Vertex Pharmaceuticals (Europe) Limited

Registered in England & Wales 2907620

Report and Financial Statements

31 December 2017

Contents

Company information

Directors
I F Smith
S Bedson
S K Lem

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Strategic report

The Directors present their strategic report for the year ended 31 December 2017.

Principal activities

The principal activities of Vertex Pharmaceuticals (Europe) Limited ("VPEL" or "Vertex Europe" or the "Company") are to sell products in the UK, hold the Group's worldwide stock and non-North American intellectual property, and perform research on behalf of Vertex Pharmaceuticals Inc. ("VPI").

Review of the business and future developments

During the year, the Company continued to supply KALYDECO ("ivacaftor" or "VX-770") and ORKAMBI ("ivacaftor in combination with lumacaftor" or "VX-809") as treatments for the underlying cause of Cystic Fibrosis ("CF").

In addition, 2017 has seen VPEL enter into a number of strategic collaborations, license agreements and an asset purchase.

The Company will continue to expand and refurbish its laboratories and offices. The aim is to increase the Company's Research and Development capabilities in line with the Parent undertaking's corporate strategy.

The below business review outlines the progress during the year as well as future developments.

KALYDECO and ORKAMBI

KALYDECO is currently approved in the European pharmaceutical market for the treatment of CF in;

1) patients six years of age and older who have one of nine gating mutations in their cystic fibrosis transmembrane conductance regulator ("CFTR") gene;
2) patients two to five years of age who have one of nine gating mutations in their CFTR gene; and
3) patients 18 years of age and older who have the R117H mutation in their CFTR gene.

ORKAMBI is currently approved for patients with CF twelve years of age and older who are homozygous for the F508del mutation in their CFTR gene.

In March 2017, the Company submitted a Marketing Authorization Application ("MAA") line extension to the European Medicines Agency ("EMA") for the use of ORKAMBI in patients six to eleven years of age who are homozygous for the F508del mutation in their CFTR gene. In January 2018, the European Commission granted the line extension of ORKAMBI in this patient population.

CF Development Programs

On 28 March 2017, results from two Phase 3 studies of the tezacaftor ("VX-661") in combination with ivacaftor treatment showed statistically significant improvements in lung function (percent predicted forced expiratory volume in one second, or $ppFEV_1$) in people with CF ages 12 and older who have certain mutations in the CFTR gene.

Vertex submitted a New Drug Application ("NDA") to the U.S. Food and Drug Administration ("FDA") and a MAA to the EMA in the second and third quarter of 2017, respectively, for the tezacaftor/ivacaftor combination treatment in people with CF ages 12 and older who have two copies of the F508del mutation and in people who have one mutation that results in residual CFTR function and F508del mutation.

In February 2018, the FDA approved tezacaftor/ivacaftor for treatment of CF in this patient population.

Strategic report (continued)

Collaboration and license agreements

CRISPR Therapeutics AG

On 12 December 2017, VPI, VPEL and CRISPR Therapeutics AG announced that the companies will co-develop and co-commercialize CTX001, an investigational gene editing treatment, as part of the companies' previously announced collaboration aimed at the discovery and development of new gene editing treatments that use the CRISPR/Cas9 technology. In order to enter into this arrangement, VPEL paid CRISPR Therapeutics AG $7 million.

CTX001 represents the first gene-based treatment that VPEL exclusively licensed from CRISPR Therapeutics as part of the collaboration. For CTX001, CRISPR and VPEL will equally share all research and development costs and profits worldwide.

A Clinical Trial Application was submitted in 2017 for CTX001 to support the initiation of a Phase 1/2 trial in β-thalassemia in 2018 in Europe, and an Investigational New Drug (IND) Application was submitted in April 2018 to support the initiation of a Phase 1/2 trial in sickle cell disease in the U.S.

In May 2018, it was announced that the U.S. Food and Drug Administration (FDA) placed a clinical hold on the IND for CTX001 for the treatment of sickle cell disease pending the resolution of certain questions from the FDA as part of its review of the IND. Vertex is continuing to work with the FDA to address the agency's questions.

Asset Purchase

Concert Pharmaceuticals

On 6 March 2017, it was announced that VPEL and VPI had signed a definitive asset purchase agreement to acquire CTP-656 (renamed VX-561) from Concert Pharmaceuticals. VX-561 is an investigational CFTR potentiator that has the potential to be used as part of future once-daily combination regimens of CFTR modulators that treat the underlying cause of CF.

The asset purchase agreement was completed on 25 July 2017. As part of the agreement, VPEL paid Concert $160.0 million in cash for all worldwide development and commercialization rights to VX-561. If VX-561 is approved as part of a combination regimen to treat CF, Concert could receive up to an additional $90.0 million in milestones based on regulatory approval in the U.S. and reimbursement in the UK, Germany or France.

Subsequent events

In January 2018, The Company purchased an additional $21.5 million investment in CRISPR's common shares.

Strategic report (continued)

Financial Results

The results of the Company are set out on page 13; the loss for the year after taxation amounted to $234.8 million (2016 – loss of $201.1 million). The entity is making a loss which is in line with management's expectation.

Key performance indicators

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

	2017	2016	Change
	$m	$m	%
Turnover – Research and development cost plus arrangement	**43.2**	38.5	12.2%
Turnover – Product sales	**2,403.9**	1,597.9	50.4%
Research and development expenditure - Milton Park	**39.3**	35.0	12.3%
Research and development expenditure - Other	**79.8**	22.8	250.0%
Research and development – Non-North American IP	**174.5**	146.2	19.4%
Research and development – Total	**293.6**	204.0	43.9%
Average number of research employees	**106**	108	-1.9%

During 2017 the Company's turnover from its research and development cost plus arrangement increased by 12.2%. Commercial activity, which includes sales to third parties, predominantly in the UK, and intercompany sales to VPI and Vertex Group as a distributor in the Non-North American market, increased by 50.4% due to further reimbursement agreements that have been reached within Europe and North America.

Total research and development expenditure increased by 43.9% during the year. Expenditure at the Milton Park, UK site increased by 12.3% and the expenditure related to Non-North American owned IP, charged by the parent company and collaboration agreement contributions, increased by 19.4% due to the timing of delivery of individual projects.

The average number of research employees remained consistent.

Principal risks and uncertainties

The Company operates in a high-risk sector. The key risks facing the Company are as follows:

1. Financial risks

a) Cash flow risk

A key area of exposure for the Company is cash flow risk. The Company is wholly reliant on the liquidity of the parent organisation and its ability to provide the Company with adequate funds for the foreseeable future. VPI, the Company's ultimate parent undertaking, has indicated its intention to provide such on-going financial support as is necessary for the Company to continue in operation and to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements.

b) Exchange rate risk

There is an exchange rate risk as sales in the UK are made in GBP and sales to other Vertex group companies are in the functional currency of the buying company. In addition, the Company has entered into other transactions, excluding the purchase of stock, which are denominated in foreign currencies. The Company's exposure to exchange rate risk is monitored by the ultimate parent company's treasury function.

Strategic report (continued)

c) Interest rate risk

At 31 December 2017, the Company had cash and bank balances of $163.0 million and no external debt. Accordingly, the Company has no significant interest rate exposure to manage locally. The Company had intragroup liabilities of $1,111.8 million and assets of $82.0 million with variable interest rates, for which rates are managed by the parent Company.

d) Credit risks

The Company is a commercial trading entity and as such bears a credit risk with third party customers. The Company also sells to public institutions whereby the credit risk is deemed low as it is based on the sovereign risk of the country.

2. Product and regulatory risks

The clinical development and commercial launch success of key drug candidates will depend on many factors. These include the timely completion and favourable outcome of clinical trials including achieving safety and efficacy end points, agreeing mutually acceptable scope and design of such clinical trials with relevant authorities, obtaining marketing and reimbursement access, establishing commercial manufacturing arrangements and gaining acceptance by the medical community for Vertex products ahead of those developed by our competitors.

3. Inventory

The Company has limited flexibility to adjust its supply in response to changes in demand, due to the significant lead times required to manufacture its products. Future adverse changes in the outlook for commercial sales could result in inventory write downs and related charges. Management are confident that inventory levels are sufficient to meeting current and anticipated future sales.

4. BREXIT

On 29 March 2017, the Prime Minister of the United Kingdom ("UK") triggered Article 50 of the Treaty of Lisbon which started the process for the UK to leave the membership of the European Union. This presents a number of risks to the Company, including but not limited to, potential additional costs to trading cross-border or trading restrictions, issues with filing patents and obtaining regulatory approval. The Company will continue to monitor the impact of Brexit and respond to risks as they arise.

Going concern

VPI, the Company's ultimate parent undertaking, has indicated its intention to provide such on-going financial support as is necessary for the Company to continue in operation and to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements.

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Approved by order of the Board of Directors on 20 September 2018 and signed on its behalf by:

.....
Simon Bedson, Director

20/9/18.....
Date

Registered No. 2907620

Directors' report

The Directors present their report for the year ended 31 December 2017.

Results and dividends

The results of the Company are set out on page 13; the loss for the year after taxation amounted to $234.8 million (2016 – loss of $201.1 million). The Directors do not recommend a dividend for the year ended 31 December 2017 (2016 – $nil).

Future developments

The future developments of the Company have been outlined in the strategic report.

Research and development activities

Please refer to the Strategic Report for full details of the Company's research and development activities.

The Company performs research and development at its Milton Park, UK site on behalf of the parent undertaking, VPI. During the year the Company incurred expenditure of $39.3 million (2016 – $35.0 million) on research and development, which was all expensed to the Income Statement. In addition, amounts payable to VPI in 2017, for VPEL's share of development costs of the non-North American IP acquired on 30 November 2014 and other development projects entered into with third party collaborators, totalled $174.5 million (2016 - $146.2 million). Other research and development expenditure totalled $79.9 million (2016 - $22.8 million).

Financial instruments and risk management

The Company is exposed to a number of financial risks that include cash flow risk, credit risk, exchange rate risk and interest rate risk. Further information is disclosed in the strategic report.

The ultimate parent Company's Treasury function along with the Board of Directors monitor the financial risks that the Company is exposed to.

Subsequent events

Following the year end there have been subsequent events which are disclosed in note 26 and on page 4 of the strategic report.

Foreign branches

The Company operates branches in Norway and Denmark.

Directors

The Directors who served the Company during the year and to date were as follows:

I F Smith
S Bedson
S K Lem

Directors' liabilities

The Company has granted an indemnity to one or more of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' report (continued)

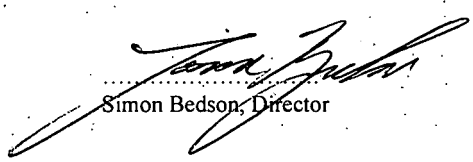
Disclosure of information to the auditors

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2016), being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board



Simon Bedson, Director

20/9/18

Date

Statement of Directors' responsibilities

The Directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable United Kingdom law and regulations.

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

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

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

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

Independent auditor's report to the members of Vertex Pharmaceuticals (Europe) Limited

Opinion

We have audited the financial statements of Vertex Pharmaceuticals (Europe) Limited for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of Vertex Pharmaceuticals (Europe) Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the 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 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report to the members of Vertex Pharmaceuticals (Europe) Limited (continued)

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Ernst + Young LLP
Kevin Harkin (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading

Date: 24 September 2018

Income statement

for the year ended 31 December 2017

	Notes	**2017** **$'000**	2016 $'000
Turnover	5	**2,447,096**	1,636,338
Cost of sales		**(1,911,690)**	(1,220,838)
Gross Profit		**535,406**	415,500
Research and development expenditure		**(293,631)**	(203,977)
Administrative expenses		**(482,292)**	(398,167)
Other income		**2,281**	1,986
Operating Loss	6	**(238,236)**	(184,658)
Foreign exchange gain/(loss)		**11,729**	(8,920)
Interest receivable and similar income	8	**647**	462
Interest payable and similar charges	9	**(11,357)**	(7,554)
Loss on ordinary activities before tax		**(237,217)**	(200,670)
Tax on loss on ordinary activities	10	**2,420**	(382)
Loss for the year		**(234,797)**	(201,052)

All amounts relate to continuing activities.

The notes on pages 17 to 46 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Loss for the year		**(234,797)**	(201,052)
Items that may be reclassified subsequently to profit and loss:			
Revaluation of available-for-sale investments	14	**10,261**	21,347
Deferred tax charge on revaluation of available-for-sale investments	10	**(1,558)**	(3,815)
Other comprehensive income for the year, net of tax		**8,703**	17,532
Total comprehensive loss for the year		**(226,094)**	(183,520)

Balance sheet

as at 31 December 2017

	Notes	2017 $'000	2016 $'000
Fixed assets			
Intangible assets	11	**1,421,430**	1,429,168
Tangible fixed assets	12	**36,044**	35,487
Investment in subsidiaries	13	**49,059**	49,057
Other investments	14	**94,821**	84,560
		1,601,354	1,598,272
Current assets			
Inventories	15	**102,686**	76,321
Debtors – due within one year	16	**174,566**	136,565
Debtors – due after more than one year	16	**21,072**	42,137
Cash and cash equivalents		**163,044**	218,537
		461,368	473,560
Creditors: amounts falling due within one year	17	**(1,144,978)**	(934,453)
Net current liabilities		**(683,610)**	(460,893)
Total assets less current liabilities		**917,744**	1,137,379
Provisions for liabilities	18	**(14,932)**	(12,126)
Net assets		**902,812**	1,125,253
Equity			
Called up share capital	19	**201**	201
Capital contribution		**9,415**	9,415
Share premium	20	**1,502,485**	1,502,485
Revaluation reserve		**26,235**	17,532
Retained loss		**(635,524)**	(404,380)
Total shareholders' funds		**902,812**	1,125,253

The notes on pages 17 to 46 are an integral part of these financial statements.

The financial statements of Vertex Pharmaceuticals (Europe) Limited were approved for issue by the Board of Directors on 20 September 2018, and signed on its behalf by:

Simon Bedson, Director

20/9/18
Date

Company number: 2907620

Statement of changes in equity

for the year ended 31 December 2017

	Notes	Share capital $'000	Capital contribution $'000	Share premium account $'000	Revaluation reserve $'000	Retained earnings $'000	Total share-holders' funds $'000
At 1 January 2016		201	9,415	1,502,485	-	(204,866)	1,307,235
Loss for the year		-	-	-	-	(201,052)	(201,052)
Other comprehensive income for the period							
Revaluation of available-for-sale investments		-	-	-	21,347	-	21,347
Deferred tax charge on revaluation of available-for-sale investments		-	-	-	(3,815)	-	(3,815)
Total comprehensive loss for the year		-	-	-	17,532	(201,052)	(183,520)
Transactions with shareholders							
Share-based payment transactions	23	-	-	-	-	14,511	14,511
Parent undertaking charge for share-based payment transactions		-	-	-	-	(12,973)	(12,973)
Total shareholder transactions		-	-	-	-	1,538	1,538
At 31 December 2016		201	9,415	1,502,485	17,532	(404,380)	1,125,253
Loss for the year		-	-	-	-	**(234,797)**	**(234,797)**
Other comprehensive income for the period							
Revaluation of available-for-sale investments		-	-	-	**10,261**	-	**10,261**
Deferred tax charge on revaluation of available-for-sale investments		-	-	-	**(1,558)**	-	**(1,558)**
Total comprehensive loss for the year		-	-	-	**8,703**	**(234,797)**	**(226,094)**
Transactions with shareholders							
Share-based payment transactions	23	-	-	-	-	**19,640**	**19,640**
Parent undertaking charge for share-based payment transactions		-	-	-	-	**(15,987)**	**(15,987)**
Total shareholder transactions		-	-	-	-	**3,653**	**3,653**
At 31 December 2017		**201**	**9,415**	**1,502,485**	**26,235**	**(635,524)**	**902,812**

Notes to the financial statements
for the year ended 31 December 2017

1. General information

The annual report and financial statements were approved by the Directors of the Company on 20 September 2018.

The Company is a private company and is incorporated and domiciled in the UK. The address of its registered office is Level 9, Paddington Central, 2 Kingdom Street, London, W2 6BD.

The nature of the Company's operations and its principal activities are set out in the strategic report.

The financial statements present information about the Company as an individual undertaking and not about its group. The Company is exempt under section 402 of the Companies Act 2006 from preparing group financial statements on the basis that it is a wholly owned subsidiary of Vertex Pharmaceuticals, Incorporated, and its ultimate parent publishes group financial statements. These financial statements are separate financial statements.

2. Application of new and revised standards and changes in accounting policies

a) Changes in accounting policies

There have been no changes to accounting policies during the year.

b) New standards, amendments and IFRIC Interpretations

No new accounting standards, amendments to accounting standards, or IFRIC Interpretations that are first effective for the year ended 31 December 2017 have a material impact on the Company.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless stated otherwise.

a) Statement of compliance

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101").

b) Basis of preparation

The financial statements are presented in USD, the functional currency, rounded to the nearest thousand USD ($'000), except where otherwise stated. The USD:GBP exchange rate at the year end was 0.7412 (2016: 0.8128).

The financial statements have been prepared under the historical cost convention and in accordance with Companies Act 2006. The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

b) Basis of preparation (continued)

Disclosure exemptions

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payment'.
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement'.
- Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information
- requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1
  - paragraph 73(e) of IAS 16, 'Property, plant and equipment'
  - paragraph 118(e) of IAS 38, 'Intangible assets'.
- The following paragraphs of IAS 1:
  - 10(d) (statement of cash flows)
  - 16 (statement of compliance with all IFRS)
  - 38A (requirement for minimum of two primary statements, including cash flow statement)
  - 38B-D (additional comparative information)
  - 111 (cash flow information)
  - 134-136 (capital management disclosures)
- IAS 7, 'Statement of cash flows'
- Paragraph 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'
- Paragraph 17 of IAS 24, 'Related party disclosures'
- The requirements in IAS 24 to disclose related party transactions between two or more members of a group.

c) Going concern

The financial statements are prepared on the going concern basis as the parent undertaking, Vertex Pharmaceuticals Incorporated, the ultimate parent, has indicated its intention to provide such financial support as is necessary for the Company to continue in operation and to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements.

d) Turnover

Turnover is measured at the fair value of the consideration received or receivable and represents amounts receivable for services rendered and goods supplied, stated net of discounts and value added taxes. The Company recognises turnover when the amount of turnover can be reliably measured; when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company's activities, as described below.

Turnover includes amounts receivable for services provided to Vertex Pharmaceuticals Incorporated, the Company's parent undertaking based in the USA, under the terms of a service agreement whereby the Company provides market development and direct research on behalf of its parent undertaking. Turnover is recognised in the period in which the services are provided, by reference to costs incurred.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

d) Turnover (continued)

Turnover from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on receipt of the goods. Turnover represents the net invoice value less estimated rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in light of contractual and legal obligations, historical trends and past experience.

e) Research and development expenditure

Research expenditure is recognised in the Income Statement in the year it is incurred.

Internal development expenditure is capitalised only if it meets the recognition criteria of IAS 38, 'Intangible assets'. Where regulatory and other uncertainties are such that the criteria are not met, the expenditure is recognised in the Income Statement and development expenditure is written off to the Income Statement as it is incurred. Development expenditure is capitalised usually when a regulatory filing has been made and approval is considered highly probable. Tangible fixed assets used for research and development are capitalised and depreciated in accordance with note 3(h).

Payments to in-licence products and compounds from third parties for new research and development projects (in process research and development), generally taking the form of upfront payments and milestones, are capitalised. Where payments are made to third parties representing future research and development activities, an evaluation is made as to the nature of the payments and may be recorded in prepayments.

Tax credits to be received in cash which relates to research and development expenditure recognised in the Income Statement are recorded in 'other income' in the period in which the qualifying expenditure was incurred.

f) Interest income and expense

Interest income and expense is recognised using the effective interest method.

g) Intangible Assets

Intellectual property rights

Separately acquired intellectual property rights are recognised at cost. Intellectual property rights which have a finite useful life are carried at cost less accumulated amortisation. Amortisation commences when the asset is available for use and is calculated using the straight line method over the estimated useful life which is the contractual life or patent life of the intellectual property right.

Amortisation is recognised in administrative expenses.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

g) Intangible Assets (continued)

Licenses and other intangible assets

Separately acquired licenses and other intangible assets are shown at historical cost. Licenses and other intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Licenses and other intangible assets have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method over their estimated useful lives.

Amortisation is recognised in administrative expenses, or research and development expenses.

h) Tangible fixed assets

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

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

Short leasehold improvements	-	Spread over lease term (5-15 years) - straight-line
Plant and machinery	-	7 years - straight-line
Fixtures, fittings and equipment	-	4 years - straight-line
Computer hardware	-	3 years - straight-line

Assets under construction are not depreciated until they are available for use.

i) Investment in subsidiaries

Investments in subsidiaries are held at cost less impairment losses.

j) Impairment of non-financial assets

Intangible assets that have an indefinite life or intangible assets not ready to use which are not subject to amortisation, are tested annually for impairment. Other assets that are subject to amortisation and depreciation, and investments in subsidiary undertakings, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash flows. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

k) Inventories

The Company values its inventory at the lower of cost or net realisable value. The Company determines the cost of its inventory, which includes amounts related to materials and manufacturing overhead, on a first-in, first-out basis. If the Company identifies excess, obsolete or unsalable items, its inventories are written down to their realisable value in the period in which the impairment is first identified. Shipping and handling costs incurred for inventory purchases and product shipments are recorded in cost of sales in the Company's Income Statement.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

k) Inventories (continued)

The Company capitalises inventory produced in preparation for initiating sales of a drug candidate when the related drug candidate is considered to have a high likelihood of regulatory approval and the related costs are expected to be recoverable through sales of the inventory. In determining whether or not to capitalise such inventory, the Company evaluates, among other factors, information regarding the drug candidate's safety and efficacy, the status of regulatory submissions and communications with the regulatory authorities and the outlook for commercial sales, including the existence of current or anticipated competitive drugs and the availability of reimbursement. In addition, the Company evaluates risks associated with manufacturing the drug candidate and the remaining shelf life of the inventory items.

l) Financial assets

Classification

The classifications of financial assets are determined by the Directors at initial recognition. The financial assets of the Company are classified as loans and receivables or available-for-sale ("AFS") financial assets.

Available-for-sale financial assets

Quoted shares held by the Company are classified as being AFS and are stated at fair value. Gains and losses are recognised directly in other comprehensive income and accumulated in the revaluation reserve with the exception of impairment losses which are recognised directly in the Income Statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the revaluation reserve is reclassified to the Income Statement.

Other shares in private companies are recorded at cost.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise of trade debtors, amounts owed by group companies, accrued income and cash and cash equivalents.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment.

Impairment of financial assets

The Directors assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impairment losses are incurred when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or group of debtors is experiencing significant financial difficulty, default, or delinquency or other financial reorganisation. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Income Statement.

m) Trade debtors

Trade debtors are amounts due from customers for goods sold and services performed in the ordinary course of business.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

n) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks or with original maturities of three months or less.

o) Share capital

Ordinary shares are classified as equity.

p) Financial liabilities

Classification

The classifications of financial liabilities are determined by the Directors at initial recognition. The financial liabilities of the Company are classified as other financial liabilities. The Company's other financial liabilities comprise of trade creditors, amounts owed to group undertakings, accruals and promissory notes. Classification of less than one year or more than one year depends on the contractual terms of the liabilities.

Recognition and measurement

Other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income Statement over the period of the obligation using the effective interest method.

q) Trade creditors

Trade creditors are obligations to pay for goods or services received that have been acquired in the ordinary course of business from suppliers.

r) Provisions

A provision is recognised when the Company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic benefits will be required to settle the obligation; and the amount has been reliably measured. Provisions are measured at the present value of the expenditures expected to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for property dilapidations are discounted at 0.6% p.a to 1.4% p.a (2016: 0.4% p.a to 1.4% p.a) as the leases expire in 2024. Provisions for national insurance are not discounted.

s) Current and deferred taxation

The tax expense for the year comprises current and deferred taxation. Tax is recognised in the Income Statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the UK tax laws enacted substantively at the balance sheet date. The Directors periodically evaluates positions in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. A provision is recognised where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

s) Current and deferred taxation (continued)

Deferred taxation is recognised in respect of all temporary differences arising between the tax base of assets and liabilities and their carrying amount. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using the tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax is measured on an undiscounted basis.

Deferred tax assets are recognised only to the extent that the Directors consider that it probable that there will be suitable future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax liabilities are provided on taxable temporary differences arising from investment in subsidiaries, except for any deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same tax authority.

t) Foreign currencies

Transactions and balances

Transactions denominated in foreign currencies are translated in the functional currency using the exchange rates prevailing at the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. All differences are taken to the Company's Income Statement in the period in which they arise. All foreign exchange gains and losses relating to trading activities are presented in the Income Statement within other operating income or expenses. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented as a separate disclosure below the operating profit line in the Income Statement.

u) Operating leases

Rentals payable under operating leases are charged, net of any incentives received from the lessor, on a straight line basis over the lease term.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

v) Employee benefits

Pensions

The Company makes contributions to defined contribution pension schemes. The assets of these schemes are held separately from those of the Company in independently administered funds. The Company has no legal or constructive obligation to pay further contributions if there are insufficient funds to pay all employees the benefits relating to employee service in the current or prior periods. The pension cost represents contributions payable by the Company to the schemes during the year.

Termination benefits

Termination benefits are payable when employment is terminated by the Company before normal retirement age, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

Bonus plans

The Company recognises a liability and an expense for bonuses when contractually obliged or where there is a past practice that has created a constructive obligation. Bonuses are determined at the discretion of the Directors.

w) Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest.

At each balance sheet date before vesting, the cumulative expense is calculated; representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in the Income Statement, with a corresponding entry in equity.

Charges received from the parent undertaking in respect of the share-based payment scheme are treated as a distribution in the reconciliation of shareholders' funds.

The Company provides for the National Insurance that would become payable on outstanding share-based payment arrangements awarded under unapproved schemes. The provision is calculated on the difference between the year-end share price of Vertex Pharmaceuticals Incorporated stock and the exercise price of outstanding share awards, and is being allocated over the relevant vesting periods. The calculation is adjusted for estimates on forfeiture rates and likelihood of exercise.

x) Collaboration

The Company reviews each collaboration agreement pursuant to which the Company licenses assets owned by a collaborator in order to determine whether or not the Company has control over the entity licensing the assets. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. These entities are considered subsidiaries and are fully consolidated from the date on which control is transferred to the Company.

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Summary of significant accounting policies (continued)

x) Collaboration (continued)

If the Company concludes that it does not control the entity, the Company then determines whether the arrangement qualifies as a joint arrangement in accordance with IFRS 11 and if not, whether it has significant influence over the entity. If neither is applicable to the arrangement, the Company applies IAS 38 in that payments for separately acquired research and development are capitalized as intangible assets provided that they meet the definition of an intangible asset: a resource that is (i) controlled by the Company, (ii) expected to provide future economic benefits for the Group, and (iii) identifiable (i.e. it is either separable or arises from contractual or legal rights). Under paragraph 25 of IAS 38, the first condition for capitalization (the probability that the expected future economic benefits from the asset will flow to the entity) is considered to be satisfied for separately acquired research and development. Because the amount of the payments is determinable, the second condition for capitalization (the cost can be measured reliably) is also met.

Consequently, upfront and milestone payments to third parties related to pharmaceutical products for which regulatory marketing approval has not yet been obtained are recognized as intangible assets, and amortized on a straight line basis over their useful lives from the date on which marketing approval is obtained.

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Critical accounting estimates and judgements

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

a) Share-based payments

The Company participated in the Group's equity share-based payment schemes described in note 23. There are a number of estimates that are made in the calculation of the annual share-based payment charge which are described below. The charge for the year was $19,640,000 (2016: $14,511,000).

Fair value at grant date

The grant date fair values for the employee share purchase plan and stock options were determined using Black Scholes valuation model taking into account the expected stock price volatility, risk free interest rate, expected term and expected annual dividend.

Estimation of leavers

The calculation of the share-based payments is based on the outstanding options as at 31 December 2017. However, in the normal course of business it is expected that not all of the options or awards will vest because staff will leave the Company. As a result, an assumption has been made on staff attrition rates which has been based on historical information and expectations. If the assumption on staff attrition rates was removed, the share-based payment charge would increase by $1,581,000.

b) Intangible assets

Impairment of intangible assets

As at 31 December 2017, the Company holds a number of intangible assets which represented rights to the non-US commercialization of any product candidates that arise from a number of agreements, as well as a non-exclusive licence to exploit the CF franchise. The carrying value of these assets is $1.4 billion (2016: $1.4 billion). Refer to note 11.

At the year end, not all of the acquired intangible assets were available for use; therefore, amortization of these assets had not begun. As a result, these intangible assets must be tested for impairment annually until they are available for use, at which point they are only tested where there are indications of impairment.

Impairment exists when the carrying value of an asset is lower than its recoverable amount (i.e. higher of value in use or fair value less costs of disposal). When it is determined that there is an impairment, the carrying value of the related intangible asset is written down to its recoverable amount and impairment charge is taken in the period in which the impairment occurs.

In some cases it is not possible to determine the recoverable amount for an individual asset. When this is the case, the recoverable amount should be calculated for the cash-generating unit ("CGU") to which the asset belongs. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. For the purposes of the impairment testing of the intangible assets, two CGUs have been identified. In order to split the assets judgements on the expectation of the independence of future cash flows have been made.

Notes to the financial statements (continued)

For the year ended 31 December 2017

4. Critical accounting estimates and judgements (continued)

b) Intangible assets (continued)

The Company assesses the recoverable amounts of the CGUs using a variety of methods, including present-value models that are based upon multiple probability-weighted scenarios involving the development and potential commercialization of the acquired drug candidates.

The present-value models require the Company to make significant assumptions regarding the estimates that market participants would make in evaluating a drug candidate, including the probability of successfully completing clinical trials and obtaining regulatory approval to market the drug candidate, the timing of and the expected costs to complete in-process research and development projects, future net cash flows from potential drug sales, which are based on estimates of the sales price of the drug, expectations on when the regulatory approvals are received, the number of patients who will be diagnosed and treated, and our competitive position in the marketplace, and appropriate discount and tax rates. The periods over which the cash flows are forecast are based on the life of the patent and when the drug candidate receives regulatory approval.

The valuation method of the recoverable amount of each CGU was based on the value in use. The following assumptions are used in the calculations:

	CGU 1 - CF	*CGU 2 - Primary Ciliary Dyskinesia*	*CGU 4 – Spinal Cord*
	%	%	%
Discount rate (post-tax)	8	7.1	11

During the year ended 31 December 2017, the Company recognised an impairment charge of $51,000,000 (2016: $nil). See note 11(b).

Notes to the financial statements (continued)

For the year ended 31 December 2017

5. Turnover

a) Turnover by geographical area

	2017	2016
	$'000	$'000
United States of America	**1,943,771**	1,256,733
United Kingdom	**90,469**	80,277
Rest of Europe	**366,383**	248,794
Rest of World	**46,473**	50,534
Total	**2,447,096**	1,636,338

b) Turnover by type

	2017	2016
	$'000	$'000
Sale of inventory	**2,403,903**	1,597,863
Research and development services	**43,193**	38,475
Total	**2,447,096**	1,636,338

6. Operating loss

This is stated after charging/(crediting):

	2017	2016
	$'000	$'000
Auditors' remuneration – audit of the financial statements	**79**	79
Depreciation (note 12)	**6,374**	5,027
Impairment of licences and other intangible assets (note 11)	**51,000**	-
Amortisation of licences and intellectual property ("IP") rights (note 11)	**128,795**	125,461
Foreign exchange (gain)/loss	**(11,729)**	8,920
Research and development expenditure[1]	**293,631**	203,977
Operating lease rentals – land and buildings	**3,866**	3,643
Other income	**(2,281)**	(1,986)
Inventories recognised as an expense during the period:		
Cost of inventory recognised as an expense (included in cost of sales)	**1,897,348**	1,216,844
Inventory obsolescence	**14,342**	3,994

[1] Included within research and development is $6,667k of amortisation and $51,000k of impairment.

Other income relates to a research and development expenditure credit (above the line) of $2,281k (2016: $1,986k).

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group accounts of its ultimate parent Vertex Pharmaceuticals Incorporated.

Notes to the financial statements (continued)

For the year ended 31 December 2017

7. Staff costs and Directors' remuneration

a) Staff costs

	2017	2016
	$'000	$'000
Wages and salaries	**32,096**	27,810
Share-based payments	**19,640**	14,511
Social security costs	**10,575**	1,060
Other pension costs (note 21)	**1,829**	1,589
	64,140	44,970

The average monthly number of employees (including Directors) during the year was made up as follows:

	No.	No.
Sales and administration	**135**	103
Research and development	**106**	108
	241	211

b) Directors

Ian Smith is a director of the ultimate parent, the Company and fellow Vertex Group subsidiaries. He receives his total remuneration from the ultimate parent for his services to the Vertex Group. It is not practicable to allocate his remuneration between his services as director for the companies within the Vertex Group. His total remuneration for his services to the Vertex Group was $5,936k for the year ended 31 December 2017.

Both Simon Bedson and Simon Lem receive their remuneration from the Company, which is as follows:

	2017	2016
	$'000	$'000
Aggregate remuneration	**1,159**	1,123
Aggregate gains made on the exercise of share options	**15,675**	237
Company contributions to defined contribution schemes	**62**	64

	No.	No.
Number of directors who received shares in respect of qualifying services	**3**	3

Notes to the financial statements (continued)

For the year ended 31 December 2017

7. Staff costs and Directors' remuneration (continued)

Highest paid director

The highest paid director's remuneration was as follows:	**2017 $'000**	2016 $'000
Total amount of emoluments and amounts (excluding shares) receivable under long-term incentive schemes	**783**	753
Company contributions to defined contribution schemes	**48**	49
Total	**831**	802

In the current financial period, the highest paid director made gains from exercising share options. In the current financial period, shares were received under a long term incentive scheme by the highest paid director.

8. Interest receivable and similar income

	2017 $'000	2016 $'000
Interest receivable on bank deposits	**240**	2
Interest receivable on amounts due from group undertakings	**407**	409
Interest income on convertible note	**-**	51
	647	462

9. Interest payable and similar charges

	2017 $'000	2016 $'000
Interest payable on amounts due to group undertakings	**7,915**	3,440
Interest payable on promissory notes	**3,338**	3,989
Interest accretion expense (see note 18)	**104**	125
	11,357	7,554

Notes to the financial statements (continued)

For the year ended 31 December 2017

10. Tax

a) Tax on loss on ordinary activities

The tax is made up as follows:

	2017 $'000	2016 $'000
Current tax:		
Current tax expense on loss for the year	**369**	382
Over provision in prior years	**(337)**	-
Total current tax	**32**	382
Deferred tax:		
Current credit for the year	**(2,452)**	-
Adjustments in respect of previous periods	**-**	-
Total deferred tax	**(2,452)**	-
Tax on loss on ordinary activities (note 10 (b))	**(2,420)**	382

b) Factors affecting total tax (income)/expense for the year

The charge for the year can be reconciled to the loss per the income statement as follows:

	2017 $'000	2016 $'000
Loss on ordinary activities before tax	**(237,217)**	(200,670)
Tax on loss at standard UK tax rate of 19.25% (2016: 20%)	**(45,664)**	(40,134)
Effects of:		
Expenses not deductible for tax purposes	**670**	218
Adjustments in respect of prior years	**(337)**	-
Unrecognized deferred tax	**44,998**	39,916
Utilization of tax losses not previously recognized	**(2,452)**	-
Tax on RDEC	**365**	382
Total tax expense for the year (note 10 (a))	**(2,420)**	382

Notes to the financial statements (continued)

For the year ended 31 December 2017

10. Tax (continued)

c) Deferred tax

Recognised deferred tax (assets) and liabilities comprise:

	2017	2016
	$'000	$'000
Tax losses	**(2,452)**	-
Revaluation gain through other comprehensive income	**5,373**	3,815
	2,921	3,815

At the balance sheet date, the Company had tax losses of $571,648k, tax credits of $1,332k and other temporary differences of $71,156k. For which no deferred tax has been recognised. There is no expiry date for any of these temporary differences.

d) Factors that may affect future tax charges

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

The Finance (No.2) Act 2015 was substantively enacted on 26 October 2015 and included a reduction in the main rate of UK Corporation Tax to 19% from 1 April 2017; a further reduction from 19% to 17% from 1 April 2020 was enacted in 2016. As these reductions to the rate were substantively enacted at the balance sheet date, the Company has calculated deferred tax applying the rate at which it is expected the assets or liabilities will be realised i.e. deferred tax assets and liabilities have been calculated at a rate of 17%.

Notes to the financial statements (continued)

For the year ended 31 December 2017

11. Intangible assets

	Intellectual Property (IP) Rights $'000	Licences and other intangible assets $'000	Total $000
Cost:			
At 1 January 2017	1,486,000	114,589	1,600,589
Additions	165,057	7,000	172,057
At 31 December 2017	1,651,057	121,589	1,772,646
Amortisation:			
At 1 January 2017	162,338	9,083	171,421
Impairment	-	51,000	51,000
Provided during the year[1]	119,368	9,427	128,795
At 31 December 2017	281,706	69,510	351,216
Carrying value:			
Net book value at 31 December 2017	1,369,351	52,079	1,421,430
Net book value at 1 January 2017	1,323,662	105,506	1,429,168

[1] $6,667k of the amortisation is recognised in research and development. The remaining amortisation is recognised within administrative expense.

a) Intellectual property (IP) rights

	Cost 2017 $'000	Accumulated amortisation 2017 $'000	Net book value 2017 $'000	Remaining useful life
VX-809	957,000	(179,887)	777,113	9 years
VX-770	366,000	(101,819)	264,181	8 years
VX-661	163,000	-	163,000	N/A
VX-561	165,057	-	165,057	N/A
At 31 December 2017	1,651,057	(281,706)	1,369,351	

VX-809, VX-770 and VX-661

The amortisable basis for ex-North American IP represents a non-exclusive licence to exploit the CF franchise, including VX-809, VX-770 and VX-661. The licence value is based upon the net present value of future cash flow from revenues through to patent expiry for each product. VX-770 and VX-809 were the only products with market approval at the end of the year and are consequently being amortised on a straight line basis over an estimated useful life of approximately 11 years from their acquisition date of 30 November 2014, and launch date in December 2015, respectively. VX-661 was not available for use as clinical development is ongoing, therefore amortisation had not commenced at the end of 2017.

Notes to the financial statements (continued)

For the year ended 31 December 2016

11. Intangible assets (continued)

VX-561

On 6 March 2017, it was announced that VPEL and VPI had signed a definitive asset purchase agreement to acquire CTP-656 (renamed VX-561) from Concert Pharmaceuticals. VX-561 is an investigational CFTR potentiator that has the potential to be used as part of future once-daily combination regimens of CFTR modulators that treat the underlying cause of CF.

The asset purchase agreement was completed on 25 July 2017. As part of the agreement, VPEL paid Concert $160.0 million in cash for all worldwide development and commercialization rights to VX-561. Transaction costs of $5.1 million were also capitalised as part of the cost of the asset.

VX-561 was not available for use as clinical development is ongoing, therefore amortisation had not commenced at the end of 2017.

b) Licenses and other intangible assets

	Cost	Impairment	Accumulated amortisation	Net book value	Remaining useful life
	$'000	$'000	$'000	$'000	
UK wholesale distribution license and associated contracts	30,589	-	(8,510)	22,079	8 years
Moderna	20,000	-	(10,000)	10,000	1.5 years
AmorChem	10,000	-	-	10,000	N/A
Parion	51,000	(51,000)	-	-	N/A
BioAxone	3,000	-	-	3,000	N/A
CRISPR Co-Co	7,000	-	-	7,000	N/A
At 31 December 2017	121,589	(51,000)	(18,510)	52,079	

BioAxone

During 2014, VPEL contributed $3.0 million to enter the BioAxone Agreement. The Company recorded an intangible asset of $3.0 million, which represents VPEL's rights to non-US commercialization of any product candidates that arise from collaboration. The product candidate is currently in the clinical trial phase and is not yet available for use. As a result no amortisation has been recognised in the accounts.

Parion

On 4 June 2015, the Vertex Group entered into a strategic collaboration and license agreement with Parion Sciences, Inc. VPEL contributed $48.0 million to enter the Parion Agreement. In 2016, the Company contributed a milestone payment of $3m. As at 31 December 2017, this asset was reviewed for impairment and as a result was written down to nil.

Notes to the financial statements (continued)

For the year ended 31 December 2017

11. Intangible assets (continued)

AmorChem

On 15 June 2016, VPEL entered into an asset purchase agreement with AmorChem L.P. ("AmorChem") to buy certain small molecule compounds for $10.0 million.

Amortization begins once the asset is available for use, which would be once a product candidate has been given regulatory approval. The product candidates are currently in development and are not yet available for use. As a result no amortisation has been recognised in the accounts.

Moderna

On 1 July 2016, VPI and VPEL entered into a strategic collaboration and license agreement with Moderna Therapeutics ("Moderna"). Pursuant to the agreement, the collaboration with Moderna is aimed at the discovery and development of messenger Ribonucleic Acid ("mRNA") Therapeutics for the treatment of CF. The three-year collaboration will focus on the use of mRNA therapies to treat the underlying cause of CF by enabling cells in the lungs to produce functional copies of the cystic fibrosis transmembrane conductance regulator ("CFTR") protein, which is known to be defective in people with CF.

VPEL paid Moderna $20.0 million in cash as an upfront payment, which has been capitalized as an intangible asset. VPEL also made a $20.0 million investment in Moderna in the form of a convertible note that converted into preferred stock in August 2016 (see note 14).

CRISPR Co-Co

On 12 December 2017, VPI, VPEL and CRISPR Therapeutics AG announced that the companies will co-develop and co-commercialize CTX001, an investigational gene editing treatment, as part of the companies' previously announced collaboration aimed at the discovery and development of new gene editing treatments that use the CRISPR/Cas9 technology. In order to enter into this arrangement, VPEL paid CRISPR Therapeutics AG $7 million.

CTX001 represents the first gene-based treatment that VPEL exclusively licensed from CRISPR Therapeutics as part of the collaboration. For CTX001, CRISPR and VPEL will equally share all research and development costs and profits worldwide.

A Clinical Trial Application was submitted in 2017 for CTX001 to support the initiation of a Phase 1/2 trial in β-thalassemia in 2018 in Europe, and an Investigational New Drug (IND) Application was submitted in April 2018 to support the initiation of a Phase 1/2 trial in sickle cell disease in the U.S.

In May 2018, it was announced that the U.S. Food and Drug Administration (FDA) placed a clinical hold on the IND for CTX001 for the treatment of sickle cell disease pending the resolution of certain questions from the FDA as part of its review of the IND. Vertex is continuing to work with the FDA to address the agency's questions.

The product candidates are currently in development and are not yet available for use. As a result no amortisation has been recognised in the accounts.

Notes to the financial statements (continued)

For the year ended 31 December 2017

12. Tangible fixed assets

	Assets under construction	Short leasehold improvements	Fixtures, fittings and equipment	Total
	$'000	$'000	$'000	$'000
Cost:				
At 1 January 2017	1,234	44,981	36,654	82,869
Additions	6,619	52	109	6,780
Exchange differences	-	592	(118)	474
Transfers	(6,863)	1,604	5,259	-
Disposals	-	-	(1,598)	(1,598)
At 31 December 2017	990	47,229	40,306	88,525
Depreciation:				
At 1 January 2017	-	22,612	24,770	47,382
Exchange differences	-	11	312	323
Charge for the year	-	2,981	3,393	6,374
Disposals	-	-	(1,598)	(1,598)
At 31 December 2017	-	25,604	26,877	52,481
Net book value:				
At 31 December 2017	990	21,625	13,429	36,044
At 1 January 2017	1,234	22,369	11,884	35,487

13. Investment in subsidiaries

	2017	2016
	$'000	$'000
At 1 January	**49,057**	49,030
Additions	**2**	27
At 31 December	**49,059**	49,057

During 2017, VPEL incorporated an entity in Poland called Vertex Pharmaceuticals (Poland) SP. Z O.O. which resulted in the recognition of an addition to investments in subsidiaries of $2,000.

Notes to the financial statements (continued)

For the year ended 31 December 2017

13. Investment in subsidiaries (continued)

The Company has the following subsidiary undertakings as at 31 December 2017:

Name	Activity	Registered office	Country of registration	% Holding	Direct / Indirect
Vertex Pharmaceuticals (Ireland) Limited	Distributor of small molecular medicine	28-32 Upper Pembroke St, Dublin 2, Ireland	Republic of Ireland	100%	Direct
Vertex Pharmaceuticals (Sweden) Limited	Distributor of small molecular medicine	Torsgatan 13, 8 tr 111 23 Stockholm, Sweden	Sweden	100%	Direct
Vertex Pharmaceuticals (CH) GmbH	Distributor of small molecular medicine	Baarerstrasse 88, 6300 Zug, Switzerland	Switzerland	100%	Direct
Vertex Pharmaceuticals (Portugal) Unipessoal Lda	Distributor of small molecular medicine	Torre de Monsanto Rua Afonso Praça nº 30, 7 1495-061 Algés, Portugal	Portugal	100%	Direct
Vertex Pharmaceuticals GmbH	Distributor of small molecular medicine	Euro Plaza, Building H, Lehrbachgasse 13 1120 Wien, Austria	Austria	100%	Direct
Vertex Pharmaceuticals (U.K.) Limited	Non trading	Cardinal Point, Park Road, Rickmansworth, Hertfordshire, WD3 1RE	UK	100%	Direct
Vertex Pharmaceuticals Single Member Societe Anonyme	Distributor of small molecular medicine	62 Kifissias Avenue, 15124 Maroussi, Greece	Greece	100%	Direct
Vertex Pharmaceuticals (Poland) SP. Z O.O.	Sales and marketing of medical products	Emilii Plater 53, Warsaw, Poland	Poland	99%	Direct
Vertex Farmacêutica do Brasil Ltda	Distributor of small molecular medicine	Rua Trindade, No. 125, Bloco 2, Jardim Margarida, 06730-000, Vargem Grande Paulista, São Paulo, Brazil	Brazil	100%	Indirect

Notes to the financial statements (continued)

For the year ended 31 December 2017

14. Other investments

	2017	2016
	$'000	$'000
At 1 January	**84,560**	30,086
Additions	**-**	33,127
Net gain from changes in fair value of equity investments recognised in equity	**10,261**	21,347
At 31 December	**94,821**	84,560

	2017	2016
	$'000	$'000
Available for sale investments - Equity		
- Quoted shares	**74,821**	64,560
- Preference shares	**20,000**	20,000
Total investments	**94,821**	**84,560**

CRISPR

During 2015, as part of the agreement with CRISPR, the Company entered into a $30.0 million convertible loan arrangement. The loan ($30.0 million) and accrued interest ($0.1 million) converted into preferred stock in the first quarter of 2016. In the second quarter of 2016, the Company made an additional preferred stock investment in CRISPR of approximately $3.1 million. In connection with CRISPR's initial public offering in October 2016, the Company made an additional $10.0 million common share investment in CRISPR and the Company's preferred stock investment in CRISPR converted into common shares. Following the year end, the Company has made an additional investment in CRISPR. See note 26.

Moderna

In July 2016, the Company made a $20.0 million investment in Moderna in the form of a convertible note that converted into preferred stock in August 2016.

15. Inventories

	2017	2016
	$'000	$'000
Raw materials	**20,924**	6,348
Work in progress	**74,435**	56,667
Finished goods	**7,327**	13,306
	102,686	76,321

Notes to the financial statements (continued)

For the year ended 31 December 2017

16. Debtors

	2017	2016
	$'000	$'000
Amounts falling due within one year:		
Trade debtors	**41,956**	26,759
Amounts owed by group companies	**82,047**	78,179
Other debtors	**4,498**	1,703
VAT recoverable	**618**	-
Prepayments and accrued income	**45,447**	29,924
	174,566	136,565
Amounts falling due after more than one year:		
Prepayments and accrued income	**19,555**	39,494
Other debtors	**1,517**	2,643
	21,072	42,137

The amounts due from group undertakings were subject to variable interest rates ranging from 0.74% p.a to 1.29% p.a. (0.73% p.a. in 2016), are unsecured and repayable on demand.

Notes to the financial statements (continued)

For the year ended 31 December 2017

17. Creditors: amounts falling due within one year

	2017	2016
	$'000	$'000
Trade creditors	**9,117**	9,625
Amounts owed to group companies	**929,039**	721,534
Other taxation and social security costs	**3,565**	5,688
Accruals and deferred income	**20,531**	18,094
Promissory note with Vertex Pharmaceuticals (UK) Ltd	**40,589**	39,870
Promissory note with Vertex Pharmaceuticals (Ireland) Ltd	**33,013**	32,423
Promissory note with Vertex Pharmaceuticals Incorporated	**109,124**	107,219
	1,144,978	934,453

The amounts due to group undertakings were subject to variable interest rates ranging from 0.74% p.a to 1.29% p.a. (0.73 % p.a. in 2016), are unsecured and repayable on demand.

The promissory notes are made up of the following amounts:

- The $40.6 million (2016: $39.9 million) intercompany promissory note with Vertex Pharmaceuticals (UK) Limited is inclusive of accrued interest and is subject to a 1.89% per annum interest charge. The balance of this note together with any accrued interest is due and payable on demand.
- The $33.0 million (2016: $32.4 million) intercompany promissory note with Vertex Pharmaceuticals (Ireland) Limited is inclusive of accrued interest and is subject to a 1.89% per annum interest charge. The balance of this note together with any accrued interest is due and payable on demand.
- The promissory notes owing to Vertex Pharmaceuticals Incorporated totalling $109.1 million (2016: 107.2 million) consists of the following:
  a) $78.0 million promissory note relating to an upfront payment to CRISPR. Interest is payable at 1.84% per annum and the balance of this note together with any accrued interest is due and payable on demand.
  b) $31.1 million promissory note relating to the investment in CRISPR. Interest is payable at 1.75% per annum and the balance of this note together with any accrued interest is due and payable on demand.

Notes to the financial statements (continued)

For the year ended 31 December 2017

18. Provisions for liabilities

	Deferred tax (note 10)	*National insurance on share option gains*	*Property dilapidation*	*Total*
	$'000	$'000	$'000	$'000
At 1 January 2017	3,815	2,001	6,310	12,126
Increase/(release)	(894)	7,335	609	7,050
Utilised	-	(4,348)	-	(4,348)
Interest accretion	-	-	104	104
At 31 December 2017	**2,921**	**4,988**	**7,023**	**14,932**

National insurance on share option gains

Provision has been made for National Insurance contributions on those options awarded under unapproved share options schemes which are expected to be exercised. The amount of National Insurance payable depends upon the number of employees who remain with the Company and exercise their options, the market price of the VPI shares at the time of exercise and the prevailing National Insurance rates at the time. The provision takes into account the above factors and the movements in the market value of the VPI shares to 31 December 2017.

Under an additional restricted share scheme employees are granted restricted shares in VPI. These shares vest to the employee on an annual basis over a fixed period, where upon cessation of employment, the employee forfeits any unvested shares. For the restricted share scheme, the Company is liable to pay National Insurance on the market value at the time the shares vest to the employee unless the employee has elected to pay taxation and National Insurance at the date the shares are granted in which case the employers' National Insurance is liable at this date.

Potential National Insurance on these share based payments was also included in the provision.

Property dilapidations

The dilapidations provision is based on the future expected repair costs required to restore the leased properties to their original condition at the end of their respective lease terms.

The Milton Park leases were renegotiated in September 2014 and contractual amounts are due to be incurred at the end of the lease terms in 2024. The Company recorded a dilapidation provision of approximately $5.3 million in 2017 as its present value of its initial estimate for this location.

In February 2015, the Company entered into a lease assignment with a third party to take over the third party's leased space at 2 Kingdom Street, London. The lease was entered into in conjunction with the Company's relocation of its EU Headquarters from Nyon, Switzerland as well as the relocation of its commercial and administrative functions in Milton Park, UK to the new Paddington office. The Company recorded a dilapidation provision of approximately $1.7 million in 2017 as its present value of its initial estimate for this location.

Notes to the financial statements (continued)

For the year ended 31 December 2017

19. Called up share capital

	2017 No.	2017 $'000	2016 $'000
Allotted, called up and fully paid			
Shares in issue at 1 January	**128,000**	**201**	201
New shares issued during the year	-	-	-
Ordinary shares of $1.57 (£1) each at 31 December	**128,000**	**201**	201

The authorised share capital is 250,000 (2016: 250,000) ordinary shares of £1 each.

20. Share premium account

The share premium account records the amount above the nominal value received for shares issued, less transaction costs. In accordance with Section 610 of the Companies Act 2006, the share premium account is not distributable but can be used to write-off the expenses of the issue of those shares; to write off any commissions paid on the issue of those shares; or to pay up new shares to be allotted to members as fully paid bonus shares.

21. Pensions

The Company operates a defined contribution pension scheme for its employees. Contributions for the year ended 31 December 2017 amounted to $1.8 million (2016 – $1.6 million). Outstanding contributions at 31 December 2017 were $0.3 million (2016 – $0.2 million). This amount is included within accruals.

22. Other financial commitments

At 31 December 2017 the Company had annual commitments under non-cancellable operating leases as set out below:

	2017 Land and buildings $'000	2016 Land and buildings $'000
Future minimum lease payments due:		
Within one year	**4,208**	3,163
In two to five years	**21,069**	12,651
Over five years	**24,072**	9,248
	49,349	25,062

Notes to the financial statements (continued)

For the year ended 31 December 2017

22. Other financial commitments (continued)

Other commitments

Collaborations

The Company has various ongoing collaborations arrangements with development partners. Such collaborations may require the Company to make payments on achievement of stages of development, launch or revenue milestones. Note 3(x) outlines the accounting policy for such arrangements.

The table below indicates potential development payments that the Group may be required to make under such collaborations.

	Within one year $'000	In two to five years $'000	Over five years $'000	Total $'000
Future milestone payments	24,400	220,650	445,000	690,050

The table includes all potential payments based on our current timeline for achievement of development and regulatory milestones under ongoing arrangements.

The table excludes any payments already capitalised in the Financial Statements for the year ended 31 December 2017, and any royalties and commercial milestones based on future net product sales. The future payments we disclose represent contracted payments and, as such, are not discounted and are not risk adjusted.

The development of any pharmaceutical product candidate is a complex and risky process that may fail at any stage in the development process due to a number of factors (including items such as failure to obtain regulatory approval, unfavourable data from key studies, adverse reactions to the product candidate or indications of other safety concerns). The timing of the payments is based on the Company's current best estimate of achievement of the relevant milestone.

Asset purchase - Concert Pharmaceuticals

On 6 March 2017, it was announced that VPEL and VPI had signed a definitive asset purchase agreement to acquire CTP-656 (renamed VX-561) from Concert Pharmaceuticals. VX-561 is an investigational CFTR potentiator that has the potential to be used as part of future once-daily combination regimens of CFTR modulators that treat the underlying cause of CF.

The asset purchase agreement was completed on 25 July 2017. As part of the agreement, VPEL paid Concert $160.0 million in cash for all worldwide development and commercialization rights to VX-561. If VX-561 is approved as part of a combination regimen to treat CF, Concert could receive up to an additional $90.0 million in milestones based on regulatory approval in the U.S. and reimbursement in the UK, Germany or France.

Notes to the financial statements (continued)

For the year ended 31 December 2017

23. Share-based payments

The Company's employees participated in four group share based payment schemes which have been described below.

Employee share purchase plan ("ESPP")

The parent undertaking operates an employee share purchase plan, where all Company employees have the opportunity to save between 1-15% of their gross monthly salary, the sum of which is used to purchase shares at six monthly intervals, May and November, at a discounted price. The share price of the purchase is calculated at a 15% discount on the lower of the average daily rate of the anchor price and the purchase date price.

Stock options

The parent undertaking awards equity-settled stock options to company employees at the discretion of the compensation committee, managed by the ultimate parent. The options vest on a quarterly basis for a period of 4 years. An employee has 90 days upon leaving the Company to exercise vested options.

The following shows the number and weighted average exercise prices (WAEP) of share options exercised during the year:

	2017	**2017 WAEP**	2016	2016 WAEP
	No.	**$**	No.	$
Exercised	**312,352**	**82.91**	62,455	69.87

The range of exercise prices for share options outstanding at the end of the year were:

	2017	2016
	No.	No.
$18.93 - $44.99	**14,147**	43,998
$45.00 - $48.74	**18,049**	66,165
$49.62 – $77.31	**11,672**	115,229
$79.32 - $96.87	**224,677**	270,647
$96.87 and over	**126,294**	135,679
Outstanding at 31 December	**394,839**	631,718

The weighted average remaining contractual life for options outstanding at the end of the year was 7.52 years (2016 – 7.19 years)

Restricted share awards

The parent undertaking awards equity settled restricted shares to company employees at the discretion of the compensation committee, managed by the ultimate parent. These shares vest on an annual basis over a period of 4 years. Restricted share awards are valued at the daily average of the high and low market price ruling at the date of grant.

Notes to the financial statements (continued)

For the year ended 31 December 2017

23. Share-based payments (continued)

Performance accelerated restricted shares ("PARS")

The parent undertaking awards equity settled PARS to eligible members of the global Senior Management team based in the UK. These shares are awarded at the discretion of the compensation committee, managed by the ultimate parent. These shares cliff vest after 4 years. However, the vesting of these shares may be accelerated based on the achievement of certain financial performance indicators and non-financial performance indicators relating to clinical and commercial milestones.

The total expense recognised for share-based payments in respect of employee services received during the year to 31 December 2017 is $19,640,000 (2016: $14,511,000). The expense is split between each scheme as follows:

	2017	2016
	$'000	$'000
ESPP Employee share purchase plan	**637**	380
Stock options	**6,914**	6,129
Restricted share awards	**11,624**	7,186
PARS Performance accelerated restricted shares	**465**	816
	19,640	14,511

24. Ultimate parent undertaking and controlling party

The immediate parent undertaking was Vertex Pharmaceuticals (Cayman) Limited.

The Directors consider the ultimate controlling party is Vertex Pharmaceuticals Incorporated, a company incorporated in the United States of America. This entity heads the smallest and largest group in which the results of the Company are consolidated. Copies of the parent's group financial statements may be obtained from The Secretary, Vertex Pharmaceuticals Incorporated, 50 Northern Avenue, Boston, Massachusetts, USA.

25. Related party transactions

The Company's ultimate parent consolidates BioAxone within its consolidated financial statements. As such, BioAxone is considered a related party to the company. However, BioAxone is not a wholly-owned subsidiary of VPI and thus, are outside of the scope exception for related party disclosures under FRS 101.

In accordance with the BioAxone collaboration agreement, the company agreed to contribute towards the funding of research and development work performed by BioAxone. During 2017, the company contributed $0.1 million towards the research and development work performed by BioAxone, (2016: $ 0.1 million). As of December 31, 2017, the company had an outstanding balance of $46 thousand, associated with BioAxone's research and development expenditure reimbursements.

Notes to the financial statements (continued)

For the year ended 31 December 2017

26. Subsequent events

In January 2018, The Company purchased an additional $21.5 million investment in CRISPR's common shares.