

Seven Seas Limited

**Directors' report and financial
statements**

Registered number 351663

30 June 2019

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Strategic Report

The directors present their Strategic Report of Seven Seas Limited ("the company") for the eighteen month period ended 30 June 2019. Following the purchase of the Company by the Procter & Gamble Group the accounting period has been extended from a twelve month period to an eighteen month period in order to bring the year end in line with the Procter & Gamble Group year end of 30 June 2019. The comparative period was a twelve month period ending 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.

On 30th November 2018 the Merck Consumer Healthcare business, which includes Seven Seas Limited, was purchased by The Procter and Gamble Company from Merck KGaA.

Review of the business and future developments

The company's activity until 31 March 2020 was 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.

On 1 April 2020 Seven Seas limited disposed of its trade and certain assets to another group company, Procter & Gamble UK Partnership for £16,364,000 and its inventory to Procter & Gamble International Operations for £4,168,000.

Results and dividends

The profit and loss account for the year is set out on page 10 The loss after taxation for the period ended 30 June 2019 amounted to £1,531,000 (2017: profit £543,000).

The directors do not recommend the payment of a dividend (2017: £nil).

On 15 November 2018 the company issued one 1 Euro share to Procter & Gamble Health Limited (formerly Merck Consumer Healthcare Limited) for cash consideration of £43,000,000.

On 27 November 2018 the directors approved a reduction in capital of the company by special resolution under S641(1)a of the Companies Act 2006 whereby the share premium was reduced by £43,000,000 to £nil and the profit and loss reserves credited by the sum arising on the reduction. The special resolution was supported by a statement of solvency of the Company made by each of the directors under S642 of the Companies Act 2006.

On 16 May 2018 the company signed a flexible apportionment arrangement which agreed that the pension liabilities in respect of the The Merck Pension Scheme in respect of Seven Seas Limited would be transferred to Merck Serono Limited and Merck Chemicals Limited on sale of the company to the Procter & Gamble Group. These transfers are further described in note 17.

Strategic Report(continued)

Key performance indicators

	Eighteen months ended 30 June 2019	Year ended 31 December 2017
	£'000	£'000
Turnover	41,917	26,388
(Loss)/Profit after tax for the financial year	(1,531)	543

The loss for the year was mainly due interest and tax charges offsetting the operating profit.

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

Principal risks and uncertainties until the transfer of trade on 1 April 2020 were as follows:

Competitive pressure is a continuing risk for the company and continues to be so following the United Kingdom's decision to exit the European Union. The main risk is to lose business to other service providers, if they are more efficient and cost effective. The company manages this risk by providing added value services to its customers, and develops and maintains strong relationships with them. In addition the company runs ongoing cost control and cost reduction programmes.

The company is financed through The Procter & Gamble Company. It therefore has no third party finance exposure. Group risks are discussed in the group's Annual Report, which does not form part of this report.

Liquidity risk is managed on a group-wide basis. The group operates a system whereby any excess cash held by an individual company is transferred to a global cash pool. Similarly if the company requires additional cash resource, it can draw down funds from the cash pool. It has a right to receive the funds held within the cash pool within one day's notice. We are not aware of any circumstances that would impact on the ability of the cash pool to provide the funds we require to remain in operation for the foreseeable future.

The company is exposed to the risk of change in the external environment as a result of the UK exit from the European Union. Procter & Gamble in the UK, through a formal internal Brexit committee, has reviewed and will continue to review the potential impacts of Brexit on its business in the UK and incorporate this into its strategic, operational and financial plans. The committee believes the key risks to the company as a result of Brexit are with regard to its supply chain due to increased administrative processes linked to customs, the potential delays at the ports for the import and export of raw materials and finished goods, and later on any potential regulatory divergence. As such Procter & Gamble has put in place plans to mitigate the operational risk elements and will continue to monitor regulatory changes.

Strategic Report(continued)

The Procter & Gamble Group is also exposed to the supply, demand, and other operational challenges associated with the novel coronavirus (COVID-19) outbreak, including increased volatility and uncertainty. The company's business could be negatively impacted by significant volatility in demand, as well as the inability to fully staff its operations and produce, sell, and distribute products in certain regions. The Company has endeavoured to follow recommended actions of government and health authorities to protect our employees with particular measures in place for those working in our plants and distribution facilities. We have also worked closely with local and national officials to keep our manufacturing facilities open due to the essential nature of our products. We intend to continue to work with government authorities and implement our employee safety measures to ensure that we are able to continue manufacturing and distributing our products during the pandemic. Seven Seas Limited continues to monitor this emerging risk and to work to manage its impact to the company's operations.

The directors reviewed the above key risks and concluded that the company does not expect that these risks will have a significant impact on the company's ability to continue to operate under the current business model.

Going Concern

Following the transfer of trade to Procter & Gamble UK Partnership, the directors do not intend to acquire a replacement trade, they have therefore not prepared the financial statements on a going concern basis.

By order of the board



A G Buckthorp
Director

Date: 24 June 2020

Directors' Report

The directors present their report and the audited financial statements for the eighteen month period ended 30 June 2019.

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
Peter Biro (appointed 1 July 2017, resigned 30 November 2018)
Anthony Appleton (appointed 1 December 2018)
Vijay Sitlani (appointed 1 December 2018)
Alexander Buckthorp (appointed 1 December 2018)
Christopher Young (appointed 1 December 2018)

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 – resigned 1 May 2019
Anthony Appleton – appointed 1 May 2019

Dividends

An interim dividend of £nil (2017: £nil) was paid. The directors do not recommend the payment of a final dividend (2017: £nil). The loss for the period of £1,531,000 (2017: £543,000 profit) will be transferred to reserves.

Employees

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. Employees who become disabled are encouraged to continue in employment wherever possible, and all disabled employees are treated in the same way as other employees with regard to career development, training and promotion.

Directors' Report *(continued)*

Employee involvement

We regard close and open communication with all employees as key to our long-term growth and success and our ability to manage change successfully. This commitment is influenced by many factors, not least of which is a strong sense of involvement with the business.

Open communications give employees the opportunity to provide input into decisions that affect their jobs and careers. Our long-standing policy of promotion only from within provides an identity of employee and company interests and builds good working relationships.

Some of the key activities that involve employees are:

- the setting of corporate business goals and progress being communicated to employees by video presentations and local meetings on a quarterly basis;
- the publication to all employees of our business purpose and objectives, coupled with regular reviews of progress;
- the training for employees to develop and implement their ideas for improving results on an ongoing basis;
- the formation of teams from different parts and levels of the business, both to tackle major projects and to ensure optimum efficiency of the ongoing operation;
- the timely notification to employees of changes to the business, its organisation and its products, and full discussion of the likely effects on them;
- the continued regular issue of internal publications to all employees, including a global newsletter, a local house magazine and explanatory booklets on our plans, policies and benefits;
- factual business reviews by management with all employees;
- the encouragement of employee involvement in company performance through participation in The Procter & Gamble 1-4-1 Plan which entitles employees to purchase shares in The Procter & Gamble Company; and
- the Employee Opinion Trend Survey to identify general opportunities to further employee involvement.

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)*

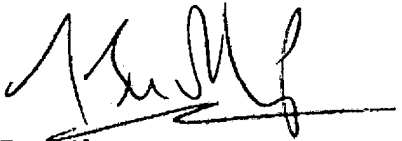
Disclosure of information to auditor

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



A G Buckthorp
Director

24 June 2020

The Heights
Brooklands
Weybridge
Surrey
KT13 0XP

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 (as explained in note 1.2, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis).

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 period ended 30 June 2019 which comprise the Profit and Loss Account, Other Comprehensive Income, Balance Sheet, 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 30 June 2019 and of its loss for the period 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.

Emphasis of matter - non-going concern basis of preparation

We draw attention to the disclosure made in note 1.2 to the financial statements which explains that the financial statements are now not prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

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 period 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.



Independent auditor's report to the members of Seven Seas Limited (*Continued*)

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 7, 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.

**Muhammad Usman (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants
58 Clarendon Road
Watford
WD17 1DE

24 June 2020

Profit and Loss Account

for the eighteen month period ended 30 June 2019

	Note	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
Turnover	2	41,917	26,388
Cost of sales		(23,226)	(12,339)
Gross profit		18,691	14,049
Distribution costs		(1,139)	(1,047)
Administrative expenses		(17,252)	(11,364)
Operating profit	3	300	1,638
Interest payable	7	(709)	(1,094)
Interest receivable	6	10	-
(Loss) / Profit on ordinary activities before taxation		(399)	544
Tax on (loss) / profit on ordinary activities	8	(1,132)	(1)
(Loss) / profit for the financial year		(1,531)	543

The above operations all relate to continuing activities.

The notes on pages 15 to 34 form part of these financial statements.

Other Comprehensive Income
for the eighteen month period ended 30 June 2019

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
(Loss) / Profit for the financial year	(1,531)	543
Other comprehensive income		
Re-measurement of the net defined benefit asset/(liability)	6,724	12,627
Deferred tax thereon	620	(2,146)
Change in tax rate	-	-
Other comprehensive income for the year (net)	7,344	10,481
Total comprehensive income for the year	5,813	11,024

The notes on pages 15 to 34 form an integral part of these financial statements

Balance Sheet at 30 June 2019

	Notes	2019		2017	
		£000	£000	£000	£000
Current assets					
Intangible Assets	10	30		-	
Stocks	11	5,624		5,678	
Debtors (including £nil falling due after more than one year, 2017: £1,706,000)	12	12,732		10,970	
Cash at bank and in hand		628		-	
		<u>19,014</u>		<u>16,648</u>	
Creditors: amounts falling due within one year	13	(5,863)		(5,541)	
		<u></u>		<u></u>	
Net current assets			13,151		11,107
			<u></u>		<u></u>
Total assets less current liabilities			13,151		11,107
			<u></u>		<u></u>
Creditors: amounts falling due after more than one year	14	-		(30,500)	
Provisions for liabilities					
Pensions and similar obligations	17	-		(5,909)	
		<u></u>		<u></u>	
			13,151		(36,409)
			<u></u>		<u></u>
Net assets / (liabilities)			13,151		(25,302)
			<u></u>		<u></u>
Capital and reserves					
Share capital	16		50		50
Profit and loss account			13,101		(25,352)
			<u></u>		<u></u>
Shareholders' deficit			13,151		(25,302)
			<u></u>		<u></u>

The notes on pages 15 to 34 form part of these financial statements.

These financial statements were approved by the board of directors on 24 June 2020.


A G Buckthorp
Director

Statement of Changes in Equity

	Called up Share capital	Share Premium	Profit and loss account	Total equity
	£'000	£'000	£'000	£'000
Balance at 1 January 2018	50	-	(25,352)	(25,302)
Total comprehensive income for the period				
Profit or (loss)	-	-	(1,531)	(1,531)
Other comprehensive profit	-	-	7,344	7,344
<i>Total comprehensive income for the period</i>	-		5,813	5,813
Loss on pension scheme transfer			(10,376)	(10,376)
Issue of share capital	-	43,000	-	43,000
Capital reduction	-	(43,000)	43,000	-
Credit to equity for equity settled share-based payment			16	16
Balance at 30 June 2019	50	-	13,101	13,151

The notes on pages 15 to 34 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 2017	50	(36,376)	(36,326)
Total comprehensive loss for the period			
Profit or (loss)	-	543	543
Other comprehensive loss	-	10,481	10,481
<i>Total comprehensive loss for the period</i>	-	11,024	11,024
Balance at 31 December 2018	50	(25,352)	(25,302)

The notes on pages 15 to 34 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 ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000. Following the purchase of the Company by the Procter & Gamble Group the accounting period has been extended from a twelve month period to an eighteen month period in order to bring the year end in line with the Procter & Gamble Group year end of 30 June 2019. The comparative period presented in these financial statements is a twelve month period ending 31 December 2017 and hence is not directly comparable to the current period presented.

The Company's ultimate parent undertaking until 30 November 2018, Merck KGaA included 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. The Company's ultimate parent undertaking from 1 December 2018, The Procter & Gamble Company includes the results of the Company in its consolidated financial statements. Copies of the group financial statements for The Procter & Gamble Company can be obtained from 1 Procter & Gamble Plaza, PO Box 599, Cincinnati, Ohio 45202, USA.

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 the parent 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

The company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on page 1. The strategic report also sets out the principal risks and uncertainties facing the company, and the policies and processes for managing them.

During the period ended 30 June 2019 and until 31 March 2020, the company's principal activity was marketing and distribution of vitamin supplements and healthcare products for human consumption. However, on 1 April 2020, the directors took the decision to cease trading following the sale of the company's trade to Procter & Gamble UK Partnership. As the directors do not intend to acquire a replacement trade, they have not prepared the financial statements on a going concern basis. This has resulted the intangible assets presented as current assets in the 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)

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)

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)

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 was a wholly owned subsidiary of Merck KGaA until 30th November and a wholly owned subsidiary of the Procter & Gamble Company from 1 December 2018 to 31 December 2018, the Company 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.

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)

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 until 30 November 2018, Merck KGaA, granted rights to its equity instruments to the company's employees which were 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.

Certain employees of the company along with other group employees have been granted options over the shares of The Procter & Gamble Company, its parent company. The required disclosures are therefore included in The Procter and Gamble Company's consolidated financial statements. Options are exercisable at a price equal to the average quoted market price of the parent company's shares on the date of grant. The vesting period is three to five years. If the options remain unexercised after a period of ten years from the date of grant the options expire. Options are forfeited if the employee leaves the company before the options vest, excluding short term achievement awards which vest immediately at grant date. The company measures its share-based payment expense as a proportion of the expense recognised for the entire share-based payment scheme based on the number of employees participating in the scheme.

The company operates a restricted stock units scheme for certain key managers; some shares granted vest immediately and some shares vest for up to a period of 6 years and are settled in shares of common stock.

Notes (continued)

1 Accounting policies (continued)

1.13 Share based payments (continued)

In addition to the share option schemes and restricted stock units scheme the company contributes towards an employee share plan. As there is no vesting period the contributions made are recognised immediately as an expense.

The company recognised total expenses of £16,000 and £nil related to equity-settled share-based payment transactions (including restricted stock units) in the eighteen months ended 30 June 2019 and year ended 31 December 2017 respectively. In addition to the share option scheme and the restricted stock units scheme the company contributes towards an employee share plan. As there is no vesting period the contributions made are recognised immediately as an expense. The company has recognised an expense of £18,000 and £nil related to the employee share plan transactions in the eighteen months ended 31 December 2019 and year ended 30 June 2017 respectively.

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.

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
<i>By turnover</i>		
Sales of goods	41,917	26,388

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:

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
Research and development expensed as incurred	343	302
Amortisation of intangibles	13	-
Operating lease costs	115	113
Loss/(profit) on foreign exchange transactions	(64)	79
 Auditor's remuneration		
Audit of these financial statements	35	25

Notes (continued)

4 Staff numbers and costs

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

	Average number of employees	
	Eighteen month period ended 30 June 2019	Year ended 31 December 2017
Sales and marketing	27	35
Distribution	6	4
Administration	5	5
	<u>38</u>	<u>44</u>

The aggregate payroll costs of these persons were as follows:

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
Wages and salaries	5,346	3,148
Social security costs	674	286
Pension costs	658	632
	<u>6,678</u>	<u>4,066</u>

Notes (continued)

5 Remuneration of directors

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
Directors' emoluments	1,172	566
Company contributions to defined benefit pension scheme	51	36
	<u>1,223</u>	<u>602</u>

The emoluments of the highest paid director were £677,000 (2017: £322,000). The pension contributions paid by the company on behalf of the highest paid director in 2019 were £31,000 (2017: £18,551).

No director accrued benefits under defined benefit pension schemes.¹

6 Interest receivable

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
Other interest receivable	10	-
	<u>10</u>	<u>-</u>

7 Interest payable

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
Interest payable on group finance	544	498
Net interest paid on defined benefit pension schemes (see note 17)	165	596
	<u>709</u>	<u>1,094</u>

Notes (continued)

8 Taxation

<i>Total tax expense recognised in the profit and loss account, other comprehensive income and equity</i>	Eighteen month period ended 30 June 2019	Year ended 31 December 2017
	£000	£000
<i>Current tax</i>		
Current tax on income for the period	-	(228)
Adjustment in respect of prior year	(32)	(158)
Total current tax	(32)	(386)
<i>Deferred tax:</i>		
Origination/reversal of timing differences	295	2,439
Change in tax rate	249	94
Total deferred tax	544	2,533
Total tax charge/(credit)	512	2,147

	Eighteen month period ended 30 June 2019			Year ended 31 December 2017		
	Current tax	Deferred tax	Total tax	Current tax	Deferred tax	Total tax
Recognised in profit & loss account	(32)	1,164	1,132	(386)	387	1
Recognised in other comprehensive income		(620)	(620)	-	2,146	2,146
Recognised directly in equity				-	-	-
	(32)	544	512	(386)	2,533	2,147

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the UK deferred tax asset/(liability) as at 30 June 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This would not have a material impact in the deferred tax asset recognised by the Company as at 30 June 2019.

Notes (continued)

9 Taxation (continued)

	Eighteen month period ended 30 June 2019 £000	Year ended 31 December 2017 £000
Reconciliation of effective tax rate		
(Loss)/Profit for the year before tax	(399)	544
Tax at the standard corporation tax rate for the year of 19% (2017: 19.25%)	(76)	105
Group relief surrendered for nil consideration	1,090	-
Non-deductible expenses	(5)	5
Reduction in tax rate on deferred tax balances	(108)	49
Over provided in previous periods	231	(158)
Total tax expense/(credit) included in profit and loss	1,132	1

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

10 Intangible assets

	Total £000
Cost	
At beginning of period	-
Additions	43
At 30 June 2019	43
Amortisation	
At beginning of period	-
Charge for the period	13
At 30 June 2019	13
Net book value	
At 30 June 2019	30
At 31 December 2017	-

Notes (continued)

11 Stocks

	2019	2017
	£000	£000
Finished goods	5,624	5,678
	<u>5,624</u>	<u>5,678</u>

The write-down of stocks to net realisable value amounted to £nil (2017: £nil). There were no reversal of write-downs during the year (2017: £nil). The write-down and reversals are included in cost of sales.

12 Debtors

	2019	2017
	£000	£000
Trade debtors	6,512	6,810
Amounts owed by group undertakings	4,592	1,228
Other debtors	91	330
Prepayments and accrued income	349	185
Other taxation and social security	-	99
Corporation tax	24	612
Deferred tax asset (note 15)	1,164	1,706
	<u>12,732</u>	<u>10,970</u>

Amounts owed by group undertakings as at 30 June 2019 include receivables from the global cash pool of £3,347,000. They are unsecured, bear interest based on the daily GBP LIBOR rate, have no fixed date of repayment and are repayable on demand.

Notes (continued)

13 Creditors: amounts falling due within one year

	2019 £000	2017 £000
Trade creditors	994	794
Amounts owed to group undertakings	1,141	305
Other creditors	431	807
Accruals and deferred income	3,297	3,635
	<u>5,863</u>	<u>5,541</u>

14 Creditors: amounts falling due after more than one year

	2019 £000	2017 £000
Amounts owed to fellow group undertakings	-	30,500
	<u>-</u>	<u>30,500</u>

The balance in 2017 comprised of loans held with Sigma Aldrich Financial Services Limited of £30,500,000. These were repaid during the year.

15 Deferred taxation

	Assets		Liabilities		Net	
	2019 £000	2017 £000	2019 £000	2017 £000	2019 £000	2017 £000
Employee benefits	819	1,004	-	-	818	1,004
Accelerated capital allowances	323	666	-	-	322	666
Other	22	36	-	-	8	36
	<u>1,164</u>	<u>1,706</u>	<u>-</u>	<u>-</u>	<u>1,148</u>	<u>1,706</u>

Notes (continued)

16 Share capital

	2019 £000	2017 £000
Allotted, called up and fully paid:		
50,000 deferred shares of £1 each	50	50
101 (2017: 100) bearer shares of € 1 each	-	-
	<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 bearer shares carry all the rights attached to ordinary equity shares for both voting and participation in the profits and assets of the company.

On 15 November 2018 the company issued one 1 Euro share to Procter & Gamble Health Limited (formerly Merck Consumer Healthcare Limited) for cash consideration of £43,000,000.

On 27 November 2018 the directors approved a reduction in capital of the company by special resolution under S641(1)a of the Companies Act 2006 whereby the share premium was reduced by £43,000,000 to £nil and the profit and loss reserves credited by the sum arising on the reduction. The special resolution was supported by a statement of solvency of the Company made by each of the directors under S642 of the Companies Act 2006.

17 Employee benefits

Defined benefit schemes

On 16 May 2018 the company signed a flexible apportionment arrangement which agreed that the pension liabilities in respect of the The Merck Pension Scheme in respect of Seven Seas Limited would be transferred to Merck Serono Limited and Merck Chemicals Limited on sale of the company to the Procter & Gamble Group.

Until 30 November 2018 the company was 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

	2019 £000	2017 £000
Net pension liability:		
Defined benefit obligation	-	(138,786)
Fair value of plan assets	-	132,877
Net liability	-	(5,909)

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

	2019 £000	2017 £000
Defined benefit obligation at 1 January	138,786	146,898
Current service cost	-	16
Interest expense	2,547	3,741
Benefits paid from plan assets	(2,350)	(5,149)
Contributions by members	-	5
Remeasurements:		
Effect of changes in assumptions	(8,351)	(466)
Effect of experience adjustments	65	(6,259)
Transfers out	(130,697)	
Defined benefit obligations at end of period	-	138,786

Movements in fair value of plan assets are as follows:

	2019 £000	2017 £000
Fair value of plan assets at 1 January	132,877	127,264
Interest income	2,382	3,145
Contributions by employer	10,000	2,093
Contributions by member	-	5
Benefits paid from plan assets	(2,350)	(5,082)
Administrative expenses paid from plan assets	(277)	(381)
Remeasurements: return on plan assets less interest income	(1,559)	5,835
Transfers out	(141,073)	-
Fair value of plan assets at end of period	-	132,877

Notes (continued)

17 Employee benefits (continued)

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

	2019 £000	2017 £000
Current service cost	-	16
Total cost	-	16
Net interest cost		
Interest expense on defined benefit obligation	2,547	3,741
Interest (income) on plan assets	(2,382)	(3,145)
Total net interest cost	165	596
Plan administrative expenses	277	381
Defined benefit cost included in Profit and loss account	442	993
Remeasurements recognised in other comprehensive income:		
Effect of changes in assumptions	(8,351)	(466)
Effect of experience adjustments	65	(6,259)
Return on plan assets (excluding interest income)	1,559	(5,835)
Total measurements included in other comprehensive income	(6,727)	(12,560)
Total cost related to the defined benefit plan recognised in the profit and loss account and other comprehensive income	(6,285)	(11,567)

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

	2019 £000	2017 £000
Cash and cash equivalents	-	6,643
Equity instruments	-	32,272
Debt instruments	-	82,070
Real estate	-	9,146
Other	-	2,747
Total	-	132,877
Actual return on plan assets	-	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:

	2019	2017
Discount rate:	2.95% pa	2.56% pa
Salary increase rate:	n/a	n/a
Pension-in-payment increase rate:	3.1% pa	3.1% pa

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

	2019	2017
Discount rate:	2.5% pa	2.69% pa
Salary increase rate:	2.0% pa	2.2% pa
Pension-in-payment increase rate:	3.1% pa	3.2% pa

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

In valuing the liabilities of the pension fund at the date of transfer, 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 2017 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 2017, are as follows:

	2019		2017	
	Male	Female	Male	Female
Current member aged 65	22.4	24.3	22.6	24.2
Future retiree on reaching 65	24.2	26	24.3	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 £328,000 (2017: £265,000)

18 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land & buildings		Plant & machinery	
	2019	2017	2019	2017
	£000	£000	£000	£000
- Within one year	13	13	37	59
- In the second to fifth years inclusive	17	50	34	64
- After five years	-	-	-	-
	30	63	71	123

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 £1,163,000 (2017: £1,706,000) (note 15), 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 directors regard The Procter & Gamble Company, a company incorporated in the United States of America, as the ultimate parent company, and Procter & Gamble Health Limited (formerly Merck Consumer Healthcare Limited, a company incorporated in the United Kingdom, as the immediate parent company.

The smallest and largest group the company is consolidated into is The Procter & Gamble Company, which is incorporated in the United States of America. Copies of the group financial statements for The Procter & Gamble Company can be obtained from 1 Procter & Gamble Plaza, PO Box 599, Cincinnati, Ohio 45202, USA.

The ultimate controlling party is The Procter & Gamble Company.

Until 30th November 2018 the ultimate parent undertaking was Merck KGaA, a company registered in Germany. The largest group in which the results of the company are consolidated is that lead by Merck KGaA. The consolidated financial statements of Merck KGaA are available to the public and may be obtained from Frankfurter Strasse 250, D-64293 Darmstadt, Germany.

Until 30th November 2018 the immediate parent undertaking was Merck Consumer Health Holding GMBH, a company registered in Germany.