Merck Serono Limited

Directors’ report and financial statements
Registered number 990823
31 December 2015
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Strategic report

The directors present their strategic report for the year ended 31 December 2015.

Principal activities

The principal activities of the company continue to be that of sales, marketing and distribution of various ethical pharmaceutical products to hospitals, wholesalers, pharmacies and clinics.

Review of business and future developments

Merck Serono Limited is involved in the sales and marketing of ethical pharmaceutical products.

The company’s leading products were in the following therapeutic areas:

- Neurology
- Fertility and Endocrinology
- Oncology
- Cardio Metabolic Care

Results and dividends

The profit and loss account for the year is set out on page 8. During 2015 the company has faced macroeconomic and industry challenges, mainly on price, which have adversely impacted the turnover compared to last year (see Key Performance Indicators).

Key Performance Indicators

\[
\begin{array}{|c|c|c|}
\hline
& 2015 & 2014 \\
\hline
\text{£000} & \text{£000} \\
\hline
\text{Turnover} & 111,409 & 119,887 \\
\hline
\text{Profit for the financial year} & 4,142 & 1,563 \\
\hline
\end{array}
\]

Business environment

The pharmaceutical industry is a highly complex and regulated industry, subject to a wide range of governmental and industry regulations and guidelines. The company continuously invests significant resources to ensure its full compliance with all rules and regulations.

The size of the markets the company is operating in is highly dependent on the Government’s (NHS) health care budget and the subsequent resource allocation decisions of local Clinical Commissioning Groups in the United Kingdom. Additionally, these markets are highly competitive, with a number of large multinational pharmaceutical companies, as well as generic product manufacturers, directly competing with Merck Serono Limited.

Strategy

The company’s objective is to provide therapeutic treatments to unmet medical needs. Its diverse line of products, coupled with its commitment to high level patient care, form the basis of the company’s strategy, providing sustained growth and returns.
Strategic report (continued)

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

The key business risks affecting the company are set below:

- Reductions in the public health care spend, especially in the therapeutic areas the company is involved in.
- Emergence of new therapeutic products, and new medical technologies that could render the company’s products and medical devices obsolete.
- Introduction of competitive low cost generic products that could erode the company’s customer base.

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

Future outlook
Merck Serono Limited plans to continue developing and promoting its current diverse line of high quality products in the UK and expects to expand it with new products being developed globally by its affiliated companies.

However, the company expects to be significantly affected by further downward price pressures be it by generic products, offerings by competitors or measures mandated by the Department of Health to control healthcare spending.

By order of the board

S Kratzer
Director

Date: 29 April 2016
Directors’ report

The directors present their report and the audited financial statements for the year ended 31 December 2015.

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

S Kratzer
C Dring
D Garmon-Jones (resigned 12 June 2015)
Elisabeth Prchla (appointed 22 June 2015)

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

AG Secretarial Ltd

Dividends
An interim dividend of £3,000,000 (2014: £5,000,000) was paid. The directors do not recommend the payment of a final dividend (2014: £nil). The profit for the year of £4,142,000 (2014: £1,563,000) 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 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 company results are reflected in 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

S Kratzer
Director

Date: 29 April 2016
Statement of directors' responsibilities in respect of the Strategic Report and the Director's Report and the financial statements

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.
Independent auditor’s report to members of Merck Serono Limited

We have audited the financial statements of Merck Serono Limited for the year ended 31 December 2015, set out on pages 8 to 38. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

• give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;

• have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and

• have been prepared in accordance with the requirements of the Companies Act 2006.
Independent auditor’s report to the members of Merck Serono Limited
(continued)

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Strategic Report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

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

58 Clarendon Road
Watford
WD17 1DE

Date: 4/5/16
# Profit and Loss Account

*for the year ended 31 December 2015*

<table>
<thead>
<tr>
<th>Note</th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>111,409</td>
<td>119,887</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(81,237)</td>
<td>(93,365)</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>30,172</td>
<td>26,522</td>
</tr>
<tr>
<td>Distribution cost</td>
<td>(660)</td>
<td>(307)</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>(26,205)</td>
<td>(23,818)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>-</td>
<td>62</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>3,307</td>
<td>2,459</td>
</tr>
<tr>
<td>Other interest receivable and similar income</td>
<td>48</td>
<td>32</td>
</tr>
<tr>
<td>Interest payable and similar charges</td>
<td>(359)</td>
<td>(351)</td>
</tr>
<tr>
<td><strong>Profit on ordinary activities before taxation</strong></td>
<td>2,996</td>
<td>2,140</td>
</tr>
<tr>
<td>Tax on profit on ordinary activities</td>
<td>1,146</td>
<td>(577)</td>
</tr>
<tr>
<td><strong>Profit for the financial year</strong></td>
<td>4,142</td>
<td>1,563</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 38 form part of these financial statements.
### Other Comprehensive Income

**for year ended 31 December 2015**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Note</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>£000</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the financial year</td>
<td>4,142</td>
<td>1,563</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Remeasurement of the net defined benefit (liability) / asset</td>
<td>17</td>
<td>1,470</td>
</tr>
<tr>
<td>Deferred tax thereon</td>
<td>(264)</td>
<td>405</td>
</tr>
<tr>
<td>Deferred tax due to change in tax rate</td>
<td>(1,101)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other comprehensive income / (loss) for the year (net)</strong></td>
<td>105</td>
<td>(1,621)</td>
</tr>
<tr>
<td><strong>Total comprehensive income / (loss) for the year</strong></td>
<td>4,247</td>
<td>(58)</td>
</tr>
</tbody>
</table>
## Balance Sheet
### at 31 December 2015

<table>
<thead>
<tr>
<th>Note</th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>9</td>
<td>1,954</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>10</td>
<td>800</td>
</tr>
<tr>
<td>Investments</td>
<td>11</td>
<td>3,911</td>
</tr>
<tr>
<td><strong>Total Fixed assets</strong></td>
<td>6,665</td>
<td>6,945</td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>12</td>
<td>10,255</td>
</tr>
<tr>
<td>Debtors (including £2,730,000 falling due within one year 2014: £3,448,000)</td>
<td>13</td>
<td>54,981</td>
</tr>
<tr>
<td>Cash at bank and in hand</td>
<td>12</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Current assets</strong></td>
<td>65,248</td>
<td>62,779</td>
</tr>
<tr>
<td><strong>Creditors: amounts falling due within one year</strong></td>
<td>14</td>
<td>(25,801)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>39,447</td>
<td>40,375</td>
</tr>
<tr>
<td><strong>Total assets less current liabilities</strong></td>
<td>46,112</td>
<td>47,320</td>
</tr>
<tr>
<td><strong>Provisions for liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other provisions</td>
<td>15</td>
<td>(613)</td>
</tr>
<tr>
<td>Pensions and similar obligations</td>
<td>17</td>
<td>(14,833)</td>
</tr>
<tr>
<td><strong>Total Provisions</strong></td>
<td>(15,446)</td>
<td>(17,901)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>30,666</td>
<td>29,419</td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called up share capital</td>
<td>18</td>
<td>14,192</td>
</tr>
<tr>
<td>Capital contribution</td>
<td></td>
<td>4,995</td>
</tr>
<tr>
<td>Profit and loss account</td>
<td></td>
<td>11,479</td>
</tr>
<tr>
<td><strong>Total Shareholders’ funds</strong></td>
<td>30,666</td>
<td>29,419</td>
</tr>
</tbody>
</table>

The notes on pages 13 to 38 form part of these financial statements.

These financial statements were approved by the board of directors on 29 April 2016 and were signed on its behalf by:

S Kratzer  
Director
## Statement of Changes in Equity

<table>
<thead>
<tr>
<th></th>
<th>Called up Share capital</th>
<th>Revaluation reserve</th>
<th>Capital contribution</th>
<th>Profit and loss account</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2014</td>
<td>14,192</td>
<td>2,422</td>
<td>4,995</td>
<td>12,868</td>
<td>34,477</td>
</tr>
</tbody>
</table>

### Total comprehensive income for the period

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit or loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,563</td>
<td>1,563</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(1,621)</td>
<td>(1,621)</td>
</tr>
</tbody>
</table>

### Total comprehensive income for the period

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(58)</td>
<td>(58)</td>
</tr>
</tbody>
</table>

### Transactions with owners, recorded directly in equity

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transfers in</td>
<td>-</td>
<td>(2,422)</td>
<td>-</td>
<td>2,422</td>
<td>-</td>
</tr>
<tr>
<td>Dividends</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(5,000)</td>
<td>(5,000)</td>
</tr>
</tbody>
</table>

### Total contributions by and distributions to owners

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total contributions by and</td>
<td>-</td>
<td>(2,422)</td>
<td>-</td>
<td>(2,578)</td>
<td>(5,000)</td>
</tr>
<tr>
<td>distributions to owners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Balance at 31 December 2014

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 31 December 2014</td>
<td>14,192</td>
<td>-</td>
<td>4,995</td>
<td>10,232</td>
<td>29,419</td>
</tr>
</tbody>
</table>
### Statement of Changes in Equity (continued)

<table>
<thead>
<tr>
<th></th>
<th>Called up Share capital</th>
<th>Revaluation reserve</th>
<th>Capital contribution</th>
<th>Profit and loss account</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance at 1 January 2015</strong></td>
<td>14,192</td>
<td>-</td>
<td>4,995</td>
<td>10,232</td>
<td>29,419</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit or loss</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,142</td>
<td>4,142</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>105</td>
<td>105</td>
</tr>
<tr>
<td><strong>Total comprehensive income for the period</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4,247</td>
</tr>
<tr>
<td>Transactions with owners, recorded directly in equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in Dividends</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(3,000)</td>
<td>(3,000)</td>
</tr>
<tr>
<td><strong>Total contributions by and distributions to owners</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3,000)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2015</strong></td>
<td>14,192</td>
<td>-</td>
<td>4,995</td>
<td>11,479</td>
<td>30,666</td>
</tr>
</tbody>
</table>
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.

In the transition to FRS 102 from old UK GAAP, the company has made measurement and recognition adjustments. An explanation of how the transition to FRS 102 has affected financial position and financial performance of the company is provided in note 22

FRS 102 grants certain first-time adoption exemptions from the full requirements of FRS 102. The following exemptions have been taken in these financial statements:

- Lease arrangements – in order to determine whether an arrangement contains a lease, the company has analysed facts and circumstances existing at transition date rather than commencement date of the arrangement.
- Lease incentives – for leases commenced before 1 January 2014 the company continued to account for lease incentives under previous UK GAAP.

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.
Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. On first time adoption of FRS 102, the company has not retrospectively changed its accounting under old UK GAAP for; derecognition of financial assets and liabilities before the date of transition, accounting estimates or discontinued operations.

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.

Going concern

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

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

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

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.
Notes (continued)

1 Accounting policies (continued)

Basic financial instruments (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the company’s cash management are included as a component of cash and cash equivalents.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combination is capitalised. Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated to be 20 years. In determining the useful life of goodwill, the company has considered the expected usage of the asset, as well as any legal or similar limits on its use.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of Assets when there is an indication that goodwill or an intangible asset may be impaired.

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

The company assess at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives are as follows:

- Leasehold property: Over period of lease
- Plant and machinery: Between 10% and 20% per annum

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an assets’ future economic benefits.
Notes (continued)

1 Accounting policies (continued)

Stock and work in progress
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 an appropriate share of overheads based on normal operating capacity.

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.

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.

Employee benefits
The company operates a defined contribution scheme for the benefit of its employees. Contributions payable are recognised in profit and loss account when due.

The company also operates a funded defined benefit scheme, to which the participating employers and the members make contributions. The contributions are held in separately administered funds from the company’s assets. The pension costs charged against the profit and loss account are based on an actuarial method and actuarial assumptions designed to spread the cost of pensions over the working lives of employees who are pension scheme members, in a way that seeks to ensure that the regular pension cost represents a substantially level percentage of current and expected future pensionable earnings. Variations from regular cost are spread over the average remaining service lives of current employees in the pension scheme.

Due to the adoption of FRS 102, the company can no longer rely on the multi-employer exemption of FRS 17 used in prior years, and therefore a proportion of the total Scheme results relating to the company are now included in the balance sheet and profit and loss account. This proportion is defined in an agreement between the participating employers as a combination of apportionment of total membership between the employers, active membership and actual past and present contributions by the employers.

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.
Notes (continued)

1 Accounting policies (continued)

Employee benefits (continued)

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.

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.

Expenses

Operating lease

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. 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.
Notes (continued)

1 Accounting policies (continued)

Taxation

Tax on the profit or loss for the year comprises current 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 differences are 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; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. 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.

Investments

Investments in subsidiary undertakings are stated at cost.

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.

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. Revenue from services is recognised in the profit and loss account in proportion of the stage of completion of the transaction at the balance sheet date. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Leased assets

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease. Leases in terms of which the company assumes substantially all the risks and rewards of ownership are classified as finance lease. Assets acquired under finance leases are capitalised and the related liability is recorded as an obligation to pay future rentals. Finance charges are allocated to accounting periods on the basis of the outstanding capital obligation.
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.

<table>
<thead>
<tr>
<th></th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By turnover</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of goods</td>
<td>111,409</td>
<td>119,880</td>
</tr>
<tr>
<td>Commissions</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>111,409</td>
<td>119,887</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By activity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales to third parties</td>
<td>111,328</td>
<td>119,796</td>
</tr>
<tr>
<td>Sales to group companies</td>
<td>81</td>
<td>84</td>
</tr>
<tr>
<td>Commissions</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>111,409</td>
<td>119,887</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>By geographical market</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>111,397</td>
<td>119,880</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>111,409</td>
<td>119,887</td>
</tr>
</tbody>
</table>
Notes (continued)

3 Expenses and auditor’s remuneration

Included in profit are the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation and other amounts written off tangible fixed assets (Note 10)</td>
<td>275</td>
<td>170</td>
</tr>
<tr>
<td>Amortisation of intangible assets (Note 9)</td>
<td>163</td>
<td>163</td>
</tr>
<tr>
<td>Loss on foreign exchange transactions</td>
<td>63</td>
<td>12</td>
</tr>
<tr>
<td>Hire of plant and machinery - operating leases</td>
<td>531</td>
<td>388</td>
</tr>
<tr>
<td>Hire of other assets - operating leases</td>
<td>386</td>
<td>386</td>
</tr>
<tr>
<td>Research and development expenditure</td>
<td>2,750</td>
<td>2,714</td>
</tr>
</tbody>
</table>

Auditors’ remuneration:

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit of these financial statements</td>
<td>37</td>
<td>36</td>
</tr>
<tr>
<td>Audit related assurance services</td>
<td>26</td>
<td>20</td>
</tr>
<tr>
<td>Amounts receivable by the auditors and their associates in respect of:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All other services</td>
<td>8</td>
<td>27</td>
</tr>
</tbody>
</table>

4 Staff numbers and costs

The average number of persons employed during the year, including directors, was as follows:

<table>
<thead>
<tr>
<th>Average number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Distribution</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>63</td>
</tr>
<tr>
<td>73</td>
</tr>
<tr>
<td>136</td>
</tr>
<tr>
<td>Administration</td>
</tr>
<tr>
<td>2015</td>
</tr>
<tr>
<td>£000</td>
</tr>
<tr>
<td>9,842</td>
</tr>
<tr>
<td>1,053</td>
</tr>
<tr>
<td>2,243</td>
</tr>
<tr>
<td>13,138</td>
</tr>
</tbody>
</table>
Notes (continued)

5 Remuneration of directors

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors' emoluments</td>
<td>1,114</td>
<td>908</td>
</tr>
<tr>
<td>Company contributions to defined benefit pension scheme</td>
<td>40</td>
<td>43</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,154</td>
<td>951</td>
</tr>
</tbody>
</table>

The emoluments of the highest paid director were £442,000 (2014: £432,000). The pension contributions paid by the company on behalf of the highest paid director in 2015 were £nil (2014: £nil) and the pension benefits accrued were £nil (2014: £nil).

<table>
<thead>
<tr>
<th>Number of directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
</tr>
<tr>
<td>Retirement benefits are accruing to the following number of directors under defined benefit schemes</td>
</tr>
</tbody>
</table>

6 Other interest receivable and similar income

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivable from group companies</td>
<td>41</td>
<td>32</td>
</tr>
<tr>
<td>Other interest receivable</td>
<td>7</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>48</td>
<td>32</td>
</tr>
</tbody>
</table>

7 Interest payable and similar charges

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable on net defined benefit obligations (note 17)</td>
<td>322</td>
<td>342</td>
</tr>
<tr>
<td>Payable to group companies</td>
<td>26</td>
<td>9</td>
</tr>
<tr>
<td>Other</td>
<td>11</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>359</td>
<td>351</td>
</tr>
</tbody>
</table>
Notes (continued)

8 Taxation

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

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2015</th>
<th>2014</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td><strong>Current tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current tax on income for the period</td>
<td>592</td>
<td>281</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjustment in respect of prior year</td>
<td>(1,099)</td>
<td>(58)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total current tax</strong></td>
<td>(507)</td>
<td></td>
<td></td>
<td>223</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Origination/reversal of timing differences</td>
<td>381</td>
<td>(58)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in tax rate</td>
<td>345</td>
<td></td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Total deferred tax</strong></td>
<td></td>
<td>726</td>
<td>(51)</td>
<td></td>
</tr>
<tr>
<td><strong>Total tax charge</strong></td>
<td></td>
<td>219</td>
<td></td>
<td>172</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£000</td>
<td>(507)</td>
<td>223</td>
</tr>
<tr>
<td><strong>Deferred tax</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>£000</td>
<td>(639)</td>
<td>354</td>
</tr>
<tr>
<td><strong>Total tax</strong></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
</tbody>
</table>

Recognised in profit & loss account

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>(507)</td>
<td>223</td>
</tr>
</tbody>
</table>

Recognised in other comprehensive income

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1,365</td>
<td></td>
<td>-</td>
</tr>
</tbody>
</table>

Recognised directly in equity

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The current tax recognised in the profit and loss account all relates to UK Corporation Tax, as prior year.
### Notes (continued)

#### 8 Taxation (continued)

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reconciliation of effective tax rate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>4,142</td>
<td>1,564</td>
</tr>
<tr>
<td>Total tax (credit)/expense</td>
<td>(1,146)</td>
<td>576</td>
</tr>
<tr>
<td><strong>Profit excluding taxation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,996</td>
<td>2,140</td>
</tr>
</tbody>
</table>

- **Tax at the standard corporation tax rate for the year of 20.25%**
  - (2014: 21.5%)
  - **£000**
  - 607
  - 460

- **Non-deductible expenses**
  - 69
  - 191

- **Reduction in tax rate on deferred tax balances**
  - (723)
  - (16)

- **Under/(over)-provided in previous periods**
  - (1,099)
  - (58)

- **Total tax (credit)/expense included in profit and loss**
  - (1,146)
  - 577

The rate of UK corporation tax reduced from 23% to 21% on 1st April 2014 and from 21% to 20% on 1st April 2015, giving rise to the blended rate of 20.25% for the accounting period (2014: 21.5%).

A reduction of the corporation tax rate to 20%, effective from 1 April 2015, was enacted on 17 July 2013. Subsequently, announcements were made during 2015 by the Chancellor of the Exchequer of proposed changes to corporation tax rates that will have an effect on future tax charges of the Company. A reduction to 19% was enacted on 18 November 2015, and a further reduction to 17% effective from 1 April 2020 was proposed on 16 March 2016.
9 Intangible assets and goodwill

<table>
<thead>
<tr>
<th>Goodwill</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
</tr>
<tr>
<td>At 1 January and 31 December</td>
<td>3,256</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amortisation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January</td>
<td>1,140</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>162</td>
</tr>
<tr>
<td>Balance at 31 December</td>
<td>1,302</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net book value</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>At 1 January 2015</td>
<td>2,116</td>
</tr>
<tr>
<td><strong>At 31 December 2015</strong></td>
<td>1,954</td>
</tr>
</tbody>
</table>

The amortisation, impairment charge and impairment reversals are recognised in the following line items in the profit and loss account:

<table>
<thead>
<tr>
<th>2015</th>
<th>£000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenses</td>
<td>162</td>
</tr>
</tbody>
</table>

In 2007, the trade and net assets of Serono Limited (a wholly owned subsidiary company) were transferred into this company at their net book value which was less than their value. The cost of the company’s investment in this subsidiary undertaking reflected the underlying fair value of the trade and net assets at the time of acquisition. As a result of this transfer, the value of the company’s investment in the subsidiary undertaking fell below the amount at which it was stated in the company’s accounting records. The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No.410) requires that the investment be written down accordingly and that the amount be charged as a loss in the company’s profit and loss account.

However, the directors consider that, as there has been no overall loss to the company, it would fail to give a true and fair view to charge the diminution to the company’s profit and loss account for the year, and it should instead be reallocated to goodwill and the identifiable net assets transferred, so as to recognise in the company’s balance sheet the effective cost to the company of those net assets and goodwill. The effect of this departure was to increase the amount of goodwill by £2,605,000 in the company’s balance sheet, and to decrease the value of investment by £3,256,000 in the company’s balance sheet and then to record £162,000 of amortisation annually, reducing the carrying value of goodwill and reflecting the charge in the profit and loss account.
**Notes (continued)**

**10 Tangible fixed assets**

<table>
<thead>
<tr>
<th></th>
<th>Leasehold properties £000</th>
<th>Plant &amp; machinery £000</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 1 January 2015</td>
<td>786</td>
<td>1,422</td>
<td>2,208</td>
</tr>
<tr>
<td>Additions</td>
<td>-</td>
<td>157</td>
<td>157</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 31 December 2015</td>
<td>786</td>
<td>1,579</td>
<td>2,365</td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 1 January 2015</td>
<td>646</td>
<td>644</td>
<td>1,290</td>
</tr>
<tr>
<td>Charge for the year</td>
<td>28</td>
<td>247</td>
<td>275</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at 31 December 2015</td>
<td>674</td>
<td>891</td>
<td>1,565</td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 2015</td>
<td>140</td>
<td>778</td>
<td>918</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>112</td>
<td>688</td>
<td>800</td>
</tr>
</tbody>
</table>
Notes (continued)

11 Fixed asset investments

<table>
<thead>
<tr>
<th>Subsidiary undertaking</th>
<th>Country of Incorporation</th>
<th>Principal activity</th>
<th>Class and percentage of shares held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serono Ltd (in liquidation)</td>
<td>England &amp; Wales</td>
<td>Dormant</td>
<td>Ordinary 100%</td>
</tr>
</tbody>
</table>

The above investment has been reviewed for impairment and management has concluded that an impairment provision is not required (2014: £nil).

12 Stocks

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work in progress</td>
<td>263</td>
<td>182</td>
</tr>
<tr>
<td>Finished goods</td>
<td>9,992</td>
<td>19,797</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10,255</strong></td>
<td><strong>19,979</strong></td>
</tr>
</tbody>
</table>

The write-down of stocks to net realisable value amounted to £1,408,000 (2014: £966,000). There were no reversal of write-downs during the year (2014: £nil). The write-down and reversal are included in cost of sales.
Notes (continued)

13 Debtors

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade debtors</td>
<td>27,697</td>
<td>26,989</td>
</tr>
<tr>
<td>Amounts owed by group undertakings</td>
<td>23,224</td>
<td>11,538</td>
</tr>
<tr>
<td>Other debtors</td>
<td>3,555</td>
<td>4,186</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
<td>505</td>
<td>87</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>54,981</td>
<td>42,800</td>
</tr>
</tbody>
</table>

Other debtors comprises:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred taxation</td>
<td>2,730</td>
<td>3,448</td>
</tr>
<tr>
<td>Corporation tax</td>
<td>403</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>422</td>
<td>738</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3,555</td>
<td>4,186</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors due within one year</td>
<td>52,251</td>
<td>39,352</td>
</tr>
<tr>
<td>Debtors due after one year</td>
<td>2,730</td>
<td>3,448</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>54,981</td>
<td>42,800</td>
</tr>
</tbody>
</table>

Amounts owed by group undertakings includes a loan receivable from Merck Financial Services GmbH, a company registered in Germany, of £10,000,000 (2014: £8,000,000).

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.
14 Creditors: amounts falling due within one year

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank overdraft</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Trade creditors</td>
<td>4,696</td>
<td>3,056</td>
</tr>
<tr>
<td>Amounts owed to group undertakings</td>
<td>3,987</td>
<td>4,401</td>
</tr>
<tr>
<td>Taxation and social security*</td>
<td>4,014</td>
<td>5,498</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
<td>13,104</td>
<td>9,442</td>
</tr>
<tr>
<td></td>
<td>25,801</td>
<td>22,404</td>
</tr>
</tbody>
</table>

* Taxation and social security comprises:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation tax (2015: asset - £403,000. See note 13)</td>
<td></td>
<td>943</td>
</tr>
<tr>
<td>Other taxes and social security</td>
<td>4,014</td>
<td>4,555</td>
</tr>
<tr>
<td></td>
<td>4,014</td>
<td>5,498</td>
</tr>
</tbody>
</table>
Notes (continued)

15 Provisions

<table>
<thead>
<tr>
<th></th>
<th>Leased property dilapidations £000</th>
<th>Long term incentive plan £000</th>
<th>Total £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at 1 January 2015</td>
<td>516</td>
<td>133</td>
<td>649</td>
</tr>
<tr>
<td>Provisions made during the year</td>
<td>-</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Provisions used during the year</td>
<td>-</td>
<td>(56)</td>
<td>(56)</td>
</tr>
<tr>
<td><strong>Balance at 31 December 2015</strong></td>
<td><strong>516</strong></td>
<td><strong>97</strong></td>
<td><strong>613</strong></td>
</tr>
</tbody>
</table>

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

16 Deferred taxation

<table>
<thead>
<tr>
<th></th>
<th>Assets 2015 £000</th>
<th>Liabilities 2015 £000</th>
<th>Net 2015 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee benefits</strong></td>
<td>2,670</td>
<td>-</td>
<td>2,670</td>
</tr>
<tr>
<td>Accelerated capital allowances</td>
<td>61</td>
<td>-</td>
<td>61</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,731</strong></td>
<td><strong>(1)</strong></td>
<td><strong>2,730</strong></td>
</tr>
</tbody>
</table>

2015: £000 2014: £000
Notes (continued)

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.

<table>
<thead>
<tr>
<th>Net pension liability</th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit obligation</td>
<td>(130,012)</td>
<td>(133,528)</td>
</tr>
<tr>
<td>Fair value of plan assets</td>
<td>115,179</td>
<td>116,276</td>
</tr>
<tr>
<td>Net liability</td>
<td>(14,833)</td>
<td>(17,252)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2015 £000</th>
<th>2014 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined benefit obligation at 1 January</td>
<td>133,528</td>
<td>124,361</td>
</tr>
<tr>
<td>Current service cost</td>
<td>210</td>
<td>210</td>
</tr>
<tr>
<td>Interest expense</td>
<td>3,615</td>
<td>4,087</td>
</tr>
<tr>
<td>Benefits paid from plan assets</td>
<td>(3,465)</td>
<td>(3,414)</td>
</tr>
<tr>
<td>Contributions by members</td>
<td>129</td>
<td>149</td>
</tr>
<tr>
<td>Remeasurements:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of changes in assumptions</td>
<td>(4,005)</td>
<td>9,126</td>
</tr>
<tr>
<td>Effect of experience adjustments</td>
<td>-</td>
<td>(991)</td>
</tr>
<tr>
<td>Defined benefit obligation at 31 December</td>
<td>130,012</td>
<td>133,528</td>
</tr>
</tbody>
</table>
Notes (continued)

17 Employee benefits (continued)

Movements in fair value of plan assets are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Fair value of plan assets at 1 January</td>
<td>116,276</td>
<td>108,092</td>
</tr>
<tr>
<td>Interest income</td>
<td>3,293</td>
<td>3,745</td>
</tr>
<tr>
<td>Contributions by employer</td>
<td>1,785</td>
<td>1,852</td>
</tr>
<tr>
<td>Contributions by member</td>
<td>129</td>
<td>149</td>
</tr>
<tr>
<td>Benefits paid from plan assets</td>
<td>(3,465)</td>
<td>(3,414)</td>
</tr>
<tr>
<td>Administrative expenses paid from plan assets</td>
<td>(304)</td>
<td>(257)</td>
</tr>
<tr>
<td>Remeasurements: return on plan assets less interest income</td>
<td>(2,535)</td>
<td>6,109</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair value of plan assets at 31 December</td>
<td>115,179</td>
<td>116,276</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Current service cost</td>
<td>210</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cost</td>
<td>210</td>
<td>210</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net interest cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense on defined benefit obligation</td>
<td>3,615</td>
<td>4,087</td>
</tr>
<tr>
<td>Interest (income) on plan assets</td>
<td>(3,293)</td>
<td>(3,745)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total net interest cost</td>
<td>322</td>
<td>342</td>
</tr>
<tr>
<td>Plan administrative expenses</td>
<td>304</td>
<td>257</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defined benefit cost included in the profit and loss account</td>
<td>836</td>
<td>809</td>
</tr>
<tr>
<td>Remeasurements recognised in other comprehensive income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effect of changes in assumptions</td>
<td>(4,005)</td>
<td>9,126</td>
</tr>
<tr>
<td>Effect of experience adjustments</td>
<td>-</td>
<td>(991)</td>
</tr>
<tr>
<td>Return on plan assets (excluding interest income)</td>
<td>2,535</td>
<td>(6,109)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total measurements included in other comprehensive income</td>
<td>(1,470)</td>
<td>2,026</td>
</tr>
<tr>
<td>Total cost related to the defined benefit plan recognised in the profit and loss account and other comprehensive income</td>
<td>(634)</td>
<td>2,835</td>
</tr>
</tbody>
</table>
Notes (continued)

17 Employee benefits (continued)

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

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,708</td>
<td>2,106</td>
</tr>
<tr>
<td>Equity instruments</td>
<td>17,610</td>
<td>16,925</td>
</tr>
<tr>
<td>Debt instruments</td>
<td>87,416</td>
<td>89,851</td>
</tr>
<tr>
<td>Real estate</td>
<td>8,445</td>
<td>7,394</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>115,179</td>
<td>116,276</td>
</tr>
<tr>
<td>Actual return on plan assets</td>
<td>758</td>
<td>9,854</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate:</td>
<td>3.90% pa</td>
<td>3.68% pa</td>
</tr>
<tr>
<td>Salary increase rate:</td>
<td>2.1% pa</td>
<td>2.1% pa</td>
</tr>
<tr>
<td>Pension-in-payment increase rate:</td>
<td>3.1% pa</td>
<td>3.1% pa</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate:</td>
<td>3.68% pa</td>
<td>4.59% pa</td>
</tr>
<tr>
<td>Salary increase rate:</td>
<td>2.1% pa</td>
<td>2.1% pa</td>
</tr>
<tr>
<td>Pension-in-payment increase rate:</td>
<td>3.1% pa</td>
<td>3.1% pa</td>
</tr>
</tbody>
</table>

The last full actuarial valuation of the scheme was performed at 31 December 2013. To measure the defined benefit obligation as at 31 December 2015, the liabilities were updated in an approximate way to 31 December 2015, based on the figures carried forward from 2014 and information from the Scheme administrators.
Notes (continued)

17 Employee benefits (continued)

In valuing the liabilities of the pension fund at 31 December 2015, 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 2015 are SAPS, CMI 2013 long term improvement rate of 1.25% per annum, with a 95% weighting for males and a 100% weighting for females. The life expectancies from the age of 65 based on these tables, compared with those used at 31 December 2014, are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015 Male</th>
<th>2015 Female</th>
<th>2014 Male</th>
<th>2014 Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current member aged 65</td>
<td>22.8</td>
<td>24.8</td>
<td>22.7</td>
<td>24.7</td>
</tr>
<tr>
<td>Future retiree on reaching 65</td>
<td>25.1</td>
<td>27.2</td>
<td>25</td>
<td>27.1</td>
</tr>
</tbody>
</table>

Defined contribution plans

The company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was £655,000 (2014: £503,000).

 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 Share capital

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allotted, called up and fully paid:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>141,919 ordinary shares of £100 each</td>
<td>14,192</td>
<td>14,192</td>
</tr>
</tbody>
</table>
Notes (continued)

19 Operating leases

Non-cancellable operating lease rentals are payable as follows:

<table>
<thead>
<tr>
<th></th>
<th>Land &amp; buildings</th>
<th>Plant &amp; machinery</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015 £000</td>
<td>2014 £000</td>
<td>2015 £000</td>
</tr>
<tr>
<td>Within one year</td>
<td>386</td>
<td>386</td>
<td>372</td>
</tr>
<tr>
<td>In the second to fifth years inclusive</td>
<td>1,061</td>
<td>1,447</td>
<td>543</td>
</tr>
<tr>
<td>After five years</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>1,447</td>
<td>1,833</td>
<td>915</td>
</tr>
</tbody>
</table>

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 Accounting estimates and judgements

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

Recoverability of deferred income tax assets

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. In recognising deferred tax asset of £2,730,000 (2014: £3,448,000) (note 13), management has made judgments as to the probability of future taxable revenues being generated against which tax losses will be available for offset.
Notes (continued)

21 Accounting estimates and judgements (continued)

Impairment of goodwill
The company has tested goodwill for impairment which requires judgement when determining the recoverable amount. Further details of goodwill can be obtained under note 9.

Provisions
The company has recognised provisions for impairment of inventories, impairment of trade receivables, employee bonuses, dilapidations, 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.

Estimates for the accounting for employee benefits
Section 28 of FRS 102 requires that certain assumptions are made in order to determine the amount to be recorded for retirement benefit obligations and pension plan assets, in particular for defined benefit plans. These are mainly actuarial assumptions such as expected inflation rates, long-term increase in health care costs, employee turnover, expected return on plan assets and discount rates. Substantial changes in the assumed development of any one of these variables may significantly change the company’s retirement benefit obligation and pension assets (see note 17).

22 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 1, these are the company’s first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting UK GAAP. An explanation of how the transition from UK GAAP to FRS 102 has affected the company’s financial position and financial performance is set out in the following tables.
Notes (continued)

22  Explanation of transition to FRS 102 from old UK GAAP (continued)

<table>
<thead>
<tr>
<th></th>
<th>1 January 2014</th>
<th>Effect of transition to FRS 102</th>
<th>31 December 2014</th>
<th>Effect of transition to FRS 102</th>
<th>FRS 102</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>2,279</td>
<td>-</td>
<td>2,279</td>
<td>2,116</td>
<td>-</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>423</td>
<td>-</td>
<td>423</td>
<td>918</td>
<td>-</td>
</tr>
<tr>
<td>Investments</td>
<td>3,911</td>
<td>-</td>
<td>3,911</td>
<td>3,911</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td><strong>6,613</strong></td>
<td><strong>-</strong></td>
<td><strong>6,613</strong></td>
<td><strong>6,945</strong></td>
<td><strong>-</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stocks</td>
<td>17,217</td>
<td>-</td>
<td>17,217</td>
<td>19,979</td>
<td>-</td>
</tr>
<tr>
<td>Debtors (see a below)</td>
<td>41,558</td>
<td>3,254</td>
<td>44,812</td>
<td>39,352</td>
<td>3,448</td>
</tr>
<tr>
<td></td>
<td><strong>58,775</strong></td>
<td><strong>3,254</strong></td>
<td><strong>62,029</strong></td>
<td><strong>59,331</strong></td>
<td><strong>3,448</strong></td>
</tr>
<tr>
<td><strong>Creditors: amounts due within one year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>(17,270)</strong></td>
<td><strong>-</strong></td>
<td><strong>(17,270)</strong></td>
<td><strong>(22,406)</strong></td>
<td><strong>2</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td><strong>41,505</strong></td>
<td><strong>3,254</strong></td>
<td><strong>44,759</strong></td>
<td><strong>36,925</strong></td>
<td><strong>3,450</strong></td>
</tr>
<tr>
<td><strong>Provisions for liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other provisions</td>
<td>(626)</td>
<td>-</td>
<td>(626)</td>
<td>(649)</td>
<td>-</td>
</tr>
<tr>
<td>Pension liability (see b below)</td>
<td></td>
<td>(16,269)</td>
<td>(16,269)</td>
<td>-</td>
<td>(17,252)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td><strong>47,492</strong></td>
<td><strong>(13,015)</strong></td>
<td><strong>34,477</strong></td>
<td><strong>43,221</strong></td>
<td><strong>(13,802)</strong></td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Called up share capital</td>
<td>14,192</td>
<td>-</td>
<td>14,192</td>
<td>14,192</td>
<td>-</td>
</tr>
<tr>
<td>Revaluation reserve</td>
<td>2,422</td>
<td>-</td>
<td>2,422</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Own share reserve</td>
<td>4,995</td>
<td>-</td>
<td>4,995</td>
<td>4,995</td>
<td>-</td>
</tr>
<tr>
<td>Profit and loss account (see c below)</td>
<td></td>
<td>25,883</td>
<td>(13,015)</td>
<td>12,868</td>
<td>24,034</td>
</tr>
<tr>
<td></td>
<td><strong>25,883</strong></td>
<td><strong>(13,015)</strong></td>
<td><strong>12,868</strong></td>
<td><strong>24,034</strong></td>
<td><strong>(13,802)</strong></td>
</tr>
<tr>
<td><strong>Shareholders' equity</strong></td>
<td><strong>47,492</strong></td>
<td><strong>(13,015)</strong></td>
<td><strong>34,477</strong></td>
<td><strong>43,221</strong></td>
<td><strong>(13,802)</strong></td>
</tr>
</tbody>
</table>

Merck Serono Limited
Registered Number 990823
Directors' report and financial statements
31 December 2015

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Notes (continued)

22 Explanation of transition to FRS 102 from old UK GAAP (continued)

Notes to the reconciliation of Equity

a) There is no multi-employer exemption for group defined benefit schemes under FRS 102; the deficit or surplus is required to be recognised on at least one individual company balance sheet. The deficit is now recognised on the financial statements of the participating employers. Included in Debtors is £3,448,000 being deferred tax arising from pension being recognised on the entity’s financial statements.

b) Pension liability arises due to the absence of a multi-employer exemption for group defined benefit schemes under FRS 102. As stated above, the deficit or surplus is required to be recognised on at least one individual company balance sheet. The deficit is now recognised on the financial statements of the participating employers and the company’s share of the deficit is £17,252,000.

c) The net effect of the above is recorded in the profit and loss account.

Reconciliation of profit and loss:

<table>
<thead>
<tr>
<th>Adopted UK GAAP</th>
<th>Effect of transition to FRS 102</th>
<th>FRS 102</th>
</tr>
</thead>
<tbody>
<tr>
<td>£000</td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Turnover</td>
<td>119,887</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>(93,365)</td>
<td></td>
</tr>
<tr>
<td>Gross Profit</td>
<td></td>
<td>26,522</td>
</tr>
<tr>
<td>Administrative expenses (see a below)</td>
<td>(25,510)</td>
<td>1,385</td>
</tr>
<tr>
<td>Other operating income</td>
<td>62</td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,074</td>
<td>1,385</td>
</tr>
<tr>
<td>Other interest receivable and similar income</td>
<td>32</td>
<td>32</td>
</tr>
<tr>
<td>Interest payable and similar charges (see b below)</td>
<td>(9)</td>
<td>(342)</td>
</tr>
<tr>
<td>Profit on ordinary activities before taxation</td>
<td>1,097</td>
<td>1,043</td>
</tr>
<tr>
<td>Taxation (see c below)</td>
<td>(368)</td>
<td>(209)</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>729</td>
<td>834</td>
</tr>
</tbody>
</table>
Notes (continued)

22 Explanation of transition to FRS 102 from old UK GAAP (continued)

Notes to the reconciliation of profit and loss account

a) Under old UK GAAP (FRS 17 – Retirement Benefits) payments to the defined benefit scheme were recorded as an expense in the profit and loss account because of the multi-employer exemption. On adoption of FRS 102, pension deficit payment of £1,564,000 is reclassified and recorded in the balance sheet as a reduction to scheme liability, net of scheme service costs of £179,000.

b) Total net interest cost of £342,000 arising on defined benefit scheme, as required by FRS102, is recorded within the profit and loss account.

c) The resulting deferred tax on recognition of the defined benefit scheme is recorded in Taxation.