

**MSD Animal Health UK Limited
(formerly Intervet UK Limited)**

Annual report and financial statements
Registered number 946942
31 December 2020



MSD Animal Health UK Limited (formerly Intervet UK Limited)

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Year Ended 31 December 2020

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Strategic report For the year ended 31 December 2020

The directors present their strategic report on MSD Animal Health UK Limited (formerly Intervet UK Limited) ("the company") together with the directors' report and audited financial statements for the year ended 31 December 2020.

General information and principal activities

The company changed its name from Intervet UK Limited to MSD Animal Health UK Limited on 27 March 2020. The company sells 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 profit for the year for the year ended 31 December 2020 is £253,000 (2019: *Profit: £6,532,000*) and *net assets of £124,586,000 (2019: £130,163,000)* are reported on pages 12 and 14 of the financial statements.

Profit includes pension receipts of £17,500,000 (2019: £4,084,000) from other group companies for employers' contributions.

The principal risks and uncertainties are disclosed in the Directors' report.

Research and development-to check

There is a small division of R&D work conducted at Graveley site on behalf of Intervet International BV.

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 UK Limited 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 profit and loss account.

Stakeholder Engagement – Section 172 Statement

We are the leading Animal Health company in GB. with an aim to become the partner of choice for our core customer base of vets, traders, producers and animal owners. Our products and services enable pets to lead healthier lives, to protect the human animal bond and help keep livestock to ensure a safe, wholesome and affordable food supply.

This means we operate in a demanding scientific and complex regulatory environment, and in doing so, engage with several stakeholders.

Our Code of Conduct enables our employees to operate with the highest levels of integrity at every level throughout our organisation.

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Strategic report (continued)

Stakeholder Engagement – Section 172 Statement (continued)

The table below identifies our key stakeholders and how we have engaged with them throughout 2020.

	Interests	Business and Director Engagement
	<i>What are their key interests? What issues and factors are important to them?</i>	<i>How did the business and its directors engage with this stakeholder in 2020?</i>
Regulatory Bodies	<ul style="list-style-type: none"> ➤ Sets standards for interactions between industry and NOAH (National Office of Animal Health) ➤ Protect and promote the interests of animals and pet owners ➤ Compliance with financial reporting regulations 	<ul style="list-style-type: none"> ➤ Timely submission of high quality and accurate documentation ➤ Direct, open and transparent engagement on inspections, audits and enquiries (internal and external) ➤ Through industry associations, industry association boards, forums, conferences and meetings
Our People	<ul style="list-style-type: none"> ➤ Values, standards and Ways of Working (WOW) ➤ Competitive and fair compensation, benefits, flexible working, training and development opportunities ➤ Diversity and Inclusion ➤ Health and Safety 	<ul style="list-style-type: none"> ➤ Regular Town Halls ➤ Intranet and email weekly round-up communications across all UK sites ➤ Internal and external surveys ➤ Employee Representative Committees ➤ Office of Ethics - safe to speak up environment
Customers	<ul style="list-style-type: none"> ➤ Advancing science by providing innovative products to address unmet medical needs ➤ Accurate and up-to-date Medical Information on licensed products ➤ Collaboration, Joint Working and Sharing of Information ➤ Health and high-quality care for all animals and pet owners 	<ul style="list-style-type: none"> ➤ Provide technical support to address company knowledge gaps via advisory boards or as speakers for medical education activities ➤ Provision of medical education via resources and meetings, including congress attendance ➤ Promotion of MSD products
Suppliers	<ul style="list-style-type: none"> ➤ Understanding of MSD's strategy and how the supplier can best create value through innovative and new opportunities ➤ Creating a collaborative and trusting environment between the supplier and MSD ➤ That MSD acts ethically and have open and transparent processes ➤ Economic inclusion that supports supplier diversity 	<ul style="list-style-type: none"> ➤ Partner/sponsor with organisations that promote supplier diversity ➤ Engage collaboratively at a regional and global level to leverage enterprise-wide supplier relationships ➤ Work closely with the business to identify current and future needs and identify suppliers that can service these requirements ➤ Supplier Relationship management - manage and develop relationships that meet mutual long-term business objectives

On behalf of the Board

E Can Temucin

E Can Temucin

Director

Date 21 January 2022

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Directors' report

For the year ended 31 December 2020

Dividend payable

The Directors did not propose nor pay any dividends for the current year (2019: £nil).

Directors and their interests

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

B L McCoy Jr
J Moehlenbrock
E Can Temucin

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 MSD Animal Health UK Limited, a sub group 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 MSD Animal Health UK Limited, 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.

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The prioritization of COVID-19 products, as well as widespread social distancing measures impacted the supply of the Company's animal health products during 2020. To date, the COVID-19 pandemic has not had a material impact on the production and supply of our animal health products and the Company continues to have normal supply levels for most of its products. The Company's supply of its products will remain at normal levels through the pandemic. The Company's financial position is allowing the Company to maintain liquidity and access capital markets through their ultimate parent company, as needed.

Going concern

Considering the principal risks and uncertainties faced by the company the directors have carried out a review of going concern. The directors performed a review of the net working capital position and determined a recapitalisation was required. At a Board meeting on 10 January 2022, the directors approved a cash contribution of £50,000,000 from the immediate parent company, Intervet Holding BV, which was paid on the same date. On this basis and based on future projections, the directors feel confident that the company has adequate resources to continue in operation for the foreseeable future and meet its liabilities when they fall due for a period of at least 12 months from the date of approval of the financial statements. The company therefore continues to adopt the going concern basis in preparing its financial statements.

Post balance sheet events

There are included in note 24.

Directors' report (continued)**Exemption from filing consolidated financial statements**

The company is a wholly owned subsidiary of Intervet Holdings BV and of its ultimate parent, Merck & Co. Inc. It is included in the consolidated financial statements of Merck & Co., Inc. which are publicly available. Therefore, the company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

A copy of the consolidated financial statements of Merck & Co., Inc., can be obtained online at <https://investors.merck.com/financials/annual-reports-and-proxy/default.aspx> or can be requested by writing to Merck Stockholder Services, K1-3049, Merck & Co., Inc., 2000 Galloping Hill Road, Kenilworth, NJ 07033 U.S.A.

These financial statements are the company's separate financial statements.

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.

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 regulations.

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 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.

Directors' report (continued)**Statement of directors' responsibilities in respect of the financial statements (continued)**

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.

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.

Streamlined Energy & Carbon Reporting

In line with MSD's global climate goals to achieve carbon neutrality across operations by 2025 (Scopes 1 & 2 emissions) and a 30% reduction in its value chain emissions by 2030 (Scope 3 emissions)¹, we welcome the opportunity to be as transparent as possible when it comes to streamlined energy and climate reporting for GHG emissions.

On Monday 26th April 2021, as announced by Merck & Co., Inc., our parent company (known as MSD in all markets other than the US and Canada), we announced our ambitious climate goals to:

1. Achieve carbon neutrality across our operations by 2025 (Scopes 1 & 2 emissions)
2. Reduce our value chain emissions 30% by 2030 (Scope 3 emissions).

These global goals build on our long-standing focus on preventing the worst impacts of climate change and in supporting the global effort to achieve the Paris Agreement goals.

MSD will achieve carbon neutrality in its global operations with ongoing innovation to increase efficiency and reduce carbon emissions, applying sustainable building standards and continuing to transition away from fossil fuel use. Remaining Scope 1 emissions will be offset each year with a portfolio of high-quality carbon credits, including carbon removals.

Global efforts to combat climate change are essential to the health and sustainability of our planet. Our new climate action goals reflect our ongoing commitment to operating responsibly and will help us drive long-term sustainability for our business, society and for the patients and communities we serve. Our climate strategy is overseen globally by our Environmental Sustainability Centre of Excellence, a global team dedicated to shaping our strategy to become more sustainable.

¹ Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles).

Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain.

Directors' report (continued)

Streamlined Energy & Carbon Reporting (continued)

Data Summary

The gross greenhouse gas (GHG) emissions for MSD Animal Health UK Limited are 1,821 tonnes of carbon dioxide equivalent (tCO₂e) at an emissions intensity of 23.758 tCO₂e per £m revenue for the period 1st January 2020 to 31st December 2020.

The gross GHG emissions figure includes all material Scope 1, 2 plus Scope 3 required to be disclosed by the legislation; that is the emissions associated with the purchase of electricity, the combustion of gas and the consumption of fuel for the purposes of transport. Scope 3 emissions resulting from transmission and distribution (T&D) losses in the grid electricity supply network are included voluntarily in the total.

Greenhouse Gas Emissions

Table 1 (Mandatory Disclosure) - Greenhouse gas emissions by source (tonnes CO₂e)

Emissions Source (tCO ₂ e)	2020	% of Total
Fuel Combustion: stationary (Natural Gas)	1,115	61.2%
Fuel Combustion: mobile (Transport Fuel)	196	10.8%
Purchased Electricity	509	28.0%
Total emissions (tCO₂e)	1,820	100%
Revenue (£)	73,817,784	
Intensity: (tCO₂e per £m)	24.655	

Table 2 (Voluntary Disclosure)- Greenhouse gas emissions by scope (tonnes CO₂e)

Emissions Source	Scope 1 (tCO ₂ e)	Scope 2 (tCO ₂ e)	Scope 3 (tCO ₂ e)	Scope 4 (tCO ₂ e)
Fuel Combustion: stationary (Natural Gas)	1,115	0	0	1,115
Fuel Combustion: mobile (Transport Fuel)	189	0	7	196
Purchased Electricity	0	469	40	509
Total (tCO₂e)	1,304	469	47	1,820
Share of total	71.6%	25.8%	2.6%	100.0%

Scope 1: Natural gas and company-operated transport. Scope 2: Electricity. Scope 3: Electricity transmission and distribution losses and grey fleet. This includes only emissions reportable under SECR and may not reflect the entire carbon footprint of the organisation.

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Directors' report (continued)

Streamlined Energy & Carbon Reporting (continued)

Energy Consumption

Table 3 (Mandatory Disclosure) – Energy Consumption (kWh)

Energy Consumption (kWh)	2020	% of Total
Fuel Combustion: stationary (Natural Gas)	6,064,937	68.2%
Fuel Combustion: mobile (Transport Fuel)	822,321	9.2%
Purchased Electricity	2,011,273	22.6%
Total (kWh)	8,898,531	100.0%
Revenue	73,817,784	
Intensity: (kWh per £m)	120,547	

Boundary, Methodology and Exclusions

The data contained in this document are calculated and reported in line with the methodology set out in the UK Government's Environmental Reporting Guidelines, March 2019.

An 'operational control' approach has been used to define the Greenhouse Gas emissions boundary. This approach captures emissions associated with the operation of buildings within the scope of the regulation, plus transport; company-owned vehicles used for business travel. This report covers UK operations only, as required by SECR for Non-Quoted Large Companies.

The guidance and legislation obliges MSD Animal Health UK Limited to include within the reported emissions those scope 2 emissions resulting from the consumption of purchased electricity: for grid-supplied electricity this has been calculated using the 2020 conversion factors provided by Department for Business, Energy & Industrial Strategy (BEIS). The report also includes the voluntary disclosure of the scope 3 emissions resulting from the transmission distribution (T&D) losses in the grid, as is considered best practice.

Details of the data used in the calculations are included in the document: UK SECR Reporting Requirements Overview base data 070621

MSD Animal Health UK Limited is not listed on a stock exchange such as the London Stock Exchange, so is classified as a Non-Quoted Large Company for the purpose of regulatory compliance.

Emissions have been calculated using the 2020 conversion factors provided by Department for Business, Energy & Industrial Strategy. The reporting period is January 2020 to December 2020.

Energy Efficiency Initiatives

MSD Animal Health UK Limited's energy and carbon objective is to continually focus on maintaining or reducing energy intensity.

Energy efficiency actions undertaken in the reporting year were:

- Maintenance and management of ISO50001

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Directors' report *(continued)*

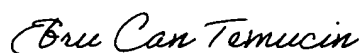
Independent auditors

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

Future 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 of Directors



E Can Temucin

Director

Date 21 January 2022

Independent auditors' report to the members of MSD Animal Health UK Limited (formerly Intervet UK Limited)

Report on the audit of the financial statements

Opinion

In our opinion, MSD Animal Health UK Limited (formerly Intervet UK Limited)'s financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 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 Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the profit and loss account, statement of comprehensive income and 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

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.

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.

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

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

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.

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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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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 with respect to the financial statements, 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.

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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to patent protection, product safety, competition law and tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the potential posting of inappropriate accounting entries to manipulate financial results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries with management and those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;

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- Identifying and testing journal entries, in particular journals entries posted with unusual account combinations which resulted in an increase in revenue;
- Challenging judgements made by management in determining significant accounting estimates and obtaining supporting evidence for such judgments;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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 Girdlestone

Robert Girdlestone (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Watford
21 January 2022

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Profit and loss account
For the year ended 31 December 2020

	<i>Note</i>	2020 £000	2019 £000
Turnover	4	73,818	145,992
Cost of sales		(61,461)	(113,160)
		<hr/>	<hr/>
Gross profit		12,357	32,832
Distribution costs		(5,023)	(6,517)
Administrative expenses		(23,312)	(24,815)
Other operating income		17,823	4,318
		<hr/>	<hr/>
Operating profit		1,845	5,818
Income from shares in group undertakings		-	-
		<hr/>	<hr/>
Profit before interest and tax		1,845	5,818
Other Interest receivable and similar income	8	3	-
Interest payable and similar expenses	9	(298)	(562)
Other finance income	10	1,509	1,655
		<hr/>	<hr/>
Profit before taxation	5	3,059	6,911
Tax on profit	11	(2,806)	(379)
		<hr/>	<hr/>
Profit for the financial year		253	6,532
		<hr/>	<hr/>

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Statement of comprehensive income
For the year ended 31 December 2020

	<i>Note</i>	2020 £000	2019 £000
Profit for the financial year		253	6,532
Other comprehensive (expense)/income:			
Actuarial (losses) / gains	23	(8,771)	9,920
Movement on deferred tax relating to pension surplus	19	1,666	(1,686)
		<hr/>	<hr/>
Total other comprehensive (expense) / income		(7,105)	8,234
		<hr/>	<hr/>
Total comprehensive (loss) / income for the year		(6,852)	14,766
		<hr/>	<hr/>

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Balance sheet
As at 31 December 2020

	Note	2020 £000	2020 £000	2019 £000	2019 £000
Fixed assets					
Intangible assets	12		-		(245)
Tangible assets	13		19,855		15,170
Investments	14		57,309		56,034
			77,164		70,959
Non-current post retirement benefit surplus	23		91,504		74,016
Current assets					
Inventories	15	51,712		35,996	
Debtors	16	36,109		56,309	
Cash at bank and in hand		-		-	
		87,821		92,305	
Creditors: amounts falling due within one year	17	(119,822)		(95,620)	
Net current (liabilities)			(32,001)		(3,315)
Total assets less current liabilities			136,667		141,660
Provisions for liabilities	18		(12,081)		(11,497)
Net assets			124,586		130,163
Capital and reserves					
Called up share capital	20		44,520		44,520
Share premium account			19,322		18,047
Profit and loss account			60,744		67,596
Total Equity			124,586		130,163

The notes on pages 16 to 37 are an integral part of these financial statements.

The financial statements on pages 12 to 37 were approved by the board of directors on 21 January 2022 and were signed on its behalf by:

E Can Temucin

E Can Temucin

Director

Registered number 946942

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Statement of changes in equity
For the year ended 31 December 2020

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£000	£000	£000	£000
Balance as at 1 January 2019	44,520	18,047	52,830	115,397
Profit for the financial year	-	-	6,532	6,532
Other comprehensive income for the year	-	-	8,234	8,234
Total comprehensive income for the year	-	-	14,766	14,766
Balance as at 31 December 2019	44,520	18,047	67,596	130,163
Balance as at 1 January 2020	44,520	18,047	67,596	130,163
Profit for the financial year	-	-	253	253
Other comprehensive expense for the year	-	-	(7,105)	(7,105)
Total comprehensive (loss) for the year	-	-	(6,852)	(6,852)
Proceeds from shares issued	-	1,275	-	1,275
Total transactions with owners recognised directly in equity	-	1,275	-	1,275
Balance as at 31 December 2020	44,520	19,322	60,744	124,586

Notes to the financial statements

1 Statement of compliance

The individual financial statements of MSD Animal Health UK Limited (formerly 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. 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.

Going concern

To date, the COVID-19 pandemic has not had a material impact on the production and supply of our animal health products and the Company continues to have normal supply levels for most of its products. The Company's financial position is allowing the Company to maintain liquidity and access capital markets through their ultimate parent company, as needed. The degree to which COVID-19 impacts the Company's results is not deemed to be significant and does not question the company's ability to continue as a going concern.

Considering the principal risks and uncertainties faced by the company the directors have carried out a review of going concern. The directors performed a review of the net working capital position and determined a recapitalisation was required. At a Board meeting on 10 January 2022, the directors approved a cash contribution of £50,000,000 from the immediate parent company, Intervet Holding BV, which was paid on the same date. On this basis and based on future projections, the directors feel confident that the company has adequate resources to continue in operation for the foreseeable future and meet its liabilities when they fall due for a period of at least 12 months from the date of approval of the financial statements. The company therefore continues to adopt the going concern basis in preparing its financial statements.

These financial statements are prepared on a going concern basis, under the historical cost convention.

b) Consolidated financial statements

The company is a wholly owned subsidiary of Intervet Holdings BV and of its ultimate parent, Merck & Co., Inc. It is included in the consolidated financial statements of Merck & Co., Inc. which are publicly available. Therefore, the company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

A copy of the consolidated financial statements of Merck & Co., Inc., can be obtained online at <https://investors.merck.com/financials/annual-reports-and-proxy/default.aspx> or can be requested by writing to Merck Stockholder Services, K1-3049, Merck & Co., Inc., 2000 Galloping Hill Road, Kenilworth, NJ 07033 U.S.A.

These financial statements are the company's separate financial statements.

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

Notes to the financial statements (continued)**2 Summary of significant accounting policies (continued)****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].
- 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
- From disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7, as the equivalent disclosure information is provided in Merck & Co. Inc.'s consolidated financial statements

The company has notified its immediate parent company and it does not object to 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 measured 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.

Notes to the financial statements (continued)**2 Summary of significant accounting policies (continued)****e) Revenue recognition (continued)***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.

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').

Notes to the financial statements (continued)**2 Summary of significant accounting policies (continued)****f) Employee benefits (continued)**

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.

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 'Other finance income/ 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 profit and loss account. 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 intangible 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 include 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.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

o) Financial instruments (continued)

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

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.

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.

Rebates Estimates

When the company sells inventory, an estimated accrual is made for the eventual rebate expected to be payable based on historical rebate payment data. The underlying basis for this calculation is reviewed annually.

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of estimates, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

Proprietary

Notes to the financial statements (continued)

4 Turnover

	2020 £000	2019 £000
By destination:		
UK	72,933	145,093
Rest of Europe	885	899
	<hr/>	<hr/>
	73,818	145,992
	<hr/>	<hr/>

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

	2020 £000	2019 £000
Profit before taxation is stated after charging/(crediting):		
Auditors' remuneration:		
Fees payable for the audit of the company's financial statements	75	28
Depreciation of tangible fixed assets	1,182	811
Credit relating to amortisation of negative goodwill	(245)	(245)
Inventory recognised as an expense	58,473	108,433
Impairment of inventory (included in 'cost of sales')	5,124	5,212
Operating lease charges	661	703
Other operating income:		
Research and development income	(323)	(139)
Pension funding from group companies (note 23)	(17,500)	(4,084)
	<hr/>	<hr/>

Notes to the financial statements (continued)**6 Remuneration of directors**

	2020	2019
Number of directors remunerated by the company	1	1
	<u>1</u>	<u>1</u>
	2020	2019
	£000	£000
Directors' emoluments (excluding pension contributions)	729	365
	<u>729</u>	<u>365</u>

The emoluments of the highest paid director were £729,329 (2019: £365,510). The highest paid director received no pension fund contributions from the company (2019: £nil).

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	
	2020	2019
Administration	22	22
Sales and distribution	161	154
Research and development	9	12
	<u>192</u>	<u>188</u>

The aggregate payroll costs of these persons were as follows:

	2020	2019
	£000	£000
Wages and salaries	10,907	16,071
Social security costs	2,029	1,769
Other pension costs - defined benefit plans	(17,500)	(4,084)
Other pension costs - defined contribution plans	2,735	2,349
	<u>(1,829)</u>	<u>16,105</u>

Proprietary

Notes to the financial statements *(continued)*

8 Other Interest receivable and similar income

	2020	2019
	£000	£000
Receivable from third parties	3	-
	=====	=====

9 Interest payable and similar expenses

	2020	2019
	£000	£000
Bank overdrafts	298	562
	=====	=====

10 Other finance income

	2020	2019
	£000	£000
Net interest benefit arising on pension scheme (note 23)	1,509	1,655
	=====	=====

Proprietary

Notes to the financial statements (continued)

11 Tax on profit

Analysis of charge in the year:

	2020 £000	2019 £000
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
Adjustments in respect of previous years	556	(959)
Total current tax charge/(credit)	556	(959)
<i>Deferred tax charge</i>		
Origination/reversal of timing differences – current year	770	1,338
Origination/reversal of timing differences – previous year	-	-
Adjustments resulting from change in deferred tax rate	1,480	-
Deferred tax charge (note 19)	2,250	1,338
Tax charge	2,806	379

Factors affecting tax charge for the year

	2020 £000	2019 £000
Profit before taxation	3,059	6,911
Current tax at 19.00% (2019: 19.00%)	581	1,313
Effects of:		
Expenses not deductible for tax purposes	189	183
Adjustments in respect of previous years	556	(959)
Tax rate differential	-	(158)
Re-measurement of deferred tax - change in UK tax rate	1,480	-
Tax charge for the year	2,806	379

Notes to the financial statements (continued)**11 Tax on profit (continued)***Factors affecting the tax charge for the current year*

The main rate of UK corporation tax remained constant at 19%.

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 Act 2016 had previously enacted provisions to reduce the main rate of UK corporation tax to 17% from 1 April 2020 and accordingly the deferred tax at 31 December 2019 had been calculated at this rate. In March 2020 the Government announced that the tax rate would be held at 19%. Accordingly, the revised 19% tax rate was substantively enacted in 'The Provisional Collection of Taxes Act' on 17 March 2020. Consequently, the deferred tax balances have been restated and recognised at 19% at the year end.

The March 2021 Budget announced a further increase to the main rate of corporation tax to 25% from April 2023. This rate has not been substantively enacted at the balance sheet date, as result deferred tax balances at 31 December 2020 continue to be measured at 19%.

12 Intangible assets

	Negative Goodwill £000
Cost	
At beginning and end of year	(4,897)
	<hr/>
Accumulated Amortisation	
At beginning of year	(4,652)
Credited to profit and loss account in year	(245)
	<hr/>
At end of year	(4,897)
	<hr/>
Net book value	
At 31 December 2020	-
	<hr/>
At 31 December 2019	(245)
	<hr/>

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)*

13 Tangible assets

	Assets under construction £000	Freehold land and buildings £000	Plant and Machinery £000	Total £000
Cost				
At beginning of year	1,315	30,093	6,516	37,924
Additions	3,243	281	2,343	5,867
Transfers	(1,303)	833	470	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	3,255	31,207	9,329	43,791
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At beginning of year	-	(17,078)	(5,676)	(22,754)
Charge for year	-	(514)	(668)	(1,182)
Depreciation on disposal	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	-	(17,592)	(6,344)	(23,936)
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 December 2020	3,255	13,615	2,985	19,855
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2019	1,315	13,015	840	15,170
	<hr/>	<hr/>	<hr/>	<hr/>

Included in freehold land and buildings is an amount of £9,581,708 (2018: £9,580,386) of land which is not subject to depreciation.

Proprietary

Notes to the financial statements (continued)

14 Investments

Costs and net book value	2020 £000	2019 £000
At 1 January	56,034	56,034
Additions	1,275	-
At 31 December	57,309	56,034

The subsidiary undertakings and investments at 31 December 2020 were:

	Country of incorporation	Principal activity	Class and percentage of shares held
Intervet UK Production Limited	Great Britain	Production and sale of veterinary products	100% ordinary shares
MSD AH Limited (formerly MSD Animal Health Limited)	Great Britain	Non-trading	100% ordinary shares
VAKI Scotland Limited	Great Britain	Other Technology service activities	100% ordinary shares

On 30 December 2020, MSD Animal Health UK Ltd acquired the entire share capital of VAKI Scotland Ltd for £1,274,867.

No dividends were received during the year (2019 - £nil).

The address of the registered office for Intervet UK Production Limited and MSD AH Limited (formerly MSD Animal Health Limited) 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.

15 Inventories

	2020 £000	2019 £000
Raw materials and consumables	9	12
Finished goods and goods for resale	51,703	35,984
	51,712	35,996

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

Inventories are stated after provisions for impairment of £7,840,418 (2019: £4,279,787).

Proprietary

Notes to the financial statements (continued)

16 Debtors

	2020 £000	2019 £000
Trade debtors	23,309	50,403
Amounts owed by group undertakings	12,078	4,812
Corporation tax	588	687
Other debtors	21	351
Prepayments and accrued income	113	56
	<u>36,109</u>	<u>56,309</u>

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

17 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Bank overdrafts	79,084	53,628
Trade creditors	4,231	3,454
Amounts owed to group undertakings	13,052	12,644
Taxation and social security	2,454	4,214
Other creditors	52	383
Accruals and deferred income	20,949	21,297
	<u>119,822</u>	<u>95,620</u>

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

Proprietary

Notes to the financial statements (continued)

18 Provisions for liabilities

	Deferred Tax £000
At 1 January 2020	11,497
Charge to profit and loss account	2,250
Amounts credited to other comprehensive income	(1,666)
	<hr/>
At 31 December 2020	12,081
	<hr/> <hr/>

19 Deferred tax

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

	Other timing differences	Depreciation in excess of capital allowances	Post- employment benefits	Total
	£000	£000	£000	£000
At 1 January 2020	(10)	(596)	12,103	11,497
(Credit)/Charge on profit and loss account	(4,313)	94	6,469	2,250
Credit to other comprehensive (expense)/income	-	-	(1,666)	(1,666)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2020	(4,323)	(502)	16,906	12,081
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Deferred tax liability relating to pension surplus

	2020 £000	2019 £000
At 1 January	12,103	9,064
Deferred tax charge recorded in profit and loss account	6,469	1,353
Deferred tax (credit)/charge recorded in other comprehensive (expense)/income	(1,666)	1,686
	<hr/>	<hr/>
At 31 December	16,906	12,103
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements (continued)**20 Called up share capital**

	2020	2019
	£000	£000
Ordinary shares of £1 each		
Allotted, called up and fully paid		
As at 1 January	44,520	44,520
Issued during the year	-	-
	<hr/>	<hr/>
As at 31 December	44,520	44,520
	<hr/>	<hr/>

On 30 December 2020 MSD Animal Health UK Ltd acquired the entire share capital of VAKI Ltd in exchange for 1 share, increasing its share capital by £1 and its share premium £1,274,867.

21 Capital and other commitments

At 31 December the company had the following capital commitments:

	2020	2019
	£000	£000
Contracts for future capital expenditure not provided in the financial statements		
Property, plant and equipment	20,028	3,979
	<hr/>	<hr/>

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

Payments due	2020	2019
	£000	£000
Not later than one year	398	442
Later than one year and not later than five years	327	439
Later than five years	-	-
	<hr/>	<hr/>
	725	881
	<hr/>	<hr/>

Notes to the financial statements (continued)**22 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.

23 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)*

23 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 MSD Animal Health UK Limited (formerly Intervet UK Limited) have agreed additional variable payments of up to £5,920,000 every March from 2020 to 2021, MSD Animal Health UK Limited's (formerly Intervet UK Limited) share of this payment is £1,836,000.

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

Actuarial assumptions

	2020 % p.a.	2019 % p.a.
Discount rate	1.32	1.91
Expected rate of salary increases	3.75	3.40
RPI Inflation	2.85	2.90
CPI Inflation	2.25	1.90
Expected rate of increase in pensions in payment	2.56	2.55

Mortality assumptions used are as follows:

	2020 Years	2019 Years
Life expectancy at 65		
Men	23.0	22.0
Women	24.4	23.4
Life expectancy at 50		
Men	23.3	22.1
Women	25.5	24.9

Proprietary

Notes to the financial statements (continued)

23 Non-current post retirement benefit surplus (continued)

Amounts recognised in the profit and loss account

	2020 £000	2019 £000
Current service cost	-	-
Administration expenses	1,482	1,124
Past service cost	-	-
Net financing income (note 10)	(1,509)	(1,655)
	<u>(27)</u>	<u>(531)</u>
Pension (funding) from group companies		
Other operating (income)	(17,500)	(4,084)
	<u>(17,500)</u>	<u>(4,084)</u>

Reconciliation of scheme assets and liabilities

	Assets £'000	Liabilities £'000	Total £'000
As at 1 January 2020	428,607	(354,591)	74,016
Benefits paid	(12,013)	12,013	-
Expenses paid	(1,482)	-	(1,482)
Employer contributions	26,232	-	26,232
Current service cost	-	-	-
Past service costs (curtailments)	-	-	-
Net interest income/(cost)	8,168	(6,659)	1,509
Actuarial gain/(loss)	50,581	(59,352)	(8,771)
As at 31 December 2020	<u>500,093</u>	<u>(408,589)</u>	<u>91,504</u>

Proprietary

Notes to the financial statements (continued)

23 Non-current post retirement benefit surplus (continued)

Fair value of plan assets

	2020	2019
	£000	£000
Equity securities	98,365	217,484
Government bonds	401,307	210,547
Corporate bonds	-	-
Cash/net current assets	421	576
	500,093	428,607

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:

	2020	2019
	£000	£000
Current year contributions	2,735	2,349

Notes to the financial statements *(continued)*

24 Post balance sheet events

On 01 March 2021, Vaki Scotland Ltd. transferred all of the assets and liabilities of the company to MSD Animal Health UK Ltd. The VAKI business will integrate into MSD Animal Health UK Ltd. from this date.

On 10 January 2022, MSD Animal Health UK Ltd issued 1 ordinary share with a nominal value of £1 for £50,000,000.

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.