

Merial Animal Health Limited

Annual Report for the year ended 31 December 2006

Registered No: 1961886

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Merial Animal Health Limited

Annual report for the year ended 31 December 2006

	Pages
Directors and advisors	1
Directors' report	2 - 4
Independent Auditors' report	5 - 6
Profit and loss account	7
Statement of total recognised gains and losses	8
Balance Sheet	9
Notes to the financial statements	10 - 24

Merial Animal Health Limited

Directors and advisors

Directors

D Gouffé (resigned 1st April 2006)

D Biland

J Crosia (appointed 1st April 2006)

P Martin-Jarrand (appointed 1st April 2006)

Secretary and registered office

J J Coote

Sandringham House

Harlow Business Park

Harlow

Essex

CM19 5TG

Solicitors

Birketts

24-26 Museum St

Ipswich

Suffolk

IP1 1HZ

Auditors

PricewaterhouseCoopers LLP

10 Bricket Road

St Albans AL1 3JX

Bankers

HSBC

92 Kensington High Street

London

W8 4SH

Merial Animal Health Limited

Directors' report for the year ended 31 December 2006

The directors present their report and the audited financial statements for the year ended 31 December 2006

Business review and principal activities

Merial Animal Health Limited ("the company") manufactures markets and distributes animal health products and veterinary medicines which are sold within the United Kingdom and European Union

The results for the company show a pre-tax profit of £8.4 million for the year and sales of £60.1 million. Given the disparate nature of the company's manufacturing and distribution activities, the directors do not believe that providing legal entity key performance indicators serve any useful purpose.

The company has net debt of £58k.

Research and development

Primary product research and development is largely carried out elsewhere within the Merial group of companies but the company continues to invest in technology and product development processes in order to provide a high level of support to its customers.

Future Outlook

The external outlook is expected to remain highly competitive during 2008. However we remain confident that we will maintain our current level of business in the future.

Principal risks and uncertainties

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

The key business risks and uncertainties affecting the company are considered to relate to competition, employee retention and changes in the regulatory classification of products.

Directors and their interests

The directors of the company at 31 December 2006 are listed below and served for the whole year unless otherwise indicated.

D Gouffé (resigned 1st April 2006)

D Biland

J Crosia (appointed 1st April 2006)

P Martin-Jarrand (appointed 1st April 2006)

None of the directors had any interest in the shares of the company or of any other group company incorporated in Great Britain at 31 December 2006 or at anytime during the year.

Merial Animal Health Limited

Directors' report

for the year ended 31 December 2006 (continued)

Statement of directors' responsibilities in respect of the Annual Report and 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 period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company, and which enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

Each director who is a director at the date of approval of this Annual Report confirms that

- so far as the director is aware, there is no relevant information of which the company's auditors are unaware, and
- each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and
- to establish that the company's auditors are aware of that information.

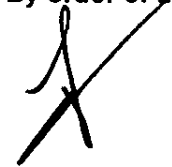
Merial Animal Health Limited

Directors' report for the year ended 31 December 2006 (continued)

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting

By order of the board



J J Coote
Company Secretary

15th July 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERIAL ANIMAL HEALTH LIMITED

We have audited the financial statements of Merial Animal Health Ltd for the year ended 31st December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

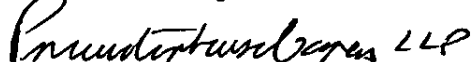
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MERIAL ANIMAL HEALTH LIMITED (Continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st December 2006 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

St Albans

16 July 2008

PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Services Authority for designated investment business.

Merial Animal Health Limited

Profit and loss account for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Turnover	3	60,149	52,681
Cost of sales		(38,289)	(36,026)
Gross profit		21,860	16,655
Distribution costs		(423)	(527)
Recharge to group companies		316	1,011
Administrative & selling expenses		(13,317)	(13,178)
Proceeds from insurance claim		140	1,744
Operating profit		8,576	5,705
Gain on Asset Disposal		-	59
Interest payable to group company		(891)	(808)
Bank interest receivable / (payable)		91	65
Other finance income	14	598	499
Profit on ordinary activities before taxation	4	8,374	5,520
Tax charges on profit on ordinary activities	7	(2,069)	(1,444)
Profit for the financial year	17	6,305	4,076

All of the company's activities are continuing

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year and their historical cost equivalents

The notes on pages 10 to 24 form part of these financial statements

Merial Animal Health Limited

Statement of total recognised gains and losses for the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Profit for the financial year		6,305	4,076
- Actuarial gain/(loss) on pension schemes	14	705	(187)
- Movement on deferred tax relating to pension deficit		(212)	55
Total gains and losses recognised since last annual report		6,798	3,944

Merial Animal Health Limited

Balance sheet at 31 December 2006

	Note	2006 £'000	2005 £'000
Fixed assets			
Tangible assets	8	16,297	17,122
		16,297	17,122
Current assets			
Stock	10	11,013	9,497
Debtors	11	10,992	12,586
Cash at bank and in hand		5,218	1,258
		27,223	23,341
Creditors amounts falling due within one year	12	(26,421)	(30,411)
Net current liabilities		802	(7,070)
Total assets less current liabilities		17,099	10,052
Provision for liabilities and charges	13	(1,950)	(1,075)
Net assets		15,149	8,977
Net pension asset	14	4,712	4,086
Net assets including pension asset		19,861	13,063
Capital and reserves			
Called up share capital	15	1,200	1,200
Profit and loss account	16	18,661	11,863
Equity shareholders' funds		19,861	13,063

The financial statements on pages 7 to 24 were approved by the board of directors on 15 July 2008 and were signed on its behalf by



D Bland
Director

The notes on pages 10 to 24 form part of these financial statements

Merial Animal Health Limited

Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies

The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom. Accounting policies have been applied consistently.

Consolidation

In accordance with FRS 2 'Accounting for Subsidiary Undertakings' and s228 Companies Act 1985, group financial statements have not been prepared because the company is a wholly owned subsidiary of a body corporate, incorporated in England and Wales. These financial statements therefore present information about the company as an individual undertaking.

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

Tangible fixed assets

Tangible fixed assets are stated at their purchase cost, together with any incidental costs of acquisition, net of depreciation and provision for impairment.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned, as follows:

	%
Plant, machinery and equipment	7-33
Computer equipment and software	25-33
Fixtures and fittings	10-20
Freehold Buildings and Land Improvements	5-10

Short leasehold land and buildings (those under 50 years) are amortised over the period of the lease. Freehold land and construction in progress are not depreciated.

Investments

Investments are stated at cost less any provision for impairment.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

Merial Animal Health Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

1 Principal accounting policies (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. In the case of manufactured products, cost includes material, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving and defective stocks where appropriate.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax is measured on a non-discounted basis.

Turnover

Revenue is recognised in the profit and loss account when goods or services are supplied to external customers against orders received. Turnover represents the net invoice value, after deduction of discounts applied at time of sale, of products despatched to customers. Value added tax and other sales tax are excluded from revenue.

Pension costs

The company participates in two group defined benefit schemes operated by sanofi aventis SA and Merck Sharp & Dohme Limited. The company is able to identify its share of the underlying assets and liabilities and has treated the scheme as a defined benefit plan.

The company has adopted FRS17, 'Retirement benefits' in these financial statements. The current service costs and the net return on pension assets and liabilities are charge to the profit and loss account in the period. Actuarial gains are recognised in the statement of recognised gains and losses.

Further details are given in note 14.

Meril Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

2 Cash flow statement

In accordance with paragraph 5 of FRS 1 'Cash Flow Statements (Revised)', the company, being the wholly owned subsidiary of another company which prepares a cash flow statement including the cash flows of this company, has not prepared such a statement itself

3 Turnover

The principal activity of the company is the manufacture, marketing, and distribution of animal and veterinary products

The geographical analysis of turnover by destination is as follows

	2006 £'000	2005 £'000
United Kingdom and Ireland	46,622	46,502
Rest of the world	13,527	6,179
	60,149	52,681

4 Profit on ordinary activities before taxation

	2006 £'000	2005 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation charge for the year		
Intangible fixed assets - owned	-	-
Tangible fixed assets - owned	1,944	1,284
Product development expenditure	-	112
Profit on disposal of fixed assets	-	1
Hire of plant and machinery under operating leases	466	481
Hire charges under other operating leases	442	541
Auditors' remuneration - audit	53	70
- other services	39	62

Merial Animal Health Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

5 Employee information

The average number of persons (including executive directors) employed by the company during the year was

	2006 Number	2005 Number
Production	76	74
Selling and distribution	42	38
Office and management	37	40
Product development		5
	155	157

	2006 £'000	2005 £'000
Staff costs (for the above persons):		
Wages and salaries	5,718	4,884
Social security costs	430	501
Other pension costs (see note 14)	1,117	1,035
	7,265	6,420

6 Directors' emoluments

The remuneration paid to the directors of Merial Animal Health Limited was

	2006 £'000	2005 £'000
Aggregate emoluments	148	248
Company contributions to defined benefit schemes	8	12
	156	260

Retirement benefits are accruing to 1 (2005: 1) director under a defined benefit scheme

Merial Animal Health Limited

Notes to the financial statements for the year ended 31 December 2006 (continued)

7 Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities

	2006	2005
	£'000	£'000
Current tax		
UK corporation tax on profits of the period	1,607	774
Adjustment in respect of previous periods	(489)	(85)
	1,118	689
Deferred tax		
Current year charge	951	755
Adjustment in respect of previous periods	-	-
	2,069	1,444

The deferred tax charge comprises two elements, a charge of £57k in relation to the deferred tax on the pension asset recognised on the balance sheet, and a charge of £894k in relation to the movement of the deferred tax provision in the year

Factors affecting tax charge for the year	2006	2005
	£'000	£'000
Profit on ordinary activities before tax	8,374	5,520
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 30%)	2,512	1,656
Effects of		
Expenses not deductible for tax purposes and other permanent	47	77
Capital allowances in excess of depreciation	(279)	(361)
Special contribution made to pension scheme	(616)	422
Movement in pension surplus	(57)	(1,087)
Adjustment to tax charge in respect of previous periods	(489)	(18)
	1,118	689

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

8 Tangible fixed assets

	Short leasehold land and buildings £'000	Plant machinery And equipment £'000	Total £'000
Cost			
At 1 January 2006	5,542	20,817	26,359
Additions	124	995	1,119
Disposals	(15)	(292)	(307)
At 31 December 2006	5,651	21,520	27,171
Depreciation			
At 1 January 2006	1,832	7,405	9,237
Charge for year	343	1,601	1,944
Disposals	(15)	(292)	(307)
At 31 December 2006	2,160	8,714	10,874
Net book value			
At 31 December 2006	3,491	12,806	16,297
31 December 2005	3,710	13,412	17,122

Included in Plant Machinery and Equipment is £2,128k and £1,582k as at 31 December 2006 and 2005, respectively, related to assets under construction. These assets are not depreciated until put in use.

9 Fixed asset investments

The company has two wholly owned subsidiaries, neither of which traded during the year.

Subsidiary Undertaking	Country of incorporation	Principal activity	Holding	% of voting rights owned
Rhone Merieux Ltd	United Kingdom	Dormant	£2	100
Merial Animal Health Ireland Ltd	Ireland	Dormant	£2	100

10 Stocks

	2006 £'000	2005 £'000
Raw materials and work in progress	655	984
Finished goods and goods for resale	10,358	8,513
	11,013	9,497

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

11 Debtors

	2006 £'000	2005 £'000
Trade debtors	6,293	8,476
Amounts owed by group companies (see note 22)	4,453	3,214
Other debtors	24	682
Prepayments and accrued income	222	214
Corporation tax		-
	10,992	12,586

12 Creditors: amounts falling due within one year

	2006 £'000	2005 £'000
Bank overdrafts	58	196
Trade creditors	1,418	6,006
Amounts owed to group companies	19,608	16,767
Corporation tax	538	650
Other taxation and social security	1,117	1,429
Accruals and deferred income	3,682	5,363
	26,421	30,411

The bank overdrafts form part of a group banking arrangement between a clearing bank, the intermediate parent company and another fellow United Kingdom subsidiary of Merial Limited. At the balance sheet date, the facility of the company was secured and guaranteed under this arrangement by Merial Limited.

13 Provisions for liabilities and charges

	Deferred tax £'000	Pension provision £'000	Total £'000
At 1 January 2006	924	151	1,075
Provided	894	-	894
Utilised		(19)	(19)
At 31 December 2006	1,818	132	1,950

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

13 Provisions for liabilities and charges (continued)

The pension provision was originally built up based on the provisions of the sanofi aventis group pension scheme. Following the reorganisation of the Company's pension arrangements (see note 14), the provision is no longer required and is being released to the profit and loss over the employees average future working lifetime of 13 years.

Deferred tax is made up as follows

	Amount provided	
	2006	2005
	£'000	£'000
Timing differences arising from		
Held over gain	281	281
Excess of capital allowances over depreciation	2,056	1,777
Pension special contribution	(519)	(1,134)
Total deferred tax liability	1,818	924
Pension deferred tax liability	2,020	1,751
	3,838	2,675

14 Pension obligations

FRS17 DISCLOSURE

The company participates in a group pension scheme established by sanofi aventis SA, and for the former employees of Agvet, a group pension scheme established by Merck Sharp & Dohme Limited (MSD). From 1 December 1998 all members of the Aventis SA scheme became members of the Merck Sharp & Dohme Limited operated scheme except for 11 employees whose age plus length of service exceeded 65 years, who remained in the sanofi aventis SA scheme. At 31 December 2006, six of these employees remained in service.

Both schemes are funded contributory defined benefit schemes providing benefits based on final pensionable salary. The assets of both schemes are held separately from those of the company and are administered by independent fund managers and trustees.

Merial Animal Health Limited (Merial) is unable to identify its share of the underlying assets and liabilities of the sanofi aventis SA scheme on a consistent and reasonable basis and hence pension costs have been accounted for under the multi employer accounting rules of FRS17 and it has been treated as a defined contribution scheme. Contributions made to this scheme amounted to £51,338 in 2006 and £45,511 in 2005.

In years prior to 2004, Merial's share of the MSD scheme values of assets and liabilities could not be accurately assessed. Since 2004, Merial has been able to identify its share of the underlying assets and liabilities and this is now being accounted for as a defined benefit scheme (previously treated as a defined contribution scheme) and is included in the FRS17 disclosure in the tables below.

Merrial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

14 Pension obligations (continued)

The most recent actuarial valuation of the sanofi aventis SA scheme was on 1 January 2003 and for the Merck Sharp & Dohme Limited Scheme, 31 December 2004. The valuation results of the latter scheme have been updated to 31 December 2006 for accounting purposes by qualified independent actuaries.

The company expects to pay contributions of £763k to the Merck Sharp & Dohme Scheme in 2007.

The major assumptions used for the FRS17 calculations were:

	31/12/2006 Rates p.a.	31/12/2005 rates p.a.	31/12/2004 rates p.a.
Discount rate	4.90%	4.60%	5.25%
Salary increases	4.60%	4.40%	4.40%
Inflation	3.10%	2.90%	2.90%
Pension increases	2.30%-3.10%	2.80%	2.70%

The fair value of the assets in the Scheme, the present value of the liabilities and the expected rate of return at each balance sheet date were:

	31/12/06 Estimated value	31/12/06 Expected return	31/12/05 Estimated value £000s	31/12/05 Expected return rate p.a.	31/12/04 Estimated value £000s	31/12/04 Expected return rate p.a.
Equity	23,475	7.0%	16,969	6.6%	12,184	7.5%
Property	1,457	6.7%	1,052	6.3%	829	6.7%
Bonds	4,084	4.5%- 5.0%	3,132	4.3%	2,343	4.8%
Cash	478	4.9%	4,518	4.5%	2,668	4.8%
Total fair value of assets	29,494		25,671		18,024	
Present value of scheme liabilities	(22,762)		(19,834)		(15,623)	
Surplus / (deficit) in the scheme	6,732		5,837		2,401	
Related deferred tax asset / (liability)	(2,020)		(1,751)		(720)	
Net pension asset / (liability)	4,712		4,086		1,681	

The net movement of the deferred tax liability represents a movement of £57k in relation to the surplus in the scheme and a movement of £212k in relation to the actuarial gain of the pension scheme shown in the STRGL.

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

14 Pension obligations (continued)

Profit and loss reserve

	31/12/2006 £000s	31/12/2005 £000s
Profit and loss reserve excluding pension asset	13,949	7,777
Pension asset	4,712	4,086
Profit and loss reserve including pension asset	<u>18,661</u>	<u>11,863</u>

Analysis of the amount charged to operating profit

	Year ending 31 December 2006 £000s	Year ending 31 December 2005 £000s
Current service cost	1,117	1,005
Past service cost	-	30
(Gain) on curtailment or settlement of the pension scheme	-	-
Total operating charge	<u>1,117</u>	<u>1,035</u>

Analysis of the amount credited to other net finance income

	Year ending 31 December 2006 £000s	Year ending 31 December 2005 £000s
Expected return on pension scheme assets	1,548	1,338
Interest on pension scheme liabilities	(950)	(839)
Net return	<u>598</u>	<u>499</u>

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

14 Pension obligations (continued)

Analysis of the actuarial gain/(loss) in the statement of total recognised gains and losses (STRGL)

	Year ending 31 December 2006 £000s	Year ending 31 December 2005 £000s
Actual return less expected return on pension scheme assets	1,463	2,341
Experience gains arising on the scheme liabilities	108	545
Changes in assumptions underlying the present value of the scheme liabilities – (loss)	(866)	(3,073)
Actuarial (loss) recognised in STRGL	705	(187)

The movement on the deferred tax liability is comprised of two elements, a movement of £1,088k in relation to the surplus in the scheme and a movement of £57k in relation to the actuarial loss of the pension scheme

Movement in scheme surplus during the year

	Year ending 31 December 2006 £000s	Year ending 31 December 2005 £000s
At start of period	5,837	2,401
Reclassifications	-	-
Current service cost	(1,117)	(1,005)
Contributions	709	4,159
Gain on settlements and curtailments	-	-
Past service cost	-	(30)
Net finance income	598	499
Actuarial gain/(loss)	705	(187)
	6,732	5,837

Meril Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

14 Pension obligations (continued)

History of experience gains and losses

	Year ending 31 December 2006 £000s	Year ending 31 December 2005 £000s	Year ending 31 December 2004 £000s
Difference between the expected and actual return on scheme assets			
Amount (£000s)	1,463	2,341	340
Percentage of scheme assets	5.0%	9.1%	1.9%
Experience gains and losses on scheme liabilities			
Amount (£000s)	108	545	937
Percentage of the present value of scheme liabilities	0.5%	2.7%	6.0%
Total actuarial gain/(loss) in the statement of total recognised gains and losses			
Amount (£000s)	705	(187)	(52)
Percentage of the present value of scheme liabilities	3.1%	(0.9%)	(0.3%)

15 Called up share capital

	2006 £'000	2005 £'000
Authorised, allotted, called up and fully paid		
1,200,000 ordinary shares of £1 each	1,200	1,200

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

16 Profit and loss account

	£'000
At 1 January 2006	11,863
Net actuarial gain on pension scheme	493
Retained profit for the year	6,305
At 31 December 2006	18,661

17 Reconciliation of movements in shareholder's funds

	2006	2005
	£'000	£'000
Profit for the financial year	6,305	4,076
Net actuarial gain/(loss) on pension scheme	493	(132)
	6,798	3,944
Opening shareholders' funds	13,063	9,119
Closing shareholders' funds	19,861	13,063

18 Capital commitments

	2006	2005
	£'000	£'000
Future capital expenditure		
Authorised but not contracted for	-	-
Contracted for but not provided for	330	-

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

19 Financial commitments

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2006	2005	2006	2005
		£'000		£'000
Expiring within one year	-	-	304	355
Expiring in two to five years	-	-	166	266
Expiring in over five years	511	489	-	-
	511	489	470	621

20 Related party transactions

The company is exempt under the terms of FRS 8 from disclosing related party transactions with other members of the group headed by Merial Limited

There were no related party transactions in 2006 or 2005

21 Ultimate, intermediate and immediate parent company

The company is a wholly owned subsidiary of Merial SAS, registered in France (the immediate parent company), which is itself a wholly owned subsidiary of Merial Limited, a company registered in England and Wales

Merial Limited is a joint venture undertaking of Merck & Co Inc, incorporated in the State of New Jersey, USA and sanofi aventis SA, incorporated in France

The largest group of which Merial Animal Health Limited is a member and for which group accounts are drawn up is that headed by Merial Limited. Copies of the Merial Limited consolidated financial statements can be obtained from Merial Limited, Sandringham House, Harlow Business Park, Harlow, Essex, CM19 5TG

22 Post Balance Sheet events

In 2007 foot and mouth disease (FMD) was identified in England. Government investigators stated that the virus was highly likely to have originated from a site in Pirbright, Surrey, where the British Government's Institute for Animal Health (IAH) and the Company both have facilities that work with FMD. The investigators said they could not confirm how FMD virus reached the farms, but that the most likely explanation was that live virus leaked into the soil at the IAH site from pipes that carried waste from Merial's facility and from the IAH to a waste treatment plant operated by the IAH, and that the virus was dispersed from the soil to livestock herds by the trucks of contractors engaged by the IAH. Farmers whose livestock was culled and unnamed members of the National Farmers Union have asserted claims by letter against the Company. Government investigative reports have not established any legal liability on the part of Merial. At present no lawsuit has been served on the Company and the potential claimants have not specified any amount of alleged damages. The Company believes that it has several strong defences to the claims and intends to defend any claims vigorously.

Merial Animal Health Limited

Notes to the financial statements

for the year ended 31 December 2006 (continued)

On 15th November 2007 the company acquired the whole of the share capital of Ancare Ireland Limited, a company involved in the distribution of ruminant animal health products in Ireland

A number of changes to the United Kingdom Corporation tax system were announced in March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts. The changes had not been substantively enacted at the Balance Sheet date and, therefore, are not included in these financial statements. This non-adjusting post balance sheet event has no material impact on the financial statements.