

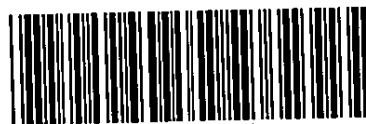
Company Registration No. 0020626

Schering-Plough Limited

Report and Financial Statements

31 December 2009

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Schering-Plough Limited

Report and financial statements 2009

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Schering-Plough Limited

Report and financial statements 2009

Officers and professional advisers

Directors

D Khanna
M McDowell
H Ahmad
S Ehren

Registered office

Schering-Plough House
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1TW

Bankers

HSBC
Howardsgate
Welwyn Garden City
Hertfordshire
AL8 6BH

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants
St Albans

Schering-Plough Limited

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 December 2009

Principal activities

The principal activities of the company are the sale of pharmaceutical products and the research, development, manufacture and sale of animal health and veterinary products

Merger Announcement

On March 9, 2009, Merck & Co , Inc announced that the Board of Directors of Merck and Schering-Plough Corporation had unanimously approved a definitive merger agreement between the companies Following shareholder and regulatory approval, the merger was completed on November 3, 2009

Business review

Turnover for the year ended 31 December 2009 was £438,268,000 (2008 £372,039,000) representing a 17.8% increase (£66,229,000) on the previous year Turnover from Prescription pharmaceutical and consumer health care increased by £62,338,000 (19.2%) and Animal health increased by £3,891,000 (8.2%)

The company is also committed to research and development to ensure a future stream of new and safe medicines During 2009 the company spent £4,489,000 (2008 £3,727,000) on research and development

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 and uncertainties affecting the company are considered to relate factors within the external industry environment The industry is operating in an increasingly complex regulatory and pricing environment, it faces increasing levels of generic competition for the products it has developed and greater uncertainty exists in relation to the patent lives of those products

Key performance indicators

The directors of Schering-Plough Limited manage the company's operations on a divisional basis The development, performance and position of Schering-Plough Limited is assessed and managed using a range of indicators as follows

The directors monitor the market position of the company in the UK This consists of reviewing the sales demand, market share and growth rate at an overall company level as well as reviewing these factors on a product-by-product basis for the promoted product portfolio within their respective therapeutic areas

Throughout all of the company's operations the directors look to run the business efficiently with the appropriate cost structure The cost structure is benchmarked and targets set accordingly

Schering-Plough Limited

Directors' report

Results and dividends

The company made a profit after tax of £4,641,000 (2008 £17,752,000) The main reason for the decrease in profit is due to an impairment charge in respect of the company's buildings in Welwyn Garden City

A final dividend of £20,000,000 (2008 nil) was paid in December 2009

Post balance sheet events

There were no post balance sheet events

Accounting policies

During the year there were no changes to accounting policies

Directors and their interests

The directors who held office during the year are given below

G Coutts (resigned 11 November 2009)

R Kohan (resigned 12 August 2010)

S Koehler (resigned 12 August 2010)

M Hilado (resigned 2 July 2009)

D Khanna (appointed 4 November)

M McDowell (appointed 12 August 2010)

H Ahmad (appointed 12 August 2010)

S Ehren (appointed 12 August 2010)

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction This ensures that suppliers are made aware of the terms of payment and abide by the terms of payment Suppliers are currently paid on average within 50 days

Charitable and political contributions

During the year the company donated £50,000 (2008 £41,595) for charitable purposes The company made no contributions to political parties (2008 £nil)

Disabled employees

Applications by disabled persons for employment 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 group continues and that appropriate training is arranged It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees

Schering-Plough Limited

Directors' report

Employee consultation

The group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through staff councils, periodic face to face meetings between the directors and employees and other internal communications.

Disclosure of information to auditors

So far as each director at the date of approval of this report is aware

- (a) There is no relevant audit information of which the company's auditor is unaware, and
- (b) The directors have taken all the steps they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

The directors are responsible for preparing the Annual 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 the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 and loss of the company for the period.

Schering-Plough Limited

Directors' report

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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
- 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 are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

On behalf of the Board of Directors



D K Khanna

Director

12 November 2010

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCHERING- PLOUGH LIMITED

We have audited the financial statements of Schering-Plough Limited for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

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 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

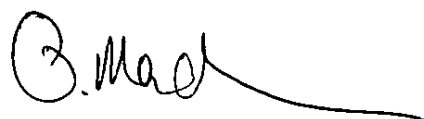
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in 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.



Owen Mackney (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
St Albans, United Kingdom
12 November 2010

Schering-Plough Limited

Profit and loss account Year ended 31 December 2009

	Notes	2009 £'000	2008 £'000 Revised
Turnover	2	438,268	372,039
Cost of sales		(321,674)	(251,010)
Gross profit		116,594	121,029
Distribution costs		(5,520)	(5,862)
Administrative expenses		(95,793)	(81,977)
Fixed asset impairment	8	(9,980)	-
Operating profit	4	5,301	33,190
Amounts written off investments	9	(523)	(5,868)
Interest receivable and similar income	5	853	635
Interest payable and similar charges	6	(1,170)	(506)
Profit on ordinary activities before taxation		4,461	27,451
Tax on profit on ordinary activities	7	180	(9,699)
Profit on ordinary activities after taxation		4,641	17,752

All amounts derive from continuing activities

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the financial year and their historical cost equivalents

The notes on pages 10 to 27 form part of these financial statements

See note 4 for commentary on 2008 revision

Schering-Plough Limited

Statement of total recognised gains and losses Year ended 31 December 2009

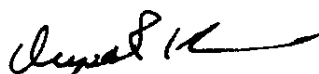
	Notes	2009 £'000	2008 £'000
Profit for the financial year		4,641	17,752
Actuarial (loss)/gain relating to the pension scheme	16	(14,354)	1,287
Deferred tax attributable to actuarial (loss)/gain		<u>4,019</u>	<u>(360)</u>
Total recognised gains and losses relating to the year		<u>(5,694)</u>	<u>18,679</u>

Schering-Plough Limited

Balance sheet As at 31 December 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	8	15,355	27,392
Investments	9	737	1,260
		<u>16,092</u>	<u>28,652</u>
Current assets			
Stocks	10	53,680	34,582
Debtors	11	88,163	91,671
Cash at bank and in hand		788	34,431
		<u>142,631</u>	<u>160,684</u>
Creditors: amounts falling due within one year	12	<u>(96,730)</u>	<u>(108,330)</u>
Net current assets		<u>45,901</u>	<u>52,354</u>
Total assets less current liabilities		<u>61,993</u>	<u>81,006</u>
Net assets excluding retirement benefit obligations		<u>61,993</u>	<u>81,006</u>
Retirement benefit obligations	16	<u>(11,627)</u>	<u>(4,980)</u>
Net assets including retirement benefit obligations		<u>50,366</u>	<u>76,026</u>
Capital and reserves			
Called up share capital	13	9,766	9,766
Revaluation reserve	14	-	577
Share option reserve	14	1,752	1,718
Profit and loss account	14	38,848	63,965
Shareholders' funds	14	<u>50,366</u>	<u>76,026</u>

The financial statements on pages 7 to 27 were approved by the Board of Directors on 12 November 2010 and were signed on its behalf by



D K Khanna
Director

Registration No 0020626

Schering-Plough Limited

Notes to the accounts Year ended 31 December 2009

1. Accounting policies

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below and they have been applied consistently in both the current and prior year.

In accordance with FRS 2 'Accounting for Subsidiary Undertakings' and the Companies Act 2006 group financial statements have not been prepared because the company is a wholly owned subsidiary of a body corporate, incorporated in England and Wales. These financial statements therefore present information about the company as an individual undertaking.

Going concern

The directors have prepared the financial statements on a going concern basis. The directors consider that based on the current and future level of trading activity and the financial resources in place, that the company has the ability to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of preparation.

Intangible fixed assets

Licences are included at cost and are amortised on a straight line basis over the shorter of the anticipated period of profitable exploitation and the period to the expiry of the right.

Tangible fixed assets

Depreciation is not provided on freehold land and construction in progress. Depreciation of construction in progress commences when the asset is brought into use. On other assets it is provided on cost in equal annual instalments over the estimated useful lives of the assets. The estimated useful lives are as follows:

Short-term leasehold improvements	5 – 10 years
Freehold buildings	50 years
Plant and machinery	15 years
Equipment	3 – 12 years
Motor vehicles	40 – 48 months

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

Stocks

Stocks and work-in-progress are stated at the lower of cost and net realisable value. Cost includes materials, direct labour and production overheads appropriate to the relevant stage of production. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the respective balance sheet date. Transactions in foreign currencies are translated at the rates of exchange ruling at the time of the transaction. Exchange gains and losses arising on the translation of foreign currencies are dealt with in the profit and loss account.

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

1. Accounting policies (continued)

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of these assets

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis

Research and development

Research and development expenditure is written off to the profit and loss account in the year that it is incurred

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term

Pension costs

The company has a defined benefit contributory pension plan covering all eligible employees. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary

The amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the company, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

1. Accounting policies (continued)

Share-based payments

The company has applied the requirements of FRS 20 share-based payments. In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2006.

The company issues equity-settled share-based payments to certain employees. These payments are measured at fair-value at the date of grant. The fair value is expensed on a straight-line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

Fair value is measured by use of the Black-Scholes pricing model.

2. Turnover

Turnover represents amounts derived from the provision of goods and services which fall within the company's ordinary activities after deduction of returns, allowances and Value Added Tax. Turnover is recognised on shipment of products. The turnover and pre-tax profit are attributable to two activities, the sale of human pharmaceutical products and the manufacturing and sale of animal health products.

	2009 £'000	2008 £'000
Geographical analysis of turnover by destination		
UK	378,518	312,011
Eire	40,166	33,821
Overseas	19,584	26,207
	<u>438,268</u>	<u>372,039</u>
Analysis of turnover by business segment		
Prescription pharmaceuticals and consumer health care	387,008	324,670
Animal health	51,260	47,369
	<u>438,268</u>	<u>372,039</u>

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

3. Information regarding directors and employees

	2009 £'000	2008 £'000
Directors' emoluments		
Directors' remuneration	1,239	409
Remuneration of highest paid director	1,239	409

One director accrued benefits under a defined benefit pension scheme (2008: one). The highest paid director did exercise share options in the year, value £387,141 (2008: nil). The highest paid director is a member of the company's defined benefit pension scheme and had accrued entitlements of £12,456 per annum under the scheme at the end of the year (2008: £8,632). There is no accrued lump sum.

	2009 No	2008 No.
Average number of persons employed including directors		
Production	68	62
General and administration	729	737
	797	797
	£'000	£'000
Wages and salaries	37,565	36,954
Social security costs	3,649	3,466
Pension costs (note 16)	3,967	4,209
Share based payments (note 18)	902	206
	46,083	44,835

4. Operating profit

	2009 £'000	2008 £'000
Operating profit is after charging/(crediting):		
Depreciation on owned tangible fixed assets (note 8)	2,636	3,939
Profit on sale of fixed assets	(1,193)	(253)
Impairment of tangible fixed assets (note 8)	9,980	-
Impairment of investment (note 9)	523	5,868
Research and development	4,489	3,727
Foreign exchange (gains) / losses	(1,951)	5,912
Operating lease rentals		
Hire of plant and machinery	31	72
Other assets	2,799	2,094
Auditors' remuneration		
Fees payable to the company's auditors for the audit of the company's annual accounts	153	158
Fees payable to the company's auditors for other services	87	20

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

4 Operating profit (continued)

Certain expenses totalling £8,877,000 were reclassified from administrative expenses to cost of sales in the accounts for the year ended 31 December 2008 to more accurately reflect the direct costs of external sales

5 Interest receivable and similar income

	2009 £'000	2008 £'000
Bank interest receivable	853	635

6 Interest payable and similar charges

	2009 £'000	2008 £'000
On bank overdraft	83	203
Interest payable to affiliated company	101	213
Net expense on pension scheme (note 16)	986	90
	1,170	506

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

7. Tax on profit on ordinary activities

(a) Analysis of tax charge for the year

	2009 £'000	2008 £'000
Current tax:		
UK corporation tax	3,952	10,171
Adjustment in respect of prior years	(3,946)	(205)
Total current tax (credit)/charge	6	9,966
Deferred tax:		
Origination and reversal of timing differences excluding pension obligations	447	(524)
Origination and reversal of timing differences prior years	(633)	257
Total deferred tax	(186)	(267)
Tax on profit on ordinary activities	(180)	9,699

(b) Factors affecting the tax charge for the year

The current tax charge for the preceding year is different to the standard rate of corporation tax in the UK of 28% (2008 28.5%). The differences are explained below

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	4,461	27,451
Multipled by the standard rate of corporation tax of 28% (2008 28.5%)	1,249	7,824
Effects of		
Expenses not deductible for tax purposes	3,150	2,423
Depreciation in excess of capital allowances	121	16
Movement in short term timing differences	(568)	(92)
Adjustment in respect of prior years	(3,946)	(205)
Current tax charge for year	6	9,966

The standard rate of Corporation Tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 28% (2008 28.5%).

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

7. Tax on profit on ordinary activities (continued)

(c) Factors that may affect future tax charges

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated amount of tax that would become payable in these circumstances is nil due to the existence of capital losses in another group company which could be used to shelter any capital gains arising.

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010, which was substantively enacted on 20 July 2010, includes legislation reducing the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

(d) Deferred tax

	2009 £'000	2008 £'000
Deferred tax asset/(liability) at 1 January	265	(259)
(Debit)/credit to profit and loss account	186	524
Deferred tax asset at 31 December	<u>451</u>	<u>265</u>
Capital allowances in excess of depreciation	(103)	(408)
Short term timing differences	554	673
Deferred tax asset (note 11)	<u>451</u>	<u>265</u>

Deferred tax in respect of the group's defined benefit pension scheme is disclosed in note 17.

Deferred tax asset relating to pension deficit

	2009 £'000	2008 £'000
Deferred tax asset at 1 January	1,937	2,554
Deferred tax credit/(charge) in profit and loss account	-	(257)
Deferred tax credited/(charged) to the statement of total recognised gains and losses	2,585	(360)
Deferred tax asset at 31 December	<u>4,522</u>	<u>1,937</u>

The deferred tax asset of £4,522,000 (2008: £1,937,000) has been deducted in arriving at the net pension deficit on the balance sheet.

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

8. Tangible fixed assets

	Construc- tion in progress £'000	Short-term leasehold improv- ments £'000	Freehold land and buildings £'000	Plant and machinery and equipment £'000	Motor vehicles £'000	Total £'000
Cost						
At 1 January 2009	992	2,739	24,140	16,305	7,478	51,654
Additions	(883)	44	1,125	747	-	1,033
Disposals	-	-	(180)	(230)	(4,520)	(4,930)
At 31 December 2009	109	2,783	25,085	16,822	2,958	47,757
Accumulated depreciation						
At 1 January 2009	-	2,643	7,230	8,724	5,665	24,262
Charge for the year	-	48	568	978	1,042	2,636
Disposals	-	-	(30)	(220)	(4,226)	(4,476)
Impairment	-	-	8,368	1,612	-	9,980
At 31 December 2009	-	2,691	16,136	11,094	2,481	32,402
Net book value						
At 31 December 2009	109	92	8,949	5,728	477	15,355
At 31 December 2008	992	96	16,910	7,581	1,813	27,392

As a result of the merger of Schering-Plough with Merck & Co Inc in November 2009 the operations of Schering-Plough Limited, currently based in Welwyn Garden City, will be consolidated with those of Merck Sharp & Dohme Limited at their site in Hoddesdon, Hertfordshire during September 2010

The buildings currently occupied by Schering-Plough Limited will be sold and their estimated realisable value is £9,980,000 less than their book value. This loss is included as an impairment charge in the 2009 results.

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

9. Investments held as fixed assets

Shares in group companies

	£'000
Cost	
At 1 January 2009	40,993
Provisions for impairment	
At 1 January 2009	(39,733)
Charge for the year	(523)
At 31 December 2009	(40,256)
Net Book Value	
At 31 December 2009	737
At 31 December 2008	1,260

The above investments represent the entire share capital of Kirby-Warrick Pharmaceuticals Limited, S-P Veterinary Holdings Limited and AVL Holdings Limited which do not trade

Kirby-Warrick Pharmaceuticals Limited has no value attributed to it and the directors now consider that no value can be attributed to the holding in AVL Holdings Limited resulting in a final impairment charge of £523,000 (2008 – £5,868,000)

The company also has nominal holdings in a number of other non-trading group companies but no value is attributed to these holdings

10. Stocks

	2009 £'000	2008 £'000
Raw materials	1,607	-
Work-in-progress	1,311	3,036
Finished goods and goods for resale	50,762	31,546
	53,680	34,582

In the opinion of the directors the replacement cost of stock is not materially different to the amounts at which it is stated in the accounts

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

11. Debtors: amounts falling due within one year

	2009 £'000	2008 £'000
Trade debtors	37,286	29,777
Amounts owed by group undertakings	45,575	51,372
Other debtors	3,448	7,914
Prepayments and accrued income	1,403	2,343
Deferred taxation (note 7)	451	265
	<u>88,163</u>	<u>91,671</u>

Amounts owed by group undertakings are unsecured, interest-free and have no fixed date of repayment

12. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
Bank loans and overdrafts (note 17)	6,598	493
Trade creditors	6,021	10,472
Amounts owed to group undertakings	58,326	69,137
Corporation tax	4,080	8,991
Other taxation and social security	5,861	3,970
Other creditors	2,065	3,119
Accruals and deferred income	13,779	12,148
	<u>96,730</u>	<u>108,330</u>

Except for a specific interest-bearing loan of £12,000,000 (2008: £12,000,000) from one UK group company all amounts owed to group undertakings are unsecured, interest-free and have no fixed date of repayment

13. Called up share capital

	2009 £'000	2008 £'000
Authorised:		
10,000,000 Ordinary shares of £1 each	<u>10,000</u>	<u>10,000</u>
Called up, allotted and fully paid:		
9,766,000 Ordinary shares of £1 each	<u>9,766</u>	<u>9,766</u>

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Notes to the accounts (continued) Year ended 31 December 2009

14. Movement on reserves and reconciliation of shareholders' funds

	Called up share capital £'000	Revaluation reserve £'000	Share option reserve £'000	Profit and loss account £'000	Total £'000
At 1 January 2009	9,766	577	1,718	63,965	76,026
Actuarial loss net of taxation	-	-	-	(10,335)	(10,335)
Share-based payments	-	-	34	-	34
Profit for the financial year	-	-	-	4,641	4,641
Transfer of revaluation reserve	-	(577)	-	577	-
Dividend paid	-	-	-	(20,000)	(20,000)
At 31 December 2009	<u>9,766</u>	<u>-</u>	<u>1,752</u>	<u>38,848</u>	<u>50,366</u>

15. Financial commitments

	2009 £'000	2008 £'000
Capital commitments		
Contracted for but not provided	-	891

Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

	2009		2008	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire				
Less than one year	-	261	-	-
Between two and five years	-	2,288	-	1,289
Over five years	345	-	344	-
	<u>345</u>	<u>2,549</u>	<u>344</u>	<u>1,289</u>

16. Pension commitments

The UK group (of which the company is a member) operates a contributory pension scheme providing benefits based on final pensionable earnings. The scheme is funded with the assets being held by the Trustees separately from the assets of the group. The pension costs are assessed by a qualified actuary, and are charged to the profit and loss account so as to spread those costs over employees' working lives with the group.

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

16. Pension commitments (continued)

The most recent full actuarial valuation of the scheme was carried out by a qualified actuary as at 6 April 2007 and the Projected Unit method was used. At the balance sheet date, the market value of the assets of the scheme was £99,998,000 (2008 - £77,880,000) which represented 86% (2008 - 92%) of the value of the benefits that had accrued to members, after allowing for expected future increases in earnings.

In 2009 the company contributed £10,075,000 (2008 - £5,384,000) to the scheme, which comprised 16.3% of pensionable salaries (2008 - 15.1% of pensionable salaries) plus a special contribution of £5,500,000 in respect of a past service funding deficit.

Contributions for 2010 will also be 16.3% of pensionable salaries plus an additional contribution of £4,500,000 in respect of a past service funding deficit.

The pension cost for the company, including finance expense, for the financial year ended 31 December 2009 was £4,953,000 (2008 - £4,299,000).

The full actuarial valuation carried out at 6 April 2007 was updated to 31 December 2009 by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

Weighted – average assumptions to determine benefit obligations

	2009	2008	2007
Rate of increase in salaries	4.85%	4.10%	4.25%
Rate of increase in deferred pensions	3.85%	3.10%	3.25%
Rate of increase for pensions in payment	3.45%	3.10%	3.25%
Discount rate	5.80%	6.25%	5.60%
Inflation assumption	3.85%	3.10%	3.25%

Weighted – average assumptions to determine net pension cost

	2009	2008	2007
Expected long-term rate of return on plan assets	5.70%	6.06%	6.10%
Rate of compensation increase	4.10%	4.25%	4.00%
Rate of price inflation	3.10%	3.25%	3.00%
Discount rate	6.25%	5.60%	5.10%
Rate of pension increases	3.10%	3.25%	3.00%

Weighted - average life expectancy on post-retirement mortality

	2009	2008	2007
Member age 65 (current life expectancy) - Male	22.5	22.8	22.8
- Female	25.0	25.7	25.7
Member age 45 (life expectancy at age 65) - Male	24.9	24.0	24.0
- Female	27.3	26.8	26.8

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Notes to the accounts (continued) Year ended 31 December 2009

16. Pension commitments (continued)

The assets in the scheme and the expected rate of return were

	Expected rate of return	2009 £'000	Expected rate of return	2008 £'000	Expected rate of return	2007 £'000
Equities and property	7.5% p a	48,999	6.9% p a	35,825	7.5% p a	43,954
Bonds	4.8% p a	46,399	4.7% p a	42,055	4.5% p a	40,443
Cash	4.8% p a	4,600	2.0% p a	-	5.5% p a	481
Total fair value of assets		99,998		77,880		84,878
Actuarial value of liability		(116,147)		(84,797)		(93,999)
Deficit		(16,149)		(6,917)		(9,121)
Related deferred tax asset		4,522		1,937		2,554
Net pension liability		(11,627)		(4,980)		(6,567)

Analysis of the amount charged to operating profit

	2009 £'000	2008 £'000
Service cost (note 3)	3,967	4,209

Analysis of net return on pension scheme

	2009 £'000	2008 £'000
Expected return on pension scheme assets	4,537	5,244
Interest on pension liabilities	(5,523)	(5,334)
Net expense (note 6)	(986)	(90)

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Notes to the accounts (continued) Year ended 31 December 2009

16. Pension commitments (continued)

Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	2009 £'000	2008 £'000
Actuarial (loss) / gain immediately recognised in STRGL	(14,354)	1,287

The cumulative amount of actuarial losses recognised in the statement of recognised gains and losses is £29,887,000 (2008 £15,533,000)

Reconciliation of present value of scheme liabilities

	2009 £'000	2008 £'000
1 January	84,797	93,999
Current service cost (note 3)	3,967	4,209
Member contributions	1,126	1,088
Net finance expense	5,523	5,334
Actuarial gain/(loss) recognised in STRGL	23,771	(17,056)
Benefits paid	(3,037)	(2,777)
31 December	116,147	84,797

Reconciliation of fair value of scheme assets

	2009 £'000	2008 £'000
1 January	77,880	84,710
Expected return on plan assets	4,537	5,244
Employer contributions	10,075	5,384
Member contributions	1,126	1,088
Actuarial gain/(loss) recognised in STRGL	9,417	(15,769)
Benefits paid	(3,037)	(2,777)
31 December	99,998	77,880

The expected return on Plan assets assumes that the long term return on equities will exceed that of long-dated gilts by 3% per annum, giving an expected return on equities of 7.5% per annum. The expected return on the Plan's fixed interest investments, of 4.75% per annum, is based on the yield available on the fixed interest gilts and AA rated Corporate bonds held by the Plan.

The actual return on scheme assets in the year was £13,954,000 (2008 (£10,525,000))

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

16. Pension commitments (continued)

History of experienced gains and losses					
	2009	2008	2007	2006	2005
Defined benefit obligation	(116,147)	(84,797)	(93,999)	(88,545)	(79,079)
Fair value of plan assets	99,998	77,880	84,878	75,680	66,737
Surplus/(deficit)	(16,149)	(6,917)	(9,121)	(12,865)	(12,342)
Difference between expected and actual return on scheme assets					
Amount (£'000)	(9,417)	(15,796)	594	1,465	5,999
Percentage of scheme assets	(9%)	(20%)	1%	2%	9%
Experience gains and losses on scheme liabilities					
Amount (£'000)	-	-	(3,324)	(622)	4,552
Percentage of scheme liabilities	0%	0%	(4%)	(1%)	6%
Total amount recognised in STRGL					
Amount (£'000)	(14,354)	1,287	2,139	(1,545)	(5,524)
Percentage of scheme liabilities	(12%)	2%	2%	(2%)	(7%)

17. Contingent liabilities

Bank facilities

During the year the company continued to participate in a designated cash pooling arrangement with certain other group companies. This arrangement allowed the company as a subsidiary of Merck & Co Inc, to legal title and manage locally its working capital efficiently by drawing upon, depositing or borrowing amounts through the cash pool facility through control as if it were its own bank account. This account is in the name of Bank Mendes Gans (BMG) and is denominated in local currency. Therefore the company is not exposed to foreign exchange risk.

Bank interest is applied to the account balance based on a single daily base rate adjusted for the determined margin of 0.25% minus or in addition, to debit and credit balances respectively in the local currency by BMG's Treasury. The cash pool system compensates debit interest margins with credit interest margins for compensated balances and refunds these margins at the end of each month.

The Merck & Co Inc Treasury, as Principal Customer retaining ultimate control, manages daily the pool within the designated facility to meet expected shortfalls and excesses.

All subsidiaries party to the arrangement are jointly and severally liable to the bank for any overdraft thereon.

Schering-Plough Limited

Notes to the accounts (continued) Year ended 31 December 2009

18. Share based payments

The company participates in Schering-Plough Corporation's Stock Incentive Plan under which certain employees are provided with equity-settled share-based payment in the form of either share options or share awards

On 3 November 2009, the group merged with Merck & Co Inc and the outstanding options and awards over Schering-Plough Corporation stock were exchanged for Merck & Co Inc shares at a rate of 0.91259 Merck shares for every 1 Schering-Plough Corporation share

Share options

Share options were granted to employees at exercise prices equal to the fair market value of Schering-Plough Corporation's shares at the dates of grant. Share options under the 2009 Plan generally vest over three years and have a term of seven years. Certain options granted under previous plans vest over longer periods ranging from three to nine years and have a term of 10 years. Compensation costs for all share options net of estimated forfeitures are recognised over the requisite service period for each separately vesting portion of the share option award.

Details of the share options outstanding at the year end on which a charge has been recognised are as follows

	2009 Number of share options	2009 Weighted average exercise price (£)	2008 Number of share options	2008 Weighted average exercise price (£)
Outstanding at 1 January 2009	263,864	£11.76	223,197	£11.66
Granted	58,100	£15.41	48,300	£12.32
Forfeited	(6,299)	£13.87	(5,133)	£13.05
Exercised	(105,134)	£10.31	-	n/a
Expired	(13,301)	£11.00	(2,500)	£10.81
At 3 November 2009	197,230	£13.59	263,864	£11.76
Conversion to Merck Inc shares	(17,287)	n/a	n/a	n/a
Outstanding at 31 December 2009	179,943	£14.89	263,864	£11.76
Exercisable at 31 December 2009	85,004	£13.76	160,937	£10.93

The options outstanding at 31 December 2009 had exercise prices in a range from £10.73 to £16.89 and a weighted average remaining contractual life of 5 years. In 2009 options were granted on 1 May. The aggregate of the estimated fair values of the options granted on this date was £292,294. In 2008 options were granted on 1 May. The aggregate of the estimated fair values of the options granted on these dates was £144,026. Since options are exercised on a regular basis the weighted average share price has been used.

The inputs into the Black-Scholes option pricing model were as follows

	2009	2008
Weighted average share price	£15.41	£9.58
Weighted average exercise price	£15.41	£9.58
Expected volatility	41.51%	36.65%
Expected life (in years)	4.5	4.5
Risk-free rate	1.90%	3.02%
Expected dividends	1.12%	1.06%

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Notes to the accounts (continued) Year ended 31 December 2009

18. Share based payments (continued)

Expected volatilities were based upon Schering-Plough Corporation's historical volatilities. The risk-free rate is based upon the US Treasury yield curve in effect at the time of grant.

In 2009 the charge to the profit and loss account was £187,000 (2008 £253,961)

Share awards

Share awards were granted to certain employees for nil consideration. These awards generally vest at the end of three years provided the awardee has remained an employee of Schering-Plough. The fair value of share awards is based on the number of shares granted and Schering-Plough Corporation's quoted share price at the date of grant. Share awards are payable in an equivalent number of shares. The expense is recognised, net of estimated forfeitures, over the vesting period of the awards on a straight-line basis.

In 2009 the charge to the profit and loss account was £715,000 (2008 benefit of £47,593)

Details of the share awards outstanding at the year end are as follows

	2009 Number of share awards	2009 Weighted average fair value (£)	2008 Number of share awards	2008 Weighted average fair value (£)
Outstanding at 1 January 2009	161,865	£12.65	184,900	£12.12
Granted	58,100	£15.41	48,300	£12.32
Forfeited	(8,400)	£14.10	(5,135)	£13.03
Exercised	(110,465)	£12.71	(66,200)	£10.91
Expired	-	-	-	-
At 3 November 2009	101,110	£14.49	161,865	£12.65
Conversion to Merck Inc shares	(8,876)	n/a	n/a	n/a
Merck awards at 3 November 2009	92,234	£15.40	n/a	n/a
Merck awards forfeited	(273)	£16.89	n/a	n/a
Outstanding at 31 December 2009	91,961	£15.40	161,865	£12.65

The awards outstanding at 31 December 2009 had a weighted average remaining life of 22.7 months (2008 – 15.0 months). In 2009 awards were granted on 1 May with a total fair value of £873,809. In 2008 awards were granted on 1 May with a total fair value of £453,238. No awards were exercisable at the year end.

There has been no impact on the weighted average fair value on conversion to Merck Inc shares.

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Notes to the accounts (continued) Year ended 31 December 2009

19. Contingent Asset

The company has a contingent asset of circa £1.5m at 31 December 2009 resulting from the “over delivery” of price savings to the NHS under the 2005/8 Prescription Price Regulatory Scheme (“PPRS”). Under the reimbursement mechanism of the 2009 PPRS, this amount will not be recognised until at least 75% by value of companies who have “under delivered” under the 2005/8 PPRS have agreed repayment with the Department of Health. Although the directors believe it is highly probable this asset will be realised in full, the delay in settlement by under-delivering companies under the 2005/8 PPRS led the directors to conclude this asset is less than virtually certain of its recovery. As a result, this asset and the corresponding income has not been recognised in the 31 December 2009 financial statements.

20. Related party transactions

In the ordinary course of business, the company has entered into transactions with its immediate parent company Schering-Plough Holdings Limited, a company incorporated in Great Britain, together with its fellow group subsidiaries and its ultimate parent company Merck & Co Inc. The company has taken advantage of the exemption granted under paragraph 3(c) of FRS 8 and is exempt from disclosing details of the transactions because copies of Merck & Co Inc’s group financial statements are available.

21. Cash flow statement

The company has taken advantage of the exemption from preparing a cash flow statement under FRS 1, since the cashflows of the company are included in the consolidated cash flow statement in the accounts of its ultimate parent company which are publicly available.

22. Immediate and ultimate parent company

In the opinion of the directors, the company’s ultimate parent company and ultimate controlling party at 31 December 2009 was Merck & Co Inc, a company incorporated in the United States of America. This is the parent undertaking of the smallest and largest group for which group accounts are prepared. The immediate parent undertaking of the company is Schering-Plough Holdings Limited, a company incorporated in Great Britain. Copies of the group financial statements of Merck & Co Inc are available from Merck & Co Inc, One Merck Drive, P O Box 100, Whitehouse Station, NJ 08889-0100, USA.