Merck Performance Materials Limited
(formerly Aghoco 1898 Limited)

Directors' Report, Strategic Report and Financial Statements

Registered number 12251750
31 December 2020

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Strategic Report

The directors present their strategic report of Merck Performance Materials Ltd (formerly Aghoco 1898 Limited) ("the Company") for the period ended 31 December 2020.

The Company was incorporated on 9 October 2019 and commenced trading on 1 July 2020.

The Company changed its name on 13 January 2020.

Principal activities

The principal activities of the Company during the period were the sale of speciality chemicals.

Review of the business

	Period ended 31 December 2020
	£000
Turnover	**1,297**
Loss after tax for the financial period	**(427)**

In January 2020, Merck Life Science UK Limited acquired 100% share capital in a newly created entity Merck Performance Materials Limited.

Effective 13 January 2020, the Company's name was changed from Aghoco 1898 Limited to Merck Performance Materials Limited.

On 1 July 2020, Merck Performance Materials Limited acquired the Performance Material Business from Merck Life Science UK Limited (immediate parent undertaking) for a consideration of £1.4 million. The total value of net assets transferred as a result of this transaction amounted to £0.7 million. Merger accounting was applied and the difference between the consideration paid and the book value of net assets acquired was debited to a merger reserve.

On 24 September 2020, Merck Life Science UK Limited made a capital injection in Merck Performance Materials Limited amounting to £2.4 million in exchange for one ordinary share, based on a Board of Directors resolution signed on 24 September 2020.

The revenue for the period of £1,297,000 is in line with the directors' expectation.

All of the company's purchases are from other Merck group entities and consequently the margins achieved by the company are impacted by the group's transfer pricing policies. In the financial period the company generated a loss after tax of £427,000 with the loss primarily being due to year end transfer pricing adjustments.

The company's net assets amount to £1,312,000 as at 31 December 2020.

Principal risks, uncertainties and financial risk management

The management of the business and the execution of the Company's strategy are subject to a number of risks.

Credit risk

External sales transactions represent 100% of total Company revenues. They are with well established companies therefore management believes that credit risk is not a material risk for the Company.

Finance facilities are provided by group companies at agreed interest rates (Libor plus mark-up) and, therefore, the Company is exposed to the relating rate fluctuations.

Risks are formally reviewed by management and appropriate processes are in place to monitor and mitigate them.

Financial instruments

Due to the nature of its business, the Company is exposed to the effects of fluctuations in foreign currency exchange rates. In order to manage these exposures, the Company may entered into currency hedging arrangement within the Merck group. These arrangements comprise the use of forward currency purchase and sales contracts.

Brexit

Merck Performance Materials Ltd sells performance material products to the third party companies located in United Kingdom. Being outside the EU currently has no impact on our ability to trade freely.

Covid-19

The Company does not currently expect any significant impact on the Company's financial statements and its liquidity due to the SARS-CoV-2 outbreak. Based on currently available information, the Company does not expect a direct, immediate and significant negative impact of COVID-19 on its operations, financial situation and economic results.

Future outlook

The Company will continue to provide a range of products and services to its customers in the performance materials industry that are innovative, high quality solutions that meet the needs of our various customers. The Company will continue to focus on its operations in the UK.

Research and development

Research and development activities are performed on behalf of other Merck group entities and therefore recharged.

Going Concern

Notwithstanding the loss in the financial period, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Directors have performed a going concern assessment for a period of 12 months. In preparing this assessment, they have considered the impacts of Covid-19. The assessment indicates that, through funding from its parent company Merck Life Science UK Limited, the company will have sufficient funds, to meet its liabilities as they fall due for that period.

The company participates in a cash pooling arrangement with Merck Financial Services GmbH, a fellow group company incorporated in Germany, whereby all cash balances held with third party banks are cleared on a daily basis and transferred to a central cash pooling account. All transferred balances are retained by Merck Financial Services GmbH and made available to the company in order to satisfy its cash flow requirements.

The directors are in receipt of a letter confirming the support of their parent company for a period of at least 12 months from the date of signing of these financial statements.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

By order of the board

PETER BIRO (Sep 7, 2021 10:38 GMT+1)

Peter Biro
Director

5 New Square
Bedfont Lake Business Park
Feltham
United Kingdom
TW14 8HA

Date: 7th September, 2021

Directors' Report

The directors present their report and the audited financial statements for the period ended 31 December 2020.

Directors

The directors of the Company who held office during the period and up to the date of signing these financial statements were:

Peter Biro (appointed on 13 January 2020)

Richard Harding (appointed on 13 January 2020)

Roger Hart (appointed on 9 October 2019, resigned on 13 January 2020)

Company Secretary

The following held office as Company Secretary during the period and up to the date of signing these financial statements:

AG Secretarial Limited

Proposed dividend

The directors do not recommend the payment of any dividend.

Employees

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees has continued at all levels, with the aim of ensuring that views are taken into account where decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of their business units and of the Company as a whole, and Company results are reflected in an annual bonus scheme.

Directors' Report *(continued)*

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects in market prices and credit risk. The Company has in place a credit risk management programme that requires appropriate credit checks on potential customers before sales are made. Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Company's finance department.

Disclosure of information to auditor

The directors who held office at the date of approval of the Directors' report confirm that, as far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

By order of the board

PETER BIRO (Sep 7, 2021 10:38 GMT+1)

Peter Biro
Director

5 New Square
Bedfont Lake Business Park
Feltham
United Kingdom
TW14 8HA

Date: 7th September, 2021

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards (UK Generally Accepted Accounting practice) and applicable law, including FRS 102 The Financial Reporting standards applicable in UK and Republic of Ireland.

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 judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent Auditor's Report to the Members of Merck Performance Materials Limited (formerly Aghoco 1898 Limited)

Opinion

We have audited the financial statements of Merck Performance Materials Limited (the 'company') for the period ended 31 December 2020, which comprise the profit and loss account, the balance sheet, the statement of changes in equity and the related notes, 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, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its losses for the period 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. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United Kingdom, including the Financial Reporting Council'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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's Report to the Members of Merck Performance Materials Limited (formerly Aghoco 1898 Limited)

(continued)

Other information

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

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

We have nothing to report in this regard.

Opinion 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 directors' report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has 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 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; and
- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report to the Members of Merck Performance Materials Limited (formerly Aghoco 1898 Limited)

(continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 8, 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, was as follows:

- the engagement partner ensured that the engagement team collectively had the appropriate competence, capabilities and skills to identify or recognise non-compliance with applicable laws and regulations;
- we identified the laws and regulations applicable to the company through discussions with directors and other management, and from our commercial knowledge and experience of the company's industry;
- we focused on specific laws and regulations which we considered may have a direct material effect on the financial statements or the operations of the company, including the Companies Act 2006, taxation legislation and data protection, anti-bribery, employment, environmental and health and safety legislation;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management and inspecting legal correspondence; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non-compliance throughout the audit.

We assessed the susceptibility of the company's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

Independent Auditor's Report to the Members of Merck Performance Materials Limited (formerly Aghoco 1898 Limited)

(continued)

Auditor's responsibilities for the audit of the financial statements (continued)

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias; and
- investigated the rationale behind significant or unusual transactions.

In response to the risk of irregularities and non-compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation; and
- enquiring of management as to actual and potential litigation and claims.

There are inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance. Auditing standards also limit the audit procedures required to identify non-compliance with laws and regulations to enquiry of the directors and other management and the inspection of regulatory and legal correspondence, if any.

Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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.

Blick Rothenberg Audit LLP

Nils Schmidt-Soltau (senior statutory auditor)

for and on behalf of
Blick Rothenberg Audit LLP

Chartered Accountants
Statutory Auditor

16 Great Queen Street
Covent Garden
London
WC2B 5AH

Date: 9 September 2021

Profit and Loss Account

for the period ended 31 December 2020

	Note	**Period ended 31 December 2020 £000**
Turnover	*2*	**1,297**
Cost of sales		**(1,225)**
Gross profit		**72**
Administrative expenses		**(1,652)**
Other operating income	*4*	**1,020**
Operating loss	*3*	**(560)**
Interest payable and similar charges	*7*	**(6)**
Loss on ordinary activities before taxation		**(566)**
Tax on loss on ordinary activities	*8*	**139**
Loss for the financial period		**(427)**

There are no items of other comprehensive income for the period than the loss for the period. Accordingly, no statement of other comprehensive income has been presented.

The notes on pages 16 to 31 form part of these financial statements.

Balance Sheet
at 31 December 2020

	Note	2020 £000	£000
Tangible assets	9		**194**
Current assets			
Stocks	10	**715**	
Debtors	11	**1,952**	
Cash at bank and in hand		**5**	
		2,672	
Creditors: amounts falling due within one year	12	**(1,545)**	
Net current liabilities			**1,127**
Total assets less current liabilities			**1,321**
Provisions for liabilities			
Deferred tax	13	**-**	
Other provisions	14	**(9)**	
			(9)
Net assets			**1,312**
Capital and reserves			
Called up share capital	15		**-**
Share premium	15		**2,400**
Merger reserve	16		**(661)**
Profit and loss account			**(427)**
Equity shareholders' funds			**1,312**

The notes on pages 16 to 31 form part of these financial statements.

These financial statements were approved by the board of directors on and were signed on 7th September, 2021 on its behalf by:

P Biro

PETER BIRO (Sep 7, 2021 10:38 GMT+1)

Director
Company number: 12251750

Statement of Changes in Equity

	Called up Share capital	Share premium	Merger reserves	Profit and loss account	**Total equity**
	£000	£000	£000	£000	**£000**
Total comprehensive income/(loss) for the period					
Profit for the financial period	-	-	-	(427)	**(427)**
Shares issued during the period	-	2,400	-	-	**2,400**
Change in equity due to Asset Purchase Agreements	-	-	(661)	-	**(661)**
Total comprehensive income/(loss) for the period	-	*2,400*	*(661)*	*(427)*	***1,312***
Balance at 31 December 2020	**-**	**2,400**	**(661)**	**(427)**	**1,312**

The notes on pages 16 to 31 form part of these financial statements.

Notes

(Forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

Merck Performance Materials Limited (formerly Aghoco 1898 Limited) (the "Company") is a private company limited by shares incorporated in England in the UK. The registered number is 12251750 and the registered address is 5 New Square, Bedfont Lakes Business Park, Feltham, Middlesex, United Kingdom, TW14 8HA.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("*FRS 102*"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking, Merck KGaA includes the Company in its consolidated financial statements. The consolidated financial statements of Merck KGaA are prepared in accordance with International Financial Reporting Standards as adopted by the EU and are available to the public and may be obtained from Frankfurter Strasse 250, 64271 Darmstadt, Germany. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

As the consolidated financial statements of Merck KGaA include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- Certain disclosures required by FRS 102 Section 26 Share Based Payments; and,
- The disclosures required by FRS 102 Section 11 Basic Financial Instruments and FRS 102 Section 12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Notes *(continued)*

1 Accounting policies *(continued)*

Basis of preparation *(continued)*

Going concern

Notwithstanding the loss for the financial period, the financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Directors have performed a going concern assessment for a period of 12 months. In preparing this assessment, they have considered the impacts of Covid-19. The assessment indicates that, through funding from its parent company Merck Life Science UK Limited, the company will have sufficient funds, to meet its liabilities as they fall due for that period.

The company participates in a cash pooling arrangement with Merck Financial Services GmbH, a fellow group company incorporated in Germany, whereby all cash balances held with third party banks are cleared on a daily basis and transferred to a central cash pooling account. All transferred balances are retained by the Merck Financial Services GmbH and made available to the company in order to satisfy its cash flow requirements.

The directors are in receipt of a letter confirming the support of their parent company for a period of at least 12 months from the date of signing of these financial statements.

Consequently, the directors are confident that the company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Measurement convention

The financial statements have been prepared under the historical cost convention (modified to include the revaluation of investments in subsidiaries) and in accordance with applicable accounting standards.

Business acquisitions

With effect from 1 July 2020 the company acquired the commercial performance materials business from Merck Life Science UK Limited, the company's immediate parent undertaking. As the business was acquired from a company under common control, the company has applied the principles of merger accounting and transferred the acquired assets and liabilities at their book values. The difference between the book value of the assets and liabilities and the consideration has been included in a merger reserve.

Basic financial instruments

Trade and other debtors / creditors including amounts owed by undertakings

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate for a similar debt instrument.

Notes *(continued)*

1 Accounting policies *(continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The Company assess at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

Leasehold improvements	-	Between 10% and 20% per annum
Plant and Equipment	-	Between 10% and 33% per annum

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the Company expects to consume an assets' future economic benefits.

Research and development

All expenditure on research and development is written off in the profit and loss in the year in which it is incurred.

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items on first in first out basis.

Foreign currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transaction, except where specific forward contracts exist of these amounts, when the contract rate is used. Monetary assets and liabilities at the balance sheet date are translated at the period-end rates of exchange except where specific forward contracts exist in respect of these amounts, when the contract rate is used. Gains and losses on translation are included in the profit and loss account.

Share based payments

The parent Company, Merck KGaA, grants rights to its equity instruments to the Company's employees which are accounted for as cash settled in the consolidated accounts of the parent, the Company accounted for these share based payments as cash settled. The fair value of options granted is recognised as an employee expense with a corresponding increase in Liability. The fair value is measured at each reporting date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expenses is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes *(continued)*

1 Accounting policies *(continued)*

Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and interest payable

Interest payable and similar charges includes interest payable that are recognised in the profit and loss account.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for:

- differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and
- differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference.

Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Notes *(continued)*

1 Accounting policies *(continued)*

Related party disclosures

As the Company is wholly owned by Merck KGaA, it has taken advantage of the exemption contained in FRS 102 and has, therefore, not disclosed transactions or balances with entities which form part of the group headed by Merck KGaA. The consolidated financial statements of Merck KGaA, within which this Company is included, can be obtained from the address given in note 18.

Turnover

Revenue from the sale of goods is recognised in the profit and loss account when the significant risk and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Turnover is measured as fair value of the consideration received or receivable, excluding discounts and value added tax.

Leased assets

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance lease. Assets acquired under finance leases are capitalised and the related liability is recorded as an obligation to pay future rentals. Finance charges are allocated to accounting periods on the basis of the outstanding capital obligation.

Notes *(continued)*

2 Turnover

Turnover, represent the invoiced value of goods supplied by the Company, and is exclusive of VAT.

	Period ended 31 December 2020 £000
By activity	
Sales of goods	**1,297**
	1,297

	Period ended 31 December 2020 £000
By geographical market	
United Kingdom	**1,297**
	1,297

3 Expenses and auditor's remuneration

Included in operating loss are the following:

	Period ended 31 December 2020 £000
Depreciation and other amounts written off tangible fixed assets (Note 9)	**31**
Hire of plant and machinery - operating leases	**17**
Hire of land & building - operating leases	**48**

Auditor's remuneration:

	Period ended 31 December 2020 £000
Audit of these financial statements	**18**

Notes *(continued)*

4 Other Operating Income

	Period ended 31 December 2020
Research and development recharges	970
Other	89
	1,059

5 Staff numbers and costs

The average number of persons employed during the period, including directors, was as follows:

	Number of employees
	Period ended 31 December 2020
Research and development	10
Distribution	10
Administration	1
	21

The aggregate payroll costs of these persons were as follows:

	Period ended 31 December 2020 £000
Salaries and wages	750
Social security costs	107
Other pension costs	75
	932

Notes *(continued)*

6 Directors' remuneration

	Period ended 31 December 2020 £000
Directors' emoluments	54
Company contributions to defined benefit pension scheme	6
	60

One director is employed by another company within the Merck group and therefore received no remuneration (including emoluments, long term incentive schemes and contribution to pension schemes) from the Company for the period ended 31 December 2020 or in respect of their service as directors of the Company.

In 2020, no Director had any share options, restricted stock units, performance shares or any other interests in the shares of the Company nor did any Director exercise or sell any such options, restricted stock units, performance, shares, or other interests.

7 Interest payable and similar charges

	Period ended 31 December 2020 £000
Payable to group companies	6
	6

Notes *(continued)*

8 Taxation

	Period ended 31 December 2020 £000
Current tax	
UK Corporation Tax on income for the period	(131)
Total current tax	**(131)**
Deferred tax:	
Origination of timing differences	(8)
Total tax credit in profit and loss	**(139)**

	2020		
	Current tax	Deferred tax	Total tax
	£000	£000	£000
Recognised in profit & loss account	(131)	(8)	(139)
	(131)	(8)	(139)

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting tax charge for current period

	Period ended 31 December 2020 £000
Reconciliation of effective tax rate	
Profit/(loss) excluding taxation	**(566)**
Tax at the standard corporation tax rate for the period of 19%	**(107)**
Other permanent differences	**7**
Depreciation in excess of capital allowances	**6**
Other temporary differences	**3**
Origination of timing differences deferred tax	**(8)**
Tax credits	**(39)**
Total tax expense included in profit and loss	**(139)**

A reduction in the corporation tax rate to 17%, effective from 1 April 2020, was substantively enacted on 15th September 2016. This tax rate reduction was reversed by the Finance Bill 2020, which was substantively enacted on 17th March 2020, so the UK corporation tax rate remains at 19% for the full year (2019: 19%). On 3 March 2021, the Government announced that from 1 April 2023 the corporation tax rate would increase to 25% for companies with profits of over £250,000. A small profits rate will also be introduced for companies with profits of £50,000 or less so that they will continue to pay corporation tax at 19%. From this date companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective corporation tax rate. This increase in the corporation tax rate was substantively enacted on 24 May 2021. As the proposal to increase the rate had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements, so the deferred tax assets and liabilities at 31 December 2020 have been calculated based on the 19% tax rate.

Notes *(continued)*

9 Tangible fixed assets

	Leasehold improvements £000	Plant and Equipment £000	Total £000
Cost			
Additions	104	121	225
Balance at 31 December 2020	**104**	**121**	**225**
Depreciation			
Charge for the period	12	19	31
Balance at 31 December 2020	**12**	**19**	**31**
Net book value			
At 31 December 2020	**92**	**102**	**194**

10 Stocks

	2020 £000
Finished goods	**715**

11 Debtors

	2020 £000
Trade debtors	**624**
Amounts owed by group undertakings	**1,162**
Other debtors	**9**
Prepayments	**18**
Deferred tax asset (note 13)	**8**
Corporation tax	**131**
	1,952

Notes *(continued)*

12 Creditors: amounts falling due within one year

	2020 £000
Trade creditors	187
Amounts owed to group undertakings	908
Taxation and social security	104
Other creditors	156
Accruals and deferred income	190
	1,545

The Company participates in a cash pooling arrangement with another Merck Group Company, whereby all cash balances held with third party banks are cleared on a daily basis and transferred to a central parent account. All transferred balances are held by the parent Company and made available to the Company in order to satisfy its cash flow requirements. Balances held within the cash pool arrangement are subject to interest and charges calculated on an arm's length basis. As at 31 December 2020 amounts owed to group undertakings includes £868,000 in respect of cash pooled balances.

Other creditors comprises:

	2020 £000
VAT (Value added tax)	156
	156

13 Deferred taxation

	Assets 2020 £000	Liabilities 2020 £000	Net 2020 £000
Accelerated capital allowances	8	-	8
	8	-	8

Notes *(continued)*

14 Provisions

	Leased property dilapidations £000	Long term incentive plan £000	Total £000
Provisions made during the period	3	6	**9**
Balance at 31 December 2020	**3**	**6**	**9**

The long term incentive plan is a supplementary, shares-oriented component of the overall compensation package for qualifying employees.

15 Capital and reserves

Share capital

	2020 £000
Allotted, called up and fully paid:	
2 ordinary shares of £1 each	**0**
	0

On incorporation the company issued 1 ordinary share of £1 each at par, in order to establish the capital structure of the company.

On 24 September 2020 the company issued 1 ordinary share of £1 each at a premium of £2,399,999 in order to facilitate the acquisition of the trade and assets of Merck Life Sciences UK Limited's performance materials business.

The shares have attached to them full voting, dividend and capital distribution rights (including on winding up); they do not confer any rights of redemption.

Share premium

The share premium reserve includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Profit and loss account

The profit and loss account includes all current and prior period retained profits and losses.

Notes *(continued)*

16 Acquisition of the business

In an agreement with an effective date of 1 July 2020, Merck Performance Materials Limited acquired from its immediate parent undertaking, Merck Life Science UK Limited, the performance material commercial business, comprising certain assets, liabilities and all other rights and assets of the seller used in or relating to the transferred business.

The assets and liabilities acquired and consideration paid are as follows:

	2020 **£000**
Intangible and Tangible fixed assets	225
Inventory	376
Debtors	295
Creditors	(83)
Accrual	(113)
Net assets acquired	700
Consideration paid	1,361
Excess consideration charged direct to equity as this as a common control transaction	661

17 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land & buildings 2020 £000	**Plant & machinery 2020 £000**
Operating leases which expire:		
- Within one year	**75**	**21**
- In the second to fifth years inclusive	**37**	**14**
	112	**35**

18 Ultimate parent undertaking

The ultimate parent undertaking is Merck KGaA, a Company incorporated in Germany, whose registered office is at Frankfurter Strasse 250, 64271 Darmstadt, Germany. The only group in which the results of the Company are consolidated is that headed by Merck KGaA. The consolidated statements of this group are available to the public and may be obtained from Frankfurter Strasse 250, 64271 Darmstadt, Germany.

19 Immediate parent undertaking

The immediate parent undertaking is Merck Life Science UK Limited, a Company incorporated in United Kingdom.

Notes *(continued)*

20 Related party transactions

The company has taken advantage of the exemption contained in FRS 102 section 33 "Related Party Disclosures" from disclosing transactions with entities which are a wholly owned part of the group.