Merial Animal Health Limited

Annual Report
for the year ended 31 December 2002

Registered No: 1961886

Merial Animal Health Limited

Annual report for the year ended 31 December 2002

Merial Animal Health Limited

Directors and advisors

Directors

A Reade
D Gouffé
H Nalle
D S Hinton (resigned 4 October, 2002)
D A Biland (appointed 4 October, 2002)

Secretary and registered office

J J Coote
Sandringham House
Harlow Business Park
Harlow
Essex
CM19 5TG

Solicitors

Stephenson Harwood
1 St Paul's Churchyard
London
EC4M 8SH

Auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Bankers

HSBC
92 Kensington High Street
London
W8 4SH

Directors' report
for the year ended 31 December 2002

The directors present their report and the audited financial statements for the year ended 31 December 2002.

Principal activity

The principal activity of the company during the year was the manufacture, marketing and distribution of animal and veterinary products.

Review of business and future developments

The level of business in the year reflected general market conditions. The directors consider that the year end position was satisfactory and do not expect market conditions to materially alter in the immediate future.

Results and dividends

The profit and loss account for the year is set out on page 6. The directors have declared a dividend of £5,000,000 for 2002 (2001 £7,000,000).

Directors and their interests

The directors of the company at 31 December 2002, all of whom have been directors for the whole year unless otherwise indicated are listed below:

D Gouffé
H Nalle
A Reade
D A Biland (appointed 4 October, 2002)
D S Hinton (resigned 4 October 2002)

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 2002 or at anytime during the year.

Directors' report for the year ended 31 December 2002 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records which 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 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.

Auditors

Following the conversion of our auditors, PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 11 June 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors will be proposed at the annual general meeting.

By order of the board

J J Coote
Company Secretary

29 August 2003

Independent auditors' report to the members of Merial Animal Health Ltd

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 if, in our opinion, the directors' report is not consistent with the financial statements, if 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 judgements 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 December 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

29 August 2003

Profit and loss account
for the year ended 31 December 2002

	Notes	2002 £'000	2001 £'000
Turnover	3	**61,396**	56,000
Cost of sales		**(44,396)**	(41,566)
Gross profit		**17,000**	14,434
Distribution costs		**(589)**	(598)
Recharge to group companies		**554**	1,997
Administrative & selling expenses		**(11,809)**	(12,078)
Operating profit		**5,156**	3,755
Gain on Asset Disposal		**1,329**	-
Interest payable to group company		**(526)**	(852)
Bank interest (payable)/ receivable		**(22)**	96
Profit on ordinary activities before taxation	4	**5,937**	2,999
Tax on profit on ordinary activities	7	**(1,608)**	(1,031)
Profit for the financial year		**4,329**	1,968
Ordinary dividend payable - £:4.17 per share (2001 £5.83)		**(5,000)**	(7,000)
Loss for the financial year	17	**(671)**	(5,032)

All of the 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 stated above, and their historical cost equivalents.

The company has no recognised gains and losses other than the profit above, and therefore no separate statement of total recognised gains and losses has been presented.

Balance sheet
at 31 December 2002

	Notes	2002 £'000	2001 £'000
Fixed assets			
Intangible assets	8	-	-
Tangible assets	9	7,097	9,070
Investments	10	-	-
		7,097	9,070
Current assets			
Stock	11	8,573	6,520
Debtors	12	9,912	14,273
Cash at bank and in hand		276	2,091
		18,761	22,884
Creditors: amounts falling due within one year	13	(20,839)	(25,855)
Net current liabilities		(2,078)	(2,971)
Total assets less current liabilities		5,019	6,099
Provision for liabilities and charges	14	(1,173)	(1,582)
Net assets		3,846	4,517
Capital and reserves			
Called up share capital	16	1,200	1,200
Profit and loss account	17	2,646	3,317
Equity shareholders' funds		3,846	4,517

The financial statements on pages 6 to 20 were approved by the board of directors on 29 August 2003 and were signed on its behalf by:

D Biland

Director ....

Notes to the financial statements for the year ended 31 December 2002

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 except as disclosed below.

Consolidation

The company is included in the consolidated financial statements of Merial Ltd, its parent undertaking, which are publicly available. The company has taken advantage of the exemption in Section 228 of the Companies Act 1985 in not preparing consolidated accounts. These financial statements therefore present information about the company as an individual undertaking.

Tangible fixed assets and intangible fixed assets

The cost of tangible and intangible fixed assets represents their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets and intangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

	%
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.

Investments

Investments are stated at cost less any provision for a permanent diminution in value.

Notes to the financial statements for the year ended 31 December 2002 (continued)

1 Principal accounting policies (continued)

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Stocks and work in progress

Stocks and work in progress 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 all direct expenditure and production overheads based on a normal level of activity. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Foreign currencies

Assets and liabilities in foreign currencies are translated into Sterling at rates of exchange ruling at the end of the financial year. Transactions in foreign currencies during the year are translated to Sterling at the exchange rate at the date of the transaction. Foreign exchange differences are taken to the profit and loss account in the year in which they arise.

Deferred taxation

During the year the Company changed its accounting policy on deferred tax in line with FRS 19. FRS 19 introduces a form of full provision for accounting for deferred tax, called the incremental liability approach, which replaces the partial provision approach previously followed under SSAP 15.

Deferred tax is now provided on timing differences where the Company has an obligation to pay more or less tax in the future as a result of the reversal of those timing differences. Previously deferred tax was provided on timing differences to the extent that they were expected to reverse in the foreseeable future.

There is no impact on the financial statement following the introduction of FRS 19.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied.

Notes to the financial statements for the year ended 31 December 2002 (continued)

1 Principal accounting policies (continued)

Pension costs

The company participates in the two group defined benefit schemes operated by Aventis SA and Merck Sharp & Dohme Limited. Further details are given in note 15. Pension costs are accounted for on the basis of charging the contributions due to each scheme as all employers participating in the schemes are required to pay the same level of contributions with no allocation of fund assets between employers. In addition, there is an adjustment for the amortisation of the provision at the beginning of the year.

2 Cash flow statement

The company is exempt from the requirement to prepare a cash flow statement under Financial Reporting Standard 1 (Revised) on the basis that it is a wholly owned subsidiary of Merial Limited, whose financial statements are publicly available.

3 Segmental Reporting

The company's turnover and profit before taxation were all derived from its principal activity.

The geographical analysis of turnover by destination is as follows:

	2002	2001
	£'000	£'000
United Kingdom and Ireland	**54,506**	49,153
Rest of the world	**6,890**	6,847
	61,396	56,000

Notes to the financial statements for the year ended 31 December 2002 (continued)

4 Profit on ordinary activities before taxation

	2002	2001
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation charge for the year		
Intangible fixed assets - owned	-	12
Tangible fixed assets - owned	1,171	1,279
Product development expenditure	65	63
(Profit) / Loss on disposal of fixed assets	(1,329)	7
Restructuring charges	-	521
Hire of plant and machinery under operating leases	430	383
Hire charges under other operating leases	626	626
Auditors' remuneration -audit	29	65
-other services	8	-

5 Employee information

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

	2002	2001
	Number	Number
Production	53	52
Selling and distribution	39	41
Office and management	27	29
Product development	6	13
	125	135

	2002	2001
	£'000	£'000
Staff costs (for the above persons):		
Wages and salaries	4,246	3,938
Social security costs	437	407
Other pension costs (see note 15)	487	513
	5,170	4,858

Notes to the financial statements for the year ended 31 December 2002 (continued)

6 Directors' emoluments

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

	2002	2001
	£'000	£'000
Aggregate emoluments	101	118
Company contributions to defined benefit schemes	7	12
	108	130

Retirement benefits are accruing to 2 (2001: 2) directors under a defined benefit scheme.

7 Tax on profit on ordinary activities

Analysis of tax charge on ordinary activities

	2002	2001
	£'000	£'000
Current tax:		
UK corporation tax on profits of the period	1,415	929
Adjustment in respect of previous periods	(169)	220
	1,246	1,149
Deferred tax:		
Current year charge	152	102
Adjustment in respect of previous periods	210	(220)
	1,608	1,031

Notes to the financial statements for the year ended 31 December 2002 (continued)

Tax on profit on ordinary activities (continued)

Factors affecting tax charge for the year

	2002 £'000	2001 £'000
Profit on ordinary activities before tax	5,937	2,999
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2001: 30%)	1,781	900
Effects of:		
Expenses not deductible for tax purposes and other permanent differences	161	130
Capital allowances in excess of depreciation	(92)	(124)
Difference between accounting and taxable profit on property disposal	(142)	-
Origination and reversal of timing differences	(61)	23
Rollover relief on property disposal	(232)	-
Adjustment to tax charge in respect of previous periods	(169)	220
	1,246	1,149

8 Intangible fixed assets

	Product rights £'000	Goodwill £'000	Total £'000
Cost			
At 1 January 2002	453	179	632
At 31 December 2002	**453**	**179**	**632**
Amortisation			
At 1 January 2002	453	179	632
At 31 December 2002	**453**	**179**	**632**
Net book value			
At 31 December 2002	-	-	-
At 31 December 2001	-	-	-

Notes to the financial statements for the year ended 31 December 2002 (continued)

9 Tangible fixed assets

	Short leasehold land and buildings £'000	Plant Machinery And Equipment £'000	Total £'000
Cost			
At 1 January 2002	4,368	10,639	15,007
Additions	684	1,377	2,061
Disposals	(1,431)	(2,361)	(3,792)
At 31 December 2002	**3,621**	**9,655**	**13,276**
Depreciation			
At 1 January 2002	1,047	4,890	5,937
Charge for year	348	858	1,206
Disposals	(348)	(616)	(964)
At 31 December 2002	**1,047**	**5,132**	**6,179**
Net book value			
At 31 December 2002	**2,574**	**4,523**	**7,097**
31 December 2001	3,321	5,749	9,070

10 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

Notes to the financial statements for the year ended 31 December 2002 (continued)

11 Stocks

	2002	2001
	£'000	£'000
Raw materials	**284**	229
Finished goods and goods for resale	**8,289**	6,291
	8,573	6,520

12 Debtors

	2002	2001
	£'000	£'000
Trade debtors	**9,318**	11,809
Amounts owed by group companies	**238**	2,095
Other debtors	**74**	121
Prepayments and accrued income	**282**	248
	9,912	14,273

13 Creditors: amounts falling due within one year

	2002	2001
	£'000	£'000
Bank overdrafts	**1,063**	1,311
Trade creditors	**6,367**	5,463
Amounts owed to group companies	**7,069**	12,621
Corporation tax	**1,139**	1,571
Other taxation and social security	**913**	1,133
Accruals and deferred income	**4,288**	3,756
	20,839	25,855

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.

Notes to the financial statements for the year ended 31 December 2002 (continued)

14 Provisions for liabilities and charges

	Deferred tax	Pension provision	Restructuring	Total
	£'000	£'000	£'000	£'000
At 1 January 2002	441	227	914	1,582
Provided	362	-	-	362
Utilised	-	(19)	(752)	(771)
At 31 December 2002	803	208	162	1,173

The pension provision was originally built up based on the provisions of the Aventis SA group pension scheme. Following the reorganisation of the Company's pension arrangements (see note 15), the provision is no longer required and is being released to the profit and loss over the employees average future working lifetime of 14 years.

The restructuring provision comprises £73,000 for onerous lease charges on property rentals where the property is currently empty and covers the rental up to June 2003, the earliest break clause, plus £58,000 for assets within that building that were provided for, but not disposed of, when the property was vacated, and £31,000 for costs of restructuring expected to be paid during 2003.

Deferred tax is made up as follows

	Amount provided		Full potential liabilities	
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Timing differences arising from:				
Excess of capital allowances over depreciation	**812**	730	**812**	730
Other timing differences	**(9)**	(289)	**(9)**	(289)
	803	441	**803**	441

Notes to the financial statements for the year ended 31 December 2002 (continued)

15 Pension obligations

The company participates in a group pension scheme established by Aventis SA, and for the former employees of Agvet, a group pension scheme established by Merck Sharp & Dohme Limited. From 1 December 1998 all members of the Aventis SA scheme became members of the Merck Sharp & Dohme Limted operated scheme except for 11 employees whose age plus length of service exceeded 65 years, who then remained in the Aventis SA scheme. At 31 December 2002 seven 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.

The most recent actuarial valuation of the Aventis SA scheme was on 1 January 2000 and for the Merck Sharp & Dohme Limted scheme, 31 December 2001.

The 31 December 2001 actuarial valuation of the Merck Sharp & Dohme Limited Scheme was carried out using the projected unit method and assumed investment returns of 6.9% pa pre-retirement, 5.4% pa post-retirement. general earnings growth of 4.0% pa and pension increases on benefits accrued after 5 April 1997 of 2.5% pa. At the valuation date, the market value of the assets of the Scheme were £144.8m and the actuarial value of assets was sufficient to cover 91% of the benefits that had accrued to members at the valuation date after allowing for expected future increases to earnings. All participating members of the Scheme are making additional contributions of 1.3% of pensionable salaries to the Scheme over the 5 years from 1 January 2000 in order to remove the funding deficit.

Notes to the financial statements for the year ended 31 December 2002 (continued)

15 Pension obligations (continued)

Details of the latest valuation of the Merck Sharp & Dohme Limited Scheme are given above. Along with other participating employers, Merial Animal Health Limited paid contributions of 13.4% of pensionable salaries to the Merck Sharp & Dohme Limited Scheme during 2002 in respect of its members who are all in Section A of the scheme. From 1 January 2003, the company contribution rate recommended by the actuary will increase to 15.4% pa. This includes additional contributions of 1.8% pa of pensionable salaries to be paid by the company for the next three years in order to reduce the funding deficit for Section A members. The charge for the year is £487,000 (2001: £473,000), which includes an element in respect of the amortisation of the opening provision. The contributions paid in respect of the Merck Sharp & Dohme Limited Scheme were £365,000 (2001: £329,000). The contributions paid in respect of the Aventis SA Scheme were £103,000 (2001: £121,000). Therefore, the provision at the year end is £208,000 (2001: £227,000), representing the difference between the charge and the contributions paid (refer to note 14).

Merial Animal Health Limited is unable to identify its share of the underlying assets and liabilities in the Merck Sharp & Dohme Limited and Aventis SA schemes on a consistent and reasonable basis and hence pension costs for these schemes are accounted for under the multi employer accounting rules of FRS 17.

Subsequent to the year-end the Company was requested to make an additional contribution to the Merck Sharp & Dohme Limited Pension Scheme of £1,047,000, which was subsequently paid.

16 Called up share capital

	2002	2001
	£'000	£'000
Authorised, allotted, called up and fully paid		
1,200,000 ordinary shares of £1 each	**1,200**	1,200

17 Profit and Loss Account

	£'000
At 1 January 2002	**3,317**
Retained loss for the year	**(671)**
At 31 December 2002	**2,646**

Notes to the financial statements for the year ended 31 December 2002 (continued)

18 Reconciliation of Movements in Shareholders' Funds

	2002	2001
	£'000	£'000
Profit for the financial year	4,349	1,968
Less: *Dividend payable*	(5,000)	(7,000)
Retained (loss) for the financial year	(671)	(5,032)
Opening shareholders' funds	4,517	9,549
Closing shareholders' funds	3,846	4,517

19 Capital commitments

	2002	2001
	£'000	£'000
Future capital expenditure		
Authorised but not contracted for	-	-
Contracted for but not provided for	-	-

20 Financial commitments

At 31 December 2001 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Expiring within one year	66	-	378	43
Expiring in two to five years	-	137	336	204
Expiring in over five years	485	485	-	-
	551	622	714	247

Notes to the financial statements for the year ended 31 December 2002 (continued)

21 Related party transactions

The company has taken advantage of the exemption provided by Financial Reporting Standard 8 on Related Party Transactions from disclosing transactions with other members of the group headed by Merial Limited.

During 2002 an amount of £14,457 (2001: £107,341) was paid to Merck Sharp & Dohme Limited, a subsidiary of Merck Inc. The amount due to Merck Sharp & Dohme Limited at the end of the year was £Nil (2001: £21,354).

22 Ultimate, intermediate and immediate parent company

The company is a wholly owned subsidiary of Merial Limited, registered in England & Wales, which is itself a joint venture undertaking of Merck & Co. Inc., incorporated in the State of New Jersey, USA and 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.