

Registered Number: 00740767

Zimmer Biomet UK Limited
formerly known as Zimmer Limited

Annual report and financial statements
for the year ended 31 December 2016

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Zimmer Biomet UK Limited
formerly known as Zimmer Limited

Annual report and financial statements
for the year ended 31 December 2016

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Zimmer Biomet UK Limited
formerly known as Zimmer Limited

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Officers and professional advisers

Directors

B Vendelboe
U Mueller
S Orange

Company secretary

B Vendelboe

Registered office

The Courtyard
Lancaster Place
South Marston Park
Swindon
Wiltshire
SN3 4FP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
3 Forbury Place
23 Forbury Road
Reading
Berkshire
RG1 3JH

Strategic report for the year ended 31 December 2016

The directors present their strategic report on the company for the year ended 31 December 2016.

Review of the business and future developments

The company is a Limited Risk Distributor responsible for the sale of orthopaedic products acquired from a group undertaking.

On 1st October 2016, the company acquired the trade and assets of a fellow group company, Biomet UK Healthcare Limited. The result of this acquisition has seen an increase in the company's customer base and revenues.

During the year, the turnover (the key performance indicator) of the company increased by 14.7% from £82,177,000 to £94,218,000 and operating profit before exceptional items has decreased by 7.7% to £4,108,000.

The external commercial environment is expected to remain competitive in 2017 and beyond. However, the directors expect continuing growth in the UK business in the future resulting in a continued strengthening of the company's balance sheet.

Performance and position of the business

The company's profit for the financial year was £4,227,000 (2015: £3,596,000).

The balance sheet for the company shows net assets including pension surplus of £68,263,000 (2015: £68,464,000).

Exceptional items

On 24 June 2015, Zimmer Holdings Inc. merged with Biomet Holdings Inc. to create a new ultimate parent company called Zimmer Biomet Holdings Inc. As a result of this merger, a rationalisation of the Biomet site at Bridgend and the Zimmer site in Swindon was completed. This rationalisation resulted in the loss of 11 jobs. In addition, the reorganisation resulted in the termination of a distribution agreement with DHL.

The total provision in the financial statements as at 31 December 2016 amounted to £120,000 (2015: £796,000).

On 1st September 2016, the company sold the trade and assets relating to its presence in Southern Ireland. The trade and assets were sold to a fellow group company, Zimmer Biomet Ireland Limited and the resulting profit of £213,811 has been recognised in the financial statements.

Key Performance Indicators

Locally, progress is monitored via growth in Sales compared to the prior year. Performance is shown below with prior year comparatives expressed as %.

	2016	2015
Growth in sales	14.7%	0.8%

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Strategic report for the year ended 31 December 2016
(continued)

Principal risks and uncertainties

The company's success depends upon the Zimmer Biomet group's ability to effectively develop its products and the company's ability to market those products against those of our company's competitors.

Further information on risks and uncertainties for the Zimmer Biomet group are shown within the Zimmer Biomet Holdings Inc. Annual Report on page 10 which does not form part of this report.

On behalf of the Board



B Vendelboe

Director

26 September 2017

Directors' report for the year ended 31 December 2016

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

Principal activities

The principal activity of the company is the sales and marketing of medical devices and other orthopaedic products.

With effect from 4th October 2016 the name of the Company was changed from Zimmer Limited to Zimmer Biomet UK Limited.

Results and dividends

The results for the company show turnover of £94,218,000 (2015: £82,177,000) an increase of 14.7% from 2015.

The results for the financial year are shown in the profit and loss account on page 11.

An interim dividend of 0.45p (2015: 0.27p) per ordinary share amounting to £566,729 was paid during the financial year (2015: £347,000). The directors do not recommend the payment of a final dividend (2015: £nil). See note 22 for further information.

Research and development

Research and development expenditure relates to ongoing clinical trials and regulatory projects. Research and development costs incurred during the financial year was £1,000 (2015: £1,000).

Directors

The directors who held office during the financial year and up to the date of signing the financial statements are given below:

B Vendelboe	(Company Secretary)
C Jefferis	(resigned 1 April 2017)
A Massarella	(resigned 2 February 2017)
U Mueller	(appointed 1 April 2017)
S Orange	(appointed 1 April 2017)

The directors have the benefit of qualifying third party indemnity provisions for the purpose of section 234 of the Companies Act 2006. The qualifying third party indemnity provisions were in force during the financial year and also at the date of approval of the financial statements.

Future developments

On 1 October 2016, the company acquired the trade and assets of a fellow group company, Biomet UK Healthcare Limited. As a result of this acquisition, the company expects growth in future revenues and continued strengthening of the balance sheet.

Directors' report for the year ended 31 December 2016 (continued)

Ultimate parent company

The ultimate parent company is Zimmer Biomet Holdings Inc.

Financial risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in foreign exchange risk, credit risk, liquidity risk and interest rate risk. However the company has limited exposure to commodity price risk. The board of directors sets the financial risk management policies and monitors them.

Foreign exchange risk

The company is exposed to movements in foreign exchange rates as a result of transactions with a number of foreign suppliers and customers. The company's ultimate parent undertaking, Zimmer Biomet Holdings Inc., manages the foreign exchange rate risk associated with the whole group, as disclosed in the financial statements of that company, which are available as disclosed in note 24.

Credit risk

The company has no significant concentrations of exposure to credit risk. The company has implemented policies that require appropriate credit checks on potential new customers before sales commence and the amount of any individual counterparty is subject to a limit which is reassessed regularly by the company's management.

Liquidity risk

The company manages a liquidity position with the objective of maintaining the ability to fund commitments and repay liabilities in accordance with their required terms. The financing of operations is primarily achieved through retained earnings and cash balances.

Interest rate risk

The company pays and receives interest on intercompany borrowings and lending respectively at a rate of interest determined by the group (one loan being at fixed rate) and its bank deposits and overdraft facilities are at variable rates. No financial instruments were used by the company during the year to manage interest rate costs, and therefore no hedge accounting has been applied.

Charitable donations

The company has made charitable donations during the financial year of £260 (2015: £450).

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Directors' report for the year ended 31 December 2016 (continued)

Statement of directors' responsibilities (continued)

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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that 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 auditors are aware of that information.

Creditor payment policy

The company's current policy concerning payments to suppliers of goods and services is to pay in accordance with agreed or customary terms and its practice is to adhere to these terms. The company's average creditor payment period at 31 December 2016 was 39 days (2015: 36 days).

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that, so far as each of the directors are individually aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware. Each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

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Directors' report for the year ended 31 December 2016
(continued)

On behalf of the Board



B Vendelboe

Director

26 September 2017

Independent auditors' report to the members of Zimmer Biomet UK Limited

Report on the financial statements

Our opinion

In our opinion, Zimmer Biomet UK Limited's financial statements (the "financial statements"):

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

What we have audited

The financial statements, included within the Annual report and financial statement (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2016;
- the Profit and loss account and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of Zimmer Biomet UK Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 5 and 6, 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) ("ISAs (UK & 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

Independent auditors' report to the members of Zimmer Biomet UK Limited (continued)

What an audit of financial statements involves (continued)

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Katherine Stent (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 September 2017

Profit and loss account for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Turnover	5	94,218	82,177
Cost of sales		(70,534)	(63,697)
Gross profit		23,684	18,480
Distribution costs		(17,476)	(13,183)
Administrative expenses		(2,403)	(1,214)
Other operating income		303	369
Operating profit before exceptional items	6	4,108	4,452
Exceptional items	18, 25	214	(796)
Operating profit	6	4,322	3,656
Interest receivable and similar income	10	882	726
Interest payable and other similar expenses	10	(44)	-
Net interest income	10	838	726
Profit before taxation		5,160	4,382
Tax on profit	11	(933)	(786)
Profit for the financial year		4,227	3,596

Statement of comprehensive income for the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Profit for the financial year		4,227	3,596
Other comprehensive (expense) / income			
Remeasurement of net defined benefit surplus	20	(4,466)	2,112
Movement on deferred tax relating to pension surplus	19, 20	701	(379)
Other comprehensive (expense) / income for the financial year, net of tax		(3,765)	1,733
Total comprehensive income for the financial year		462	5,329

Balance sheet as at 31 December 2016

	Note	2016 £'000	2015 £'000
Fixed assets			
Intangible assets	12	19,670	-
Tangible assets	13	2,206	255
Investments	14	4,347	4,347
		26,223	4,602
Current assets			
Debtors amounts falling due within one year	15	37,096	53,374
Debtors amounts falling due after more than one year	15	37,219	-
Cash at bank and in hand		22,483	20,154
		96,798	73,528
Creditors amounts falling due within one year	16	(22,766)	(14,266)
Net current assets		74,032	59,262
Total assets less current liabilities		100,255	63,864
Creditors amounts falling due after more than one year	16	(33,947)	-
Provisions for liabilities	18	(1,022)	(2,370)
Net assets excluding pension asset		65,286	61,494
Pension surplus	20	2,977	6,970
Net assets		68,263	68,464
Capital and reserves			
Called up share capital	21	31,628	31,628
Share premium account		89	89
Retained earnings		36,546	36,747
Total equity		68,263	68,464

The notes on pages 14 to 41 are an integral part of these financial statements.

The financial statements on pages 11 to 41 were approved by the board of directors on 26 September 2017 and were signed on its behalf by:



B Vendelboe
Director

Registered Number: 00740767

Statement of changes in equity for the year ended 31 December 2016

	Called-up share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2015	31,628	89	31,925	63,642
Profit for the financial year	-	-	3,596	3,596
Other comprehensive income for the financial year	-	-	1,733	1,733
Total comprehensive income for the financial year	-	-	5,329	5,329
Credit relating to equity-settled share-based payments (note 9)	-	-	404	404
Charge from parent for equity-settled share-based payments (note 9)	-	-	(564)	(564)
Dividends (note 22)	-	-	(347)	(347)
Total transactions with owners, recognised directly in equity	-	-	(507)	(507)
Balance as at 31 December 2015	31,628	89	36,747	68,464
Balance as at 1 January 2016	31,628	89	36,747	68,464
Profit for the financial year	-	-	4,227	4,227
Other comprehensive expense for the financial year	-	-	(3,765)	(3,765)
Total comprehensive income for the financial year	-	-	462	462
Credit relating to equity-settled share-based payments (note 9)	-	-	443	443
Charge from parent for equity-settled share-based payments (note 9)	-	-	(540)	(540)
Dividends (note 22)	-	-	(566)	(566)
Total transactions with owners, recognised directly in equity	-	-	(663)	(663)
Balance as at 31 December 2016	31,628	89	36,546	68,263

Notes to the financial statements for the year ended 31 December 2016

1 General Information

Zimmer Biomet UK Limited (formerly known as Zimmer Limited) ('the company') is a Limited Risk Distributor responsible for the sale of orthopaedic products acquired from a group undertaking.

With effect from 4th October 2016 the name of the Company was changed from Zimmer Limited to Zimmer Biomet UK Limited.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is The Courtyard, Lancaster Place, South Marston Park, Swindon.

2 Statement of compliance

The individual statements of Zimmer Biomet UK Limited (formerly known as Zimmer Limited) have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Ireland" ("FRS 102") and the Companies Act 2006.

3 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The company has adopted FRS 102 in these financial statements.

Basis of preparation

These financial statements are prepared on the going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

Exemptions for qualifying entities under FRS 102

The Directors have opted to report under FRS 102 reduced disclosure framework which allows a qualifying entity certain disclosure exemptions. The Company has therefore exemption from the following:

- a) presenting a statement of cash flows, on the basis that it is a qualifying entity and its ultimate parent company, Zimmer Biomet Holdings, Inc., includes the company's cash flow in its own consolidated financial statements;
- b) disclosing certain financial instruments;
- c) disclosing key management personnel compensation; and
- d) disclosing related party transactions entered into between two or more members of Zimmer Biomet Holdings, Inc. group.

The shareholders have been notified of the disclosure exemptions and have not objected to their use.

**Notes to the financial statements for the year ended 31
December 2016**

3 Accounting policies (continued)

Consolidation

The financial statements contain information about the company as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare and deliver consolidated financial statements as it and its subsidiary undertakings are included in the audited consolidated financial statements of Zimmer Biomet Holdings Inc. Zimmer Biomet Holdings Inc is the parent undertaking of the smallest and largest group to consolidate these financial statements at 31 December 2016.

Copies of the consolidated financial statements of Zimmer Biomet Holdings Inc can be obtained from:
The Company Secretary

Zimmer Biomet Holdings Inc
345 East Main Street
Warsaw
Indiana 46580-0708
United States of America

Foreign currency

(a) Functional and presentation currency

The company's functional and presentation currency is the pound sterling.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cash flow hedges.

Revenue recognition

(a) Sale of goods

Turnover represents the value of goods and services provided to customers exclusive of value added tax.

The company sells product through two principal channels, direct to health care institutions and through stocking distributors and healthcare dealers.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Revenue recognition (continued)

Through the direct channel, inventory is generally consigned to sales agents or customers so that products are available when needed for surgical procedures. No revenue is recognised upon the placement of inventory into consignment as the Zimmer Biomet Group retains title and maintains the inventory on its consolidated balance sheet. Upon use, the company issues an invoice and revenue is recognised.

Pricing for products is generally predetermined by contracts with customers, agents acting on behalf of customer groups or by government regulatory bodies, depending on the market. Price discounts under group purchasing contracts are generally linked to volume of implant purchases by customer health care institutions within a specified group. At negotiated thresholds within a contract buying period, price discounts increase. The company tracks sales volumes by contract and as contractual volume thresholds are achieved, the higher discounts are applied at an item level on customer invoices. As such, discounts are reflected in revenue as earned.

Revenue is recognised on sales to stocking distributors and healthcare dealers when title to product passes to the distributor or healthcare dealer, generally upon shipment. Products are generally sold to distributors on secured credit terms at fixed prices for specified periods. A distributor may return the product in the event that the company terminates the relationship. Under those circumstances, the company records an estimated sales return in the period in which notice of termination is given to a distributor.

(b) Interest income

Interest income is recognised using the effective interest rate method.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Other operating income

The company earns management services fees on the provision of certain services to a group undertaking. This income is recognised when it is earned i.e. when the services are performed.

Exceptional items

The company classifies certain one-off charges or credits that have a material impact on the company's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the company.

Employee benefits

(a) Short-term benefits

The company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Employee benefits (continued)

(b) Defined contribution pension plans

The company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid the company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the company in independently administered funds.

(c) Defined benefit pension plans

The company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair values of the plan assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. Annually the company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charges or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in interest, are disclosed as 'Remeasurement of net defined liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises:

- (i) the increase in pension benefit arising from employee service during the period; and
- (ii) the cost of the plan inductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of the plan assets. This cost is recognised in profit or loss as 'Finance expense'.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Employee benefits (continued)

(d) Quarterly and annual bonus plans

The company operates quarterly and annual bonus plans for employees. An expense is recognised in the profit and loss account when the company has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

(e) Share-based payments

The ultimate parent company, Zimmer Biomet Holdings Inc, operates an equity-settled, share-based payment scheme. Certain employees of the company are awarded options over the shares in the ultimate parent. The fair value of the employee services received in exchange for these grants of options is recognised as an expense over the vesting period, with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to retained earnings.

Upon exercise, Zimmer Biomet Holdings Inc. makes a recharge to the company in respect of share options granted to the company's employees. When incurred, these intercompany charges are offset in retained earnings. If the amount of the intercompany charge exceeds the original charge, that excess is treated as a distribution from the company to its parent.

Research and development

Research and development expenditure is written off in the year in which it is incurred.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

(a) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the current or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situation in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Taxation (continued)

(b) Deferred tax

Deferred tax arises from timing differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences 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.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that they are expected to apply to the reversal of the timing difference.

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Contingent consideration is initially recognised at estimated amount where the consideration is probable and can be measured reliably. Where (i) the contingent consideration is not considered probable or cannot be reliably measured but subsequently becomes probable and measureable or (ii) contingent consideration previously measured is adjusted, the amounts are recognised as an adjustment to the cost of the business combination.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units ('CGU's') that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life which is estimated to be ten years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. No reversals of impairment are recognised.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Tangible assets

Tangible assets are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset into its working condition for its intended use.

(a) Depreciation and residual values

Depreciation is calculated, using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Short-term leasehold improvements	10%
Motor vehicles, fixtures and fittings	10-33%

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(b) Subsequent additions and major components

Subsequent costs, including major inspections, are included in the asset carrying amount or recognised as a subsequent asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Repairs, maintenance and minor inspection costs are expensed as incurred.

(c) Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the profit and loss account and included in 'Other operating income'.

Government Grants

Government grants are recognised at fair value when there is reasonable assurance that the company will comply with the conditions attached to them and the grants will be received. Grants related to the purchase of assets are treated as deferred income and allocated to the profit and loss account over the useful lives of the related assets. Grants related to expenses are shown in other income in the profit and loss account.

Leased assets

At inception the company assessed agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

(a) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classed as operating leases.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Leased assets (continued)

Payments under operating leases are charge to the profit and loss account on a straight-line basis over the period of the lease.

Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cashflows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit and loss account.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate or its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

Investments

Investments in subsidiaries are stated in the balance sheet of the company at cost, less accumulated impairment losses.

Cash

Cash includes cash in hand and deposits held at call with banks.

Trade debtors

Trade debtors are carried at fair value. As a Limited Risk Distributor the credit risk for trade debtors is borne by a fellow group company and therefore no bad debt provision is maintained by the company.

Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of economic resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Provisions (continued)

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

In particular:

(a) Onerous lease provision

When leasehold properties become redundant or excess space arises in those properties, the company provides for all costs to the end of the lease or the anticipated date of surrender of the lease, net of anticipated income.

(b) Dilapidation provision

Where the terms of a property lease require that at the end of the lease the building shall be returned to its original condition, a provision is made over the life of the lease for the estimated dilapidations expenditure.

(c) Restructuring provision

Restructuring provisions are recognised when the company has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out restructuring.

Financial Instruments

(a) Financial assets

Basic financial assets, including trade and other debtors and cash and bank balances, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method where applicable.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit and loss.

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (iii) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Notes to the financial statements for the year ended 31 December 2016

3 Accounting policies (continued)

Financial instruments (continued)

(b) Financial Liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Share Capital

Ordinary shares are classed as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Distributions to equity holders

Dividends and other distributions to company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

Related party disclosure

The company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

4 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based in historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the entity's accounting policies

(a) Share based payments

The company's employees have been granted share options by the ultimate parent company Zimmer Biomet Holdings Inc. The fair value of the employee services received in exchange for these grants of options is recognised as an expense over the vesting period, with a corresponding increase in retained earnings. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to retained earnings.

Notes to the financial statements for the year ended 31 December 2016

4 Critical accounting judgements and estimation uncertainty (continued)

Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful economic lives of tangible assets

The annual depreciation charge for tangible assets is sensitive to changes in the estimated useful economic lives and residual value of the assets. The useful economic lives and residual values are continually re-assessed annually. They are amended where necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 13 for the carrying amount of the tangible assets and note 3 for the useful economic lives for each class of asset.

(b) Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for disclosures relating to the defined benefit pension scheme.

5 Turnover

The geographical analysis of turnover by destination is as follows:

	2016	2015
	£'000	£'000
United Kingdom	92,747	80,488
Rest of Europe	1,471	1,689
	94,218	82,177

In the opinion of the directors there is only one class of business.

**Notes to the financial statements for the year ended 31
December 2016**

6 Operating profit

	2016 £'000	2015 £'000
Operating profit is stated after charging/(crediting):		
Wages and salaries	10,503	8,098
Social security costs	1,454	923
Other pension costs (note 20)	979	898
Share based payment – fair value of employee services (note 9)	443	404
Staff costs	13,379	10,323
Reorganisation expense (note 18)	-	796
Research and Development expenditure	1	1
Amortisation of intangible assets (note 12)	504	-
Depreciation of owned tangible fixed assets (note 13)	213	131
Loss on disposal of tangible fixed assets	29	-
Operating lease charges:		
- other	507	540
Gain on foreign currency movements	(428)	(153)
Services provided by the company's auditors and network firms:		
Fees payable to company's auditors for the audit	68	55
Fees payable to company's auditors and its subsidiaries for other services:		
Other assurance services pursuant to legislation	25	28

Included in social security costs is a credit of £143,000 (2015: £304,000) in relation to the movement on the provision for National Insurance payable on share options. See note 18 for further details.

7 Employee information

The average monthly number of persons (including executive directors) employed by the company during the financial year was:

	2016 Number	2015 Number
By activity		
Selling and marketing	178	99
Administration	20	15
	198	114

Notes to the financial statements for the year ended 31 December 2016

8 Directors' emoluments

	2016	2015
	£'000	£'000
Aggregate emoluments	418	651
Employer's pension contributions	50	82

In addition to the above amounts one (2015: one) director is employed by a Swedish subsidiary of Zimmer Biomet Holdings Inc. These directors were remunerated by the Italian and Swedish company for services to the Zimmer Biomet Holdings Inc. worldwide group, which included certain responsibilities relating to Zimmer Biomet UK Limited (formerly known as Zimmer Limited). However, the exact value of these services cannot be determined and therefore not included in the financial statements.

Two directors (2015: Four) exercised options over the shares in the parent company Zimmer Biomet Holdings Inc., during the financial year. Retirement benefits are accruing to two (2015: three) directors under a defined benefit scheme and no (2015: none) directors under a money purchase scheme.

The emoluments of the highest paid director were as follows:

	2016	2015
	£'000	£'000
Aggregate emoluments	264	320
Defined benefit pension scheme:		
Accrued pension at end of year	-	57

The highest paid director did exercise options over the shares in the parent company Zimmer Biomet Holdings Inc., during the financial year (2015: did exercise).

9 Share-based payment

Zimmer Biomet Holdings Inc. has established equity settled stock option plans which permit employees of Zimmer Biomet UK Limited (formerly known as Zimmer Limited) to acquire shares in Zimmer Biomet Holdings Inc. The 2009 Stock Incentive Plan (which replaced the 2006 Stock Incentive Plan and TeamShare Stock Option Plan) provides for the grant of non-qualified stock options and incentive stock options, long-term performance awards in the form of performance shares or units, restricted stock, RSUs (Restricted Stock Units) and stock appreciation rights.

Stock options granted to date generally vest over four years, although in no event in less than one year, and expire ten years from the date of the grant. Stock options are granted with an exercise price equal to the market price of common stock on the date of grant.

Notes to the financial statements for the year ended 31 December 2016

9 Share-based payment (continued)

A reconciliation of option movements over the year to 31 December is shown below:

	2016		2015	
	Number of options	Weighted average Exercise Price \$	Number of options	Weighted average Exercise Price \$
Outstanding at start of the year	110,446	74.79	141,420	71.85
Granted	15,465	106.64	13,607	102.68
Cancelled	(3,725)	103.82	-	-
Exercised	(38,617)	53.03	(44,581)	73.97
Transferred	(7,913)	84.67	-	-
Outstanding at end of the year	75,656	82.09	110,446	74.79
Exercisable at end of the year	46,418	71.08	74,111	67.93

The weighted average fair value of options granted during the financial year was \$331,000 (2015: \$293,000).

RSUs granted to date generally vest over four years, although in no event in less than one year, and expire ten years from the date of the grant. The fair value of RSUs granted is based upon the fair market value of common stock on the date of grant.

A reconciliation of RSU movements over the year to 31 December is shown below:

	2016	2015
	Number of RSUs	Number of RSUs
Outstanding at start of the year	13,802	20,999
Granted	3,159	2,930
Cancelled	(2,784)	(4,584)
Vested	(3,765)	(5,543)
Transferred	(2,246)	-
Outstanding at end of the year	8,166	13,802

The weighted average fair value of RSUs granted during the year was \$338,000 (2015: \$302,100).

The total charge for the financial year relating to employee share based payment plans for which fair value accounting is being applied was £443,000 (2015: £404,000), all of which related to equity-settled share based payment transactions. After deferred tax, the total charge was £532,000 (2015: £202,000).

Notes to the financial statements for the year ended 31 December 2016

9 Share-based payment (continued)

The total charge from Zimmer Biomet Holdings Inc for the financial year was £540,000 (2015: £564,000).

The USD to GBP exchange rate at 31 December 2016 was \$1.358/£ (2015: \$1.530/£).

The exercise price of options outstanding at the end of the year ranged between \$39.94 and \$104.01 (2015: \$39.94 and \$113.83) and their weighted average contractual life was 5.52 years (2015: 5.46 years).

The weighted average share price during the financial year for options exercised over the year was \$116.03 (2015: \$114.00).

For RSUs outstanding at the end of the year weighted average remaining contractual life was 13.71 years (2015: 8.00 years).

The Black-Scholes option pricing model was used to value the share-based payment awards as it was considered that this approach would result in materially accurate estimate of the fair value of options granted. No performance conditions were included in the fair value calculations. The fair value per options granted and the assumptions used in the calculation are as follows:

	2016	2015
Vesting period (years)	5	4
Expected volatility	20.7%	22.3%
Option life (years)	10	10
Expected life (years)	5.3	5.3
Risk free rate	1.296	1.632
Expected dividend yield	0.8%	0.9%
Fair value per option	\$23.04	\$21.55

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a year. For stock options granted in 2016 and 2015 expected volatility was derived from the implied volatility of traded options that were actively traded around the grant date of the stock options.

The expected term assumption has been derived from historical employee exercise behaviour.

The risk free rate of return is determined using the implied yield currently available for zero coupon US government bonds with a remaining term equal to the expected life of the options.

Notes to the financial statements for the year ended 31 December 2016

10 Net interest income

Interest receivable and similar income

	2016	2015
	£'000	£'000
Interest receivable on loans to group undertakings	507	462
Bank interest received	85	83
Interest income on defined benefit pension scheme (note 20)	290	181
Total interest receivable and similar income	882	726

Interest payable and similar expenses

	2016	2015
	£'000	£'000
Interest payable on loans from group undertakings	(44)	-
Total interest payable and similar expenses	(44)	-

Net interest income

	2016	2015
	£'000	£'000
Interest receivable and other similar income	882	726
Interest payable and other similar expenses	(44)	-
Total net interest income	838	726

11 Tax on profit

Tax expense included in profit or loss

	2016	2015
	£'000	£'000
Current tax		
UK corporation tax on profits for the year	851	611
Adjustment in respect of prior years	62	-
Total current tax	913	611
Deferred tax		
Origination and reversal of timing differences	89	235
Effect of changes in tax rate	(40)	(60)
Adjustment in respect of prior years	(29)	-
Total deferred tax (note 19)	20	175
Total tax on profit	933	786

Notes to the financial statements for the year ended 31 December 2016

11 Tax on profit (continued)

Tax expense/(income) included in other comprehensive income

	2016	2015
	£'000	£'000
Current tax	-	-
Deferred tax		
Origination and reversal of timing differences	799	(379)
Effect of changes in tax rate	(98)	-
Total tax income/(expense) included in other comprehensive income	701	(379)

Reconciliation of tax charge

The tax assessed for the financial year is lower (2015: lower) than the effective rate of corporation tax in the UK of 20.00% (2015: 20.25%). The differences are explained below:

	2016	2015
	£'000	£'000
Profit before taxation	5,167	4,382
Profit before taxation multiplied by the standard rate of corporation tax of 20.00% (2015: 20.25%)	1,033	887
Effects of:		
Expenses not deductible for tax purposes	141	24
Other timing differences	(234)	(65)
Remeasurement of deferred tax – change in UK tax rate	(40)	(60)
Adjustment in respect of prior years	33	-
Tax charge for the year	933	786

Tax rate changes

Changes to the UK Corporation tax system were announced in the Finance Act 2016. These include legislation to reduce the main rate to 17% from 1 April 2020. These changes were substantively enacted on 6 September 2016. As such, the deferred tax balances at 31 December 2016 have been calculated at a rate of 17% (2015: 18%).

**Notes to the financial statements for the year ended 31
December 2016**

12 Intangible assets

	Goodwill £'000	Total £'000
Cost		
At 1 January 2016	-	-
Additions	20,174	20,174
Disposals	-	-
At 31 December 2016	20,174	20,174
Accumulated amortisation		
At 1 January 2016	-	-
Charge for the year	504	504
At 31 December 2016	504	504
Net book amount		
At 31 December 2016	19,670	19,670
At 31 December 2015	-	-

On 1st October 2015, the Company acquired the trade and assets of a fellow group company, Biomet UK Healthcare Limited. Since this acquisition, the trade of Biomet UK Healthcare Limited has been fully integrated with the Company therefore the reliable useful life of goodwill cannot be reliably determined and it is being amortised over 10 years.

Notes to the financial statements for the year ended 31 December 2016

13 Tangible assets

	Short-term leasehold improvements £'000	Motor vehicles, fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2016	690	1,378	2,068
Additions	144	137	281
Transfer from group acquisition	2,336	785	3,121
Disposals	-	(82)	(82)
At 31 December 2016	3,170	2,218	5,388
Accumulated depreciation			
At 1 January 2016	673	1,140	1,813
Charge for the year	70	143	213
Transfer from group acquisition	926	282	1,208
Disposals	-	(52)	(52)
At 31 December 2016	1,669	1,513	3,182
Net book amount			
At 31 December 2016	1,501	706	2,206
At 31 December 2015	17	238	255

14 Investments

Shares in group undertakings	2016 £'000	2015 £'000
At 1 January and 31 December	4,347	4,347

Investments are stated at cost which is equal to net book value.

At 31 December 2016 the company had the following subsidiary undertakings:

Subsidiary Undertaking	Address of the registered office	Country of incorporation	Principal activity	Class and % of nominal value of that class held
Centerpulse (UK) Limited	The Courtyard, Lancaster Place, South Marston, Swindon, SN3 4FP	England	Dormant	Ordinary shares 100%
Zimmer Trustees Limited	The Courtyard, Lancaster Place, South Marston, Swindon, SN3 4FP	England	Dormant	Ordinary shares 100%

Notes to the financial statements for the year ended 31 December 2016

14 Investments (continued)

The capital and reserves of Zimmer Trustees Limited at 31 December 2016 was £nil (2015: £nil). Zimmer Trustees Limited was dormant throughout the whole year.

The capital and reserves of Centerpulse (UK) Limited at 31 December 2016 was £4,347,000 (2015: £4,347,000). Centerpulse (UK) Limited was dormant throughout the whole year.

The directors believe that the book value of investments is supported by their underlying net assets.

15 Debtors

	2016	2015
	£'000	£'000
Trade debtors	30,060	13,196
Amounts owed by group undertakings	43,298	39,297
Other debtors	87	119
Corporation Tax Recoverable	-	239
Prepayments and accrued income	870	523
Total	74,315	53,374
Less: Amounts falling due in more than one year		
Amounts owed by group undertakings	(37,219)	-
Total amounts falling due within one year	37,096	53,374

The amounts falling due in more than one year owed by group undertakings is owed by ZB Investment Luxembourg Sarl. Under the terms of this loan agreement the loan will continue until no later than 31 July 2026 and is unsecured. 31 July 2026 is the earliest date that repayment of the loan can be demanded, except in the event of default by the borrower. Interest is calculated on a daily basis on the net daily balance. Interest rate initially applied is determined on the date of the first draw down and thereafter on the first business day of each subsequent calendar year at a rate equivalent to 12 month GBP LIBOR plus 25 basis points. Interest accruing is payable by 2 instalments due in January and July. On 31 January 2017, interest of £403,000 was received.

All other amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment and are repayable on demand.

Notes to the financial statements for the year ended 31 December 2016

16 Creditors Amounts falling due within one year

	2016 £'000	2015 £'000
Trade creditors	197	226
Amounts owed to group undertakings	50,843	11,172
Other creditors including taxation and social security	1,641	370
Accruals and deferred income	4,032	2,498
Total	56,713	14,266
Less: Amounts falling due in more than one year		
Government grants (note 17)	(211)	-
Amounts owed to group undertakings	(33,736)	-
Total amounts falling due within one year	22,766	14,266

The amounts falling due in more than one year owed to group undertakings is owed to Biomet UK Healthcare Limited. Under the terms of this loan agreement the loan will continue until no later than 1 October 2023 and is unsecured. 1 October 2023 is the earliest date that repayment of the loan can be demanded, except in the event of default by the borrower. Interest is calculated on a daily basis on the net daily balance. Interest rate initially applied is determined on the date of the first draw down and thereafter on the first business day of each subsequent calendar year at a rate equivalent to 12 month GBP LIBOR plus 25 basis points. Interest accruing is payable by 2 instalments due in January and July. On 31 January 2017, interest of £189,000 was paid.

All other amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

17 Deferred income

	Government Grants £'000
At 1 January 2016	-
Additions	265
Credit to profit and loss	(11)
At 31 December 2016	254

Government Grants due for release

	£'000
Within 1 year	43
In more than one year	211
As at 31 December 2016	254

Notes to the financial statements for the year ended 31 December 2016

18 Provisions for liabilities

	Share Options – National Insurance £'000	Dilapid- ation £'000	Deferred tax £'000	Reorganis- ation £'000	Total £'000
1 January 2016	424	252	898	796	2,370
Credit to profit and loss	(143)	-	-	-	(143)
Charge to profit and loss	-	15	20	-	35
Charge to other comprehensive income	-	-	(701)	-	(701)
Business combinations	-	-	137	-	137
Utilised during the year	-	-	-	(676)	(676)
31 December 2016	281	267	354	120	1,022

Share options – National Insurance

The ultimate parent company, Zimmer Biomet Holdings Inc, operates an unapproved share-based compensation plan. Under an unapproved share option scheme, the company is required to pay National Insurance on the difference between the grant price and market value at the exercise date of the shares issued. The company becomes unconditionally liable to pay the National Insurance upon exercise of the options. The company therefore calculates the provision by applying the latest enacted National Insurance rate to the difference between the market value of the underlying options at the balance sheet date and the option grant prices. A full provision is made upon grant of the option. The amount of the National Insurance actually payable will depend on the number of employees who remain with the company and exercise their options, the market price of the ultimate parent company's shares at the time of exercise and the prevailing National Insurance rates at the time.

Dilapidation

Dilapidation provision represents the estimated liability for dilapidations costs in respect of the company's leasehold premises. The liability will be payable at the end of the lease term of each of the premises. The average remaining time until this provision will be utilised is nine years.

Reorganisation

On 24 June 2015, Zimmer Holdings Inc. merged with Biomet Holdings Inc. to create a new ultimate parent company called Zimmer Biomet Holdings Inc. As a result of this merger, a rationalisation of the Biomet site at Bridgend and the Zimmer site in Swindon was completed. This rationalisation resulted in the loss of 11 jobs. The provision for redundancy costs is expected to be fully utilised by 31 December 2017.

In addition, the reorganisation resulted in the termination of a distribution agreement with DHL. The provision for this termination is expected to be fully utilised by 31 January 2017.

Notes to the financial statements for the year ended 31 December 2016

19 Deferred taxation

	2016	2015
	£'000	£'000
Capital allowances in excess of depreciation	(71)	55
Other timing differences	223	301
Deferred tax asset excluding that relating to pension asset	152	356
Deferred tax liability on pension asset (note 20)	(506)	(1,254)
Total deferred tax liability	(354)	(898)
1 January	356	579
Deferred tax charged to profit and loss account (note 11)	(67)	(223)
Deferred tax acquired on business combination (note 25)	(137)	-
31 December	152	356
Deferred tax liability relating to pension asset	2016	2015
	£'000	£' 000
1 January	(1,254)	(923)
Deferred tax credited to profit and loss account (note 11)	47	48
Deferred tax credited/(charged) to the statement of comprehensive income	701	(379)
31 December	(506)	(1,254)

There are no unused tax losses or unused tax credits.

The next deferred tax liability expected to reverse in 2017 is £354,000. This primarily relates to the reversal of timing differences on capital allowances offset by expected tax deductions on share-based payment arrangements and pension scheme adjustments.

20 Pension surplus

Defined contribution scheme

The company operates a defined contribution scheme for employees and directors. The scheme assets are held in a separately administered fund. Amounts recognised as an expense during the financial year amounted to £502,000 (2015: £301,000).

Defined benefit scheme

Zimmer Limited operates a defined benefit scheme with assets held in a separately administered fund. The scheme provides retirement benefits on the basis of members' final salary. The plan is administered by a trustee, who is responsible for ensuring that the plan is sufficiently funded to meet the current and future obligations. The company has agreed a funding plan with the trustee, whereby ordinary contributions are made at a fixed rate of £55,000 per month. Additional contributions are agreed with the trustee to reduce the funding deficit where necessary.

Notes to the financial statements for the year ended 31 December 2016

20 Pension surplus (continued)

The defined benefit pension scheme was closed to new members on 30 September 2003. The company has a defined contribution plan available to new employees.

A full actuarial valuation was carried out as at 31 December 2014 and updated to 31 December 2016 by a qualified independent actuary at Mercer Human Resource Consulting. The valuation method and key assumptions used by the actuary are as follows:

Valuation method:	2016 Projected unit:	2015 Projected unit:
Discount rate	2.70%	4.00%
Inflation assumption	3.20%	3.10%
Increases to deferred benefits during deferment	3.15%	3.10%
Expected rate of future pension increases	3.15%	3.10%
Rate of increase in salaries	4.20%	4.10%

Assumptions regarding future mortality experience are set based on actuarial advice in accordance with published statistics. Mortality assumptions are based on the S1NA Light table rated down by 1 year for females with CMI 2009 projections and a 1.5% minimum improvement floor.

The average life expectancy in years of a pensioner retiring at age 65 is as follows:

	2016 £'000	2015 £'000
Retiring at the end of the reporting year:	22.97	22.90
Retiring 25 years after the end of the reporting year:	25.32	25.20

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2016	27,552	(20,582)	6,970
Employer contributions	660	-	660
Current service cost	-	(311)	(311)
Interest income/(expense)	1,077	(787)	290
Insurance premiums	(4)	4	-
Contributions paid by members	73	(73)	-
Benefits paid	(1,826)	1,826	-
Administrative expenses paid from plan assets	(166)	-	(166)
Remeasurement gains/(losses):			
Return on plan assets excluding interest	3,948	-	3,948
Actuarial gain/(loss)	-	(8,414)	(8,414)
At 31 December 2016	31,314	(28,337)	2,977

Notes to the financial statements for the year ended 31 December 2016

20 Pension surplus (continued)

Total cost recognised as an expense:

	2016	2015
	£'000	£'000
Current service cost	(311)	(419)
Administrative expenses and/or taxes	(166)	(178)
	(477)	(597)

No amounts (2015: nil) were included in the cost of assets.

Total recognised as income:

	2016	2015
	£'000	£'000
Interest receivable (note 10)	290	181
	290	181

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

	2016	2015
	£'000	£'000
Equity instruments	15,259	16,287
Bonds	16,055	11,265
	31,314	27,552

The return on the plan assets was:

	2016	2015
	£'000	£'000
Interest income	1,077	1,001
Return on plan assets excluding interest	3,948	(550)
Total return on plan assets	5,025	451

21 Called up share capital

	2016	2015
	£'000	£'000
Authorised, allotted and fully paid		
126,513,000 (2015: 126,513,000) ordinary shares of 25p each	31,628	31,628

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

Notes to the financial statements for the year ended 31 December 2016

22 Dividends

	2016	2015
	£'000	£'000
Equity – Ordinary		
Interim paid: £0.0045 (2015: £0.0027) per £0.25 share	566	347

No final dividend is proposed.

23 Financial commitments

The company had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2016	2015
	£'000	£'000
Payments due		
Not later than one year	953	404
Later than one year and not later than five years	1,546	1,058
Later than five years	203	343
	2,702	1,805

24 Ultimate parent undertakings and controlling party

At the year end and at the date of signing the financial statements the immediate parent company was Zimmer U.K. Limited.

The ultimate parent company and controlling party is Zimmer Biomet Holdings Inc., which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Zimmer Biomet Holdings Inc. is incorporated in the State of Indiana, United States of America. Consolidated financial statements for Zimmer Biomet Holdings Inc. can be obtained from The Secretary, Zimmer Biomet Holdings Inc., 345 East Main Street, Warsaw, Indiana 46580-0708, United States of America.

25 Business Combinations

During the year, the Company acquired the trade and assets of a fellow group company, Biomet UK Healthcare Limited.

Biomet UK Healthcare Limited was a Limited Risk Distributor operating in the same business sector as the Company. The result of this acquisition has seen an increase in the company's customer base and revenues. The goodwill of £20,174,000 is attributable to the acquired customer base and economies of scale expected from combining the commercial operations.

**Notes to the financial statements for the year ended 31
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25 Business combinations (continued)

Since the acquisition, the trade of Biomet UK Healthcare has been fully integrated with the Company therefore the reliable useful life of goodwill cannot be reliably determined and consequently it is being amortised over 10 years. In addition, as the trade and assets of the Zimmer Biomet UK Limited Irish branch have been fully integrated from the acquisition, it is not possible to determine the revenue and profit acquired as a result of the acquisition.

The following table summarises the consideration paid, the fair value of assets acquired and liabilities assumed at the acquisition date.

	2016
Consideration at 1 October 2016	£'000
Loan note issued	33,240
	33,240
	2016
Recognised amounts of identifiable assets acquired and liabilities assumed	£'000
Property, plant and equipment	1,912
Trade and other receivables	12,268
Trade and other payables	(977)
Deferred tax liabilities	(137)
Total identifiable net assets	13,066
Goodwill	20,174
	33,240

On 1st September 2016, the company sold the trade and assets relating to its presence in Southern Ireland. The trade and assets were sold to a fellow group company, Zimmer Biomet Ireland Limited.

The following table summarises the consideration received, the fair value of assets sold and liabilities transferred at the acquisition date.

	2016
Consideration at 1 September 2016	£'000
Cash and cash equivalents received	430
	430

**Notes to the financial statements for the year ended 31
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25 Business combinations (continued)

	2016
Recognised amounts of identifiable assets sold and liabilities transferred	£'000
Trade and other receivables	216
Total identifiable net assets	216
Profit on sale of branch	214
	430

The profit on the sale of the Irish branch of £214,000 has been recognised in exceptional items in the Profit and Loss Account.