 29, 2013, June 28, 2014, and June 27, 2015. The Israel Tax Authority is currently auditing our fiscal years ended June 29, 2013 and June 28, 2014 (which covers the period of the Elan transaction). The Ireland Tax Authority is currently auditing our years ended December 31, 2012 and December 31, 2013.

Based on the final resolution of tax examinations, judicial or administrative proceedings, changes in facts or law, expirations of statute of limitations in specific jurisdictions or other resolutions of, or changes in, tax positions, it is reasonably possible that unrecognized tax benefits for certain tax positions taken on previously filed tax returns may change materially from those represented on the financial statements as of December 31, 2017. During the next 12 months, it is reasonably possible that such circumstances may occur that would have a material effect on previously unrecognized tax benefits. As a result, the total net amount of unrecognized tax benefits may decrease, which would reduce the provision for taxes on earnings by a range estimated at \$1.0 million to \$17.9 million.

### *Tax Law Changes*

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act ("U.S. Tax Act"). The U.S. Tax Act includes a number of significant changes to existing U.S. tax laws that impact the Company. These changes include a corporate income tax rate reduction from 35% to 21% and the elimination or reduction of certain U.S. deductions and credits including limitations on the U.S. deductibility of interest expense and executive compensation. The U.S. Tax Act also transitions the U.S. taxation of international earnings from a worldwide system to a modified territorial system. These changes are effective beginning in 2018. The U.S. Tax Act also includes a one-time mandatory deemed repatriation tax on accumulated U.S. owned foreign corporations' previously untaxed foreign earnings ("Transition Toll Tax"). The Transition Toll Tax may be paid over an eight-year period, starting in 2018, and will not accrue interest.



On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of the U.S. GAAP ASC 740 income tax accounting for tax law changes enacted during 2017, in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the U.S. Tax Act. In accordance with SAB 118, we have recorded an income tax benefit of \$2.4 million in connection with the remeasurement of certain deferred tax assets and liabilities. We also recorded a \$17.5 million increase of current tax expense in connection with the Transition Toll Tax on cumulative U.S. owned foreign earnings of \$1.2 billion. The tax impacts represent provisional amounts and are a reasonable estimate at December 31, 2017. Additional work is necessary to perform additional analysis of historical foreign earnings and U.S. cumulative temporary differences, as well as potential correlative adjustments. Any subsequent adjustment to these amounts will be recorded to current tax expense in 2018 when the analysis is complete.

The U.S. Tax Act subjects a U.S. shareholder to tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, we are still evaluating the effects of the GILTI provisions and have not yet determined our accounting policy. At December 31, 2017, because we are still evaluating the GILTI provisions and our analysis of future taxable income that is subject to GILTI, we are unable to make a reasonable estimate and have not reflected any adjustments related to GILTI in our financial statements.

On December 22, 2017, the Belgian Parliament approved Belgian tax reform legislation ("Belgium Tax Act"), which was signed by the Belgian King and enacted on December 25, 2017. The Belgium Tax Act provides for a reduction to the corporate income tax rate from 34% to 30%, for 2018 and 2019, as well as a reduced corporate income tax rate of 25% for 2020 and beyond. The Belgium Tax Act also increased the participation exemption on dividend distributions to Belgium entities from 95% to 100%. The Belgium Tax Act also introduces Belgium tax consolidation and other anti-tax avoidance directives. We recorded an additional income tax expense of \$24.1 million for the remeasurement of certain deferred tax assets and additional income tax benefit of \$33.2 million for the remeasurement of certain deferred tax liabilities as a result of the Belgium Tax Act.

For the year ended December 31, 2016, statutory rate changes, primarily in Europe, favorably impacted the effective tax rate in the amount of \$4.0 million.

## 19. RETIREMENT BENEFIT PLANS

### *Defined Contribution Plans*

We have a qualified profit-sharing and investment plan under Section 401(k) of the IRS, which covers substantially all U.S. employees. Our contributions to the plan include an annual nondiscretionary contribution of 3% of an employee's eligible compensation and a discretionary contribution at the option of the Board of Directors. Additionally, we match a portion of employees' contributions.

We also have a defined contribution plan that covers our Ireland employees. We contribute up to 18% of each participating employee's annual eligible salary on a monthly basis.

We assumed a number of defined contribution plans associated with the Omega acquisition and we pay contributions to the pension insurance plans.

Our contributions to all of the plans were as follows (in millions):

<b>Year Ended</b>	
<b>December 31, 2017</b>	<b>December 31, 2016</b>
\$ 25.5	\$ 26.1

*Pension and Post-Retirement Healthcare Benefit Plans*

We assumed the liability of two defined benefit plans (staff and executive plan) for employees based in Ireland with the Elan acquisition in 2013. These plans were subsequently merged and all plan assets and liabilities were transferred from the executive scheme to the staff scheme as a result of a plan combination.

In connection with the Omega acquisition, we assumed the liability of a number of defined benefit plans. The defined benefit plans cover employees based primarily in the Netherlands, Belgium, Germany, Switzerland, Greece, France, and Norway. Omega companies operate various pension plans across each country.

Our defined benefit pension plans are managed externally and the related pension costs and liabilities are assessed at least annually in accordance with the advice of a qualified professional actuary. We used a December 31, 2017 measurement date and all plan assets and liabilities are reported as of that date.

We provide certain healthcare benefits to eligible U.S. employees and their dependents who meet certain age and service requirements when they retire. Generally, benefits are provided to eligible retirees after age 65 and to their dependents. Increases in our contribution for benefits are limited to increases in the Consumer Price Index. Additional healthcare cost increases are paid through participant contributions. We accrue the expected costs of such benefits during a portion of the employees' years of service. The plan is not funded. Under current plan provisions, the plan is not eligible for any U.S. federal subsidy related to the Medicare Modernization Act of 2003 Part D Subsidy.

The change in the projected benefit obligation and plan assets consisted of the following (in millions):

	Pension Benefits		Other Benefits	
	Year Ended		Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Projected benefit obligation at beginning of period	\$ 158.9	\$ 135.0	\$ 5.8	\$ 7.0
Acquisitions	—	—	—	—
Curtailment	(1.0)	—	—	—
Service costs	4.5	4.1	0.6	0.6
Interest cost	3.3	3.6	0.2	0.2
Actuarial (gain) loss	(10.3)	22.6	(0.3)	(1.9)
Contributions paid	0.1	0.3	—	—
Benefits paid	(2.5)	(1.7)	(0.1)	(0.1)
Foreign currency translation	21.0	(5.0)	—	—
Projected benefit obligation at end of period	\$ 174.0	\$ 158.9	\$ 6.2	\$ 5.8
Fair value of plan assets at beginning of period	138.2	126.7	—	—
Acquisitions	—	—	—	—
Actual return on plan assets	5.5	9.4	—	—
Benefits paid	(2.5)	(1.7)	—	—
Employer contributions	2.2	8.2	—	—
Contributions paid	0.1	0.3	—	—
Foreign currency translation	19.0	(4.7)	—	—
Fair value of plan assets at end of period	\$ 162.5	\$ 138.2	\$ —	\$ —
Unfunded status	\$ (11.5)	\$ (20.7)	\$ (6.2)	\$ (5.8)
<b>Presented as:</b>				
Other non-current assets	\$ 22.0	\$ 10.4	\$ —	\$ —
Other non-current liabilities	\$ (33.5)	\$ (31.1)	\$ —	\$ (5.8)

The total accumulated benefit obligation for the defined benefit pension plans was as follows (in millions):

Year Ended	
December 31, 2017	December 31, 2016
\$ 167.6	\$ 136.3

The following unrecognized actual gains (losses) for the other benefits liability was included in OCI, net of tax (in millions):

Year Ended	
December 31, 2017	December 31, 2016
\$ 0.3	\$ (0.7)

The unamortized net actuarial loss in Other Reserves net of tax for defined benefit pension and other benefits was as follows (in millions):

Year Ended	
December 31, 2017	December 31, 2016
\$ (1.3)	\$ 9.5

The total estimated credit amount to be recognized from Other Reserves into net periodic cost during the next year is \$0.7 million.

At December 31, 2017, the total estimated future benefit payments to be paid by the plans for the next five years is approximately \$9.9 million for pension benefits and \$1.0 million for other benefits as follows (in millions):

Payment Due	Pension Benefits	Other Benefits
2018	\$ 1.4	\$ 0.1
2019	1.5	0.2
2020	2.3	0.2
2021	2.1	0.2
2022	2.6	0.3
Thereafter	20.1	1.9

The expected benefits to be paid are based on the same assumptions used to measure our benefit obligation at December 31, 2017, including the expected future employee service. We expect to contribute \$2.2 million to the defined benefit plans within the next year.

Net periodic pension cost consisted of the following (in millions):

	Pension Benefits		Other Benefits	
	Year Ended		Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Service cost	\$ 4.5	\$ 4.1	\$ 0.6	\$ 0.6
Interest cost	3.3	3.6	0.2	0.2
Expected return on assets	(4.3)	(3.9)	—	—
Curtailment	(0.7)	—	—	—
Net actuarial loss	0.8	0.5	(0.1)	—
Net periodic pension cost	\$ 3.6	\$ 4.3	\$ 0.7	\$ 0.8

The weighted-average assumptions used to determine net periodic pension cost and benefit obligation were:

	Pension Benefits		Other Benefits	
	Year Ended		Year Ended	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Discount rate	1.91%	1.76%	3.59%	4.00%
Inflation	1.45%	1.43%		
Expected return on assets	2.90%	2.89%		

The discount rate is based on market yields at the valuation date and chosen with reference to the yields available on high quality corporate bonds, having regard to the duration of the plan's liabilities.

As of December 31, 2017, the expected weighted-average long-term rate of return on assets of 2.9% was calculated based on the assumptions of the following returns for each asset class:

Equities	6.0%
Bonds	1.9%
Absolute return fund	4.0%
Insurance contracts	2.8%
Other	2.5%

The investment mix of the pension plans' assets is a blended asset allocation, with a diversified portfolio of shares listed and traded on recognized exchanges.

Certain of our plans have target asset allocation ranges, as of December 31, 2017 these ranges are as follows:

Equities	10% - 20%
Bonds	20% - 30%
Absolute return	50% - 60%

Other plans do not have target asset allocation ranges, for such plans the strategy is to invest primarily 100% in Insurance Contracts.

The purpose of the pension funds is to provide a flow of income for members in retirement. A flow of income delivered through fixed interest bonds provides a costly but close match to this objective. Equities are held within the portfolio as a means of reducing this cost, but holding equities creates a strategic risk because they give a very different pattern of return. Property investments are held to help diversify the portfolio. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and investment portfolio reviews.

The following table sets forth the fair value of the pension plan assets, as of December 31, 2017 (in millions):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Equities	\$ 0.1	\$ 19.1	\$ —	\$ 19.2
Bonds	1.8	30.2	—	32.0
Insurance contracts	—	—	50.8	50.8
Absolute return fund	—	54.5	—	54.5
Other	—	6.0	—	6.0
<b>Total</b>	<b>\$ 1.9</b>	<b>\$ 109.8</b>	<b>\$ 50.8</b>	<b>\$ 162.5</b>

The following table sets forth the fair value of the pension plan assets, as of December 31, 2016 (in millions):

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Equities	\$ 0.1	\$ 13.6	\$ —	\$ 13.7
Bonds	1.6	22.8	—	24.4
Insurance contracts	—	—	43.4	43.4
Absolute return fund	—	51.5	—	51.5
Other	—	5.2	—	5.2
<b>Total</b>	<b>\$ 1.7</b>	<b>\$ 93.1</b>	<b>\$ 43.4</b>	<b>\$ 138.2</b>

For a discussion of the fair value levels and the valuation methodologies used to measure equities, bonds and the absolute return fund (refer to Note 11).

The following table sets forth a summary of the changes in the fair value of the Level 3 pension plan assets, which were measured at fair value on a recurring basis (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
Assets at beginning of year	\$ 43.4	\$ 35.2
Actual return on plan assets	1.0	6.7
Purchases, sales and settlements, net	0.9	(4.2)
Net transfers	—	7.6
Foreign exchange	5.5	(1.9)
<b>Assets at end of year</b>	<b>\$ 50.8</b>	<b>\$ 43.4</b>

All properties in the fund are valued by independent valuation experts by forecasting the returns of the market at regular intervals. The inputs to the forecasts include gross national product growth, interest rates and inflation.

The fair value of the insurance contracts is an estimate of the amount that would be received in an orderly sale to a market participant at the measurement date. The amount the plan would receive from the contract holder if the contracts were terminated is the primary input and is unobservable. The insurance contracts are therefore classified as Level 3 investments.

#### *Deferred Compensation Plans*

We have non-qualified plans related to deferred compensation and executive retention that allow certain employees and directors to defer compensation subject to specific requirements. Although the plans are not formally funded, we own insurance policies that had a cash surrender value of \$34.6 million and \$32.7 million at December 31, 2017 and December 31, 2016, respectively, that are intended as a long-term funding source for these plans. The assets, are not a committed funding source and may, under certain circumstances, be subject to claims from creditors. The deferred compensation liability of \$31.6 million and \$29.3 million at December 31, 2017 and December 31, 2016, respectively, was recorded in Other non-current liabilities.



**20. OTHER PROVISIONS AND COMMITMENTS AND CONTINGENCIES**

Changes in Other provisions are illustrated below (in millions):

	<b>Legal liabilities</b>	<b>Contingent consideration</b>	<b>Restructuring</b>	<b>Total</b>
Balance at December 31, 2015	\$ 20.5	\$ 17.9	\$ 20.7	\$ 59.1
Provisions, net	11.6	—	31.0	42.6
Utilization	(4.4)	(2.7)	(35.8)	(42.9)
Acquisitions and Other	(9.0)	54.8	3.8	49.6
Balance at December 31, 2016	18.7	70.0	19.7	108.4
Provisions, net	15.5	—	61.0	76.5
Utilization	(3.2)	(17.4)	(59.6)	(80.2)
Acquisitions and Other	1.5	(30.6)	0.3	(28.8)
Balance at December 31, 2017	<u>\$ 32.5</u>	<u>\$ 22.0</u>	<u>\$ 21.4</u>	<u>\$ 75.9</u>

**Operating lease commitments**

We lease certain assets, principally warehouse facilities and computer equipment, under agreements that expire at various dates through the year ended December 31, 2024. Certain leases contain provisions for renewal and purchase options and require us to pay various related expenses. Future non-cancelable minimum operating lease commitments are as follows (in millions):

<b>Due</b>	<b>Amount</b>
2018	\$ 38.1
2019	31.9
2020	24.3
2021	18.6
2022	13.7
Thereafter	16.6

Rent expense under all leases was \$50.9 million and \$53.0 million for the years ended December 31, 2017 and December 31, 2016, respectively.

At December 31, 2017, we had non-cancelable purchase obligations totaling \$771.0 million consisting of contractual commitments to purchase materials and services to support operations. The obligations are expected to be paid within one year.

**Legal liabilities**

In view of the inherent difficulties of predicting the outcome of various types of legal proceedings, we cannot determine the ultimate resolution of the matters described below. We establish reserves for litigation and regulatory matters when losses associated with the claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal matters may be substantially higher or lower than the amounts reserved for those matters. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated as of December 31, 2017, we have not recorded a loss reserve. If certain of these matters are determined against us, there could be a material adverse effect on our financial condition, results of operations, or cash flows. We currently believe we have valid defenses to the claims in these lawsuits and intend to defend these lawsuits vigorously regardless of whether or not we have a loss reserve. Other than what is disclosed below, we do not expect the outcome of the litigation matters to which we are currently subject to, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations, or cash flows.

### **Antitrust Violations**

We were named as a counterclaim co-defendant in the lawsuit *Fera Pharmaceuticals, LLC v. Akorn, Inc., et al.* in the Southern District of New York, in which Akorn, Inc. (“Akorn”) alleged tortious interference and antitrust violations against us and Fera Pharmaceuticals, LLC (“Fera”). Trial was set for February 2018 in the Southern District of New York. This litigation arose out of our acquisition of bacitracin ophthalmic ointment from Fera in 2013. Akorn asserted claims under Sections 1 and 2 of the Sherman Antitrust Act alleging that we and Fera conspired to monopolize, attempted to monopolize, and did unlawfully monopolize the market for sterile bacitracin ophthalmic ointment in the United States through the use of an exclusive agreement with a supplier of sterile bacitracin active pharmaceutical ingredient. The parties have executed a written settlement of all claims and the case has been dismissed.

### **Price-Fixing Lawsuits**

We have been named as a co-defendant with other manufacturers in a number of class actions alleging that we and other manufacturers of the same product engaged in anti-competitive behavior to fix or raise the prices of certain drugs starting, in some instances, as early as June 2013. The products in question are Clobetasol, Desonide, and Econazole. These complaints, along with complaints filed against other companies alleging price fixing with respect to more than two dozen other drugs, have been consolidated for pretrial proceedings as part of a case captioned *In re Generic Pharmaceuticals Pricing Antitrust Litigation*, MDL No. 2724 in the U.S. District Court for the Eastern District of Pennsylvania. Pursuant to the court’s schedule staging various cases in phases, we have moved to dismiss the complaints relating to Clobetasol and Econazole. We have also recently been named a defendant along with 31 other manufacturers in a complaint filed by three supermarket chains alleging that defendants conspired to fix prices of all generic pharmaceutical products starting in 2013. At this stage, we cannot reasonably predict the outcome of the liability, if any, associated with these claims.

### **Securities Litigation**

#### *In the United States*

On May 18, 2016, a shareholder filed a securities case against us and our former CEO, Joseph Papa, in the U.S. District Court for the District of New Jersey (*Roofers’ Pension Fund v. Papa, et al.*). The plaintiff purported to represent a class of shareholders for the period from April 21, 2015 through May 11, 2016, inclusive. The original complaint alleged violations of Securities Exchange Act sections 10(b) (and Rule 10b-5) and 14(e) against both defendants and 20(a) control person liability against Mr. Papa. In general, the allegations concerned the actions taken by us and the former executive to defend against the unsolicited takeover bid by Mylan in the period from April 21, 2015 through November 13, 2015. The plaintiff also alleged that the defendants provided inadequate disclosure concerning alleged integration problems related to the Omega acquisition in the period from April 21, 2015 through May 11, 2016. On July 19, 2016, a different shareholder filed a securities class action against us and our former CEO, Joseph Papa, also in the District of New Jersey (*Wilson v. Papa, et al.*). The plaintiff purported to represent a class of persons who sold put options on our shares between April 21, 2015 and May 11, 2016. In general, the allegations and the claims were the same as those made in the original complaint filed in the *Roofers’ Pension Fund* case described above. On December 8, 2016, the court consolidated *Roofers’ Pension Fund* case and the *Wilson* case under the *Roofers’ Pension Fund* case number. In February 2017, the court selected the lead plaintiffs for the consolidated case and the lead counsel to the putative class. In March 2017, the court entered a scheduling order.

On June 21, 2017, the court-appointed lead plaintiffs filed an amended complaint that superseded the original complaints in the *Roofers’ Pension Fund* case and the *Wilson* case. The lead plaintiffs seek to represent a class of shareholders for the period April 21, 2015 through May 3, 2017, and the amended complaint identifies three subclasses - shareholders who purchased shares during the period on the U.S. exchanges; shareholders who purchased shares during the period on the Tel Aviv exchange; and shareholders who owned shares on the final day of the Mylan tender offer November 13, 2015. The amended complaint names as defendants us and 11 current or former directors and officers of Perrigo (Ms. Judy Brown, Laurie Brilas, Jacquelyn Fouse, Ellen Hoffing, and Messrs. Joe Papa, Marc Coucke, Gary Cohen, Michael Jandernoa, Gerald Kunkle, Herman Morris, and Donal O’Connor). The amended complaint alleges violations of Securities Exchange Act sections 10(b) (and Rule 10b-5) and 14(e) against all defendants and 20(a) control person liability against the 11 individuals. In general, the allegations concern the actions taken by us and the former executives to defend against the unsolicited takeover bid

by Mylan in the period from April 21, 2015 through November 13, 2015 and the allegedly inadequate disclosure throughout the entire class period related to purported integration problems related to the Omega acquisition, alleges incorrect reporting of organic growth at the Company and at Omega, alleges price fixing activities with respect to six generic prescription pharmaceuticals, and alleges improper accounting for the Tysabri<sup>®</sup> royalty stream. The amended complaint does not include an estimate of damages. In August 2017, the defendants filed motions to dismiss the amended complaint. The plaintiffs filed their opposition in October 2017. The defendants filed replies in support of the motions to dismiss in November 2017. The court has not indicated whether there will be oral argument of the motions or whether the court will decide the motions on the papers. We intend to defend the lawsuit vigorously.

On November 1, 2017, Carmignac Gestion, S.A., filed a securities lawsuit against us and three individuals (former Chairman and CEO Joseph Papa, former CFO Judy Brown, and former Executive Vice President and Board member Marc Coucke). This lawsuit is not a securities class action. The case is styled *Carmignac Gestion, S.A. v. Perrigo Company plc, et al.*, and was filed in the U.S. District Court for the District of New Jersey. The complaint asserts claims under Securities Exchange Act sections 10(b) (and Rule 10b-5), 14(e), and 18 against all defendants as well as 20(a) control person liability against the individual defendants. In general, the plaintiff's allegations focus on events during the period from April 2015 through April 2016. Plaintiff contends that the defendants provided inadequate disclosure throughout the period concerning the valuation and integration of Omega, the financial guidance provided by us during that period, our reporting about the generic prescription pharmaceutical business and its prospects, and the activities surrounding the efforts to defeat the Mylan tender offer during 2015. Many of the allegations in this case overlap with the allegations of the June 2017 amended complaint in the *Roofers' Pension Fund* case described above. The plaintiff does not provide an estimate of damages. We intend to defend the lawsuit vigorously. The parties jointly requested that the court stay this case pending the outcome of a ruling on the motions to dismiss filed in the *Roofers' Pension Fund* case (discussed above), and the court granted the stay motion.

On January 16, 2018, Manning & Napier Advisors, LLC filed a securities lawsuit against us and three individuals (former Chairman and CEO Joseph Papa, former CFO Judy Brown, and former Executive Vice President and Board member Marc Coucke). This lawsuit is not a securities class action. The case is styled *Manning & Napier Advisors, LLC v. Perrigo Company plc, et al.*, and was filed in the U.S. District Court for the District of New Jersey. The complaint asserts claims under Securities Exchange Act sections 10(b) (and Rule 10b-5) and 18 against all defendants as well as 20(a) control person liability against the individual defendants. In general, the plaintiff's allegations focus on events during the period from April 2015 through May 2017. Plaintiff contends that the defendants provided inadequate disclosure at various times during the period concerning valuation and integration of Omega, the financial guidance provided by us during that period, alleged price fixing activities with respect to six generic prescription pharmaceuticals, and alleged improper accounting for the Tysabri<sup>®</sup> financial asset. Many of the allegations in this case overlap with the allegations of the June 2017 amended complaint in the *Roofers' Pension Fund* case described above. The plaintiff does not provide an estimate of damages. We intend to defend the lawsuit vigorously. The parties jointly requested that the court stay this case pending the outcome of a ruling on the motion to dismiss filed in the *Roofers' Pension Fund* case (discussed above), and the court granted the stay motion.

On January 26, 2018, two different plaintiff groups (the Mason Capital group and the Pentwater group) each filed a lawsuit against us and the same individuals who are defendants in the amended complaint in the securities class action case described above (*Roofers' Pension Fund* case). The same law firm represents these two plaintiff groups, and the two complaints are substantially similar. These two cases are not securities class actions. One case is styled *Mason Capital L.P., et al. v. Perrigo Company plc, et al.*, and was filed in the U.S. District Court for the District of New Jersey. The other case is styled *Pentwater Equity Opportunities Master Fund Ltd., et al. v. Perrigo Company plc, et al.*, and also was filed in the U.S. District Court for the District of New Jersey. Both cases are assigned to the same federal judge that is hearing the class action case and the other individual cases described above (*Carmignac* and *Manning & Napier*). Each complaint asserts claims under Securities Exchange Act sections 14(e) (related to tender offer disclosures) against all defendants as well as 20(a) control person liability against the individual defendants. In general, the plaintiff's allegations describe events during the period from April 2015 through May 2017. Plaintiff contends that the defendants provided inadequate disclosure during the tender offer period in 2015 and point to disclosures at various times during the period concerning valuation and integration of Omega, the financial guidance provided by us during that period, alleged price fixing activities with respect to six generic prescription pharmaceuticals, and alleged improper accounting for the Tysabri<sup>®</sup> financial asset. Many of the factual allegations in these two cases overlap with the allegations of the June 2017 amended complaint in the *Roofers'*

*Pension Fund* case described above and the allegations in the *Carmignac* case described above. The plaintiff does not provide an estimate of damages. The parties to each case jointly requested that the court stay each case pending the outcome of a ruling on the motions to dismiss filed in the *Roofers' Pension Fund* case (discussed above). The court granted the stay motion in each case. We intend to defend both lawsuits vigorously.

On February 13, 2018, a group of plaintiff investors affiliated with Harel Insurance Investments & Financial Services, Ltd. filed a lawsuit against us and the same individuals who are defendants in the amended complaint in the securities class action case described above (*Roofers' Pension Fund* case). The new complaint is substantially similar to the amended complaint in the *Roofers' Pension Fund* case. The relevant period in the new complaint stretches from February 2014 to May 2, 2017. The complaint adds as defendants two individuals who served on our Board prior to 2016. The case is styled *Harel Insurance Company, Ltd., et al. v. Perrigo Company plc, et al.*, and was filed in the U.S. District Court for the District of New Jersey and is assigned to the same federal judge that is hearing the class action cases and the four other individual cases described above (*Carmignac, Manning & Napier, Mason Capital, and Pentwater*). The *Harel Insurance Company* complaint asserts claims under Securities Exchange Act section 10(b) (and related SEC Rule 10b-5) and section 14(e) (related to tender offer disclosures) against all defendants as well as 20(a) control person liability against the individual defendants. The complaint also asserts claims based on Israeli securities laws. In general, the plaintiff's allegations describe events during the period from February 2014 through May 2017. Plaintiff contends that the defendants provided inadequate disclosure during the tender offer events in 2015 and point to disclosures at various times during the period concerning valuation and integration of Omega, the financial guidance provided by us during that period, alleged price fixing activities with respect to six generic prescription pharmaceuticals, and alleged improper accounting for the Tysabri® financial asset from February 2014 until the withdrawal of past financial statements in April 2017. Many of the factual allegations in these two cases overlap with the allegations of the June 2017 amended complaint in the *Roofers' Pension Fund* case described above and the allegations in the four opt out cases also described above. The plaintiff does not provide an estimate of damages. The parties jointly filed a stay motion similar to the stay sought in the five other opt out cases. The court granted the stay motion. We intend to defend the lawsuit vigorously.

On February 16, 2018, First Manhattan Company filed a securities lawsuit against us and three individuals (former Chairman and CEO Joseph Papa, former CFO Judy Brown, and former Executive Vice President and Board member Marc Coucke). This lawsuit is not a securities class action. The case is styled *First Manhattan Co. v. Perrigo Company plc, et al.*, and was filed in the U.S. District Court for the District of New Jersey. The case was assigned to the same judge hearing the class action case and the five other opt out cases. The complaint asserts claims under Securities Exchange Act sections 10(b) (and Rule 10b-5), 14(e), and 18 against all defendants as well as 20(a) control person liability against the individual defendants. In general, the plaintiff's allegations focus on events during the period from April 2015 through May 2017. Plaintiff contends that the defendants provided inadequate disclosure at various times during the period concerning valuation and integration of Omega, the financial guidance provided by us during that period, alleged price fixing activities with respect to six generic prescription pharmaceuticals, and alleged improper accounting for the Tysabri® financial asset. This lawsuit was filed by the same law firm that filed the *Manning & Napier Advisors* case and the *Carmignac* case described above and generally makes the same factual assertions as in the *Manning & Napier Advisors* case. Many of the allegations in this case overlap with the allegations of the June 2017 amended complaint in the *Roofers' Pension Fund* case described above. The plaintiff does not provide an estimate of damages. We intend to defend the lawsuit vigorously. The parties jointly requested that the court stay this case pending the outcome of a ruling on the motions to dismiss filed in the *Roofers' Pension Fund* case (discussed above). The court granted the stay motion.

#### *In Israel*

Because our shares are traded on the Tel Aviv exchange under a dual trading arrangement, we are potentially subject to securities litigation in Israel. Three cases were filed; two were voluntarily dismissed and one was stayed. We are consulting Israeli counsel about our response to these allegations and we intend to defend these cases vigorously.

On May 22, 2016, shareholders filed a securities class action against us and five individual defendants: Our former CEO Mr. Papa, our former Executive Vice President and General Manager of the BCH segment Marc Coucke, our then Chief Executive Officer John Hendrickson, our former Board member Gary Kunkle, Jr., and our Board member Laurie Brias alleging violations of Israeli law in the District Court of Tel Aviv-Jaffa (*Schweiger et al. v. Perrigo Company plc, et al.*). On June 15, 2016, we filed a motion to stay the case pending the outcome of the securities class action pending in the New Jersey Federal Court. The plaintiffs did not oppose the motion. The



Israeli court granted the motion on the same day, and the *Schweiger* action was stayed. In October 2017, the Schweiger plaintiffs dismissed their claims without prejudice because of the pendency of another class action case filed in Israel (see discussion below of the *Israel Elec. Corp. Employees' Educ. Fund* case). The court approved the voluntary dismissal.

On March 29, 2017, plaintiff Eyal Keinan commenced an action in the District Court of Tel Aviv-Jaffa asserting securities claims against two defendants: Perrigo and its auditor Ernst & Young LLP ("EY"). The case is styled *Keinan v. Perrigo Company plc, et al.* The action sought certification of a class of purchasers of Perrigo shares on the Israeli exchange beginning February 6, 2014. The proposed closing date for the class was not clear from the complaint though it appeared to extend into 2017. In general, the plaintiff asserted that we improperly accounted for our stream of royalty income from two drugs: Tysabri<sup>®</sup> and Prialt. The court filings contended that the alleged improper accounting caused the audited financial results for Perrigo to be incorrect for the six month period ended December 31, 2015, and the years ended June 27, 2015 and June 28, 2014 and the other financial data released by us over those years and 2016 to also be inaccurate. The plaintiff maintained that the defendants are liable under Israeli securities law or, in the alternative, under U.S. securities law. The plaintiff indicated an initial, preliminary class damages estimate of 686.0 million NIS (approximately \$192.0 million at 1 NIS = \$0.28 cent). In January 2018, the Keinan plaintiff announced its intention to dismiss his claims because of the pendency of another class action case filed in Israel (see discussion below of the *Israel Elec. Corp. Employees' Educ. Fund* case). The court granted the dismissal on February 11, 2018.

On June 28, 2017, a plaintiff filed a complaint in Tel Aviv District Court styled *Israel Elec. Corp. Employees' Educ. Fund v. Perrigo Company plc, et al.* The lead plaintiff seeks to represent a class of shareholders who purchased Perrigo stock on the Tel Aviv exchange during the period April 24, 2015 through May 3, 2017 and also a claim for those that owned shares on the final day of the Mylan tender offer (November 13, 2015). The amended complaint names as defendants the Company, EY (the Company's auditor), and 11 current or former directors and officers of Perrigo (Meses. Judy Brown, Laurie Brlas, Jacquelyn Fouse, Ellen Hoffing, and Messrs. Joe Papa, Marc Coucke, Gary Cohen, Michael Jandernoa, Gerald Kunkle, Herman Morris, and Donal O'Connor). The complaint alleges violations under U.S. securities laws of Securities Exchange Act sections 10(b) (and Rule 10b-5) and 14(e) against all defendants and 20(a) control person liability against the 11 individuals or, in the alternative, under Israeli securities laws. In general, the allegations concern the actions taken by us and our former executives to defend against the unsolicited takeover bid by Mylan in the period from April 21, 2015 through November 13, 2015 and the allegedly inadequate disclosure concerning purported integration problems related to the Omega acquisition, alleges incorrect reporting of organic growth at the Company, alleges price fixing activities with respect to six generic prescription pharmaceuticals, and alleges improper accounting for the Tysabri<sup>®</sup> royalty stream. The plaintiff indicates an initial, preliminary class damages estimate of 2.7 billion NIS (approximately \$760.0 million at 1 NIS = \$0.28 cent). We intend to defend the lawsuit vigorously.

On July 12, 2017, the plaintiff in the *Israel Elec. Corp. Employees' Educ. Fund v. Perrigo Company plc, et al.* case filed a motion to have all three cases pending in Israel either consolidated or the other two cases dismissed so that the Israel Elec. Corp. Educ. Fund plaintiff can proceed as the sole plaintiff. In October 2017, the Schweiger plaintiffs (see description above) voluntarily dismissed their securities class action without prejudice as part of their response to the motion filed by the Israel Elec. Corp. Educ. Fund plaintiff. A variety of other procedural motions were also pending having to do with the timing of any response by defendants. The court held an initial conference on November 9, 2017 to address the motion filed by the Israel Elec. Corp. Educ. Fund plaintiff. Subsequently, the competing class plaintiffs held discussions and informed the court in January 2018 that they had reached an agreement among themselves such that the *Education Fund* case will continue while the Keinan plaintiff will dismiss its case. The court approved this outcome. At the request of the parties, the court has stayed the *Education Fund* case pending the final adjudication of the class action case in DNJ (the *Roofers' Pension Fund* case described above under Securities Litigation In the United States). The court approved the stay.

## ***Eltroxin***

During October and November 2011, nine applications to certify a class action lawsuit were filed in various courts in Israel related to Eltroxin, a prescription thyroid medication manufactured by a third party and distributed in Israel by our subsidiary, Perrigo Israel Agencies Ltd. The respondents included our subsidiaries, Perrigo Israel Pharmaceuticals Ltd. and/or Perrigo Israel Agencies Ltd., the manufacturers of the product, and various healthcare providers who provide healthcare services as part of the compulsory healthcare system in Israel.

One of the applications was dismissed and the remaining eight applications were consolidated into one application. The applications arose from the 2011 launch of a reformulated version of Eltroxin in Israel. The consolidated application generally alleges that the respondents (a) failed to timely inform patients, pharmacists and physicians about the change in the formulation; and (b) failed to inform physicians about the need to monitor patients taking the new formulation in order to confirm patients were receiving the appropriate dose of the drug. As a result, claimants allege they incurred the following damages: (a) purchases of product that otherwise would not have been made by patients had they been aware of the reformulation; (b) adverse events to some patients resulting from an imbalance of thyroid functions that could have been avoided; and (c) harm resulting from the patients' lack of informed consent prior to the use of the reformulation.

Several hearings on whether or not to certify the consolidated application took place in December 2013 and January 2014. On May 17, 2015, the District Court certified the motion against Perrigo Israel Agencies Ltd. and dismissed it against the remaining respondents, including Perrigo Israel Pharmaceuticals Ltd.

On June 16, 2015, we submitted a motion for permission to appeal the decision to certify to the Israeli Supreme Court together with a motion to stay the proceedings of the class action until the motion for permission to appeal is adjudicated. We have filed our statement of defense to the underlying proceedings. The parties are currently engaged in mediation in an attempt to settle the matter. The underlying proceedings have been stayed pending the outcome of the mediation process and, if necessary, a decision on the motion to appeal.

On November 14, 2017 the Parties submitted the agreed settlement agreement to the approval of the Supreme Court, which referred the approval back to the District Court. During three hearings that took place on November 29, 2017, December 13, 2017 and January 11, 2018 the District Court opined that it would approve the settlement agreement subject to certain amendments to be proposed by the Court (which would not impact the monetary settlement reached) and set a hearing for January 30, 2018 to discuss and finalize the proposed changes. Meanwhile, the Court ordered the settlement to be (1) provided to the Attorney General for review (standard procedure); and (2) published in the written media (newspapers), to enable the class members to submit any objections or "opt-out" to the proposed settlement by February 15, 2018.

On February 21, 2018, the District Court held a hearing to, among others, review objections received from class members who had notified the District Court of their desire to opt out of the settlement. In addition, a representative of the Israeli Attorney General's office notified the District Court that, based upon their preliminary examination of the settlement, they intend to object to the settlement in its current form. The District Court recommended that the parties continue to discuss and minimize objections to the settlement and scheduled another hearing for May 13, 2018.

## ***Tysabri<sup>®</sup> Product Liability Lawsuits***

We and our collaborator Biogen are co-defendants in product liability lawsuits arising out of the occurrence of Progressive Multifocal Leukoencephalopathy, a serious brain infection, and serious adverse events, including deaths, which occurred in patients taking Tysabri<sup>®</sup>. Each co-defendant would be responsible for 50% of losses and expenses arising out of any Tysabri<sup>®</sup> product liability claims. During calendar year 2016, one case in the U.S. was settled and two others were dismissed with prejudice. In 2017, seven other cases were dismissed with prejudice. While we intend to vigorously defend the remaining lawsuits, management cannot predict how these cases will be resolved. Adverse results in one or more of these lawsuits could result in substantial judgments against us.



### ***Claim Arising from the Omega Acquisition***

On December 16, 2016, we and Perrigo Ireland 2 brought an arbitral claim ("Claim") against Alychlo NV ("Alychlo") and Holdco I BE NV ("Holdco") (together the Sellers) in accordance with clause 26.2 of the Share Purchase Agreement dated November 6, 2014 ("SPA") and the rules of the Belgian Centre for Arbitration and Mediation ("CEPANI"). Our Claim relates to the accuracy and completeness of information about Omega provided by the Sellers as part of the sale process, the withholding of information by the Sellers during that process and breaches of Sellers' warranties. We are seeking monetary damages from the Sellers. The Sellers served their respective responses to the Claim on February 20, 2017. In its response, Alychlo has asserted a counterclaim for monetary damages contending that we breached the duty of good faith in performing the SPA. There can be no assurance that our Claim will be successful, and Sellers deny liability for the Claim. We deny that Alychlo is entitled to any relief (including monetary relief) under the counterclaim. The arbitration proceedings are confidential as required by the SPA and the rules of the CEPANI.

### ***Contingent consideration***

Please refer to Note 11 for discussion on contingent consideration.

### ***Restructuring***

We periodically take action to reduce redundant expenses and improve operating efficiencies, typically in connection with business acquisitions.

Restructuring activity includes severance, lease exit costs, and asset impairments. The charges incurred during the year ended December 31, 2016 were primarily associated with actions we took to streamline our organization as announced on October 22, 2015. The charges incurred during the year ended December 31, 2017 were primarily associated with actions we took to streamline our organization as announced on February 21, 2017. During the year ended December 31, 2017, \$61.0 million of restructuring expenses were recorded, \$27.4 million of which was recorded in our CHCA segment and \$17.1 million in our CHCI segment. There were no other material restructuring programs that impacted any other one reportable segment for the year ended December 31, 2017. During the year ended December 31, 2016, \$31.0 million of restructuring expenses were recorded, \$20.9 million of which was recorded in our CHCI segment. All charges are recorded in Restructuring expense. The remaining \$17.6 million liability for employee severance benefits will be paid within the next year, while the remaining \$3.8 million liability for lease exit costs will be incurred over the remaining terms of the applicable leases.

## **21. COLLABORATION AGREEMENTS**

We actively collaborate with other pharmaceutical companies to develop, manufacture and market certain products or groups of products. These types of agreements are common in the pharmaceutical industry. We may choose to enter into these types of agreements to, among other things, leverage our or others' scientific research and development expertise or utilize our extensive marketing and distribution resources. Terms of the various collaboration agreements may require us to make or receive milestone payments upon the achievement of certain product research and development objectives and pay or receive royalties on the future sale, if any, of commercial products resulting from the collaboration. Milestone and up-front payments made are generally recorded in research and development expense if the payments relate to drug candidates that have not yet received regulatory approval. Milestone and up-front payments made related to approved drugs will generally be capitalized and amortized to cost of goods sold over the economic life of the product. Royalties received are generally reflected as revenues, and royalties paid are generally reflected as cost of goods sold. We enter into a number of collaboration agreements in the ordinary course of business. Although we do not consider these arrangements to be material, the following is a brief description of notable agreements entered into during the years ended December 31, 2017 and December 31, 2016.

### ***Year Ended December 31, 2017***

In December 2017, we entered into a collaboration agreement with a generic pharmaceutical development company, pursuant to which the parties will collaborate in the ongoing development and commercialization of a generic injectable product. We will provide assistance including preparing and filing the product ANDA, and be responsible for commercializing the product. As part of the agreement, we paid a \$2.5 million milestone payment on

the effective date of the agreement. The \$2.5 million fee is reported in Research and development on the consolidated financial statements. We will make additional payments if regulatory approval is obtained and certain other development milestones are achieved. These contingent milestone payments could total \$14.5 million in aggregate. There can be no assurance that any such products will be approved by the FDA on the anticipated schedule or at all.

*Year Ended December 31, 2016*

During the year ended December 31, 2016, we added three additional products to the May 15, 2015 development agreement discussed below that are subject to similar buy-back terms if the products are approved by the FDA. We did not receive any consideration from the clinical stage development company, nor do we expect to incur any expense related to the development of the additional products. The estimated purchase price for these additional products, based on the initial development budget, is approximately \$126.0 million. If development costs exceed the initial budgeted amounts, the purchase price will increase, but will not exceed approximately \$174.0 million. If the products are approved by the FDA and we purchase the products, we estimate that one of the acquisitions will occur in 2019 and two of the acquisitions will occur in 2021. There can be no assurance that any such products will be approved by the FDA on the anticipated schedule or at all.

**22. SEGMENT AND GEOGRAPHIC INFORMATION**

Our segment reporting structure is consistent with the way our chief operating decision maker makes operating decisions, allocates resources and manages the growth and profitability of the business. Operating segments with similar economic characteristics, including long-term profitability, nature of the products sold and production processes, distribution methods, and classes of customers, are aggregated as reportable segments (refer to Note 1).

We generated third-party revenue in the following geographic locations<sup>(1)</sup> during each of the periods presented below (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
Ireland	\$ 30.4	\$ 89.1
U.S.	3,272.3	3,353.0
Europe	1,313.2	1,493.0
All other countries <sup>(2)</sup>	330.3	345.5
	<u>\$ 4,946.2</u>	<u>\$ 5,280.6</u>

<sup>(1)</sup> The net sales by geography is derived from the location of the entity that sells to a third party.

<sup>(2)</sup> Includes revenue generated primarily in Israel, Mexico, Australia, and Canada.

The net book value of Property, plant and equipment, net by location was as follows (in millions):

	December 31, 2017	December 31, 2016
	Ireland	\$ 4.6
U.S.	538.3	556.6
Europe	155.6	144.6
Israel	81.5	114.3
All other countries	53.1	51.9
	<u>\$ 833.1</u>	<u>\$ 870.1</u>

Sales to Walmart as a percentage of Consolidated Net sales (reported primarily in our CHCA segment) were as follows:

Year Ended	
December 31, 2017	December 31, 2016
13.0%	13.0%

Below is a summary of our results by reporting segment (in millions):

	CHCA	CHCI	RX	Specialty Sciences	Other	Unallocated	Total
<u>Year Ended December 31, 2017</u>							
Net sales	\$ 2,429.9	\$ 1,491.0	\$ 969.7	\$ —	\$ 55.6	\$ —	\$ 4,946.2
Operating income (loss)	\$ 445.0	\$ 12.5	\$ 307.6	\$ —	\$ 8.7	\$ (175.6)	\$ 598.2
Operating income (loss) %	18.3%	0.8 %	31.7%	—%	15.6%	—%	12.1 %
Total assets	\$ 3,786.8	\$ 5,029.0	\$ 2,813.0	\$ —	\$ —	\$ —	\$11,628.8
Capital expenditures	\$ 39.5	\$ 27.5	\$ 21.6	\$ —	\$ —	\$ —	\$ 88.6
Property, plant and equipment, net	\$ 512.7	\$ 180.9	\$ 139.5	\$ —	\$ —	\$ —	\$ 833.1
Depreciation/amortization	\$ 115.2	\$ 223.7	\$ 100.1	\$ —	\$ 5.8	\$ —	\$ 444.8
Change in financial assets	\$ —	\$ —	\$ —	\$ 24.9	\$ —	\$ —	\$ 24.9
<u>Year Ended December 31, 2016</u>							
Net sales	\$ 2,507.1	\$ 1,652.2	\$ 1,042.8	\$ —	\$ 78.5	\$ —	\$ 5,280.6
Operating income (loss)	\$ 399.8	\$ (2,087.4)	\$ (0.2)	\$ (201.2)	\$ 6.1	\$ (116.8)	\$ (1,999.7)
Operating income (loss) %	15.9%	(126.3)%	—%	—%	7.8%	—%	(37.9)%
Total assets	\$ 3,351.3	\$ 4,795.2	\$ 2,646.4	\$ 2,775.8	\$ 301.4	\$ —	\$13,870.1
Capital expenditures	\$ 59.1	\$ 23.7	\$ 20.4	\$ —	\$ 3.0	\$ —	\$ 106.2
Property, plant and equip, net	\$ 528.3	\$ 167.2	\$ 129.7	\$ 0.4	\$ 44.5	\$ —	\$ 870.1
Depreciation/amortization	\$ 119.1	\$ 210.0	\$ 120.1	\$ —	\$ 7.8	\$ —	\$ 457.0
Change in financial assets	\$ —	\$ —	\$ —	\$ 2,608.2	\$ —	\$ —	\$ 2,608.2

The following is a summary of our revenue by category (in millions):

	Year Ended	
	December 31, 2017	December 31, 2016
CHCA		
Cough/Cold/Allergy/Sinus <sup>(1)</sup>	\$ 483.7	\$ 454.6
Analgesics <sup>(1)</sup>	349.8	343.5
Gastrointestinal <sup>(1)</sup>	340.0	335.4
Infant nutritionals	413.9	427.0
Smoking cessation	297.2	308.5
Vitamins, minerals and dietary supplements <sup>(1)</sup>	45.4	160.4
Animal health	141.3	143.7
Other CHCA <sup>(1),(2)</sup>	358.6	334.0
Total CHCA	<u>2,429.9</u>	<u>2,507.1</u>
CHCI		
Branded OTC	1,174.0	1,349.2
Other CHCI <sup>(3)</sup>	317.0	303.0
Total CHCI	<u>1,491.0</u>	<u>1,652.2</u>
Generic prescription drugs	969.7	1,042.8
Active pharmaceutical ingredients	55.6	78.5
Total revenue	<u>\$ 4,946.2</u>	<u>\$ 5,280.6</u>

<sup>(1)</sup> Includes net sales from our OTC contract manufacturing business.

<sup>(2)</sup> Consists primarily of feminine hygiene, diabetes care, dermatological care, branded OTC, diagnostic products and other miscellaneous or otherwise uncategorized product lines and markets, none of which is greater than 10% of the CHCA segment.

<sup>(3)</sup> Consists primarily of liquids licensed products, cough/cold/allergy, analgesics, diagnostic products and other miscellaneous or otherwise uncategorized product lines and markets, none of which is greater than 10% of the CHCI segment.

## 23. EMPLOYEES

The average number of persons employed by us were located as follows:

Country	December 31, 2017	December 31, 2016
U.S.	5,475	6,101
Israel	1,061	1,191
Mexico	1,310	1,433
Europe	2,772	3,663
Rest of the world	295	438
Total	<u>10,913</u>	<u>12,826</u>

The main components of employee costs were as follows (in millions):

	December 31, 2017	December 31, 2016
Salaries and wages	\$ 695.7	\$ 701.2
Social security costs	81.4	81.2
Pension and other postretirement benefits	33.1	35.0
Other benefits <sup>(1)</sup>	112.7	106.5
Total employee costs	<u>\$ 922.9</u>	<u>\$ 923.9</u>

<sup>(1)</sup> Other benefits is primarily comprised of share based compensation costs, health insurance and other allowances.

There was \$0.4 million of employee expenses capitalized during the twelve months ended December 31, 2017 (December 31, 2016: \$1.9 million).

## 24. DIRECTORS' REMUNERATION

Directors' remuneration is set forth in the table below (in millions):

	December 31, 2017	December 31, 2016
Aggregate emoluments in respect of qualifying services	\$ 2.1	\$ 2.7
Aggregate amounts of the money or value of other assets under long term incentive plans	9.6	16.0
Payments for loss of office	—	1.4
	<u>\$ 11.7</u>	<u>\$ 20.1</u>

In addition, the aggregate amount of the gains by directors on the exercise of options during the twelve months ended December 31, 2017 was \$0.9 million (December 31, 2016: \$1.5 million).

## 25. AUDITOR'S REMUNERATION

Fees paid to Ernst & Young for services provided follow (in millions):

	December 31, 2017	December 31, 2016
Audit fees	\$ 14.4	\$ 14.8
Other assurance services	0.5	—
Tax fees		
Tax compliance services	0.2	1.5
Tax consulting and advisory services	1.8	2.7
<b>Total</b>	<u>\$ 16.9</u>	<u>\$ 19.0</u>

The fees paid to Ernst & Young Ireland in respect of the audit of the group accounts were \$0.5 million and \$0.7 million for the twelve months ended December 31, 2017 and December 31, 2016. In addition, Ernst & Young Ireland received \$0.5 million and \$0.4 million for other audit related services for the twelve months ended December 31, 2017 and December 31, 2016. Ernst & Young Ireland received fees of \$0.1 million and \$0.1 million for tax compliance and advisory services for the twelve months ended December 31, 2017 and December 31, 2016. Ernst & Young Ireland received fees of Nil and for other non-audit services for the twelve months ended December 31, 2017 and December 31, 2016.

## 26. SUBSEQUENT EVENTS

Effective March 8, 2018, Perrigo and Perrigo Finance terminated their \$1.0 billion senior unsecured Revolving Credit Agreement and their €350 million senior unsecured Term Loan Credit Agreement (the "Existing Credit Agreements") and replaced the Existing Credit Agreements by entering into:

(i) a new \$1.0 billion senior unsecured Revolving Credit Agreement (the "New Revolving Credit Agreement"), maturing on March 8, 2023, among Perrigo, Perrigo Finance, as borrower, and the financial institutions listed on the signature pages thereof as lenders; and

(ii) a new €350 million senior unsecured Term Loan Credit Agreement (the "New Term Loan Credit Agreement" and, together with the New Revolving Credit Agreement, the "New Credit Agreements"), maturing on March 8, 2020, among the Company, Perrigo Finance, as borrower, and the financial institutions listed on the signature pages thereof as lenders.

The proceeds from the borrowings under the New Term Loan Credit Agreement will be used to refinance existing indebtedness under the Existing Term Loan Credit Agreement. The New Revolving Credit Agreement will be available to, among other things, fund working capital and for other general corporate purposes.

Each of the New Credit Agreements contain negative covenants, events of default and other terms and conditions that are customary for facilities of this nature.

The foregoing description of the New Credit Agreements does not propose to be complete and is qualified in its entirety by reference to the full text of the New Revolving Credit Agreement and the New Term Loan Credit Agreement.

## 27. SUBSIDIARIES AND AFFILIATED UNDERTAKINGS

The principal subsidiaries of us or our affiliated companies where we have an ownership of 20% or more are listed below:

<b>Consolidated subsidiaries and equity accounted affiliate</b>	<b>Nature of Business</b>	<b>Registered Address</b>	<b>Percent ownership</b>
Abtei Omega Pharma GmbH	General Corporate Administration	Abtei 1, 37696 Marienmunster, Germany	100%
Acacia Biopharma Limited	General Corporate Administration	Wrafton, Braunton, Devon, EX33 2DL	100%
Aco Hud Nordic AB	Operations	PO Box 622, 194 26 Upplands Vasby, Sweden	100%
Perrigo Norge AS	Operations	Pb. 95, Okern, 0509 Oslo, Norway	100%
Perrigo Suomi OY	Operations	Gardsbrinken 1 A, 02240 Esbo, Finland	100%
Adriatic BST Trgovina in Storitve D.o.o.	Operations	Verovskova ulica 55, 1000 Ljubljana, Slovenia	100%
Adriatic Distribution doo Beograd	Operations	Ljubostinjska 2/C 5, 11000 Belgrade, Serbia	100%
American Business Sergeant's Pet Care Products Trade (Shanghai) Co., Ltd.	Operations	No. 289 Wujin Road Room 602 Shanghai, China 200080	100%
Arginet Investments and Property (2003) Ltd.	Inactive	Lehi 29 Street, Bnei-Brak 51200 Israel	100%
Athena Neurosciences, LLC	General Corporate Administration	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Aurora Pharmaceuticals Pty Ltd	Operations	Units 48-51 - Level 2, 7 Narabang Way, Belrose NSW 2085, Australia	100%
Belgian Cycling Company NV	Inactive	Venecoweg 26, 9810 Nazareth, Belgium	100%
Bional Nederland B.V.	Inactive	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%
Biover NV	Operations	Venecoweg 26, 9810 Nazareth, Belgium	100%
Bioxydiet France SAS	Operations	Avenue de Lossburg 470, ZI Nord, 69480 Anse, France	100%
Chefaro Ireland Designated Activity Company	Operations	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Chefaro Pharma Italia SrL	Operations	Viale Castello della, Magliana 18, 00148 Rome, Italy	100%
Cinetic Laboratories Argentina SA	Operations	Av. Triunverato 2734, City of Buenos Aires, Argentina	100%
Cobrek Pharmaceuticals, Inc.	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%



Cosmediet - Biotechnie SAS	Operations	Avenue de Lossburg 470, ZI Nord, 69480 Anse, France	100%
Damianus B.V.	Inactive	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%
Despharma Kft.	General Corporate Administration	Madarasz u. 47-49, 1138 Budapest, Hungary	100%
Elan Europa Finance S.a.r.l.	General Corporate Administration	412F route d'Esch, L-2086, Luxembourg	100%
Perrigo International Insurance Limited	General Corporate Administration	H.P. House, 21 Laffan Street, Hamilton HM 09 Bermuda	100%
Elan International Services Limited	General Corporate Administration	H.P. House, 21 Laffan Street, Hamilton HM 09 Bermuda	100%
Elan Pharmaceuticals, LLC	General Corporate Administration	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
FidoPharm, Inc.	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
FidoPharmBrands, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Galpharm Healthcare Ltd.	General Corporate Administration	Wrafton, Braunton, Devon, EX33 2DL	100%
Galpharm International Ltd.	Operations	Wrafton, Braunton, Devon, EX33 2DL	100%
Gelcaps Exportadora de Mexico, S.A. de C.V.	Operations	CTO Centro Civico 27 Ciudad Satelite ENT Puericultores Y FCO T De La Chica Naucalpan Mexico C.P. 53100	100%
Geiss, Destin & Dunn, Inc	Operations	40 Technology Pkwy South, #300, Norcross, GA 3009	100%
Habsont Unlimited Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Herbs Trading GmbH	Operations	Ossiacher Strasse 7, 9560 Feldkirchen, Austria	100%
Hud SA	General Corporate Administration	19, Zare Ouest, 4384 Ehlerange, Luxembourg	100%
Insect Repellents B.V.	Operations	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%
Interdelta S.A.	Operations	Route Andre Piller 21, 1762 Givisiez, Switzerland	82%
Jaico R.D.P. NV	Operations	Nijverheidslaan 1545, 3660 Opglabbeek, Belgium	100%
JLR Pharma S.A.	General Corporate Administration	Route Andre Piller 21, 1762 Givisiez, Switzerland	100%
Kiteacre Ltd.	Inactive	Wrafton, Braunton, Devon, EX33 2DL	100%
L. Perrigo Company	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Laboratoires de la Mer SAS	Operations	ZAC de la Madeleine, Avenue du General Patton, CS 61848,35400 Saint-Malo, France	100%
Laboratoires Omega Pharms France SAS	Operations	20, rue Andre Gide BP80, 92320 Chatillon Cedex, France	100%
Laboratorios DIBA S.A.	Operations	Calle Escorza No. 728, Col. Moderna, Guadalajara, Jalisco, México, C.P. 44190	100%
Loradochem, Inc.	Inactive	1560 Broadway, Suite 2090, Denver, Colorado 80202	100%
Medgenix Benelux NV	Operations	Vliegveild 21, 8560 Wevelgem, Belgium	100%
Meridian Animal Health, LLC	Operations	2215-B Renaissance Dr., Las Vegas, Nevada 89119	100%
Monksland Holdings B.V.	General Corporate Administration	Prins Bernhardplein 200, 1097 JB Amsterdam	100%

Naturwohl Pharma GmbH	Operations	Am Haag 14, 82166 Graefelfing, Germany	100%
Newbridge Pharmaceuticals Ltd.	Equity method investment	PO Box 146 Road Town, Tortola, British Virgin Islands	48%
Oce Bio BVBA	Operations	Nijverheidstaat 96, 2160 Wommelgem, Belgium	100%
Oce-Bio Nederland B.V	Operations	De Gagelrijzen 146, 4711 PS Sint-willebrord, The Netherlands	100%
Omega Aco AS	Operations	Slotsmarken 18, 2980 Horsholm, Denmark	100%
Omega Alpharm Cyprus Ltd.	Operations	Agiou Mamandos 52, Office 103, 2330 Lakatamia, Cyprus	100%
Omega Pharma AS	Operations	Drazni 253/7, 627 00 Brno, Czech Republic	100%
Omega Pharma Australia Pty Ltd	General Corporate Administration	Units 48-51 - Level 2, 7 Narabang Way, Belrose NSW 2085, Australia	100%
Omega Pharma Austria Healthcare GmbH	Operations	Rennweg 17, 1030 Wien, Austria	100%
Omega Pharma Baltics SIA	Operations	K. Ulmana gatve 110, Marupes pag., 2167 Rigas raj., Latvia	100%
Omega Pharma Belgium NV	Operations	Venecoweg 26, 9810 Nazareth, Belgium	100%
Omega Pharma Capital NV	Financing	Venecoweg 26, 9810 Nazareth, Belgium	100%
Omega Pharma Deutschland GmbH	Operations	Benzstrasse 25, 71083 Herrenberg, Germany	100%
Omega Pharma Espana SA	Operations	Parque de Oficinas San Cugat, Plaza Javier Cugat 2 - Edificio D, Planta Primera, 08174 San Cugat del Valles, Spain	100%
Omega Pharma GmbH	General Corporate Administration	Reisnerstrasse 55-57, 1030 Vienna, Austria	100%
Omega Pharma Hellas SA Health and Beauty Products	Operations	19 km of Athens-Lamia Nat. Road, 14671 - Nea Erythraia, ASTIR building 1st Floor, Greece	100%
Omega Pharma Holding (Nederland) B.V.	General Corporate Administration	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%
Omega Pharma Hungary Kft.	Operations	Madarasz u. 47-49, 1138 Budapest, Hungary	100%
Omega Pharma Innovation & Development NV	General Corporate Administration	Venecoweg 26, 9810 Nazareth, Belgium	100%
Omega Pharma International NV	General Corporate Administration	Venecoweg 26, 9810 Nazareth, Belgium	100%
Omega Pharma Invest NV	General Corporate Administration	Venecoweg 26, 9810 Nazareth, Belgium	100%
Omega Pharma Ireland Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Omega Pharma Kisisel Bakim Urunleri Sanayi VE Ticaret Limited Sirketi	Operations	Merdivenkoy Mah. Bora Sok. No:1 A, Ofis Blok Kat:5 Goztepe, Kadikoy/Istanbul, Turkey	100%
Omega Pharma Limited	Operations	First Floor, 32 Vauxhall Bridge Road, SW1V2SA London, United Kingdom	100%
Omega Pharma Manufacturing GmbH & Co. KG	Operations	Benzstrasse 25, 71083 Herrenberg, Germany	100%
Omega Pharma Manufacturing Verwaltungs GmbH	Inactive	Benzstrasse 25, 71083 Herrenberg, Germany	100%
Omega Pharma Nederland B.V.	Operations	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%

Perrigo Sverige AB	Operations	PO Box 7009, 164 07 Kista, Sweden	100%
Omega Pharma NV	General Corporate Administration	Venecoweg 26, 9810 Nazareth, Belgium	100%
Omega Pharma Poland Sp.z.o.o.	Operations	BTD Office Center, 4th Floor, Al. Niepodleglosci 18, 02-653 Warszawa, Poland	100%
Omega Pharma Portuguesa LDA	Operations	Ave. Tomas Ribeiro 43, Edificio Neopark - Bloco 1 - 3o C, 2795-574 Carnaxide, Portugal	100%
Omega Pharma s.r.o.	Operations	Tomasikova 30, Bratislava 821 01, Slovakia	100%
Omega Pharma SAS	General Corporate Administration	20, rue Andre Gide BP80, 92320 Chatillon Cedex, France	100%
Omega Teknika Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Omega Pharma Trading NV	Operations	Venecoweg 26, 9810 Nazareth, Belgium	100%
Omega Pharma Ukraine LLC	Operations	9, Boryspilska St, 02099 Kiev, Ukraine	100%
OmegaLabs (Pty) Ltd	Operations	Block B. Wedgewook Office Park, 3 Muswell Road, Bryanston, Gauteng, South Africa	51%
Orion Laboratories (NZ) Ltd.	Operations	Level 20, 88 Shortland Street, Auckland 1010, New Zealand	100%
Orion Laboratories PTY Limited	Operations	25 Delawney Street, Balcatta, WA 6021	100%
P2C, Inc.	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Paddock Laboratories LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Paracelsia Pharma GmbH	Operations	Lighthouse, Derendorfer Allee 6, 40476 Dusseldorf, Germany	100%
PBM Canada Holdings, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
PBM China Holdings, LLC	General Corporate Administration	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
PBM Foods, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
PBM Holdings, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
PBM International Holdings, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
PBM Mexico Holdings, LLC	General Corporate Administration	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
PBM Nutritionals, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
PBM Products Mexico S de R.L. de C.V.	Inactive	Av. Homero No.205, piso9-901 y 902. Chapultepec Morales. Delegación Miguel Hidalgo. México, D.F. c.p.11570	100%
PBM Products, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Perrigo API India Private Limited	Operations	Plot No. N 39/ N39-1, Additional MIDC, Anand Nagar, Ambernath (E), Pin-421 506, District Thane, Maharashtra, India	100%
Perrigo Asia Holding Company Ltd.	General Corporate Administration	33, Edith Cavell Street, Port-Louis, Maruitius	100%
Perrigo Australian Holding Company II PTY Limited	General Corporate Administration	Minter Ellison, 'Governor Macquarie Tower', Level 40, 1 Farrer Place, Sydney NSW 2000 Australia	100%
Perrigo Bulgaria OOD	Operations	17 San Stefano Street, 3rd Floor, Oborishte Region, 1517 Sofia, Bulgaria	100%

## Perrigo Company plc

Perrigo Belgium Holding 1 NV	Operations	Venecoweg 26, 9810 Nazareth, Belgium	100%
Perrigo China Business Trust	Operations	515 Eastern Avenue, Allegan, Michigan 49010	100%
Perrigo China Business Trustee, LLC	General Corporate Administration	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Perrigo Company	General Corporate Administration	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Company Charitable Foundation	General Corporate Administration	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Company of South Carolina, Inc.	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Company of Tennessee	Operations	2908 Poston Avenue, Nashville, Tennessee 37203	100%
Perrigo Corporation Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Finance Unlimited Company	Financing	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Foundation	Inactive	Treasury Building, Lower Grand Canal St, Dublin 2, Ireland	100%
Perrigo de Mexico S.A. de C.V.	Operations	Av. Industria Automotriz No. 3089, Parque Industrial, Ramos Arizpe, Coahuila, México C.P. 25900	100%
Perrigo Denmark K/S	Operations	Slotsmarken 18, 2970 Horsholm, Denmark	100%
Perrigo Diabetes Care, LLC	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Perrigo Do Brasil Sevcicos E Participacoes LTDA	Operations	Av. Nove de Julho, 3.452, conj. 83, São Paulo, SP, Brazil, CEP 01406-000	100%
Perrigo Florida, Inc.	Operations	1201 Hays Street, Tallahassee, Florida 32301	100%
Perrigo Holdings Unlimited Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo International Finance Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo International Holdings II, Inc.	General Corporate Administration	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Perrigo International Holdings, LLC	General Corporate Administration	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo International, Inc.	General Corporate Administration	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Ireland 1 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 2 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 3 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 4 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 5 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 6 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%

Perrigo Ireland 7 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 8 Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 9 Unlimited Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland 10 Unlimited Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Ireland Holding Company B.V.	General Corporate Administration	Prins Bernhardplein 200, 1097 JB Amsterdam	100%
Perrigo Ireland Management Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Israel Agencies Ltd	Operations	Lehi 29 Street, Bnei-Brak 51200 Israel	100%
Perrigo Israel Enterprises & Investments Ltd.	Operations	Lehi 29 Street, Bnei-Brak 51200 Israel	100%
Perrigo Israel Holdings II B.V.	General Corporate Administration	Prins Bernhardplein 200, 1097 JB Amsterdam	100%
Perrigo Israel Holdings Ltd	General Corporate Administration	Lehi 29 Street, Bnei-Brak 51200 Israel	100%
Perrigo Israel Opportunities II Ltd.	General Corporate Administration	Lehi 29 Street, Bnei-Brak 51200 Israel	100%
Perrigo Israel Pharmaceuticals Ltd.	Operations	Lehi 29 Street, Bnei-Brak 51200 Israel	100%
Perrigo Israel Trading Limited Partnership	General Corporate Administration	Raul Wallenberg 24, Tel Aviv 69719 Israel	100%
Perrigo Laboratories India Private Limited	Operations	Plot No. N 39/ N39-1, Additional MIDC, Anand Nagar, Ambernath (E), Pin-421 506, District Thane, Maharashtra, India	100%
Perrigo LLC	Operations	Kral Ingseiveg 201, 3062 CE Rotterdam	100%
Perrigo Management Company	General Corporate Administration	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Mexico Holding S.A. de C.V.	General Corporate Administration	Autopista Saltillo-Monterrey, km. 11.5. Col. Capellanía. C.P. 25900 Ramos Arizpe, Coahuila, México	100%
Perrigo Mexico Investment Holdings, LLC	General Corporate Administration	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Perrigo Netherlands B.V.	General Corporate Administration	Prins Bernhardplein 200, 1097 JB Amsterdam	100%
Perrigo Netherlands Finco 1 Cooperatief U.A.	General Corporate Administration	Prins Bernhardplein 200, 1097 JB Amsterdam	100%
Perrigo Netherlands Finco 2 B.V.	General Corporate Administration	Prins Bernhardplein 200, 1097 JB Amsterdam	100%
Perrigo Netherlands International Partnership C.V.	General Corporate Administration	515 Eastern Avenue, Allegan, Michigan 49010	100%
Perrigo New York, Inc.	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Perrigo Pharma International Designated Activity Company	Operations	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Pharmaceuticals Company	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Pharma Limited	Operations	Wrafton, Braunton, Devon, EX33 2DL	100%



## Perrigo Company plc

Perrigo Research & Development Company	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Sales Corporation	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Science Eight Unlimited Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Science One Designated Activity Company	General Corporate Administration	Treasury Building, Lower Grand Canal St., Dublin 2, Ireland	100%
Perrigo Sourcing Solutions, Inc.	Inactive	601 Abbot Road, East Lansing, Michigan 48823	100%
Perrigo Trading (Shanghai) Co., Ltd.	Operations	Room 403, No. 4 Building, No. 56 Meisheng Road, Waigaoqiao Free Trade Zone, Shanghai, China	100%
Perrigo UK Acquisition Limited	General Corporate Administration	Wrafton, Braunton, Devon, EX33 2DL	100%
Perrigo UK FINCO Limited Partnership	General Corporate Administration	Wrafton, Braunton, Devon, EX33 2DL	100%
Perrigo Ventures Limited Partnership	General Corporate Administration	Wrafton, Braunton, Devon, EX33 2DL	100%
Pet Logic, LLC	Inactive	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Pharma Clal (1983) Ltd.	Inactive	Lehi 29 Street, Bnei-Brak 51200 Israel	100%
PMI Branded Pharmaceuticals, Inc.	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Promedent SA	Operations	19, Zare Ouest, 4384 Ehlerange, Luxembourg	100%
Quimica Y Farmacia S.A. de C.V.	Operations	Autopista Saltillo-Monterrey, km. 11.5. Col. Capellanía. C.P. 25900 Ramos Arizpe, Coahuila, México	100%
Richard Bittner AG	Operations	Ossiacher Strasse 7, 9560 Feldkirchen, Austria	100%
Rosemont Group Limited	General Corporate Administration	Wrafton, Braunton, Devon, EX33 2DL	100%
Rosemont Holdings Limited	General Corporate Administration	Wrafton, Braunton, Devon, EX33 2DL	100%
Rosemont Pensions Limited	Inactive	Wrafton, Braunton, Devon, EX33 2DL	100%
Rosemont Pharmaceuticals Limited	Operations	Wrafton, Braunton, Devon, EX33 2DL	100%
Rosemont Trustee Company Limited	Inactive	Wrafton, Braunton, Devon, EX33 2DL	100%
Rubicon Healthcare holdings Pty Ltd	Inactive	Units 48-51 - Level 2, 7 Narabang Way, Belrose NSW 2085, Australia	100%
Samenwerkende Apothekers Nederland B.V.	Inactive	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%
SC Hipocrate 2000 SRL	Operations	6A Prahova Street, 1st District, 012423 Bucharest, Romania	100%
Sergeant's Pet Care Products Mexico, S, DE R.L DE C.V.	Inactive	Bosque de Duraznos 69, Bosques de las Lomas, Miguel Hidalgo, C.P. 11700, D.F., México	100%
Sergeant's Pet Care Products, Inc.	Operations	601 Abbot Road, East Lansing, Michigan 48823	100%
Servicios PBM S. de R.L. de C.V.	Inactive	Mariano Escobedo No.510 Penthouse, Anzures. Delegación Miguel Hidalgo. México, D.F., C.P.11590	100%
SPC Trademarks, LLC	Inactive	211 E. 7th Street, Suite 620, Austin, Texas 78701	100%
The Learning Pharmacy Limited	Operations	First Floor, 32 Vauxhall Bridge Road, SW1V2SA London, United Kingdom	100%



## Perrigo Company plc

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Velcera, Inc.	Operations	2711 Centerville Rd, Suite 400, Wilmington, Delaware 19808	100%
Vianatura NV	Operations	Venecowag 26, 9810 Nazareth, Belgium	100%
Wartner Europe B.V.	General Corporate Administration	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%
Wrafton Laboratories Limited	Operations	Wrafton, Braunton, Devon, EX33 2DL	100%
Ymea B.V.	General Corporate Administration	Kralingseweg 201, 3062 CE Rotterdam, The Netherlands	100%
Zibo Xinhua - Perrigo Pharmaceutical Company Ltd.	Operations	Chemical Area, Zibo Hi-tech Industrial Development Zone, Shandong, China	50%

**COMPANY BALANCE SHEET**  
**As at December 31, 2017**

(in millions of U.S. dollars)		<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>Note</b>	<b>USD</b>	<b>USD</b>
<b>Fixed Assets</b>			
Financial assets - Investments in group undertakings	3	17,840.5	19,185.4
Tangible assets		0.4	0.3
		<u>17,840.9</u>	<u>19,185.7</u>
<b>Current Assets</b>			
Cash at bank and in hand		254.1	140.3
Prepaid insurance and other assets		0.3	0.4
Debtors (amounts falling due within one year)	4	7,209.8	7,202.2
		<u>7,464.2</u>	<u>7,342.9</u>
<b>Creditors (amounts falling due within one year)</b>	5	<u>(6,673.4)</u>	<u>(3,776.4)</u>
<b>Net Current Assets</b>		790.8	3,566.5
<b>Creditors (amounts falling due in greater than one year)</b>			
Amounts due to group undertakings	6	(235.0)	(500.0)
Senior notes and term loans	7	(303.1)	(1,783.1)
<b>Net Assets</b>		<u>18,093.6</u>	<u>20,469.1</u>
<b>Capital and Reserves</b>			
Called up share capital	8	0.2	0.2
Share premium		5,418.1	5,417.4
Other reserves		95.5	83.1
Profit and loss account <sup>(1)</sup>		12,579.8	14,968.4
<b>Shareholders' funds</b>		<u>18,093.6</u>	<u>20,469.1</u>

<sup>(1)</sup>In accordance with Section 304 of the Companies Act 2014, the Company is availing of the exemption from presenting the individual profit and loss account. The loss for the financial year amounted to USD 2,133.5 million and USD 49.5 million for the years ended December 31, 2017 and December 31, 2016, respectively.

The Company Financial Statements were approved by the Audit Committee of the Board of Directors and the Board of Directors on March 15, 2018, and signed on its behalf by;

\_\_\_\_\_  
Uwe Roehrhoff

Chief Executive Officer

\_\_\_\_\_  
Donal O'Connor

Director, Audit Committee Chair

**COMPANY STATEMENT OF SHAREHOLDERS' EQUITY**

(in millions of U.S dollars)

	Called up share capital		Share Premium	Other Reserves	Profit and Loss Account	Total
	Shares	Amount				
<b>Balance at December 31, 2015</b>	143.1	0.2	5,409.1	78.9	15,101.1	20,589.3
Issued shares under stock compensation plans	0.4	—	8.3	—	—	8.3
Share based payment (see note 9)	—	—	—	21.0	—	21.0
Share withheld for payment of employee's withholding tax liability	(0.1)	—	—	(6.4)	—	(6.4)
Profit and loss for the year	—	—	—	—	(49.5)	(49.5)
Dividends	—	—	—	—	(83.2)	(83.2)
Costs for issuance of ordinary shares	—	—	—	(10.4)	—	(10.4)
<b>Balance at December 31, 2016</b>	<b>143.4</b>	<b>0.2</b>	<b>5,417.4</b>	<b>83.1</b>	<b>14,968.4</b>	<b>20,469.1</b>
Issued shares under stock compensation plans	0.2	—	0.7	—	—	0.7
Share based payment (see note 9)	—	—	—	43.8	—	43.8
Share withheld for payment of employee's withholding tax liability	(0.1)	—	—	(3.9)	—	(3.9)
Profit and loss for the year	—	—	—	—	(2,133.5)	(2,133.5)
Dividends	—	—	—	—	(91.1)	(91.1)
Reclassification of distributable reserves	—	—	—	(27.5)	27.5	—
Share repurchases <sup>(1)</sup>	(2.7)	—	—	—	(191.5)	(191.5)
<b>Balance at December 31, 2017</b>	<b>140.8</b>	<b>0.2</b>	<b>5,418.1</b>	<b>95.5</b>	<b>12,579.8</b>	<b>18,093.6</b>

<sup>(1)</sup> A Capital redemption reserve fund has been created in respect of the nominal value of shares repurchased

**NOTES TO THE COMPANY BALANCE SHEET**

Amounts are in millions of USD unless otherwise indicated.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a. Basis of preparation**

The financial statements of Perrigo Company plc ("PCplc" or the "Company") have been prepared on the going concern basis under the historical cost convention in accordance with the Companies Act 2014. These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective for financial years commencing January 1, 2015, have also been applied.

Under FRS 102, a "qualifying entity" may take advantage of certain disclosure exemptions. A qualifying entity is a member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation. The Company falls to be classified as a qualifying entity under this guidance and has taken advantage of the following disclosure exemptions:

- The requirements of Section 7, Statement of Cash Flows, and Section 3, Financial Statement Presentation, paragraph 3.17(d).
- The requirements of Section 11 paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c) and Section 12 paragraphs 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available) with regards to financial instruments, as disclosures equivalent to those required by FRS 102 are included in the consolidated financial statements of the group.
- The requirements of Section 26, Share-based Payment, paragraphs 26.18(b), 26.19 to 26.21 and 26.23, as the Company is the ultimate parent, and the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group, and equivalent disclosures required by FRS 102 are included in the consolidated financial statements of the group.
- The requirement of Section 33, Related Party Disclosures, paragraph 33.7 regarding key management personnel compensation, except for directors' remuneration which is disclosed in Note 24 to the consolidated financial statements.

**b. Judgments and key sources of estimation uncertainty**

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. However, the nature of estimation means that actual outcomes could differ from those estimates.

The following judgment has the most significant effect on amounts recognized in the financial statements.

*Impairment of investments in group undertakings*

Where there are indicators of impairment of investment's in group undertakings, the Group performs impairment tests based on fair value less costs to sell or a value in use calculation. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction on similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash

generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes.

**c. Functional currency**

Items included in these financial statements are measured using the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements are presented in the United States dollars (“USD”), which is the Company’s functional and presentation currency.

Transactions during the period denominated in foreign currencies have been translated at the rates of exchange ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated to United States dollars at the rate of exchange ruling at the balance sheet date. The resulting profits or losses are dealt with in the profit and loss account.

**d. Investment in group companies**

Financial fixed assets are stated at cost less provisions for permanent diminution in value.

The carrying value of financial fixed assets is reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. Under FRS102, impairment is assessed by comparing the carrying value of an asset with its recoverable amount (being the higher of net realisable value and value in use). Net realisable value is defined as the amount at which an asset could be disposed of net of any direct selling costs. Value in use is defined as the present value of the future cash flows obtainable through continuing use of an asset including those anticipated to be realised on its eventual disposal.

**e. Contingencies**

The Company has guaranteed certain liabilities and credit arrangements of the group. The company reviews the status of these guarantees at each reporting date and considers whether it is required to make a provision for payment on those guarantees based on the probability of the commitment being called.

**f. Profit and loss account**

The Company’s loss for the twelve months ended December 31, 2017 was USD 2,133.5 million (twelve months ended December 31, 2016: loss of USD 49.5 million).

**g. Cash at bank and in hand**

Cash consists primarily of demand deposits and other short-term investments with maturities of three months or less at the date of purchase. The carrying amount of cash approximates its fair value.

**h. Financial assets and liabilities**

*Financial liabilities and equity*

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligation upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavorable to the Company; and
- where the instrument will or may be settled in the Company’s own equity instruments, it is either a non-derivative that included no obligation to deliver a variable number of the Company’s own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Finance payments associated with financial liabilities are dealt with as part of finance expenses.

*Recognition of financial assets and liabilities*

The Company recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instruments.

*De-recognition of financial assets and liabilities*

A financial asset or liability is de-recognised when the obligation specified in the contract is discharged, canceled or expired.

*Principal due under the notes and term loans*

The principal due under the notes and term loans is initially recognised at fair value net of transaction costs directly attributable to the issue of the notes.

*Amortised cost*

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount.

*Effective interest rate method*

The effective interest rate method is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial liability.

**i. Financial derivatives**

The Company utilises derivative financial instruments to manage exposure to certain risks related to the Company's ongoing operations. The primary risk managed through the use of derivative instruments is interest rate risk and foreign currency risk. The Company recognises gains and losses arising from derivative instruments upon maturity.

**j. Taxation**

Deferred taxation is accounted for in respect of all timing differences at tax rates enacted or substantively enacted at the balance sheet date. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. A deferred tax asset is only recognised when it is more likely than not the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing differences can be recovered.

**k. Share based payments**

The Company and its subsidiaries operate various share based payment plans. The Company issues Ordinary shares related to these employee equity share programs at various subsidiaries.

The share based payment expense associated with the share plans is recognised as an expense by the entity which receives services in exchange for the share based compensation. In these Company only accounts, the expense related to the options vested are recorded in other reserves and charged to the appropriate entity that receives services.

**2. HISTORY AND DESCRIPTION OF THE COMPANY**

Perrigo Company plc was incorporated under the laws of Ireland on June 28, 2013, and became the successor registrant of Perrigo Company on December 18, 2013 in connection with the consummation of the acquisition of Elan Corporation ("Elan") subsequently renamed Perrigo Corporation D.A.C. As of December



31, 2017, it owns 100% of the outstanding ordinary shares in Perrigo Corporation D.A.C., Habsont Unlimited Company, Perrigo Ireland Management D.A.C., Elan Europa Finance S.a.r.l., Perrigo Ireland Holding Company B.V., Perrigo Ireland 1 D.A.C., Perrigo Ireland 3 D.A.C., Perrigo Ireland 7 D.A.C., Perrigo Ireland 8 D.A.C., Perrigo Ireland 9 Unlimited Company., and Perrigo Ireland 10 Unlimited Company. (see note 3). Leopard Company ("Leopard") merged with Perrigo Company on December 18, 2013, which is wholly owned by Habsont.

On December 18, 2013, the Company acquired Elan. At the close of the transaction on December 18, 2013, Perrigo and Elan became wholly-owned, indirect and direct subsidiaries of the Company respectively. Under the terms of the Transaction Agreement, (i) at the effective time of the Scheme (the "Effective Time"), Elan shareholders were entitled to receive USD 6.25 in cash and 0.07636 of a newly issued PCplc ordinary share in exchange for each Elan ordinary share held by such shareholders and (ii) at the effective time of the Merger, each share of Perrigo's common stock were converted into the right to receive one PCplc ordinary share and USD 0.01 in cash.

### 3. FINANCIAL FIXED ASSETS

(in millions of U.S. dollars)	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Investment in subsidiary undertakings</b>	<b>USD</b>	<b>USD</b>
Balance at beginning of the year	19,185.4	19,113.7
Impairment	(1,864.9)	—
Additions	520.0	71.7
Balance at the closing of the year	<b>17,840.5</b>	<b>19,185.4</b>

During the year ended December 31, 2017, the Company recorded an impairment charge of USD 1.9 billion, as a result of divestment activity primarily consisting of the Company's sale of the Tysabri asset which resulted in a reduction in the aggregate estimated fair value of the Company's investment in subsidiary undertakings.

In the opinion of the Directors, the total value of financial fixed assets held on December 31, 2017 and December 31, 2016 of USD 17,840.5 million and USD 19,185.4 million, respectively is at least equal to the carrying value on the balance sheet.

#### ***Habsont Unlimited Company***

The principal activity of Habsont is that of an investment holding company. Habsont was incorporated as a private limited company on July 9, 2013 and subsequently re-registered as a private unlimited company on November 22, 2013. Habsont's registered address is the Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland.

On February 15, 2017 and August 15, 2017 the Company made capital contributions of USD 10 thousand and USD 50 thousand respectively to Habsont.

On May 31, 2016 and February 17, 2016 the Company made capital contributions of USD 25 thousand and USD 20 thousand respectively to Habsont.

#### ***Perrigo Corporation D.A.C.***

Perrigo Corporation D.A.C. is incorporated in Ireland with a registered address at the Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland.

#### ***Clepe Ltd.***

The principal activity of Clepe Ltd. ("Clepe") is that of an investment holding company. Clepe's registered address is Landmark Square, West Bay Road, PO Box 775, Grand Cayman, KY1-900.

On January 20, 2016 the Company made a capital contribution of USD 20 thousand to Clepe.

On December 14, 2017, Clepe was liquidated.

***Perrigo Ireland Management D.A.C.***

Tudor Trust Nominees Limited ("TTNL") was incorporated in Ireland on July 29, 2013. TTNL was acquired by the Company on December 10, 2013. TTNL changed its name to Perrigo Ireland Management Limited ("PIM") on December 13, 2013 and subsequently re-registered as a Designated Activity Company (D.A.C.) on September 1, 2016. PIM has a registered address at the Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland.

On February 17, 2016 and May 18, 2016 the Company made capital contributions of USD 50 thousand and USD 100 thousand respectively to Perrigo Ireland Management D.A.C.

***Perrigo Ireland Holding Company B.V.***

On November 19, 2013, the Company incorporated a new wholly owned subsidiary in the Netherlands, Perrigo Ireland Holding Company B.V. ("PIH"), with a registered address at Prins Bernhardplein 200, 1097JB Amsterdam, Netherlands. The issued share capital of PIH is EUR 100 (USD 137) (100 ordinary shares of EUR 1 per share).

On April 19, 2017 and September 19, 2017 the Company made capital contributions of USD 15 thousand and USD 10 thousand respectively to Perrigo Ireland Holding Company BV.

On June 22, 2016 and November 21, 2016 the Company made capital contributions of USD 20 thousand and USD 10 thousand respectively to Perrigo Ireland Holding Company BV.

***Elan Finance Europa S.a.r.l.***

On December 16, 2013, the Company acquired 100% of the issued share capital of Elan Finance Europa S.a.r.l. ("EFES") from Elan Corporation for cash consideration of USD 16,500. The registered address of EFES is 65 Boulevard Grande-Duchesse Charlotte, L-1331, Luxembourg.

***Perrigo Ireland 1 D.A.C.***

The Company purchased 95.77% of the issued and outstanding share capital of Omega (685,348,257 shares) from Alychlo N.V. ("Alychlo") and Holdco I BE N.V. ("Holdco" and, together with Alychlo, the "Sellers"), limited liability companies incorporated under the laws of Belgium under the terms of the Share Purchase Agreement dated November 2014 (the "Share Purchase Agreement"). Omega holds the remaining 30,243,983 shares as treasury shares.

On May 9, 2017, June 1, 2017, August 15, 2017 and December 4, 2017 the Company made capital contributions of USD 442,530 thousand, USD 38,550 thousand, USD 50 thousand and USD 38,800 thousand respectively to Perrigo Ireland 1 DAC.

On June 2, 2016 and December 1, 2016 the Company made capital contributions of USD 38,760 thousand and USD 31,200 thousand respectively to Perrigo Ireland 1 DAC.

***Perrigo Ireland 3 D.A.C.***

Perrigo Ireland 3 D.A.C. is incorporated in Ireland with a registered address at the Treasury Building, Lower Grand Canal Street, Dublin 2 Ireland.

***Perrigo Ireland 7 D.A.C.***

In the fourth quarter of fiscal year 2015, the Company made a capital contribution of USD 35,847 thousand in cash to Perrigo Ireland 7 D.A.C. to fund the purchase price to acquire Gelcaps Exportadora de Mexico, S.A. de C.V. ("Gelcaps"), the Mexican operations of Durham, North Carolina-based Patheon Inc.

On February 17, 2016, February 25, 2016 and December 1, 2016 the Company made capital contributions of USD 500 thousand, USD 891 thousand and USD 50 thousand respectively to Perrigo Ireland 7 DAC.

***Perrigo Ireland 8 D.A.C.***

Perrigo Ireland 8 D.A.C. is incorporated in Ireland with a registered address at the Treasury Building, Lower Grand Canal Street, Dublin 2 Ireland.

On February 15, 2017, the Company made capital contributions of USD 10 thousand to Perrigo Ireland 8 DAC.

***Perrigo Ireland 9 Unlimited Company.***

Perrigo Ireland 9 ulc. is incorporated in Ireland with a registered address at the Treasury Building, Lower Grand Canal Street, Dublin 2 Ireland.

On May 13, 2016 the Company made a capital contribution of USD 5 thousand to Perrigo Ireland 9 D.A.C.

***Perrigo Ireland 10 Unlimited Company.***

Perrigo Ireland 10 ulc. is incorporated in Ireland with a registered address at the Treasury Building, Lower Grand Canal Street, Dublin 2 Ireland.

**4. DEBTORS (amounts falling due within one year)**

(in millions of U.S. dollars)

	<b>Balance receivable by Perrigo Company Plc</b>	
	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>USD</b>	<b>USD</b>
Amounts due from subsidiary undertakings	77.8	28.2
Note receivable due from Perrigo Ireland Management Limited	7,132.0	7,174.0
<b>Debtors</b>	<b>7,209.8</b>	<b>7,202.2</b>

Amounts due from subsidiary undertakings consist of intercompany receivables and stock compensation net of management fees charged for services provided. Amounts are receivable upon demand.

The interest free note receivable of USD 7,132 million (December 31, 2016: USD 7,174 million) due from Perrigo Ireland Management Limited is payable upon demand.

In addition, the Company has entered into a Master Demand Note agreement with Perrigo Company. Under the terms of the Master Demand Note, the Company has committed to providing a loan facility to Perrigo Company up to a maximum amount of USD 200 million. Any drawdowns on the note are subject to interest at a rate of USD Libor plus 375 basis points, and the facility matures on December 17, 2018. There are no drawdowns on the Master Demand Note at the balance sheet date.

The Company has entered into a loan agreement with Omega Pharma Capital N.V. Under the terms of the loan agreement, the Company has committed to providing a loan facility to Omega Pharma Capital N.V up to a maximum amount of EUR 300 million and is repayable on demand. Any drawdowns are subject to interest at a rate of 1 month Euribor plus 130 basis points and the facility matures on March 30, 2020. There are no drawdowns on the loan facility at the balance sheet date.

**5. CREDITORS (amounts falling due within one year)**

(in millions of U.S. dollars)

	December 31, 2017	December 31, 2016
	USD	USD
Trade payables <sup>(1)</sup>	10.5	4.6
Accruals <sup>(1)</sup>	13.1	11.6
Amounts due to subsidiary undertakings <sup>(1)</sup>	2.2	1.7
Non-interest bearing note payable to Perrigo Pharma International D.A.C.	—	1,144.0
Non-interest bearing note payable to Elan International Services	4,471.4	927.0
Non-interest bearing note payable to Perrigo Science Eight Unlimited	2,019.4	1,525.3
Interest bearing note payable to Perrigo Finance Unlimited Company	145.2	145.7
Accrued interest	1.7	8.7
Accrued tax	9.9	7.8
<b>Total Creditors (amounts falling due within one year)</b>	<b>6,673.4</b>	<b>3,776.4</b>

(1) No securities have been given by the Company in respect of any items disclosed. The amounts are interest free and due within one year.

On March 3, 2014, the Company amended and restated the loan agreement originally dated December 20, 2013 with Perrigo Pharma International D.A.C. The amendment provides the Company with a loan facility up to USD 2,000.0 million from Perrigo Pharma International D.A.C. The loan does not incur interest, and is repayable on demand. The loan may not be transferred, assigned, or converted into other types of securities, and is subordinate to all other third party debts of the Company. The facility was repaid in full during the year. The loan amount outstanding as of December 31, 2017 was USD Nil (December 31, 2016: USD 1,144.0 million).

On February 14, 2014, the Company entered into a USD 2,000.0 million loan agreement with Elan International Services Ltd. On March 15, 2017, the loan facility increased to USD 5,000.0 million. The loan does not incur interest, and is repayable on demand. The loan may not be transferred, assigned, or converted into other types of securities, and is subordinate to all other third party debts of the Company. The loan amount outstanding as of December 31, 2017 was USD 4,471.4 million (December 31, 2016: USD 927.0 million).

On March 3, 2014, the Company entered into a USD 2,000.0 million loan agreement with Perrigo Science Eight Unlimited Company. On December 11, 2017, the loan facility increased to USD 5,000.0 million. The loan does not incur interest, and is repayable on demand. The loan may not be transferred, assigned, or converted into other types of securities, and is subordinate to all other third party debts of the Company. The loan amount outstanding as of December 31, 2017 was USD 2,019.4 million (December 31, 2016: USD 1,525.3 million).

On November 11, 2015, the Company entered into a USD 1,000.0 million loan agreement for a period of five years with Perrigo Finance Unlimited Company. The loan incurs interest on a monthly basis at a rate equal to 1 month USD Libor plus a margin of 130 basis points (1.3%) and is repayable on demand. The loan may not be transferred, assigned, or converted into other types of securities, and is subordinate to all other third party debts of the Company. The loan amount outstanding as of December 31, 2017 was USD 140.0 million and USD 0.3 million of accrued interest (December 31, 2016: USD 140.2 million and 5.5 million accrued interest).

Please see note 7 for further discussion of accrued interest and the current portion of debt.

**6. AMOUNTS DUE TO GROUP UNDERTAKINGS**

On May 3, 2016 the Company entered into a USD 500.0 million loan agreement for a period of five years with Perrigo Finance Unlimited Company. The loan incurs interest on an annual basis at a fixed interest rate of 3.5%. The loan may not be transferred, assigned or converted into other types of securities, and is subordinate to all other third party debts of the Company. The loan amount outstanding at December 31, 2017 was USD 235.0 million (December 31, 2016: USD 500.0 million) and there was accrued interest on the loan of USD 4.9 million (December 31, 2016: USD 1.3 million).

## 7. SENIOR NOTES AND TERM LOANS

(in millions of U.S. dollars)	Balance (net of discount and financing fees)	Interest payable
	USD	USD
Senior Notes	1,784.6	8.7
Deferred financing fees - Revolver	(1.5)	—
<b>Balance at December 31, 2016</b>	<b>1,783.1</b>	<b>8.7</b>
Due within one year	—	8.7
Due greater than one year	1,783.1	—
<b>Balance at December 31, 2016</b>	<b>1,783.1</b>	<b>8.7</b>
Senior Notes	303.1	1.7
Deferred financing fees - Revolver	—	—
<b>Balance at December 31, 2017</b>	<b>303.1</b>	<b>1.7</b>
Due within one year	—	1.7
Due greater than one year	303.1	—
<b>Balance at December 31, 2017</b>	<b>303.1</b>	<b>1.7</b>

**Senior Notes**

On November 8, 2013, the Company issued USD 500.0 million aggregate principal amount of its 1.30% senior notes due 2016 (the "1.30% 2016 Notes"), USD 600.0 million aggregate principal amount of its 2.30% senior notes due 2018 (the "2018 Notes"), USD 800.0 million aggregate principal amount of its 4.00% senior notes due 2023 (the "4.00% 2023 Notes") and USD 400.0 million aggregate principal amount of its 5.30% senior notes due 2043 (the "2043 Notes" and, together with the 1.30% 2016 Notes, the 2018 Notes and the 4.00% 2023 Notes, the "2013 Notes") in a private placement with registration rights. The Company received net proceeds of USD 2.3 billion from the issuance of the 2013 Notes after fees and market discount. During the current and prior year, the Company reduced outstanding debt through a variety of transactions (in millions):

Date	Series	Transaction Type	Principal Repayment USD (millions)
29 Sept 2016	\$500 1.3% Senior notes due 2016	Early Redemption	500.0
8 May 2017	\$600 2.3% Senior notes due 2018	Early Redemption	600.0
15 June 2017	\$800 4.0% Senior notes due 2023	Tender offer	584.4
15 June 2017	\$400 5.3% Senior notes due 2043	Tender offer	309.5

Interest on the 2013 Notes is payable semiannually in arrears in May and November of each year, beginning in May 2014. The 2013 Notes are governed by a base indenture and a first supplemental indenture (collectively, the "2013 Indenture"). The 2013 Notes are unsecured and unsubordinated obligations, ranking equally in right of payment to all of our existing and future unsecured and unsubordinated indebtedness. The 2013 Notes are not entitled to mandatory redemption or sinking fund payments. The Company may redeem the 2013 Notes in whole or in part at any time for cash at the make-whole redemption prices described in the 2013 Indenture. The 2013 Notes were guaranteed on an unsubordinated, unsecured basis by the same entities that guaranteed the then-outstanding credit agreement until November 21, 2014, at which time the 2013 Indenture was amended to remove all guarantors.

On September 2, 2014, the Company offered to exchange our private placement senior notes for public bonds (the "Exchange Offer"). The Exchange Offer expired on October 1, 2014, at which time substantially all of the private placement notes had been exchanged for bonds registered with the Securities and Exchange Commission.

	<b>Tranche</b>	<b>Maturity</b>	<b>Issue price</b>	<b>Coupon</b>
	2023 Notes	November 23, 2023	99.583%	4%
	2043 Notes	November 15, 2043	99.582%	5.3%

<b>Date</b>	<b>Nominal value</b>	<b>Discount</b>	<b>Issuing fees and other capitalised expenses</b>	<b>Total</b>
<b>Balance at December 31, 2015</b>	1,800.0	(4.9)	(14.4)	1,780.7
Amortised during period	—	0.6	1.8	2.4
<b>Balance at December 31, 2016</b>	<b>1,800.0</b>	<b>(4.3)</b>	<b>(12.6)</b>	<b>1,783.1</b>
Debt extinguishment	(1,493.9)	3.2	8.5	(1,482.2)
Amortised during period	—	0.2	2.0	2.2
<b>Balance at December 31, 2017</b>	<b>306.1</b>	<b>(0.9)</b>	<b>(2.1)</b>	<b>303.1</b>

## 8. SHARE CAPITAL

(in millions of U.S. dollars)

<b><u>Authorised share capital</u></b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
	<b>USD</b>	<b>USD</b>
10,000,000,000 ordinary shares of par value EUR 0.001	13.5	13.5
10,000,000 preferred shares of par value USD 0.0001	—	—
	<b>13.5</b>	<b>13.5</b>
<b><u>Allotted, called-up and fully paid share capital</u></b>		
	<b>USD</b>	<b>USD</b>
140,823,256 and 143,377,913 ordinary shares of par value EUR 0.001 for December 31, 2017 and December 31, 2016, respectively	<b>0.2</b>	<b>0.2</b>

EUR shares are converted at the equivalent USD rate on date of issuance.

### **Ordinary shares**

The holders of the ordinary shares shall be entitled to receive notice, attend and vote at general meetings of the Company. Without prejudice to any special rights previously conferred on the holders of the deferred ordinary shares and preferred ordinary shares, holders of the ordinary shares shall be entitled to participate in the profits or assets of the Company by way of payment of any dividends on a winding up or otherwise.

### **Deferred ordinary shares**

The deferred ordinary shares were canceled as authorised share capital on December 18, 2013. The holders of the deferred ordinary shares were not entitled to receive any dividend or distribution and were not entitled to receive notice of, nor to attend, speak or vote at any general meeting of the Company. On a return of assets, whether on liquidation or otherwise, the deferred ordinary shares entitled the holder thereof only to the repayment of the amounts paid up on such shares after repayment of the capital paid up on the ordinary shares plus the payment of EUR 5 million on each of the ordinary shares and the holders of the deferred ordinary shares were not entitled to any further participation in the assets or profits of the Company.



**Preferred shares**

The holders of the preferred shares shall be entitled to receive cash dividends when and as they are declared by the Board of Directors at such rate per share per annum, cumulatively if so provided, and with preferences as fixed by the Directors. The holders of the preferred shares shall be entitled to be paid dividends before paid or set apart for ordinary shareholders or any other junior ranking share class. None of the preference shareholders are entitled to vote at any general meeting of the Company. On a return of assets, whether on liquidation or otherwise, the preferred shares shall entitle the holder thereof only to receive payment of the amount per share fixed in the resolution adopted by the Board of Directors providing for the issuance of the shares plus an amount equal to all dividends accrued thereon to the date of final distribution to such holders.

**Authorised Shares**

There were 10,000,000,000 of ordinary shares with par value of EUR 0.001 each authorised at December 31, 2017 and December 31, 2016. There were 10,000,000 of Preferred shares with a par value of USD 0.0001 each authorised at December 31, 2017 and December 31, 2016.

**Share Repurchases**

In October 2015, the Board of Directors approved a share repurchase plan of up to \$2.0 billion. During the twelve months ended December 31, 2017, we repurchased 2.7 million ordinary shares at an average repurchase price of \$71.72 per share, for a total of \$191.5 million. We repurchased no shares during the twelve months ended December 31, 2016.

**9. SHARE BASED PAYMENTS**

Share based payment expense of USD 43.8 million and USD 21.0 million has been primarily included within amounts due from subsidiaries for the twelve months ended December 31, 2017 and December 31, 2016, respectively. See Note 16 to the Consolidated Financial Statements for full details on share based payment arrangements. The expense related to the options vested are initially recorded in other reserves and Investment in Subsidiaries as no portion has been incurred by the Company. These expenses are then recharged to the appropriate entity that receives the related services thereby increasing the amount due from subsidiaries and reducing the Investment in Subsidiaries.

**10. RELATED PARTY TRANSACTIONS**

The Profit and Loss account includes USD 1.5 million and USD 1.2 million of Directors' fees for the twelve months ended December 31, 2017 and December 31, 2016, respectively.

The Company has not disclosed any other related party transactions as it has availed of the exemption available under FRS 102, which exempts disclosures of transactions entered into between two or more members of a group, provided that any subsidiary undertaking which is a party to the transaction is wholly owned by a member of that group.

**11. AUDITOR'S REMUNERATION**

Fees paid to Ernst & Young Ireland with respect to the audit of the Company individual accounts were as follows (in millions):

	December 31, 2017	December 31, 2016
Audit fees	\$ 0.1	\$ 0.1
Other assurance services	0.1	0.2
<b>Total</b>	<b>\$ 0.2</b>	<b>\$ 0.3</b>

Note 25 to the Consolidated Financial Statements provides additional information regarding auditor remuneration.

## 12. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue on March 15, 2018.