

Seven Seas Limited

Directors' report and financial
statements

Registered number 351663

31 December 2016

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Strategic Report

The directors present their Strategic Report of Seven Seas Limited ("the company") for the year ended 31 December 2016.

Principal activities

The principal activities of the company are the marketing and distribution of vitamin supplements and healthcare products for human consumption.

Review of the business and future developments

In September 2015 the company closed its Hull UK based manufacturing facility and all sales, marketing and administration functions relocated to a group facility based in Feltham, UK.

It is anticipated that the company will continue to concentrate its activity, for the foreseeable future, on the marketing and distribution of vitamin supplements and healthcare products for human consumption.

With continuous efforts and investments in scientific researches throughout the years, the Seven Seas products are now sold worldwide in more than 100 countries. Its reputation as the leading health supplement brand, not only in the UK, but also in Ireland, Middle East, Africa, Caribbean and Far East.

Results and dividends

The profit and loss account for the year is set out on page 8. The profit after taxation for the year ended 31 December 2016 amounted to £2,050,000 (2015: £7,086,000).

The directors do not recommend the payment of a dividend (2015: £nil).

Key Performance Indicators

	2016	2015
	£'000	£'000
Turnover	27,862	30,167
Profit after tax for the financial year	2,050	7,086

Strategy

The UK and Ireland markets for vitamin and healthcare products remain highly competitive. Accordingly, the company recognises that investment in advertising and marketing remains key to continuing growth and adding value to the business. Additionally, key research is carried out to ensure the company's product range adequately serves to requirements of the UK and Ireland demographic.

Principal risks and uncertainties

The company's operations expose it to a variety of financial and other operational risks. The company has in place policies, procedures and internal controls to safeguard its activities and assets. The policies set by the board of directors are implemented by the company's finance department, as well as any other departments identified by the Board.

Strategic Report *(continued)*

Future outlook

Seven Seas Limited plans to continue promoting and distributing its current diverse line of high quality products in the UK and Ireland markets.

By order of the board



Stefan Kratzer
Director

Date: 30.06.2017

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2016.

Directors

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

Heidrun Gresle
James David Binnington
Stefan Kratzer

Company Secretary

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

AG Secretarial Limited

Dividends

An interim dividend of £nil (2015: £nil) was paid. The directors do not recommend the payment of a final dividend (2015: £nil). The profit for the year of £2,050,000 (2015: £7,086,000 profit) will be transferred to reserves.

Employees

Disabled persons

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

Employee involvement

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

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in market prices and credit risk. The company has in place a credit risk management programme that requires appropriate credit checks on potential customers before sales are made. Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department. The company does not use derivative financial instruments and as such no hedge accounting is applied

Directors' Report *(continued)*

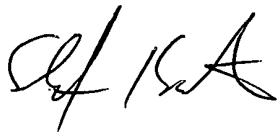
Disclosure of information to auditor

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

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



Stefan Kratzer
Director

Date:

30.06.2017

Bedfont Cross
Stanwell Road
Feltham
Middlesex
TW14 8NX

Statement of directors' responsibilities in respect of the Strategic Report and the Director's Report and the financial statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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; 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Independent auditor's report to the members of Seven Seas Limited

We have audited the financial statements of Seven Seas Limited for the year ended 31 December 2016, set out on pages 8 to 35. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.



Independent auditor's report to members of Seven Seas Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

A handwritten signature in black ink, appearing to read 'Mark Matthewman'.

**Mark Matthewman (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants**

58 Clarendon Road
Watford
WD17 1DE

Date: 5 July 2017

Profit and Loss Account

for the year ended 31 December 2016

	Note	2016 £000	2015 £000
Turnover	2	27,862	30,167
Cost of sales		(13,232)	(10,387)
Gross profit		14,630	19,780
Distribution costs		(1,133)	(1,224)
Administrative expenses	3	(12,507)	(14,942)
Other operating income	4	17	2,445
Operating profit		1,007	6,059
Interest payable	8	(854)	(1,115)
Interest receivable	7	-	13
Profit on ordinary activities before taxation		153	4,957
Tax on profit on ordinary activities	9	1,897	2,129
Profit for the financial year		2,050	7,086

The above operations all relate to continuing activities.

The notes on pages 13 to 35 form part of these financial statements.

Other Comprehensive Income

for year ended 31 December 2016

	2016	2015
Notes	£000	£000
Profit for the financial year	2,050	7,086
Other comprehensive income		
Re-measurement of the net defined benefit (liability) / asset	(16,475)	2,210
Deferred tax thereon	2,496	(398)
Change in tax rate	(359)	(765)
Other comprehensive (loss)/income for the year (net)	(14,338)	1,047
Total comprehensive (loss)/income for the year	(12,288)	8,133

The notes on pages 13 to 35 form an integral part of these financial statements

Balance Sheet at 31 December 2016

	Notes	2016 £000	2015 £000
Fixed assets			
Intangible assets		-	-
Tangible assets		-	-
		-	-
Current assets			
Stocks	10	3,706	4,018
Debtors (including £4,238,000 falling due after more than one year, 2015: £1,863,000)	11	14,017	14,190
Cash at bank and in hand		-	18
		17,723	18,226
Creditors: amounts falling due within one year	12	(5,885)	(6,657)
Net current assets		11,838	11,569
Total assets less current liabilities		11,838	11,569
Creditors: amounts falling due after more than one year	13	(28,500)	(30,000)
Provisions for liabilities			
Pensions and similar obligations	17	(19,634)	(5,229)
Other provisions	14	(30)	(378)
		(48,164)	(35,607)
Net liabilities		(36,326)	(24,038)
Capital and reserves			
Share capital	16	50	50
Profit and loss account		(36,376)	(24,088)
Shareholders' deficit		(36,326)	(24,038)

The notes on pages 13 to 35 form part of these financial statements.

These financial statements were approved by the board of directors on 30.06. 2017.

Stefan Kratzer
Director



Statement of Changes in Equity

	Called up Share capital	Profit and loss account	Total equity
	£'000	£'000	£'000
Balance at 1 January 2016	50	(24,088)	(24,038)
Total comprehensive loss for the period			
Profit or loss	-	2,050	2,050
Other comprehensive loss	-	(14,338)	(14,338)
<i>Total comprehensive loss for the period</i>	-	(12,288)	(12,288)
Balance at 31 December 2016	50	(36,376)	(36,326)

The notes on pages 13 to 35 form an integral part of these financial statements.

Statement of Changes in Equity *(continued)*

	Called up Share capital	Profit and loss account	Total equity
	£'000	£'000	£'000
Balance at 1 January 2015	50	(32,221)	(32,171)
Total comprehensive income for the period			
Profit or loss	-	7,086	7,086
Other comprehensive income	-	1,047	1,047
<i>Total comprehensive income for the period</i>	-	8,133	8,133
Balance at 31 December 2015	50	(24,088)	(24,038)

The notes on pages 13 to 35 form an integral part of these financial statements

Notes

(Forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102")* as issued in August 2014. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

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

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and
- Key Management Personnel compensation.

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

- Certain disclosures required by FRS 102.26 Share Based Payments; and,
- The disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.1 Measurement convention

The financial statements have been prepared under the historical cost convention (modified to include the revaluation of investments in subsidiaries) and in accordance with applicable accounting standards. They are prepared on a going concern basis, which the directors feel to be appropriate based on the current and expected availability of financing. At the date of approval of the financial statements, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future; thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.2 Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Review of business section of the Strategic Report on pages 1 to 2.

The Company is expected to continue to generate positive cash flows on its own account for the foreseeable future. The Company participates in the group's cash pooling arrangement with its parent Company.

The directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Merck KGaA to continue as a going concern or its ability to continue with the current banking arrangements.

1.3 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for any obsolete or slow moving items. In the case of manufactured stocks and work in progress, cost includes and appropriate share of overheads based on normal operating capacity.

Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

1.4 Foreign currencies

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

1.5 Research and development

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

1.6 Basic financial instruments

Trade and other debtors / creditors

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

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Investments in preference and ordinary shares

Investments in equity instruments are measured initially at fair value, which is normally the transaction price. Transaction costs are excluded if the investments are subsequently measured at fair value through profit and loss. Subsequent to initial recognition investments that can be measured reliably are measured at fair value with changes recognition in profit or loss. Other investments are measured at cost less impairment in profit or loss

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

1.7 Pension costs

Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the company's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The company recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

The Company has recognised its share of two pension schemes as defined in an agreement between the participating employers as a combination of apportionment of total membership between the employers, active membership and actual past and present contributions by the employers.

1.9 Provisions

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Basis of preparation *(continued)*

1.9 Taxation

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

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

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing difference is not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

1.10 Related party disclosures

As the company is wholly owned by Merck KGaA, it has taken advantage of the exemption contained in FRS 102 and has, therefore, not disclosed transactions or balances with entities which form part of the group headed by Merck KGaA. The consolidated financial statements of Merck KGaA, within which this company is included, can be obtained from the address given in note 20.

1.11 Turnover

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

Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

1.12 Expenses

Operating leases

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy).

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the company's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.13 Share based payments

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

Notes (continued)

2 Turnover

Turnover, all originating in the UK, represent the invoiced value of goods and services supplied by the company, and is exclusive of VAT.

	2016 £000	2015 £000
<i>By turnover</i>		
Sales of goods	27,862	30,167

Analysis of turnover by geographical market supplied is not disclosed in these accounts because the directors consider that disclosure would be prejudicial to the business. Turnover is attributed to the principal continuing activity of the company.

3 Expenses and auditor's remuneration

Included in the profit/loss are the following:

	2016 £000	2015 £000
Restructuring costs expensed as incurred	9	285
Research and development expensed as incurred	464	348
Depreciation of fixed assets	-	-
Amortisation of intangibles	-	725
Operating lease costs	109	185
(Profit)/loss on foreign exchange transactions	(172)	173

The restructuring costs in the prior year are in relation to the Merck Group project "Fit for 2018" (see Merck Annual Report year ended 31 December 2012), where the Group took a decision to close the facility in Hull and to relocate sales, marketing and administration functions to other group facilities and to outsource the production and distribution of the company's products.

	2016 £000	2015 £000
Auditor's remuneration		
Audit of these financial statements	25	25
Non audit services	-	-
	25	25

Notes (continued)

4 Other operating income

	2016 £000	2015 £000
Net gain on disposal of tangible fixed assets	-	2,445
Other income	17	-

	2016 £000	2015 £000
<i>Gain on disposal of tangible fixed assets:</i>		
Gain from sale of Park Royal House	-	601
Gain from sale of Hedon Road land and buildings	-	1,844
	-	2,445

5 Staff numbers and costs

The average number of persons (including directors where appropriate) employed by the company was:

	Average number of employees	
	2016	2015
Production	-	26
Sales and marketing	36	34
Distribution	4	11
Administration	6	22
	46	93

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	3,393	5,843
Severance pay	68	5,923
Social security costs	316	792
Pension costs	210	498
	3,987	13,056

6 Remuneration of directors

	2016 £000	2015 £000
Directors' emoluments	554	636
Company contributions to defined benefit pension scheme	35	35
	589	671

The emoluments of the highest paid director were £296,884 (2015: £272,340). The pension contributions paid by the company on behalf of the highest paid director in 2016 were £16,458 (2015: £20,409).

No director accrued benefits under defined benefit pension schemes.

7 Other interest receivable and similar income

	2016 £000	2015 £000
Other interest receivable	-	13
	-	13

8 Interest payable and similar charges

	2016 £000	2015 £000
Interest payable on group finance	558	670
Interest paid in relation to tax	9	-
Net interest paid on defined benefit pension schemes (see note 17)	287	445
	854	1,115

Notes (continued)

9 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	2016	2015
	£000	£000
<i>Current tax</i>		
Current tax on income for the period	(210)	(1,681)
Adjustment in respect of prior year	(1,448)	(1,899)
Total current tax	(1,658)	(3,580)
<i>Deferred tax:</i>		
Origination/reversal of timing differences	(2,474)	2,438
Change in tax rate	98	176
Total deferred tax	(2,376)	2,614
Total tax (credit)/charge	(4,034)	(966)

	2016			2015		
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit & loss account	(1,658)	(239)	(1,897)	(3,580)	1,451	(2,129)
Recognised in other comprehensive income	-	(2,137)	(2,137)	-	1,163	1,163
Recognised directly in equity	-	-	-	-	-	-
	(1,658)	(2,376)	(4,034)	(3,580)	2,614	(966)

The rate of UK corporation tax reduced from 21% to 20% on 1st April 2015 and did not change during 2016, resulting in rate of 20% for the accounting period (2015: 20.25%).

A reduction of the corporation tax rate to 19%, effective from 1 April 2017, was enacted on 18 November 2015. Subsequently, a further reduction to 17%, effective from 1 April 2020, was enacted on 15 September 2016.

Notes (continued)

9 Taxation (continued)

	2016 £000	2015 £000
Reconciliation of effective tax rate		
Profit/(loss) for the year before tax	153	4,957
Tax at the standard corporation tax rate for the year of 20% (2015: 20.25%)	31	1,004
Non-deductible expenses	3	156
Reduction in tax rate on deferred tax balances	(483)	(813)
Tax exempt revenues	-	(577)
Under/(over) provided in previous periods	(1,448)	(1,899)
Total tax (credit)/expense included in profit and loss	(1,897)	(2,129)

The current tax on income for the year relates entirely to UK corporation tax, as does the figure for the prior year.

10 Stocks

	2016 £000	2015 £000
Raw materials	-	-
Work in progress	-	-
Finished goods	3,706	4,018
	3,706	4,018

The write-down of stocks to net realisable value amounted to £201,000 (2015: £390,000). There were no reversal of write-downs during the year (2015: £nil). The write-down and reversal are included in cost of sales.

Notes (continued)

11 Debtors

	2016	2015
	£000	£000
Trade debtors	7,208	7,780
Amounts owed by group undertakings	2,191	4,322
Other debtors	-	2
Prepayments and accrued income	87	223
Other taxation and social security	90	-
Corporation tax	203	-
Deferred tax asset (note 15)	4,238	1,863
	14,017	14,190

The company participates in a cash pooling arrangement with its parent company, whereby all cash balances held with third party banks are cleared on a daily basis and transferred to a central parent account. All transferred balances are held by the parent company and made available to the company in order to satisfy its cash flow requirements. Balances held within the cash pool arrangement are subject to interest and charges calculated on an arm's length basis.

12 Creditors: amounts falling due within one year

	2016	2015
	£000	£000
Trade creditors	2,711	2,536
Amounts owed to group undertakings	14	4
Other taxation and social security	-	410
Accruals and deferred income	3,160	3,448
Corporation tax	-	259
	5,885	6,657

Notes (continued)

13 Creditors: amounts falling due after more than one year

	2016 £000	2015 £000
Amounts owed to fellow group undertakings	28,500	30,000

Balance comprises of loans held with Merck Capital Limited of £16,500,000 (2015: £18,000,000) and Sigma Aldrich Financial Services Limited of £12,000,000 (2015: £12,000,000).

An agreement has been reached with the fellow group companies that the loans would not be recalled for twelve months, and as such the amount is disclosed as falling due after more than one year.

14 Other Provisions

	Restructuring £000
Balance at 1 January 2016	378
Charged to profits in period	(198)
Utilised in period	(150)
Balance at 31 December 2016	30

The restructuring provision is in relation to the Merck Group project "Fit for 2018" (see Merck Annual Report year ended 31 December 2012), where the Group took a decision to close the facility in Hull and to relocate sales, marketing and administration functions to other group facilities and to outsource the production and distribution of the company's products.

15 Deferred taxation

	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Employee benefits	3,338	941	-	-	3,338	941
Accelerated capital allowances	842	798	-	-	842	798
Other	58	124	-	-	58	124
	4,238	1,863	-	-	4,238	1,863

Notes (continued)

16 Share capital

	2016 £000	2015 £000
Allotted, called up and fully paid:		
50,000 deferred shares of £1 each	50	50
100 bearer shares	-	-
	<u>50</u>	<u>50</u>
	<u>50</u>	<u>50</u>

The 50,000 deferred shares of £1 each do not carry any voting rights. Holders of the deferred shares are not entitled to any participation in the profits or assets of the company save upon winding up when they rank behind all other classes of shares.

The 100 bearer shares carry all the rights attached to ordinary equity shares for both voting and participation in the profits and assets of the company.

17 Employee benefits

Defined benefit schemes

The company is a member of the Merck Pension Scheme and the Merck International Pension Scheme which are defined benefit pension schemes providing benefits based on final pensionable pay. However, please see specific information on the Merck International Pension Scheme below. The pension cost is assessed in accordance with the advice of professional qualified actuaries using the projected unit credit method.

The information disclosed below is in respect of the whole of the plans for which the company is either legally responsible or has been allocated a share of cost under an agreed group policy throughout the periods shown.

	2016 £000	2015 £000
Merck Schemes net pension liability:		
Merck Pension Scheme	(19,634)	(4,908)
Merck International Pension Scheme	-	(321)
	<u>(19,634)</u>	<u>(5,229)</u>
Net liability	<u>(19,634)</u>	<u>(5,229)</u>

Notes (continued)

17 Employee benefits (continued)

Merck Pension Scheme

	2016	2015
	£000	£000
Net Pension liability:		
Defined benefit obligation	(146,898)	(116,108)
Fair value of plan assets	127,264	111,200
Net liability	(19,634)	(4,908)

Movements in present value of defined benefit obligation are as follows:

	2016	2015
	£000	£000
Defined benefit obligation at 1 January	116,108	120,878
Current service cost	10	298
Interest expense	4,233	4,786
Benefits paid from plan assets	(4,168)	(4,587)
Contributions by members	4	35
Remeasurements:		
Effect of changes in assumptions	30,711	(5,302)
Effect of experience adjustments	-	-
Defined benefit obligations at 31 December	146,898	116,108

Notes (continued)

17 Employee benefits (continued)

Movements in fair value of plan assets are as follows:

	2016 £000	2015 £000
Fair value of plan assets at 1 January	111,200	112,942
Interest income	3,946	4,359
Contributions by employer	1,799	2,210
Contributions by member	4	35
Benefits paid from plan assets	(4,168)	(4,587)
Administrative expenses paid from plan assets	(304)	(403)
Remeasurements: return on plan assets less interest income	14,787	(3,356)
Fair value of plan assets at 31 December	127,264	111,200

Expense recognised in the profit and loss account is as follows:

	2016 £000	2015 £000
Current service cost	10	298
Total cost	10	298
Net interest cost		
Interest expense on defined benefit obligation	4,233	4,785
Interest (income) on plan assets	(3,946)	(4,359)
Total net interest cost	287	426
Plan administrative expenses	304	403
Defined benefit cost included in Profit and loss account	601	1,127
Remeasurements recognised in other comprehensive income:		
Effect of changes in assumptions	30,711	(5,301)
Effect of experience adjustments	-	-
Return on plan assets (excluding interest income)	(14,787)	3,356
Total measurements included in other comprehensive income	15,924	(1,945)
Total cost related to the defined benefit plan recognised in the profit and loss account and other comprehensive income	16,525	(818)

Notes (continued)

17 Employee benefits (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2016 £000	2015 £000
Cash and cash equivalents	154	1,649
Equity instruments	23,463	17,002
Debt instruments	76,789	84,396
Real estate	8,303	8,153
Other	18,555	-
Total	127,264	111,200
Actual return on plan assets	18,732	1,003

The plan assets did not include any property occupied by the company or any other Merck group company and did not include any financial instruments of the company or Merck group.

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

Weighted average assumptions to determine defined benefit obligations:

	2016	2015
Discount rate:	2.69% pa	3.90% pa
Salary increase rate:	2.2% pa	2.1% pa
Pension-in-payment increase rate:	3.1% pa	3.1% pa

Weighted average assumptions to determine cost relating to defined benefit plans:

	2016	2015
Discount rate:	3.90% pa	3.68% pa
Salary increase rate:	2.1% pa	2.1% pa
Pension-in-payment increase rate:	3.1% pa	3.1% pa

The last full actuarial valuation of the scheme was performed at 31 December 2013. To measure the defined benefit obligation as at 31 December 2016, the liabilities were updated in an approximate way to 31 December 2016, based on the figures carried forward from 2015 and information from the Scheme administrators.

Notes (continued)

17 Employee benefits (continued)

In valuing the liabilities of the pension fund at 31 December 2016, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements.

The mortality tables used to value the Scheme's liabilities as at 31 December 2016 are SAPS, CMI 2015 long term improvement rate of 1.25% per annum, with a 95% weighting for males and a 100% weighting for females. The life expectancies from the age of 65 based on these tables, compared with those used at 31 December 2015, are as follows:

	2016		2015	
	Male	Female	Male	Female
Current member aged 65	22.6	24.2	22.6	24.2
Future retiree on reaching 65	24.8	26.6	24.8	26.6

Merck International Pension Scheme

The company was until October 2016 a member of the Merck International Pension Scheme, a pension scheme providing benefits based on final pensionable pay to member in the Republic of Ireland. In October 2016, the company entered into a flexible apportionment arrangement with the other participating employer and withdrew from the scheme, as it no longer had any active members in the scheme. There is therefore no closing pension asset or liability. The scheme is denominated in Euro and was translated to Sterling based on a closing rate of 0.88347 and average rate of 0.80917. The pension cost is assessed in accordance with the advice of professional qualified actuaries using the projected unit credit method.

	2016 £000	2015 £000
Net pension liability:		
Defined benefit obligation	-	(3,393)
Fair value of plan assets	-	3,072
Net liability	-	(321)

Notes (continued)

17 Employee benefits (continued)

Movements in present value of defined benefit obligation are as follows:

	2016	2015
	£000	£000
Defined benefit obligation at 1 January	3,393	4,126
Current service cost	-	22
Curtailments	-	(29)
Interest expense	67	80
Benefits paid from plan assets	(109)	(106)
Contributions by members	-	3
Transfer to Merck Serono (Ireland) Ltd.	(4,507)	-
Administrative expenses included in the DBO	36	34
Remeasurements:		
Effect of changes in assumptions	688	(295)
Effect of experience adjustments	(35)	(17)
Exchange adjustments	467	(425)
Defined benefit obligation at 31 December	-	3,393

Movements in fair value of plan assets are as follows:

	2016	2015
	£000	£000
Fair value of plan assets at 1 January	3,072	3,265
Interest income	59	62
Contributions by employer	445	166
Contributions by members	-	3
Benefits paid from plan assets	(109)	(106)
Remeasurements: return on plan assets less interest income	102	(48)
Transfer to Merck Serono (Ireland) Ltd.	(4,272)	-
Exchange adjustments	703	(270)
Fair value of plan assets at 31 December	-	3,072

Notes (continued)

17 Employee benefits (continued)

Expense recognised in the profit and loss account is as follows:

	2016 £000	2015 £000
Current service cost	-	22
Losses/(gains) on curtailment/settlements	-	(29)
Total cost	-	(7)
Net interest cost		
Interest expense on defined benefit obligations	68	80
Interest income on plan assets	(59)	(62)
Total net interest cost	9	18
Plan administrative expenses	36	34
Foreign exchange differences	(236)	
Defined benefit cost/(income) included in profit and loss account	(191)	45
Remeasurements recognised in other comprehensive income:		
Effect of changes in assumptions	688	(295)
Effect of experience adjustments	(35)	(17)
Return on plan assets (excluding interest income)	(102)	48
Transfer to Merck Serono(Ireland) Ltd.	(1,790)	
Total measurements included in other comprehensive income	(1,239)	(264)
Total cost related to the defined benefit plan recognised in the profit and loss account and other comprehensive income	(1,430)	(219)

Notes (continued)

17 Employee benefits (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2016	2015
	£000	£000
Cash and cash equivalents	-	34
Equity instruments	-	783
Debt instruments	-	2,255
Total	-	3,072
Actual return on plan assets	104	14

The plan assets did not include any property occupied by the company or any other Merck group company and did not include any financial instruments of the company or Merck group.

Principal actuarial assumptions (expressed as weighted averages) at the year-end were as follows:

Weighted average assumptions to determine defined benefit obligations:

	2016	2015
Discount rate:	1.9% pa	2.5% pa
Salary increase rate:	2.0% pa	1.9% pa
Pension-in-payment increase rate:	1.7% pa	1.6% pa

Weighted average assumptions to determine cost relating to defined benefit plans:

	2016	2015
Discount rate:	2.5% pa	2.25% pa
Salary increase rate:	1.9% pa	2.2% pa
Pension-in-payment increase rate:	1.6% pa	1.8% pa

The scheme has a current ongoing actuarial valuation as at 31 March 2016. The assets and liabilities were based on that source data and updated in an approximate way to 31 December 2016, based on information from the scheme administrators.

Notes (continued)

17 Employee benefits (continued)

In valuing the liabilities of the pension fund at 31 December 2016, mortality assumptions have been made as indicated below. The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements.

The mortality tables used to value the Scheme's liabilities as at 31 December 2016 are S2PM/F, CMI 2014 long term improvement rate of 1.25% per annum, with a 95% weighting for males and a 100% weighting for females. The life expectancies from the age of 65 based on these tables, compared with those used at 31 December 2015, are as follows:

	2016		2015	
	Male	Female	Male	Female
Current member aged 65	22	24	22	24
Future retiree on reaching 65	24	26	24	26

Defined contribution plans

The company operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £336,000 (2015: £386,000)

Guarantees

The three participating employers of the Merck Pension Scheme, of which Merck Serono Limited is one, entered into a joint and several guarantee to cover the PPF liabilities of the Scheme on 30 March 2011. No value has currently been assigned to this guarantee, and any such amount would only be calculated in the event of a call on the guarantee.

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land & buildings		Plant & machinery	
	2016	2015	2016	2015
	£000	£000	£000	£000
- Within one year	16	16	13	1
- In the second to fifth years inclusive	-	16	188	103
- After five years	-	-	-	-
	16	32	201	104

Notes (continued)

19 Accounting estimates and judgements

The preparation of financial statements in accordance with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The judgements, estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities are discussed below.

Recoverability of deferred income tax assets

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. In recognising deferred tax asset of £4,238,000 (2015: £1,863,000) (note 11), management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset.

Provisions

The company has recognised provisions for impairment of inventories, impairment of trade receivables, employee bonuses, and income tax in its financial statements which requires management to make judgements. The judgements, estimates and associated assumptions necessary to calculate these provisions are based on historical experience and other reasonable factors.

The company is a member of a group share-based payment plan, and it recognises and measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, based on the expense attributable to those employees of the company for whom an award is granted

Provisions for liabilities and charges

The company receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depends on the due process in respective legal jurisdictions.

20 Ultimate parent undertaking

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