

Registered Number: 00740767

Zimmer Biomet UK Limited

**Annual report and financial statements
for the year ended 31 December 2018**



Zimmer Biomet UK 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 2018

The directors present their strategic report on the company for the year ended 31 December 2018.

Review of the business

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

During the year, the turnover (the key performance indicator) of the company decreased by 6.39% from £139,460,000 to £130,542,000 and operating profit before exceptional items has decreased by 12.93% to £5,522,000.

Performance and position of the business

The company's profit for the financial year was £4,773,000 (2017: £4,703,000).

The balance sheet for the company shows net assets including pension surplus of £108,583,000 (2017: £74,042,000).

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 %.

	2018	2017
(Reduction) / Growth in sales	(6.39%)	48.02%

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.

Brexit Risk

The Directors have assessed the impact of the uncertainty attached to the outcome of the Brexit negotiations and the shape of any eventual withdrawal deal with the EU. As such, the economic impact cannot be fully understood at this stage, and political and economic commentators differ significantly in their assessment of the potential severity of the risks associated with each outcome. They however continue to monitor any potential impacts in the wider financial markets and supply chain.

The full principal financial risks the business are open to are set out in the director's report.

On behalf of the Board



B Vendelboe
Director

30th September 2019

Directors' report for the year ended 31 December 2018

The directors present their report and the audited financial statements of the company for the year ended 31 December 2018.

Principal activities

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

Results and dividends

The results for the company show turnover of £130,542,000 (2017: £139,460,000) a decrease of 6.39% from 2017.

The results for the financial year are shown in the profit and loss account on page 12.

An interim dividend of 1.31p (2017: 0.52p) per ordinary share amounting to £1,659,000 was paid during the financial year (2017: £662,000). The directors do not recommend the payment of a final dividend (2017: £nil). See note 21 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 £nil (2017: £nil).

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
U Mueller
S Orange

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

The external commercial environment is expected to remain competitive in 2019 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.

**Directors' report for the year ended 31 December 2018
(continued)****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 23.

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 no charitable donations during the financial year (2017: £nil).

Employees

The company operates a framework for employee information and consultation which complies with the requirements of the Information and Consultation of Employees Regulations 2004.

During the year, the policy of providing employees with information about the company has been continued through the newsletter 'Zimmer Biomet News'. In addition, a "Culture Shaping" team has been formed to gather employee suggestions in an attempt to maintain a high level of morale.

Employees participate directly in the success of the business through the performance related bonus schemes and are encouraged to invest in the group through employee stock purchase plans.

**Directors' report for the year ended 31 December 2018
(continued)****Employees (continued)**

The company gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job.

Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the company's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

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).

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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Directors' confirmations

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.

**Directors' report for the year ended 31 December 2018
(continued)**

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 2018 was 32 days (2017: 37 days).

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.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'B Vendelboe', with a long horizontal flourish extending to the right.

B Vendelboe

Director

30th September 2019

Independent auditors' report to the members of Zimmer Biomet UK Limited for the year ended 31 December 2018**Report on the audit of the financial statements****Opinion**

In our opinion, Zimmer Biomet UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2018; the profit and loss account, the statement of comprehensive income, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent auditors' report to the members of Zimmer Biomet UK Limited for the year ended 31 December 2018 (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent auditors' report to the members of Zimmer Biomet UK Limited for the year ended 31 December 2018 (continued)***Auditors' responsibilities for the audit of the financial statements***

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting**Companies Act 2006 exception reporting**

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

We have no exceptions to report arising from this responsibility.

Katherine Stent (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
30th September 2019

Profit and loss account for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	5	130,542	139,460
Cost of sales		(91,918)	(99,667)
Gross profit		38,624	39,793
Distribution costs		(29,951)	(30,647)
Administrative expenses		(3,451)	(3,252)
Other operating income		300	448
Operating profit before exceptional items	6	5,522	6,342
Income from shares in group undertakings	14	4,347	-
Exceptional items	17	-	(316)
Operating profit before interest and taxation	6	9,869	6,026
Interest receivable and similar income	10	1,243	1,036
Amounts written off investments	14	(4,347)	-
Interest payable and similar expenses	10	(415)	(739)
Profit before taxation		6,350	6,323
Tax on profit	11	(1,577)	(1,620)
Profit for the financial year		4,773	4,703

Statement of comprehensive income for the year ended 31 December 2018


	Note	2018 £'000	2017 £'000
Profit for the financial year		4,773	4,703
Other comprehensive income			
Remeasurement of net defined benefit surplus	19	3,448	1,499
Movement on deferred tax relating to pension surplus	18	(586)	(255)
Other comprehensive income for the financial year, net of tax		2,862	1,244
Total comprehensive income for the financial year		7,635	5,947

Balance sheet as at 31 December 2018

	Note	2018 £'000	2017 £'000
Fixed assets			
Intangible assets	12	15,635	17,653
Tangible assets	13	1,050	822
Investments	14	-	4,347
		16,685	22,822
Current assets			
Debtors amounts falling due within one year	15	51,598	51,325
Debtors amounts falling due after more than one year	15	37,216	37,216
Cash at bank and in hand		14,647	11,117
		103,461	99,658
Creditors amounts falling due within one year	16	(18,241)	(23,875)
Net current assets		85,220	75,783
Total assets less current liabilities		101,905	98,605
Creditors amounts falling due after more than one year	16	-	(27,940)
Provisions for liabilities	17	(1,551)	(1,215)
Pension surplus	19	8,230	4,592
Net assets		108,584	74,042
Capital and reserves			
Called up share capital	20	31,628	31,628
Share premium account		28,029	89
Retained earnings		48,927	42,325
Total equity		108,584	74,042

The notes on pages 15 to 40 are an integral part of these financial statements.

The financial statements on pages 12 to 40 were approved by the board of directors on 30th September 2019 and were signed on its behalf by:



B Vendelboe
Director

Registered Number: 00740767

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
Balance as at 1 January 2017	31,628	89	36,546	68,263
Profit for the financial year	-	-	4,703	4,703
Other comprehensive income for the financial year	-	-	1,244	1,244
Total comprehensive income for the financial year	-	-	5,947	5,947
Credit relating to equity-settled share-based payments (note 9)	-	-	506	506
Charge from parent for equity-settled share-based payments (note 9)	-	-	(12)	(12)
Dividends (note 21)	-	-	(662)	(662)
Total transactions with owners, recognised directly in equity	-	-	(168)	(168)
Balance as at 31 December 2017	31,628	89	42,325	74,042
Balance as at 1 January 2018	31,628	89	42,325	74,042
Profit for the financial year	-	-	4,773	4,773
Other comprehensive income for the financial year	-	-	2,862	2,862
Total comprehensive income for the financial year	-	-	7,635	7,635
Credit relating to equity-settled share-based payments (note 9)	-	-	626	626
Proceed from share issue (note 20)	-	27,940	-	27,940
Dividends (note 21)	-	-	(1,659)	(1,659)
Total transactions with owners, recognised directly in equity	-	27,940	(1,033)	26,907
Balance as at 31 December 2018	31,628	28,029	48,927	108,584

Notes to the financial statements for the year ended 31 December 2018

1 General Information

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

The company is a private company limited by shares and is incorporated in the United Kingdom and domiciled in England. The address of its registered office is The Courtyard, Lancaster Place, South Marston Park, Swindon, Wiltshire, SN3 4FP.

2 Statement of compliance

The individual statements of Zimmer Biomet UK 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 2018**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 2018.

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.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

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.

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.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

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.

(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 charged 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'.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

Employee benefits (continued)

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'.

(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.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

Taxation (continued)

(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.

(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.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

Business combinations (continued)

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.

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.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

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.

Payments under operating leases are charged 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.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

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.

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.

Notes to the financial statements for the year ended 31 December 2018

3 Accounting policies (continued)

Financial instruments (continued)

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.

(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 2018

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 19 for disclosures relating to the defined benefit pension scheme.

5 Turnover

The geographical analysis of turnover by destination is as follows:

	2018 £'000	2017 £'000
United Kingdom	130,542	139,460
	130,542	139,460

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

Notes to the financial statements for the year ended 31 December 2018

6 Operating profit

	2018 £'000	2017 £'000
Operating profit is stated after charging/(crediting):		
Wages and salaries	17,338	17,762
Social security costs	2,319	2,518
Other pension costs (note 19)	1,431	1,541
Share based payment – fair value of employee services (note 9)	626	506
Staff costs	21,714	22,327
Reorganisation expense (note 17)	-	316
Research and Development expenditure	-	3
Amortisation of intangible assets (note 12)	2,018	2,017
Depreciation of owned tangible fixed assets (note 13)	216	409
Loss on disposal of tangible fixed assets	-	1,003
Operating lease charges:		
- other	1,262	1,232
(Gain)/loss on foreign currency movements	(25)	212
Services provided by the company's auditors and network firms:		
Fees payable to company's auditors for the audit	89	79
Fees payable to company's auditors and its subsidiaries for other services:		
Other assurance services pursuant to legislation	18	18

Included in social security costs is a credit of £114,000 (2017: £49,000) in relation to the movement on the provision for National Insurance payable on share options. See note 17 for further details.

Included in the audit fees above are fees paid in respect of the statutory audit of the immediate parent company Zimmer U.K. Limited. It is not possible to apportion the auditor's remuneration in respect of the companies and this amount will not be reimbursed.

7 Employee information

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

By activity	2018 Number	2017 Number
Selling and marketing	258	283
Administration	48	23
	306	306

Notes to the financial statements for the year ended 31 December 2018

8 Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	189	145
Employer's pension contributions	7	6

In addition to the above amounts one (2017: one) director is employed by a Swedish subsidiary and one (2017: one) is employed by a Swiss subsidiary of Zimmer Biomet Holdings Inc. These directors were remunerated by the Swedish and Swiss companies for services to the Zimmer Biomet Holdings Inc. worldwide group, which included certain responsibilities relating to Zimmer Biomet UK Limited. However, the exact value of these services cannot be determined and therefore not included in the financial statements.

One director (2017: one) exercised options over the shares in the parent company Zimmer Biomet Holdings Inc., during the financial year. Retirement benefits are accruing to one (2017: one) director under a money purchase scheme.

The emoluments of the highest paid director were as follows:

	2018 £'000	2017 £'000
Aggregate emoluments	189	130

The highest paid director did exercise options over the shares in the parent company Zimmer Biomet Holdings Inc., during the financial year (2017: did exercise).

During 2017 £226,000 was paid to one director as compensation for loss of office.

9 Share-based payment

Zimmer Biomet Holdings Inc. has established equity settled stock option plans which permit employees of Zimmer Biomet UK 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 2018

9 Share-based payment (continued)

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

	2018		2017	
	Number of options	Weighted average Exercise Price \$	Number of options	Weighted average Exercise Price \$
Outstanding at start of the year	74,106	87.64	75,656	82.09
Granted	25,405	115.64	14,558	121.88
Cancelled	(616)	86.37	(7,036)	109.47
Exercised	(22,619)	84.39	(13,974)	85.30
Transferred	10,747	111.03	4,902	96.27
Outstanding at end of the year	87,023	99.41	74,106	87.64
Exercisable at end of the year	42,550	83.10	52,074	77.33

The weighted average fair value of options granted during the financial year was \$677,159 (2017: \$376,000).

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:

	2018	2017
	Number of RSUs	Number of RSUs
Outstanding at start of the year	6,081	8,166
Granted	4,600	3,150
Cancelled	(741)	(3,458)
Vested	(1,654)	(2,732)
Transferred	1,312	955
Outstanding at end of the year	9,598	6,081

The weighted average fair value of RSUs granted during the year was \$526,000 (2017: \$381,000).

The total charge for the financial year relating to employee share based payment plans for which fair value accounting is being applied was £626,000 (2017: £506,000), all of which related to equity-settled share based payment transactions. After deferred tax, the total charge was £668,000 (2017: £505,000).

Notes to the financial statements for the year ended 31 December 2018

9 Share-based payment (continued)

The total charge from Zimmer Biomet Holdings Inc. for the financial year was £nil (2017: £12,000).

The USD to GBP exchange rate at 31 December 2018 was \$1.267 /£ (2017: \$1.337/£).

The exercise price of options outstanding at the end of the year ranged between \$39.94 and \$121.88 (2017: \$39.94 and \$121.88) and their weighted average contractual life was 6.65 years (2017: 5.72 years).

The weighted average share price during the financial year for options exercised over the year was \$123.49 (2017: \$120.94).

For RSUs outstanding at the end of the year weighted average remaining contractual life was 8.42 years (2017: 8.40 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:

	2018	2017
Vesting period (years)	4	4
Expected volatility	22.00%	21.30%
Option life (years)	10	10
Expected life (years)	5.5	5.3
Risk free rate	2.745%	2.021%
Expected dividend yield	0.84%	0.80%
Fair value per option	\$27.00	\$25.80

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 2018 and 2017 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 2018

10 Net interest income

Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable on loans to group undertakings	1,075	913
Bank interest received	44	35
Interest income on defined benefit pension scheme (note 19)	124	88
Total interest receivable and similar income	1,243	1,036

Interest payable and similar expenses

	2018 £'000	2017 £'000
Interest payable on loans from group undertakings	(415)	(739)
Total interest payable and similar expenses	(415)	(739)

Net interest income

	2018 £'000	2017 £'000
Interest receivable and other similar income	1,243	1,036
Interest payable and other similar expenses	(415)	(739)
Total interest receivable and similar income	828	297

11 Tax on profit

Tax expense included in profit or loss

	2018 £'000	2017 £'000
Current tax		
UK corporation tax on profits for the year	1,547	1,849
Adjustment in respect of prior years	21	(62)
Total current tax	1,568	1,787
Deferred tax		
Origination and reversal of timing differences	22	(207)
Effect of changes in tax rate	(2)	24
Adjustment in respect of prior years	(11)	16
Total deferred tax (note 18)	9	(167)
Total tax on profit	1,577	1,620

Notes to the financial statements for the year ended 31 December 2018

11 Tax on profit (continued)

Tax expense/(income) included in other comprehensive income

	2018 £'000	2017 £'000
Deferred tax		
Origination and reversal of timing differences	586	255
Total tax income/(expense) included in other comprehensive income	586	255

Reconciliation of tax charge

The tax assessed for the financial year is higher (2017: higher) than the effective rate of corporation tax in the UK of 19.00% (2017: 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit before taxation	6,350	6,323
Profit before taxation multiplied by the standard rate of corporation tax of 19.00% (2017: 19.25%)	1,207	1,217
Effects of:		
Expenses not deductible for tax purposes	1,269	451
Income not taxable	(826)	-
Other timing differences	(81)	(26)
Remeasurement of deferred tax – change in UK tax rate	(2)	24
Adjustment in respect of prior years	10	(46)
Tax charge for the year	1,577	1,620

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 2018 have been calculated at a rate of 17% (2017: 17%).

Notes to the financial statements for the year ended 31 December 2018

12 Intangible assets

	Goodwill £'000	Total £'000
Cost		
At 1 January 2018	20,174	20,174
At 31 December 2018	20,174	20,174
Accumulated amortisation		
At 1 January 2018	2,521	2,521
Charge for the year	2,018	2,018
At 31 December 2018	4,539	4,539
Net book amount		
At 31 December 2018	15,635	15,635
At 31 December 2017	17,653	17,653

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.

13 Tangible assets

	Short-term leasehold improvements £'000	Motor vehicles, fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2018	1,709	1,765	3,474
Additions	101	343	444
Disposals	(29)	(818)	(847)
At 31 December 2018	1,781	1,290	3,071
Accumulated depreciation			
At 1 January 2018	988	1,664	2,652
Charge for the year	114	102	216
Disposals	(29)	(818)	(847)
At 31 December 2018	1,073	948	2,021
Net book amount			
At 31 December 2018	708	342	1,050
At 31 December 2017	721	101	822

Notes to the financial statements for the year ended 31 December 2018

14 Investments

Shares in group undertakings	2018 £'000	2017 £'000
31 December	-	4,347

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

At 31 December 2018 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%

The capital and reserves of Zimmer Trustees Limited at 31 December 2018 was £nil (2017: £nil). Zimmer Trustees Limited was dormant throughout the whole year.

During the year, the directors of Centerpulse (UK) Limited, a wholly owned subsidiary of Zimmer Biomet UK Limited, commenced a process to liquidate the company.

As part of the pre-liquidation steps, Centerpulse (UK) Limited undertook a capitalisation of its reserves, and reduced its share capital, to create a distributable reserve of £4,347,475 to allow a dividend payment of the same amount to its immediate parent company, Zimmer Biomet UK Limited. This dividend was declared in August 2018 and the company was finally dissolved on 22 June 2019.

A loss of £4,347,000 was recognised as an impairment following the liquidation of Centerpulse (UK) Limited.

Notes to the financial statements for the year ended 31 December 2018

15 Debtors

	2018 £'000	2017 £'000
Trade debtors	28,544	31,108
Amounts owed by group undertakings	59,297	56,249
Other debtors	124	136
Prepayments and accrued income	849	1,048
Total	88,814	88,541
Less: Amounts falling due in more than one year		
Amounts owed by group undertakings	(37,216)	(37,216)
Total amounts falling due within one year	51,598	51,325

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 31st July 2026 and is unsecured. 31st 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 31st January 2019, interest of £427,000 was received.

Included in the amounts owed by group undertakings, falling due within one year, is a loan of £17,500,000 to ZB Investment Luxembourg Sarl. Under the terms of this loan agreement the loan will continue until no later than 30th April 2019 and is unsecured. 30th April 2019 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.

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 2018

16 Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Trade creditors	282	133
Amounts owed to group undertakings	9,380	42,519
Corporation tax	1,088	1,144
Other taxation and social security	2,728	2,122
Other creditors	-	36
Accruals and deferred income	4,763	5,861
Total	18,241	51,815
Less: Amounts falling due in more than one year		
Amounts owed to group undertakings	-	(27,940)
Total amounts falling due within one year	18,241	23,875

The amounts falling due in more than one year owed to group undertakings in 2017 was owed to Biomet UK Healthcare Limited. Under the terms of this loan agreement the loan was due to continue until no later than 1 October 2023 and was unsecured, but, as part of a group restructuring process, on 31st August 2018, the loan was repaid in full.

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

Notes to the financial statements for the year ended 31 December 2018

17 Provisions for liabilities

	Share Options – National Insurance £'000	Dilapid- ation £'000	Deferred tax £'000	Reorganis- ation £'000	Total £'000
1 January 2018	330	282	442	161	1,215
Charge to profit and loss	-	16	595	-	611
Utilised during the year	(114)	-	-	(161)	(275)
31 December 2018	216	298	1,037	-	1,551

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

During 2017, the company announced the decision to close the sterile facility located in Bridgend. This closure will result in the loss of 6 jobs. The provision for redundancy costs is expected to be fully utilised by May 2018.

In addition, the closure of the sterile facility has incurred further costs in relation to decommissioning and removing plant and equipment.

All provisions relating to the reorganisation have been fully utilised as at 31st December 2018.

Notes to the financial statements for the year ended 31 December 2018

18 Deferred taxation

	2018 £'000	2017 £'000
Capital allowances in excess of depreciation	104	96
Other timing differences	258	243
Deferred tax asset excluding that relating to pension asset	362	339
Deferred tax liability on pension asset (note 19)	(1,399)	(781)
Total deferred tax liability	(1,037)	(442)
1 January	339	152
Deferred tax credited to profit and loss account (note 11)	23	187
31 December	362	339
Deferred tax liability relating to pension asset	2018 £'000	2017 £' 000
1 January	(781)	(506)
Deferred tax (charged) to profit and loss account (note 11)	(32)	(20)
Deferred tax (charged) to the statement of comprehensive income	(586)	(255)
31 December	(1,399)	(781)

There are no unused tax losses or unused tax credits.

The next deferred tax liability expected to reverse in 2019 is £1,038,000 (2018:£442,000). 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.

19 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 £837,000 (2017: £909,000).

Defined benefit scheme

Zimmer Biomet UK 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 2018

19 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 2017 by a qualified independent actuary at Mercer Human Resource Consulting. The valuation method and key assumptions used by the actuary are as follows:

	2018 Projected unit:	2017 Projected unit:
Valuation method:		
Discount rate	2.95%	2.55%
Inflation assumption	3.15%	3.15%
Increases to deferred benefits during deferment	3.00%	2.95%
Expected rate of future pension increases	3.00%	2.95%
Rate of increase in salaries	4.15%	4.15%

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 2013 projections and a 1.50% minimum improvement floor.

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

	2018 £'000	2017 £'000
Retiring at the end of the reporting year:	23.50	24.30
Retiring 25 years after the end of the reporting year:	25.60	27.10

Reconciliation of scheme assets and liabilities:

	Assets £'000	Liabilities £'000	Total £'000
At 1 January 2018	32,075	(27,483)	4,592
Employer contributions	660	-	660
Current service cost	-	(400)	(400)
Interest income/(expense)	818	(694)	124
Insurance premiums	(4)	4	-
Contributions paid by members	54	(54)	-
Benefits paid	(514)	514	-
Administrative expenses paid from plan assets	(194)	-	(194)
Remeasurement (losses)/gains:			
Return on plan assets excluding interest	(1,341)	-	(1,341)
Actuarial gain	-	4,789	4,789
At 31 December 2018	31,554	(23,324)	8,230

Notes to the financial statements for the year ended 31 December 2018

19 Pension surplus (continued)

Total cost recognised as an expense:

	2018 £'000	2017 £'000
Current service cost	(400)	(441)
Administrative expenses and/or taxes	(194)	(191)
	(594)	(632)

No amounts (2017: nil) were included in the cost of assets.

Total recognised as income:

	2018 £'000	2017 £'000
Interest receivable (note 10)	124	88
	124	88

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

	2018 £'000	2017 £'000
Equity instruments	4,526	15,023
Bonds	27,028	17,052
	31,554	32,075

The return on the plan assets was:

	2018 £'000	2017 £'000
Interest income	818	825
Return on plan assets excluding interest	(1,341)	1,479
Total return on plan assets	(523)	2,304

20 Called up share capital

	2018 £'000	2017 £'000
Authorised, allotted and fully paid		
126,513,001 (2017: 126,513,000) ordinary shares of 25p each	31,628	31,628

On 31st August 2018, 1 share was issued for £27,940,000 in consideration for the release of debt.

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 2018

21 Dividends

	2018 £'000	2017 £'000
Equity – Ordinary		
Interim paid: £0.0131 (2017: £0.0052) per £0.25 share	1,659	662

No final dividend is proposed (2017: £nil).

22 Financial commitments

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

	2018 £'000	2017 £'000
Payments due		
Not later than one year	872	901
Later than one year and not later than five years	1,817	1,422
Later than five years	38	38
	2,727	2,361

23 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.