JAZZ PHARMACEUTICALS PLC

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 636,504	$ 387,196
Accounts receivable, net of allowances of $3,680 and $3,779 at December 31, 2013 and 2012, respectively	124,805	75,480
Inventories	28,669	26,525
Prepaid expenses	7,183	7,445
Deferred tax assets, net	33,613	35,813
Other current assets	33,843	19,113
Total current assets	864,617	551,572
Property and equipment, net	14,246	7,281
Intangible assets, net	812,396	869,952
Goodwill	450,456	442,600
Deferred tax assets, net, non-current	74,597	74,850
Deferred financing costs	14,605	16,576
Other non-current assets	7,304	3,662
Total assets	$ 2,238,221	$ 1,966,493
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 21,005	$ 15,887
Accrued liabilities	119,718	104,666
Current portion of long-term debt	5,572	29,688
Income taxes payable	336	39,884
Contingent consideration	50,000	—
Deferred tax liability, net	6,259	275
Deferred revenue	1,138	1,138
Total current liabilities	204,028	191,538
Deferred revenue, non-current	5,718	6,776
Long-term debt, less current portion	544,404	427,073
Contingent consideration, non-current	—	34,800
Deferred tax liability, net, non-current	168,497	178,393
Other non-current liabilities	20,040	6,621
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Ordinary shares, nominal value $0.0001 per share; 300,000 shares authorized; 57,854 and 58,014 shares issued and outstanding at December 31, 2013 and 2012, respectively	6	6
Non-voting euro deferred shares, €0.01 par value per share; 4,000 shares authorized, issued and outstanding at both December 31, 2013 and 2012	55	55
Capital redemption reserve	471	471
Additional paid-in capital	1,220,317	1,151,010
Accumulated other comprehensive income	56,153	31,046
Retained earnings (accumulated deficit)	18,532	(61,296)
Total shareholders' equity	1,295,534	1,121,292
Total liabilities and shareholders' equity	$ 2,238,221	$ 1,966,493

The accompanying notes are an integral part of these consolidated financial statements.

JAZZ PHARMACEUTICALS PLC

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Year Ended December 31, 2013	2012	2011
Revenues:			
Product sales, net	$ 865,398	$ 580,527	$ 266,518
Royalties and contract revenues	7,025	5,452	5,759
Total revenues	872,423	585,979	272,277
Operating expenses:			
Cost of product sales (excluding amortization of acquired developed technologies)	102,146	78,425	13,942
Selling, general and administrative	304,303	223,882	108,936
Research and development	46,620	20,477	14,120
Intangible asset amortization	79,042	65,351	7,448
Total operating expenses	532,111	388,135	144,446
Income from operations	340,312	197,844	127,831
Interest expense, net	(26,916)	(16,869)	(1,600)
Foreign currency loss	(1,697)	(3,620)	—
Loss on extinguishment and modification of debt	(3,749)	—	(1,247)
Income from continuing operations before income tax provision (benefit)	307,950	177,355	124,984
Income tax provision (benefit)	91,638	(83,794)	—
Income from continuing operations	216,312	261,149	124,984
Income from discontinued operations, net of taxes	—	27,437	—
Net income	$ 216,312	$ 288,586	$ 124,984
Basic income per ordinary share:			
Income from continuing operations	$ 3.71	$ 4.61	$ 3.01
Income from discontinued operations	—	0.48	—
Net income	$ 3.71	$ 5.09	$ 3.01
Diluted income per ordinary share:			
Income from continuing operations	$ 3.51	$ 4.34	$ 2.67
Income from discontinued operations	—	0.45	—
Net income	$ 3.51	$ 4.79	$ 2.67
Weighted-average ordinary shares used in per share computations:			
Basic	58,298	56,643	41,499
Diluted	61,569	60,195	46,798

The accompanying notes are an integral part of these consolidated financial statements.

JAZZ PHARMACEUTICALS PLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Operating activities			
Net income	$ 216,312	$ 288,586	$ 124,984
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of intangible assets	79,042	72,922	7,448
Depreciation	3,048	1,307	379
Loss on disposal of property and equipment	46	163	33
Share-based compensation	44,551	23,006	20,704
Excess tax benefit from share-based compensation	173	(9,785)	—
Acquisition accounting inventory fair value step-up adjustments	3,826	19,939	—
Change in fair value of contingent consideration	15,200	(300)	—
Deferred income taxes	(10,097)	(113,862)	—
Gain on sale of business	—	(35,244)	—
Provision for losses on accounts receivable and inventory	2,446	4,654	59
Loss on extinguishment and modification of debt	3,749	—	1,247
Other non-cash transactions	6,278	3,523	394
Changes in assets and liabilities:			
Accounts receivable	(48,846)	(4,724)	(12,293)
Inventories	(8,516)	1,697	1,239
Prepaid expenses and other current assets	(13,871)	(13,091)	(934)
Other long-term assets	(4,306)	(3,491)	186
Accounts payable	5,089	(7,286)	2,080
Accrued liabilities	14,717	(11,428)	11,211
Income taxes payable	(38,984)	39,340	—
Deferred revenue	(1,061)	(1,205)	(1,273)
Other non-current liabilities	14,820	2,351	(82)
Liability under government settlement	—	(7,320)	(3,786)
Net cash provided by operating activities	283,616	249,752	151,596
Investing activities			
Acquisitions, net of cash acquired	—	(542,531)	—
Purchases of marketable securities	—	(37,443)	(79,886)
Net proceeds from sale of business	—	93,922	—
Proceeds from sale of marketable securities	—	81,246	—
Proceeds from maturities of marketable securities	—	31,988	4,033
Acquisition of intangible assets	(1,300)	—	—
Purchases of property and equipment	(9,976)	(5,976)	(1,279)
Purchase of product rights	—	(16,500)	(4,500)
Decrease in restricted cash	—	—	400
Net cash used in investing activities	(11,276)	(395,294)	(81,232)
Financing activities			
Net proceeds from issuance of debt	553,425	450,916	—
Proceeds from employee equity incentive and purchase plans and exercise of warrants	30,703	25,003	16,419
Share repurchases	(136,484)	—	—
Payment of employee withholding taxes related to share-based awards	(5,590)	(25,299)	—
Excess tax benefit from share-based compensation	(173)	9,785	—
Repayment of long-term debt	(465,910)	(11,875)	(41,668)
Payments of debt extinguishment costs	—	—	(483)
Net repayments under revolving credit facility	—	—	(7,350)
Net cash provided by (used in) financing activities	(24,029)	448,530	(33,082)
Effect of exchange rates on cash and cash equivalents	997	2,132	—
Net increase in cash and cash equivalents	249,308	305,120	37,282

Cash and cash equivalents, at beginning of period	387,196	82,076	44,794
Cash and cash equivalents, at end of period	$ 636,504	$ 387,196	$ 82,076

The following table presents total long-lived assets by location (in thousands):

	December 31,	
	2013	2012
Ireland	$ 5,799	$ 2,437
United States	7,734	4,451
Other	713	393
Total long-lived assets (1)	$ 14,246	$ 7,281

(1) Long-lived assets consist of property and equipment.

15. Income Taxes

The components of income from continuing operations before the income tax provision (benefit) were as follows (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Republic of Ireland	$ 186,903	$ (73,949)	$ —
United States	132,855	250,348	124,984
Other	(11,808)	956	—
Total	$ 307,950	$ 177,355	$ 124,984

The following table sets forth the details of the income tax provision (benefit) (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Current			
Republic of Ireland	$ 17,089	$ (10,733)	$ —
United States	71,964	33,387	—
Other	12,682	7,414	—
Total current income tax	101,735	30,068	—
Deferred			
Republic of Ireland	8,353	(315)	—
United States	(3,513)	(103,932)	—
Other	(14,937)	(9,615)	—
Total deferred income tax provision (benefit)	(10,097)	(113,862)	—
Total income tax provision (benefit)	$ 91,638	$ (83,794)	$ —

During 2013, we recognized an income tax provision of $91.6 million related to tax arising on income in Ireland, the United States and certain other foreign jurisdictions, certain uncertain tax positions and various expenses not deductible for tax purposes. During 2012, we recognized an income tax benefit of $83.8 million which resulted primarily from our reversal of a valuation allowance on most of our U.S. federal and state deferred tax assets, as described below. As discussed in Note 1, in January 2012, the businesses of Jazz Pharmaceuticals, Inc. and Azur Pharma were combined in a merger transaction accounted for as a reverse acquisition and the combined company changed its domicile from the United States to Ireland. During 2011, we had operations only in the United States and made no provision for income taxes due to our utilization of federal net operating loss carryforwards, or NOLs, to offset both regular taxable income and alternative minimum taxable income and to our utilization of deferred state tax benefits for which the related deferred tax assets were offset by a valuation allowance.

The effective tax rate for 2013 of 29.8% was higher than the Irish statutory rate of 12.5% primarily due to income taxable at a rate higher than the Irish statutory rate, certain uncertain tax positions, current year losses in some jurisdictions for which no tax benefit is available, and various expenses not deductible for tax purposes, partially offset by benefits from certain originating income tax credits. In 2012, following the Azur Merger and the change in the combined company's domicile, the statutory income tax rate changed from the U.S. rate of 35.0% to the Irish rate of 12.5%. In June 2012, we completed the EUSA Acquisition, which further expanded our global operations. The 2012 effective income tax rate on continuing activities before utilization of NOLs and tax credit carryforwards and release in valuation allowance in 2012 of 42.5% was higher than the Irish statutory rate of 12.5% due to a number of factors, including income taxable at a rate higher than the Irish statutory rate, losses in certain tax jurisdictions for which no tax benefit is available and various expenses not deductible for tax purposes. The decrease in the effective tax rate in 2013 compared to 2012 was primarily due to changes in income mix among the various jurisdictions in which we operate as well as higher taxes in 2012 relating to acquisition restructuring. We are currently paying taxes in Ireland, the United States and certain other foreign jurisdictions where we have operations and either all NOLs have been utilized, or are restricted as a result of the Azur Merger.

A reconciliation of income taxes at the statutory income tax rate to our effective income tax rate was as follows (in thousands):

	Year Ended December 31,		
	2013	**2012**	**2011**
Statutory income tax rate	12.5%	12.5 %	35.0%
Income tax provision at statutory rate	$ 38,494	22,169	43,744
Acquisition-related costs	—	763	3,552
Research and other tax credits	(5,957)	(100)	(1,323)
Non-deductible share-based compensation	2,497	873	670
Foreign income tax rate differential	31,651	52,066	—
Change in unrecognized tax benefits	8,685	2,249	—
Prior period adjustments	3,375	(2,524)	—
Change in valuation allowance	3,220	(159,158)	(46,996)
Non-deductible contingent consideration	5,320	—	—
Other	4,353	(132)	353
Income tax provision (benefit)	$ 91,638	$ (83,794)	$ —
Effective income tax rate	29.8%	(47.2)%	—%

In 2013, the change in valuation allowance was $3.2 million. In 2012, the change in valuation allowance of $159.2 million was comprised of NOLs and tax credit carryforwards of $55.0 million and a release in valuation allowance of $104.2 million as described below.

Deferred income taxes reflect the tax effects of NOLs and tax credit carryforwards and the net temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes using currently enacted tax rates and regulations that are expected to be in effect when the differences are expected to be recovered or settled.

JAZZ PHARMACEUTICALS PLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Significant components of our net deferred tax assets/(liabilities) were as follows (in thousands):

	December 31,	
	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 71,364	$ 71,636
Tax credit carryforwards	11,374	6,034
Intangible assets	10,733	13,940
Share-based compensation	8,116	3,875
Accruals	30,730	32,594
Deferred revenue and other	9,252	13,797
Total deferred tax assets	141,569	141,876
Valuation allowance	(20,691)	(17,471)
Net deferred tax assets	120,878	124,405
Deferred tax liabilities:		
Acquired intangible assets	(176,576)	(191,341)
Other	(10,848)	(1,069)
Net deferred tax liabilities	$ (66,546)	$ (68,005)

The following table presents the breakdown between current and non-current deferred tax assets/(liabilities) (in thousands):

	Year Ended December 31,	
	2013	2012
Current deferred tax assets	$ 33,613	$ 35,813
Current deferred tax liabilities	(6,259)	(275)
Non-current deferred tax assets	74,597	74,850
Non-current deferred tax liabilities	(168,497)	(178,393)
Net deferred tax liabilities	$ (66,546)	$ (68,005)

As of December 31, 2013, we had NOL carryforwards and tax credit carryforwards for U.S. federal income tax purposes of approximately $227.9 million and $18.5 million, respectively, available to reduce future income subject to income taxes. The NOL carryforwards are inclusive of $114.6 million from the EUSA Acquisition in 2012. The federal NOL carryforwards will expire, if not utilized, in the tax years 2016 to 2031, and the federal tax credits will expire, if not utilized, in the tax years 2017 to 2033. In addition, we had approximately $292.2 million of NOL carryforwards and $2.6 million of tax credit carryforwards as of December 31, 2013 available to reduce future taxable income for state income tax purposes. The state NOL carryforwards will expire, if not utilized, in the tax years 2014 to 2032. The state tax credits have no expiration date. In addition, as of December 31, 2013, there were NOL carryforwards for income tax purposes of approximately $59.5 million and $4.3 million available to reduce future income subject to income taxes in the United Kingdom and Germany, respectively. The NOLs generated in the United Kingdom and Germany have no expiration period and we maintain a full valuation allowance against the associated deferred tax assets until sufficient positive evidence exists to support reversal.

Approximately $65.4 million of both the U.S. federal and state NOL carryforwards as of December 31, 2013 resulted from exercises of employee share options and certain sales by employees of shares issued under other employee equity compensation plans. We have not recorded the tax benefit of the deduction related to these exercises and sales as deferred tax assets on our balance sheet. When we realize the tax benefit as a reduction to taxable income in our tax returns, we will account for the tax benefit as a credit to shareholders' equity rather than as a reduction of our income tax provision in our financial statements.

Valuation allowances require an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. Our valuation allowance was $20.7 million and $17.5 million as of December 31, 2013 and 2012, respectively, for certain U.S. state and foreign deferred tax assets which we maintain until sufficient positive evidence exists to support reversal. During the fourth quarter of 2012, we recognized an income tax benefit of $104.2 million relating to the reversal of a valuation allowance against substantially all of our U.S. federal and state deferred tax assets. Management determined that a valuation allowance was no longer needed on these deferred tax assets based on an assessment of the relative impact of all positive and negative evidence that existed at December 31, 2012, including an evaluation of cumulative income in recent years, future sources of taxable income exclusive of reversing temporary differences, and significant risks and uncertainties related to our business. We periodically evaluate the likelihood of the realization of deferred tax assets and will adjust such amounts in light of changing facts and circumstances including, but not limited to, future projections of taxable income, tax legislation, rulings by relevant tax authorities, the progress of tax audits and the regulatory approval of products currently under development.

Utilization of certain of our NOL and tax credit carryforwards in the United States is subject to annual limitation due to the ownership change limitations provided by Sections 382 and 383 of the Internal Revenue Code and similar state provisions. Such an annual limitation may result in the expiration of certain NOLs and tax credits before future utilization. We currently estimate that we have an annual limitation on the utilization of certain acquired federal NOLs of $28.6 million for each of the years 2014 to 2016, $11.9 million for 2017, and a combined total of $3.3 million for 2018 to 2026. In addition, as a result of the Azur Merger, we are subject to certain limitations under the Internal Revenue Code in relation to the utilization of U.S. NOLs to offset U.S. taxable income resulting from certain transactions.

Temporary differences related to investments in foreign subsidiaries totaled approximately $664.3 million and $604.2 million as of December 31, 2013 and 2012, respectively. In the event of the distribution of those earnings in the form of dividends, a sale of the subsidiaries, or certain other transactions, we may be liable for income taxes, subject to an adjustment, if any, for foreign tax credits and foreign withholding taxes payable to certain foreign tax authorities. As of December 31, 2013 it was not practicable to determine the amount of the income tax liability related to these investments.

We are required to recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. As a result, we have established a liability for certain tax benefits which we judge may not be sustained upon examination. A reconciliation of our unrecognized tax benefits follows (in thousands):

	December 31,		
	2013	2012	2011
Balance at the beginning of the year	$ 7,288	$ 3,764	$ 4,852
Increases related to current year tax positions	14,308	3,492	242
Increases related to prior year tax positions	183	40	213
Decreases related to prior year tax positions	(142)	(8)	(1,543)
Balance at the end of the year	$ 21,637	$ 7,288	$ 3,764

The unrecognized tax benefits were included in other non-current liabilities and deferred tax assets, net, non-current in our consolidated balance sheet. Interest related to our unrecognized tax benefits is recorded in income tax provision (benefit) in our consolidated statements of income. As of December 31, 2013 and 2012, our accrued interest and penalties related to uncertain tax positions were not significant. Included in the balance of unrecognized tax benefits were potential benefits of $16.3 million and $6.3 million at December 31, 2013 and 2012, respectively, that, if recognized, would affect the effective tax rate on income. We do not anticipate that the amount of existing unrecognized tax benefits will significantly increase or decrease within the next 12 months.

Our major tax jurisdictions are Ireland, the U.S. and France. Because of our net operating loss and tax credit carryforwards, substantially all of our tax positions remain open to federal and state examination in the U.S. In France, tax periods open to examination include the periods 2010 to 2013. In Ireland, tax periods open to examination include the periods 2009 to 2013. Certain of our subsidiaries are currently under examination by the U.S. Internal Revenue Service in respect of periods from 2010 to 2012 and by the French tax authorities in respect of periods from 2010 to 2012.

16. Related Party Transactions

In 2013, we entered into an underwriting agreement with an underwriter and certain selling shareholders, pursuant to which the selling shareholders sold to the underwriter 5.4 million of our ordinary shares, resulting in aggregate gross proceeds to the selling shareholders of approximately $314.4 million, before deducting underwriting discounts, commissions and other offering expenses. The selling shareholders included entities affiliated with certain members of our board of directors and one of our directors. We did not receive any proceeds from the sale of our ordinary shares by the selling shareholders in the offering and, consistent with our obligations under existing registration rights agreements with those shareholders, we paid expenses of approximately $0.5 million in connection with the offering.