Intervet UK Limited

Directors' report and financial statements
Registered number 946942
31 December 2017

Contents

Strategic report
For the year ended 31 December 2017

The directors present their strategic report on Intervet UK Limited ("the company") together with the directors' report and audited financial statements for the year ended 31 December 2017.

General information

The company trades as 'MSD Animal Health', selling veterinary products primarily into the UK market with a small amount of product sold into the Irish market, and carries out research and development activities into innovative products and formulations.

It is a private limited company by shares, incorporated and domiciled in England. The address of its registered office is Walton Manor, Walton, Milton Keynes, Buckinghamshire, MK7 7AJ.

Business review

The results for the year ended 31 December 2017 and financial position are reported on pages 8 to 10 of the financial statements.

Principal risks and uncertainties

The company operates in the animal healthcare industry which is characterised by long lead times in developing and obtaining approval for new products.

The research and development pipeline and intellectual property rights are managed by the Intervet/Schering-Plough Animal Health unit, a part of Merck & Co. Inc., the company's ultimate parent company.

The company's activities expose it to a number of financial risks including foreign currency exchange rates, credit risks and liquidity risks. The foreign currency exchange rate risks are managed by the Intervet/Schering-Plough Animal Health unit, a sub group of Merck & Co. Inc.

The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts. The company has some concentration of credit risk with significant exposure to a small number of customers. The risk is mitigated by tight credit control and by regular monitoring.

In order to maintain liquidity to ensure sufficient funds are available for on-going operations and future developments the company has access to a cash pooling facility operated by Merck & Co. Inc.

Research and development

The company carries out research and development for both new products and improvements to existing products. All such work is carried out on behalf of Intervet International BV, a group company incorporated in The Netherlands, and the majority of these costs are consequently recharged to that company.

Key performance indicators

The directors' manage the company's operation on a divisional basis. The development, performance and position of the company are assessed and managed using the following indicators:

- Market position of MSD Animal Health in the UK. This consists of reviewing sales demand for proprietary products relative to the wider veterinary market to track market share and position of the company in the UK and its promoted products.

- Agreeing targets and benchmarks tracking performance against those targets across a number of key performance indicators across the P&L.

Strategic report *(continued)*

Outlook

The company continues to assess its position within the overall UK veterinary market and continues to ensure it is organised to deliver value to customers through its offering of innovative products, flexible customer services offering and Key Account management. The company will continue to drive the market through customer engagement, providing products and tools valued by our customers.

On behalf of the Board

E Can Temucin
Director
27 September 2018

Directors' report
For the year ended 31 December 2017

Results and dividend payable

The company's profit for the financial year is £4,560,000 *(2016: £17,546,000).*

Profit includes pension receipts of £7,151,000 (2016: £10,009,000) from other group companies for employers' contributions.

The Directors proposed and paid an interim dividend for the current year of £25,000,000 *(2016: nil).*

Directors and their interests

The directors who held office throughout the year and to the date of signing this report were:

A. Costa (resigned 05 July 2018)
M Varvella (resigned 24 January 2017)
A Harberg
J. Moehlenbrock (appointed 24 January 2017)
E Can Temucin (appointed 5 July 2018)

Post balance sheet events

There are no matters to report as post balance sheet events.

Exemption from filing consolidated financial statements

The financial statements present information about the company as an individual undertaking.

S400 of the Companies Act 2006 allows a company that is wholly owned by a body incorporated in a EEA member state an exemption from preparing consolidated financial statements. Therefore the company has taken advantage of the exemption and has not prepared consolidated financial statements for the company or its subsidiary undertakings.

Supplier payment policy

The company does not follow any code of practice or standard regarding the payment of suppliers but seeks to agree the terms of payment with suppliers prior to the placing of purchase orders and it is the company's policy to settle those liabilities by the due date.

Employee consultation

The company places considerable value on the involvement of its employees and has continued its practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through the group newsletter, annual face to face meeting between the directors and employees and other internal communications.

Disabled employees

Applications by disabled persons for employment 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 that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Directors' report *(continued)*

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Disclosure of Information to the auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicted their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General meeting.

On behalf of the Board of Directors

E Can Temucin
Director
27 September 2018

Independent auditors' report to the members of Intervet UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Intervet UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

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.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

R. P. Girdlest

Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
28 September 2018

Profit and loss account
For the year ended 31 December 2017

	Note	**2017**	2016
		£000	£000
Turnover	4	**149,572**	136,298
Cost of sales		**(122,345)**	(100,735)
Gross profit		**27,227**	35,563
Distribution costs		**(7,154)**	(6,895)
Administrative expenses		**(23,046)**	(19,126)
Other operating income	*5*	**8,102**	10,836
Operating profit		**5,129**	20,378
Interest receivable and similar income	*8*	**2**	8
Interest payable and similar expenses	*9*	**(70)**	(35)
Other finance income	*10*	**765**	1,217
Profit before taxation	*5*	**5,826**	21,568
Tax on profit	*11*	**(1,266)**	(4,022)
Profit for the financial year		**4,560**	17,546

Statement of comprehensive income
For the year ended 31 December 2017

	Note	**2017**	2016
		£000	£000
Profit for the financial year		**4,560**	17,546
Other comprehensive income/(expense):			
Actuarial gains/(losses)	24	**23,361**	(13,778)
Movement on deferred tax relating to pension surplus	20	**(3,971)**	2,480
Total other comprehensive income/(expense)		**19,390**	(11,298)
Total comprehensive income for the year		**23,950**	6,248

Balance sheet
As at 31 December 2017

	Note	2017	2017	2016	2016
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*13*		**(735)**		(979)
Tangible assets	*14*		**14,291**		15,011
Investments	*15*		**47,074**		47,074
			60,630		61,106
Non-current post retirement benefit surplus	*24*		**57,524**		23,293
Current assets					
Inventories	*16*	**28,715**		27,432	
Debtors	*17*	**43,212**		44,680	
Cash at bank and in hand		**358**		1,574	
		72,285		73,686	
Creditors: amounts falling due within one year	*18*	**(78,587)**		(50,547)	
Net current (liabilities)/assets			**(6,302)**		23,139
Total assets less current liabilities			**111,852**		107,538
Provision for liabilities	*19*		**(9,108)**		(3,744)
Net assets			**102,744**		103,794
Capital and reserves					
Called up share capital	*21*		**34,520**		34,520
Share premium account			**18,047**		18,047
Profit and loss account			**50,177**		51,227
					103,794
Total Equity			**102,744**		

The notes on pages 12 to 33 are an integral part of these financial statements.

The financial statements on pages 8 to 33 were approved by the board of directors on 27 September 2018 and were signed on its behalf by:

E Can Temucin
Director
27 September 2018

Registered number 946942

Statement of changes in equity
For the year ended 31 December 2017

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
Balance as at 1 January 2016	**34,520**	**18,047**	**44,979**	**97,546**
Profit for the financial year	-	-	17,546	**17,546**
Other comprehensive expense for the year	-	-	(11,298)	**(11,298)**
Total comprehensive expense for the year	-	-	6,248	**6,248**
Balance as at 31 December 2016	**34,520**	**18,047**	**51,227**	**103,794**
Balance as at 1 January 2017	**34,520**	**18,047**	**51,227**	**103,794**
Profit for the financial year	-	-	4,560	**4,560**
Other comprehensive income for the year	-	-	19,390	**19,390**
Total comprehensive income for the year	-	-	23,950	**23,950**
Dividends	-	-	(25,000)	(25,000)
Balance as at 31 December 2017	**34,520**	**18,047**	**50,177**	**102,744**

Notes to the financial statements

1 Statement of compliance

The individual financial statements of Intervet UK Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") and the Companies Act 2006.

2 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 otherwise stated. The company has adopted FRS 102 in these financial statements.

a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention and certain financial assets and liabilities measured at fair value through profit or loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

b) Consolidated financial statements

These financial statements present information about the company as an individual undertaking.

S400 of the Companies Act 2006 allows a company that is wholly owned by a body incorporated in a EEA member state an exemption from preparing consolidated financial statements. Therefore, the company has taken advantage of the exemption and has not prepared consolidated financial statements for the company or its subsidiary undertakings.

Details of the company's immediate and ultimate parent company are included in note 25.

c) Reduced disclosures

The company is a qualifying entity and has taken advantage of the exemptions permitted by FRS 102, paragraph 1.12. It is exempted from disclosing the following information.

- A reconciliation of the number of shares outstanding at the beginning and end of the period.[FRS 102 para 4.12 (a)(iv)].
- A statement of cash flows. [Section 7 of FRS 102 and para 3.17 (d)].
- Certain financial instrument disclosure providing equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. [FRS 102 paras 11.39 – 11.48A, 12.26 – 12.29].

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

c) Reduced disclosures (continued)

- Certain disclosure requirements of Section 26 in respect of share-based payments provided that instruments of another group entity and its own equity instruments; and in both cases the equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. [FRS 102 paras 12.18(b), 26.19 – 26.21, 26.23

- Compensation in total for key management personnel. [FRS 102 para 33.7].

The company has notified its immediate parent company and it does not object the use of the disclosure exemptions.

d) Foreign currency

The company's functional and presentation currency is pound sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical costs are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measure using the exchange rate when value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the transaction at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

e) Revenue recognition

Turnover represents the fair value of consideration received or receivable from the sale of veterinary products to customers during the year, net of returns, discounts and rebates allowed by the company and value of added tax.
The company recognised revenue when:

- the significant risks and rewards of ownership have been transferred to the buyer;
- the company retains no continuing involvement or control over the goods;
- the amount of revenue can be measured reliably;
- it is probable that future economic benefits will flow to the entity, and;
- when the specific criteria relating to each of company's sales channels have been met.

Sale of goods – wholesale
The company sells veterinary products predominately to wholesalers.

Sales of goods are recognised on delivery of the product to the customer. At this point, the wholesaler has full discretion over the channel and price to sell and bears the risks of obsolescence or loss. The wholesaler has accepted the products in accordance with the sales contract and acceptance provisions have lapsed or the company has objective evidence that all criteria for acceptance have been satisfied.

Sales are normally made with credit term of 60 days. The element of financing is deemed immaterial and is disregarded in the measurement of revenue.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

f) Employee benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Defined contribution pension plan
The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

Multi-employer defined benefit pension scheme.
The company is the principal employer of a pension scheme providing benefits on a combination of career average and final salary basis. The assets of the scheme are held separately from of the company.

No contractual agreement exists for funding the plan deficit or sharing in the surplus amongst the participating employers and in previous financial statements the company accounted for the scheme as a defined contribution plan.

From 1 January 2014, being the principal employer, the company accounts for the scheme as a defined benefit plan under FRS 102.

The defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration.

The asset recognised in the balance in respect of the defined benefit plan is the fair value of the plan assets at the reporting date less the present value of the defined benefit obligation at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. The company engages independent actuaries to calculate the obligation annually. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts are disclosed together with the return on plan assets, less amounts included in net interest.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

f) Employee benefits *(continued)*

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset comprises:

- the increase in pension benefit liability arising from employee service during the period; and,
- the cost of plan introductions, benefit charges, curtailments and settlements.

The net interest cost is calculated by apply the discount rate to the net balance of the defined benefit obligation and fair value of plan assets. This cost is recognised in the profit or loss as 'finance expense'.

Annual bonus plan
The company operates an annual bonus plan for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

g) Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the statement of income and retained earnings.

Current or deferred taxation assets and liabilities are not discounted.

Current tax
Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and profits stated in the statement of income and retained earnings. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which future reversal of underlying timing differences can be derived.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

h) Intangible fixed assets and amortisation

Intangible assets acquired as part of an acquisition are capitalised at their fair value where this can be measured reliably. Fair values are restricted to an amount that does not create, or increase, any negative goodwill.

Negative goodwill arising on business combinations in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale.

i) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration cost and borrowing costs capitalised.

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold land and buildings	-	5 - 25 years
Plant and machinery	-	3 - 10 years

No depreciation is provided on freehold land or assets under construction.

Assets under construction are transferred into other asset classes and depreciated when they are completed and in use.

De-recognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Other operating (expenses)/income'.

j) Investments

Investments are stated at cost less amounts written off in respect of any impairment.

k) Leased assets

At inception the company assesses agreements that transfer the right to use assets and is based on the substance of the arrangement.

Operating lease

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

l) Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Inventories are recognised as an expense in the period in which the related revenue is recognised.

In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads. Any stock considered to be obsolete is provided for in full.

m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably

o) Financial instruments

The company applies Section 11 FRS 102 in respect of basic financial instruments. It does not have complex financial instruments and is not required to apply Section 12 FRS 102.

Financial assets
Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities
Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

o) *Financial instruments* *(continued)*

Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

p) *Research and development expenditure*

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

3 Critical accounting judgements and estimation uncertainty

a) Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of tangible assets
The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 14 for the carrying amount of the property plant and equipment, and note 2i) for the useful economic lives for each class of assets.

Inventory provisioning
When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods.

Impairment of debtors
The company makes an estimate of the recoverable value of trade and other debtors. In the assessment of impairment of trade and other debtors, management consider factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience.

Rebates Estimates
When the company sells inventory, there is an automated Revenue Recognition accrual for the eventual rebate based on historic rebate payment data. The underlying basis for this calculation is reviewed annually.

Notes to the financial statements *(continued)*

4 Turnover

	2017	2016
	£000	£000
By destination:		
UK	**148,771**	135,734
Rest of Europe	**801**	564
	149,572	136,298

There is no material difference between sale of product by operating location and by destination of sale.

In the opinion of the directors, the company operates in only one business segment, being the sale of veterinary products.

5 Profit before taxation

	2017	2016
Profit before taxation is stated after charging/(crediting):	**£000**	£000
Auditors' remuneration:		
Fees payable for the audit of the company's financial statements	**35**	25
Depreciation of tangible fixed assets	**1,863**	1,414
Credit relating to amortisation of negative goodwill	**(244)**	(244)
Inventory recognised as an expense	**110,977**	95,415
Impairment of inventory (included in 'cost of sales')	**2,367**	4,776
Operating lease charges	**834**	846
Other operating income:		
Research and development income	**(951)**	(827)
Pension funding from group companies (note 24)	**(7,151)**	(10,009)

Notes to the financial statements *(continued)*

6 Remuneration of directors

	2017	2016
Number of directors remunerated by the company	**3**	2

	2017 £000	2016 £000
Directors' emoluments (excluding pension contributions)	994	468

The emoluments of the highest paid director were £438,284 *(2016: £314,821)*. The highest paid director received no pension fund contributions from the company.
Compensation paid for loss of office of £298,741 (2016: £ nil) has been included above.

7 Staff numbers and costs

The monthly average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2017	2016
Administration	**14**	14
Sales and distribution	**144**	141
Research and development	**44**	50
	202	205

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**14,158**	13,049
Social security costs	**1,942**	1,728
Other pension costs (note 24)	**707**	633
	16,807	15,410

Notes to the financial statements *(continued)*

8 Interest receivable and similar income

	2017	2016
	£000	£000
Receivable from third parties	**2**	8

9 Interest payable and similar expenses

	2017	2016
	£000	£000
Bank overdrafts	**70**	35

10 Other finance income

	2017	2016
	£000	£000
Net interest benefit arising on pension scheme (note 24)	**765**	1,217

Notes to the financial statements *(continued)*

11 Tax on profit

Analysis of charge in the year:

	2017	2016
	£000	£000
UK corporation tax		
Current tax on income for the year	**-**	2,443
Adjustments in respect of previous years	**(127)**	-
Total current tax charge	**(127)**	2,443
Deferred tax		
Origination/reversal of timing differences – current year	**1,393**	1,579
Deferred tax charge (note 20)	**1,393**	1,579
Tax charge	**1,266**	4,022

Factors affecting tax charge for the year

The current tax charge for the year differs *(2016: differs)* from the standard rate of corporation tax in the UK of 19.25% *(2016: 20.00%)*. The differences are explained below:

	2017	2016
	£000	£000
Profit on ordinary activities before taxation	**5,826**	21,568
Current tax at 19.25% *(2016: 20.%)*	**1,121**	4,314
Effects of:		
Unrecognised deferred tax	**-**	(296)
Expenses not deductible for tax purposes	**37**	4
Income not taxable	**(54)**	-
Group relief surrendered for nil consideration	**691**	-
Adjustment in respect of previous years	**(102)**	-
Re-measurement of deferred tax – change in UK tax rate	**(427)**	-
Tax charge for the year (see above)	**1,266**	4,022

Notes to the financial statements *(continued)*

11 Tax on profit *(continued)*

Factors affecting the tax charge for the current year

Based on current capital investment plans the company expects to continue to be able to claim capital allowances in excess of depreciation in future years at a similar level to the current year.

Factors affecting future tax charges

Finance (No. 2) Act 2015 reduces the UK Corporation Tax rate from 20% to 19.25% effective from 1 April 2017. A further reduction in the Corporation Tax rate to 17% will apply with effect from 1 April 2020 (as enacted by Finance Act 2016 on 15 September 2016). Both of these rate reductions has been substantively enacted into law by the balance sheet date and are reflected in the calculations of the deferred tax at the balance sheet date.

12 Dividends

	2017	2016
	£000	**£000**
Equity-Ordinary		
Interim paid: £0.72422 (2016: £nil) per £1 share	**25,000**	-

13 Intangible assets

	Negative Goodwill £000
Cost	
At beginning and end of year	(4,897)
Accumulated Amortisation	
At beginning of year	(3,918)
Credited to profit and loss account in year	(244)
At end of year	(4,162)
Net book value	
At 31 December 2017	**(735)**
At 31 December 2016	(979)

Negative goodwill arose on the acquisition of the trade and assets of Intervet UK Production Limited in 2000. It represents the excess of the fair value of the non-monetary assets acquired over the consideration paid. Negative goodwill is being released to the profit and loss account over a period of 20 years (commensurately with the recovery of the non-monetary assets acquired whether through depreciation or sale).

Notes to the financial statements *(continued)*

14 Tangible assets

	Assets under construction £000	Freehold land and buildings £000	Plant and Machinery £000	Total £000
Cost				
At beginning of year	2,225	29,172	10,530	41,927
Additions	228	-	950	1,178
Transfers	(2,095)	-	2,095	-
Disposals	-	(310)	(580)	(890)
At end of year	358	28,862	12,995	42,215
Accumulated depreciation				
At beginning of year	-	(17,652)	(9,264)	(26,916)
Charge for year	-	(661)	(1,202)	(1,863)
Depreciation on disposal	-	304	551	855
At end of year	-	(18,009)	(9,915)	(27,924)
Net book value				
At 31 December 2017	**358**	**10,853**	**3,080**	**14,291**
At 31 December 2016	2,225	11,520	1,266	15,011

Included in land and buildings is an amount of £6,476,487 *(2016: £6,476,487)* of land which is not subject to depreciation.

Notes to the financial statements *(continued)*

15 Investments

	2017	2016
	£000	£000
Mycofarm UK Limited	**1,040**	1,040
Intervet UK Production Limited	**46,034**	46,034
	47,074	47,074

The undertakings in which the Company holds an investment are as follows:

	Country of incorporation	**Principal activity**	**Class and percentage of shares held**
Mycofarm UK Limited	Great Britain	Non-trading	100% ordinary shares
Intervet UK Production Limited	Great Britain	Production and sale of veterinary products	100% ordinary shares
MSD Animal Health Limited	Great Britain	Non-trading	100% ordinary shares

The address of the registered office for all three companies is Walton, Walton Manor, Milton Keynes, Buckinghamshire, MK7 7AJ.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

16 Inventories

	2017	2016
	£000	£000
Raw materials and consumables	**8**	14
Finished goods and goods for resale	**28,707**	27,418
	28,715	27,432

There is no material difference between the balance sheet value of stocks and their replacement costs.

Inventories are stated after provisions for impairment of £2,684,020 (2016: £3,791,933).

Notes to the financial statements *(continued)*

17 Debtors

	2017	2016
	£000	£000
Trade debtors	**37,746**	29,621
Amounts owed by group undertakings	**1,298**	13,073
Corporation tax	**2,775**	921
Other debtors	**1,229**	890
Prepayments and accrued income	**164**	175
	43,212	44,680

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

18 Creditors: amounts falling due within one year

	2017	2016
	£000	£000
Bank loans and overdraft	**19,981**	4,991
Trade creditors	**1,951**	7,174
Amounts owed to group undertakings	**30,084**	23,140
Other taxation and social security	**4,112**	716
Other creditors	**680**	135
Accruals and deferred income	**21,779**	14,391
	78,587	50,547

Amounts due to group undertakings are unsecured, interest free and are repayable on demand.

Notes to the financial statements *(continued)*

19 Provisions for liabilities

	Deferred Tax £000
At 1 January 2017	**3,744**
Charge to profit and loss account	1,393
Amounts credited to other comprehensive income	3,971
At 31 December 2017	**9,108**

20 Deferred tax

The movement in deferred taxation during the year was the following:

	Depreciation in excess of capital allowances £000	Post-employment benefits £000	Total £000
At 1 January 2017	(448)	4,192	3,744
Charge to profit and loss account	(143)	1,536	1,393
Credit to other comprehensive income	-	3,971	3,971
At 31 December 2017	**(591)**	**9,699**	**9,108**

Deferred tax liability relating to pension surplus

	2017 £000	2016 £000
At 1 January 2017	**4,192**	4,931
Deferred tax charge recorded in profit and loss account	**1,536**	1,741
Deferred tax charge/(credit) recorded in other comprehensive income	**3,971**	(2,480)
At 31 December 2017	**9,699**	4,192

Notes to the financial statements *(continued)*

21 Called up share capital

	2017	2016
	£000	£000
Authorised		
50,000,000 *(2016: 50,000,000)* ordinary shares of £1 each	**50,000**	50,000
Allotted, called up and fully paid		
34,520,101 *(2016: 34,520,101)* ordinary shares of £1 each	**34,520**	34,520

22 Capital and other commitments

At 31 December the company had the following capital commitments:

	2017	2016
	£000	£000
Contracts for future capital expenditure not provided in the financial statements		
Property, plant and equipment	**-**	497

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods.

Payments due	**2017**	2016
	£000	£000
Not later than one year	**532**	590
Later than one year and not later than five years	**840**	678
Later than five years	**-**	-
	1,372	1,268

The company had no other off-balance sheet arrangements.

Notes to the financial statements *(continued)*

23 Contingent liabilities

Bank facilities

During the year the company continued to participate in a designated cash pooling arrangement operating since 21 November 2007 with certain other group companies. This arrangement allowed the company as a subsidiary of Merck & Co. Inc, to access and manage locally its working capital efficiently by drawing upon, depositing or borrowing amounts through the cash pool facility through control as if it were its own bank account. This account is now in the name of Citibank and is denominated in local currency. Therefore the company is not exposed to foreign exchange risk.

Bank interest is applied to the account balance based on a single daily base rate adjusted for the determined margin of 0.25% minus or in addition, to debit and credit balances respectively in the local currency by BMG's Treasury. The cash pool system compensates debit interest margins with credit interest margins for compensated balances and refunds these margins at the end of each month.

The Merck & Co. Inc Treasury, as Principal Customer retaining ultimate control, manages daily the pool within the designated facility to meet expected shortfalls and excesses.

All subsidiaries party to the arrangement are jointly and severally liable to the bank for any overdraft thereon.

24 Non-current post retirement benefit surplus

MSD Animal Health Pension Scheme, formerly known as SP/OBS (UK) Pension Scheme ("the scheme")

The company is the principal employer of a group multi-employer pension scheme with assets held in a separate fund. The fund is administered by an independent trustee who is responsible for ensuring that the plan is sufficiently funded to meet current and future obligations.

The scheme is a funded defined benefit scheme providing retirement benefits on a combination of final and career average salary. The scheme is closed to new entrants but remains open to future accrual.

From 1 January 2014, as principal employer, the company has accounted for the entire scheme as a defined benefit pension plan on transition to FRS 102. Prior to this, the company accounted for the scheme as a defined contribution plan.

The FRS 102 'Retirement benefits' valuation has been based on an assessment of the liabilities of the scheme as at 31 December 2016. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

Actuarial gains and losses have been recognised in the period in which they occur, in the statement of comprehensive income. The principle assumptions used by the independent qualified actuaries in updating the latest valuation for FRS 102 'Retirement benefits' purposes are noted in the next section.

An actuarial valuation of the scheme was carried out at 31 December 2016 by a qualified independent actuary. The valuation revealed a funding shortfall relating to technical provisions minus the market value of assets, amounting to £33 million. The trustees have agreed a recovery plan to eliminate the funding shortfall with the company and Merck Sharp & Dohme Limited.

Notes to the financial statements *(continued)*

24 Non-current post retirement benefit surplus *(continued)*

The company has agreed a funding plan with the trustee, whereby ordinary contributions are made into the scheme based on a percentage of active employees' salary for ongoing benefit accrual and fixed amounts in relation to operating expenses and deficit recovery.

Merck Sharp & Dohme Limited and Intervet UK Limited made two deficit recovery payments of £5,920,000 in March 2017 and £5,000,000 in December 2017 and have agreed additional variable payments of up to £5,920,000 every March from 2019 to 2021,Intervet UK Limited's share of each of these payments is £1,836,000 and £2,326,013.

The contribution rate is generally reviewed every three years following each full actuarial valuation of the scheme.

Actuarial assumptions

	2017	2016
	% p.a.	**% p.a.**
Discount rate	**2.45**	2.62
Expected rate of salary increases	**3.60**	3.65
RPI Inflation	**3.20**	3.25
CPI Inflation	**2.10**	2.15
Expected rate of increase in pensions in payment	**2.79**	2.84

Mortality assumptions used are as follows:

	2017	**2016**
	Years	**Years**
Life expectancy at 65		
Men	**22.5**	22.5
Women	**24.0**	24.0
Life expectancy at 50		
Men	**22.6**	22.8
Women	**25.5**	25.8

Notes to the financial statements *(continued)*

24 Non-current post retirement benefit surplus *(continued)*

Amounts recognised in the profit and loss account

	2017	2016
	£000	£000
Current service cost	**2,287**	1,887
Administration expenses	**985**	797
Curtailment cost	**-**	-
Net financing income (note 10)	**(765)**	(1,217)
	2,507	1,467
Pension funding from group companies		
Other operating income	**(7,151)**	(10,009)
	(7,151)	(10,009)

Reconciliation of scheme assets and liabilities

	Assets	**Liabilities**	**Total**
	£'000	**£'000**	**£'000**
As at 1 January 2017	356,527	(333,234)	23,293
Benefits paid	(9,456)	9,456	-
Expenses paid	(985)	-	(985)
Employer contributions	13,420	-	13,420
Current service cost	-	(2,287)	(2,287)
Members' contributions	1	(1)	-
Net interest cost	9,373	(8,608)	765
Actuarial gain/(loss)	26,765	(3,424)	23,341
Increase in liabilities due to redundancies	-	(23)	(23)
As at 31 December 2017	**395,645**	**(338,121)**	**57,524**

Notes to the financial statements *(continued)*

24 Non-current post retirement benefit surplus *(continued)*

Fair value of plan assets

	2017	2016
	£000	£000
Equity securities	**254,219**	222,567
Government bonds	**65,151**	63,471
Corporate bonds	**65,139**	63,784
Property	**-**	45
Cash/net assets	**11,136**	6,660
	395,645	356,527

MSD UK Defined Contribution Pension Plan

The company also provides a defined contribution scheme for its employees who are not in the MSD Animal Health Pension Scheme.

The amount recognised as an expense for this scheme was:

	2017	2016
	£000	£000
Current year contributions	**707**	633

Notes to the financial statements *(continued)*

25 Controlling parties

The company's immediate parent company is Intervet Holding BV, a company registered in The Netherlands.

The company's ultimate parent company and controlling party is Merck & Co. Inc., which is a public company incorporated in the United States of America. Merck & Co. Inc. represents the only group of undertakings for which group financial statements are drawn up and of which the company is a member.

Copies of the group financial statements are available from the office address of Merck & Co. Inc., One Merck Drive, Whitehouse Station, New Jersey 08889-0100.