

Seven Seas Limited

Directors' report and financial
statements

Registered number 351663

31 December 2017

THURSDAY



L7DY4NF6

LD5

06/09/2018

#35

COMPANIES HOUSE

Contents

Strategic Report	1
Directors' Report	2
Statement of directors' responsibilities	5
Independent auditor's report to members of Seven Seas Limited	6
Profit and Loss Account	8
Other Comprehensive Income	9
Balance Sheet	10
Statement of Changes in Equity	11
Notes	13

Strategic Report

The directors present their Strategic Report of Seven Seas Limited ("the company") for the year ended 31 December 2017.

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

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 2017 amounted to £543,000 (2016: £2,050,000).

The directors do not recommend the payment of a dividend (2016: £nil).

Key performance indicators

	2017	2016
	£'000	£'000
Turnover	26,388	27,862
Profit after tax for the financial year	543	2,050

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

Risks are formally reviewed by management and appropriate processes are in place to monitor and mitigate them.

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.

By order of the board



Peter Biro
Director

Date: 10 July 2018

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2017.

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 (resigned 30 June 2017)
Peter Biro (appointed 1 July 2017)

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 (2016: £nil) was paid. The directors do not recommend the payment of a final dividend (2016: £nil). The profit for the year of £543,000 (2016: £2,050,000 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



Peter Biro
Director

Date: 10 July 2018

Bedfont Cross
Stanwell Road
Feltham
Middlesex
TW14 8NX

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

The directors are responsible for preparing the Strategic Report, 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 UK and 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 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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

Opinion

We have audited the financial statements of Seven Seas Limited ("the company") for the year ended 31 December 2017 which comprise the Profit and Loss Account Statement, the Other Comprehensive Income Statement, the Balance Sheet Statement, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; 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

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

K Tasker

**Karen Tasker (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants

Altius House
1 North Fourth Street
Milton Keynes
MK9 1NE

Date: 16 July 2018

Profit and Loss Account
for the year ended 31 December 2017

	<i>Note</i>	2017 £000	2016 £000
Turnover	2	26,388	27,862
Cost of sales		(12,339)	(13,232)
Gross profit		14,049	14,630
Distribution costs		(1,047)	(1,133)
Administrative expenses		(11,364)	(12,507)
Other operating income	4	-	17
Operating profit	3	1,638	1,007
Interest payable	8	(1,094)	(854)
Interest receivable	7	-	-
Profit on ordinary activities before taxation		544	153
Tax on profit on ordinary activities	9	(1)	1,897
Profit for the financial year		543	2,050

The above operations all relate to continuing activities.

The notes on pages 13 to 31 form part of these financial statements.

Other Comprehensive Income

for year ended 31 December 2017

	2017	2016
Notes	£000	£000
Profit for the financial year	543	2,050
Other comprehensive income	<u> </u>	<u> </u>
Re-measurement of the net defined benefit asset/(liability)	12,627	(16,475)
Deferred tax thereon	(2,146)	2,496
Change in tax rate	-	(359)
	<u> </u>	<u> </u>
Other comprehensive income/(loss) for the year (net)	10,481	(14,338)
	<u> </u>	<u> </u>
Total comprehensive income/(loss) for the year	11,024	(12,288)
	<u> </u>	<u> </u>

The notes on pages 13 to 31 form an integral part of these financial statements

Balance Sheet at 31 December 2017

	Notes	2017		2016	
		£000	£000	£000	£000
Current assets					
Stocks	10	5,678		3,706	
Debtors (including £1,706,000 falling due after more than one year, 2016: £4,238,000)	11	10,970		14,017	
Cash at bank and in hand		-		-	
		<u>16,648</u>		<u>17,723</u>	
Creditors: amounts falling due within one year	12	<u>(5,541)</u>		<u>(5,885)</u>	
Net current assets			<u>11,107</u>		<u>11,838</u>
Total assets less current liabilities			<u>11,107</u>		<u>11,838</u>
Creditors: amounts falling due after more than one year	13	(30,500)		(28,500)	
Provisions for liabilities					
Pensions and similar obligations	17	(5,909)		(19,634)	
Other provisions	14	-		(30)	
		<u>(36,409)</u>		<u>(48,164)</u>	
Net liabilities			<u>(25,302)</u>		<u>(36,326)</u>
Capital and reserves					
Share capital	16	50		50	
Profit and loss account		(25,352)		(36,376)	
Shareholders' deficit			<u>(25,302)</u>		<u>(36,326)</u>

The notes on pages 13 to 31 form part of these financial statements.

These financial statements were approved by the board of directors on 10 July 2018.


Peter Biro
Director

Statement of Changes in Equity

	Called up Share capital	Profit and loss account	Total equity
	£'000	£'000	£'000
Balance at 1 January 2017	50	(36,376)	(36,326)
Total comprehensive income for the period			
Profit or (loss)	-	543	543
Other comprehensive profit	-	10,481	10,481
<i>Total comprehensive income for the period</i>	-	11,024	11,024
Balance at 31 December 2017	50	(25,352)	(25,302)

The notes on pages 13 to 31 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 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 31 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.

1.2 Going concern

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.

1.3 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.

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.

Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

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.

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.

Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

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.

1.8 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.

	2017 £000	2016 £000
<i>By turnover</i>		
Sales of goods	26,388	27,862

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:

	2017 £000	2016 £000
Restructuring costs expensed as incurred	-	9
Research and development expensed as incurred	302	464
Depreciation of fixed assets	-	-
Amortisation of intangibles	-	-
Operating lease costs	113	109
Loss/(profit) on foreign exchange transactions	79	(172)

	2017 £000	2016 £000
Auditor's remuneration		
Audit of these financial statements	25	25
Non audit services	-	-
	25	25

Notes (continued)

4 Other operating income

	2017	2016
	£000	£000
Net gain on disposal of tangible fixed assets	-	-
Other income	-	17
	<u> </u>	<u> </u>

5 Staff numbers and costs

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

Average number of employees

	2017	2016
Sales and marketing	35	36
Distribution	4	4
Administration	5	6
	<u> </u>	<u> </u>
	44	46
	<u> </u>	<u> </u>

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	3,148	3,393
Severance pay	-	68
Social security costs	286	316
Pension costs	632	210
	<u> </u>	<u> </u>
	4,066	3,987
	<u> </u>	<u> </u>

Notes (continued)

6 Remuneration of directors

	2017 £000	2016 £000
Directors' emoluments	566	554
Company contributions to defined benefit pension scheme	36	35
	<u>602</u>	<u>589</u>

The emoluments of the highest paid director were £321,817 (2016: £296,884). The pension contributions paid by the company on behalf of the highest paid director in 2017 were £18,551 (2016: £16,458).

No director accrued benefits under defined benefit pension schemes.

7 Other interest receivable and similar income

	2017 £000	2016 £000
Other interest receivable	-	-
	<u>-</u>	<u>-</u>

8 Interest payable and similar charges

	2017 £000	2016 £000
Interest payable on group finance	497	558
Interest paid in relation to tax	-	9
Net interest paid on defined benefit pension schemes (see note 17)	597	287
	<u>1,094</u>	<u>854</u>

Notes (continued)

9 Taxation

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

	2017	2016
	£000	£000
<i>Current tax</i>		
Current tax on income for the period	(228)	(210)
Adjustment in respect of prior year	(158)	(1,448)
Total current tax	(386)	(1,658)
<i>Deferred tax:</i>		
Origination/reversal of timing differences	2,438	(2,474)
Change in tax rate	94	98
Total deferred tax	2,532	(2,376)
Total tax charge/(credit)	2,147	(4,034)

	2017			2016		
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit & loss account	(386)	387	1	(1,658)	(239)	(1,897)
Recognised in other comprehensive income	-	2,146	2,146	-	(2,137)	(2,137)
Recognised directly in equity	-	-	-	-	-	-
	(386)	2,533	2,147	(1,658)	(2,376)	(4,034)

The rate of UK corporation tax reduced from 20% to 19% on 1st April 2017, resulting in rate of 19.25% for the accounting period (2016: 20%).

A reduction of the corporation tax rate to 17%, effective from 1 April 2020, was substantively enacted on 15 September 2016. The deferred tax assets and liabilities at 31 December 2017 have been calculated based on this rate

Notes (continued)

9 Taxation (continued)

	2017 £000	2016 £000
Reconciliation of effective tax rate		
Profit for the year before tax	543	153
Tax at the standard corporation tax rate for the year of 19.25% (2016: 20%)	105	31
Non-deductible expenses	5	3
Reduction in tax rate on deferred tax balances	49	(483)
Over provided in previous periods	(158)	(1,448)
Total tax expense/(credit) included in profit and loss	1	(1,897)

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

10 Stocks

	2017 £000	2016 £000
Raw materials	-	-
Work in progress	-	-
Finished goods	5,678	3,706
	5,678	3,706

The write-down of stocks to net realisable value amounted to £nil (2016: £201,000). There were no reversal of write-downs during the year (2016: £nil). The write-down and reversals are included in cost of sales.

Notes (continued)

11 Debtors

	2017 £000	2016 £000
Trade debtors	6,810	7,208
Amounts owed by group undertakings	1,228	2,191
Other debtors	330	-
Prepayments and accrued income	185	87
Other taxation and social security	99	90
Corporation tax	612	203
Deferred tax asset (note 15)	1,706	4,238
	10,970	14,017

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

	2017 £000	2016 £000
Trade creditors	794	2,711
Amounts owed to group undertakings	305	14
Other creditors	807	-
Accruals and deferred income	3,635	3,160
	5,541	5,885

Notes (continued)

13 Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Amounts owed to fellow group undertakings	30,500	28,500

Balance comprises of loans held with Sigma Aldrich Financial Services Limited of £30,500,000 (in 2016: £12,000,000 from Sigma Aldrich Financial Services Limited and £16,500,000 from Merck Capital Limited).

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 2017	30
Charged to profits in period	(30)
Utilised in period	-
Balance at 31 December 2017	-

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	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Employee benefits	1,004	3,338	-	-	1,004	3,338
Accelerated capital allowances	666	842	-	-	666	842
Other	36	58	-	-	36	58
	1,706	4,238	-	-	1,706	4,238

Notes (continued)

16 Share capital

	2017 £000	2016 £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 a defined benefit pension scheme providing benefits based on final pensionable pay. 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.

Notes (continued)

17 Employee benefits (continued)

Merck Pension Scheme

	2017 £000	2016 £000
Net pension liability:		
Defined benefit obligation	(138,786)	(146,898)
Fair value of plan assets	132,877	127,264
Net liability	(5,909)	(19,634)

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

	2017 £000	2016 £000
Defined benefit obligation at 1 January	146,898	116,108
Current service cost	16	10
Interest expense	3,741	4,233
Benefits paid from plan assets	(5,149)	(4,168)
Contributions by members	5	4
Remeasurements:		
Effect of changes in assumptions	(466)	30,711
Effect of experience adjustments	(6,259)	-
Defined benefit obligations at 31 December	138,786	146,898

Movements in fair value of plan assets are as follows:

	2017 £000	2016 £000
Fair value of plan assets at 1 January	127,264	111,200
Interest income	3,145	3,946
Contributions by employer	2,093	1,799
Contributions by member	5	4
Benefits paid from plan assets	(5,082)	(4,168)
Administrative expenses paid from plan assets	(381)	(304)
Remeasurements: return on plan assets less interest income	5,835	14,787
Fair value of plan assets at 31 December	132,877	127,264

Notes (continued)

17 Employee benefits (continued)

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

	2017 £000	2016 £000
Current service cost	16	10
Total cost	16	10
Net interest cost		
Interest expense on defined benefit obligation	3,741	4,233
Interest (income) on plan assets	(3,145)	(3,946)
Total net interest cost	596	287
Plan administrative expenses	381	304
Defined benefit cost included in Profit and loss account	993	601
Remeasurements recognised in other comprehensive income:		
Effect of changes in assumptions	(466)	30,711
Effect of experience adjustments		-
Return on plan assets (excluding interest income)	(12,094)	(14,787)
Total measurements included in other comprehensive income	(12,560)	15,924
Total cost related to the defined benefit plan recognised in the profit and loss account and other comprehensive income	(11,567)	16,525

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

	2017 £000	2016 £000
Cash and cash equivalents	6,643	154
Equity instruments	32,272	23,463
Debt instruments	82,070	76,789
Real estate	9,146	8,303
Other	2,747	18,555
Total	132,877	127,264
Actual return on plan assets	8,980	18,732

Notes (continued)

17 Employee benefits (continued)

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:

	2017	2016
Discount rate:	2.56% pa	2.69% pa
Salary increase rate:	2.0% pa	2.2% pa
Pension-in-payment increase rate:	3.05% pa	3.1% pa

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

	2017	2016
Discount rate:	2.69% pa	3.90% pa
Salary increase rate:	2.2% pa	2.1% pa
Pension-in-payment increase rate:	3.2% pa	3.1% pa

The last full actuarial valuation of the scheme was performed at 31 December 2016. To measure the defined benefit obligation as at 31 December 2017, the liabilities were updated in an approximate way to 31 December 2017, based on the figures carried forward from 2016 and information from the Scheme administrators.

In valuing the liabilities of the pension fund at 31 December 2017, 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 2017 are S2 PA CMI 2016 long term improvement rate of 1.25% per annum, with a 95%/94% weighting for males (non-pensioner/pensioner) and a 98%/96% weighting for females (non-pensioner/pensioner). The life expectancies from the age of 65 based on these tables, compared with those used at 31 December 2016, are as follows:

	2017		2016	
	Male	Female	Male	Female
Current member aged 65	22.6	24.3	22.6	24.2
Future retiree on reaching 65	24.3	26.0	24.8	26.6

Notes (continued)

17 Employee benefits (continued)

Defined contribution plans

The company operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £265,000 (2016: £336,000)

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	
	2017 £000	2016 £000	2017 £000	2016 £000
- Within one year	13	16	59	13
- In the second to fifth years inclusive	50	-	64	188
- After five years	-	-	-	-
	63	16	123	201

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.

Notes *(continued)*

19 Accounting estimates and judgements *(continued)*

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 £1,706,000 (2016: £4,238,000) (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.

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.

21 Post balance sheet event

On 19 April 2018 Merck signed an agreement to sell its global Consumer Health business to Procter and Gamble. The transaction is expected to close by the end of the fourth quarter 2018, but is subject to regulatory approvals and satisfaction of certain other customary closing conditions. On completion the ultimate holding company will become Procter & Gamble Co.