Novartis Animal Vaccines Limited

Annual report

for the year ended 31 December 2012

Registered number: 1461388

Novartis Animal Vaccines Limited

Annual report
for the year ended 31 December 2012

Novartis Animal Vaccines Limited

Directors and advisers

Directors

S Webb
G W Gunn
G Hillier
S Kapadia

Company secretary

N Maxted

Registered office

4 Warner Drive
Springwood Industrial Estate
Braintree
Essex
CM7 2YW

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
First Point
Buckingham Gate
Gatwick
RH6 0PP

Directors' report for the year ended 31 December 2012

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2012. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101)

During 2012, Directors took the decision to sell the manufacturing facility at Braintree to a third party. After this transaction the Company has licensed another Novartis group company to utilise the intellectual property rights of the Company and to commercially sell the products previously traded by the Company.

Going concern basis

In the 2011 financial statements the accounts were prepared on a "break-up" basis. This was based on the expectations and intentions at the time the financial statements were approved that no further trading was expected. However, following the subsequent decision to license the intellectual property rights of the Company to another Novartis group company, the Directors expect the Company to continue to trade and be profitable for the foreseeable future As a result these financial statements have been prepared on a going concern basis.

Review of business and principal activity

The principal activity of the Company to 31 August 2012 was to produce and distribute animal health vaccines and pharmaceuticals and provision of services, being toll manufacturing, of animal health products. While the majority of the products were manufactured at the Braintree site, there were also vaccines sourced from inter-company manufacturing plants. The customer base was made up of both third party customers and inter-company affiliates After 31 August 2012, all these activities were transferred to a third party The Company has now licensed another Novartis group company to utilise the intellectual property rights of the Company and to commercially sell the products previously traded by the Company, for which it will now receive a royalty income

The Company is a limited company, domiciled and incorporated in the United Kingdom The registered office is also the principal place of business with the address as set out on page 2.

Directors' report
for the year ended 31 December 2012 (continued)

Review of business and principal activity (continued)

The business has shown a decline in sales mainly due to the cessation of trading activities at 31st August 2012 Sales declined 26.0% versus 2011 The Company has posted a net profit for the year £3,777,000 (2011.£768,000) and this increase is accounted for by the sale of assets following cessation of manufacting and product sales activity. The sale of assets is reported in other income in the profit and loss account

Business environment

The aqua industry has seen strong growth. Strong seasonality helped demand, particularly in the sea lice segment Competitive pressure is expected to remain strong and negotiating power of key customers is increasing

Future outlook

Following a review in 2012 it was decided to divest the assets of the manufacturing facilities at Braintree that are owned by the Company A contract to sell these assets to Benchmark Holdings Limited was signed on 6 August 2012.

The sales previously made by the Company are now undertaken by another Novartis group company in 2012 The future plan for the Company is to continue to receive royalty income in relation to the licensing of its intellectual property for the foreseeable future.

Principal risks and uncertainties

More recently the Company has seen other industries facing financial uncertainty with the economic downturn. However, following the licensing agreement with another Novartis group company to market and sell its products, the Directors do not anticipate a significant impact due to the challenging economic environment that faces businesses

Key performance indicators ("KPIs")

The Company operates in a highly complex environment and management use and reviews many performance measures.

Directors' report
for the year ended 31 December 2012 (continued)

Key performance indicators ("KPIs") (continued)

Some of the Company's KPIs in line with the long term strategies are as follows·

	2012	2011	
Decline in Turnover (%)	-26.0	-6.0	Decrease in 2012 is due to cessation of trading activity during 2012.
Gross margin (%)	29.0	34.5	Decline in gross margin due to change in product mix
Selling, marketing costs and administrative expenses (£'000)	2,155	3,538	Decline due to reduction in selling activity and reduced administration expense.

Dividends

No dividends were paid in the year. (2011· £nil)

Directors

The Directors who held office during the year and up to the date of signing these financial statements are as follows·

S Webb
T Jose (resigned 6th March 2012)
G W Gunn
G Hillier
S Kapadia (appointed 6th March 2012)

Research and development

The Company devoted resources to research and development aimed at new products, registrations and markets but ceased this activity in 2011 After recharges to group companies this amounted to an income of £nil for the current year (2011: £101,000).

Employees

The Company gives full and fair consideration to applications for employment received from disabled persons, having regard to their particular aptitudes and abilities and wherever possible the Company continues the employment of, and whilst employed by the Company. Disabled employees are treated no differently

Directors' report for the year ended 31 December 2012 (continued)

Employees (continued)

from other employees as regards training, career development and promotion opportunities. This policy was operated by the Company, where appropriate, throughout the year.

The Company recognises the importance of keeping employees informed of the progress of the business During the year employees were regularly provided with information regarding the financial and economic factors affecting the performance of the Company and on other matters of concern to them as employees. Regular consultations take place with employee representatives. The employee share scheme introduced in 2002 continued to be available in 2012 to encourage employee involvement in the Company's performance. The share scheme relates to shares in Novartis AG, the ultimate parent company of Novartis Animal Vaccines Limited.

Directors indemnity

The Company has entered into indemnity arrangements for the benefit of all its Directors in relation to certain losses and liabilities which they may incur to third parties in the course of acting as Directors of the Company and in compliance with the requirements of the Companies Act 2006.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.
Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent;

Directors' report
for the year ended 31 December 2012 (continued)

Statement of Directors' responsibilities (continued)

- state whether applicable United Kingdom Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They 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.

Directors' statement on disclosure of information to auditors

Each of the Directors in office at the date the Directors' report is approved confirms that·

(a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and

(b) he 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

An elective resolution has been passed to maintain PricewaterhouseCoopers LLP as auditors until such time as the Board decides otherwise

On behalf of the Board

S Kapadia
Director
Date 11|09|13

Independent auditors' report to the members of Novartis Animal Vaccines Limited

We have audited the financial statements of Novartis Animal Vaccines Limited for the year ended 31 December 2012 which comprise the Profit and loss account, the Statement of total recognised gains and losses, the Balance sheet, the Reconciliation of movements in shareholders' funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, set out on page 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.
This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements·

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,

Independent auditors' report to the members of Novartis Animal Vaccines Limited (continued)

Opinion on financial statements (continued)

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion·

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

Other matters

The Company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Gatwick

Date· 12 September 2013

Profit and loss account
for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Turnover continuing operations		298	-
Turnover discontinued operations	3	9,442	13,338
		9,740	13,338
Cost of sales		(6,735)	(8,737)
Gross profit		3,005	4,601
Selling and marketing costs		(1,197)	(2,640)
Administrative expenses		(958)	(898)
Operating profit			
Continuing operations		(10)	1,063
Discontinued operations		860	-
	4	850	-
Non operating items – discontinued operations			
Profit on disposal of operations	5	3,055	-
Profit on ordinary activities before interest and tax		3,905	1,1063
Interest payable and similar charges	6	(51)	(89)
Interest receivable and similar income	6	1	29
Profit on ordinary activities before taxation		3,855	1,003
Tax on profit on ordinary activities	7	(78)	(235)
Profit for the financial year		3,777	768

The results in 2012 relate to both continuing operations and discontinued operations (2011: Continuing operations)

The notes on pages 14 to 38 are an integral part of these financial statements

Statement of total recognised gains and losses for the year ended 31 December 2012

	Note	2012 £'000	2011 £'000
Profit for the financial year		3,777	768
Actuarial loss on pension obligation	17	(28)	(80)
Deferred tax on actuarial loss	17	6	20
Net loss not recognised in Profit and loss account		(22)	(60)
Total recognised gains and losses relating to the year		3,755	708

Cumulative actuarial losses on the pension scheme recognised directly in the statement of total recognised gains and losses amount to £1,424,000 (2011· £1,396,000).

Balance sheet
as at 31 December 2012

	Note	2012 £'000	2011 £'000
Current assets			
Tangible assets held for sale	8	-	853
Stocks	10	-	4,194
Debtors	11	10,506	2,405
Deferred tax asset	14	489	212
Cash at bank and in hand		-	815
		10,995	8,479
Creditors: amounts falling due within one year			
Bank and other borrowings	13	237	500
Creditors	12	912	1,943
		1,149	2,443
Net current assets		9,846	6,036
Net assets excluding pension liability		9,846	6,036
Pension liability	17	841	794
Net assets including pension liability		9,005	5,242
Capital and reserves			
Ordinary shares	15	50	50
Share option recharge reserve		(9)	(17)
Profit and loss reserve		8,964	5,209
Total shareholders' funds		9,005	5,242

The financial statements of Novartis Animal Vaccines Limited (registered no 1461388) and notes on pages 14 to 38 were approved by the Board of Directors on 11/09/ 2013 and were signed on its behalf by:

S Kapadia

Director

Reconciliation of movements in shareholders' funds

	Ordinary shares £'000	Share option recharge £'000	Profit and loss reserve £'000	Total £'000
At 1 January 2011	50	(38)	4,501	4,513
Profit for the financial year	-	-	768	768
Actuarial loss on pension scheme	-	-	(80)	(80)
Deferred tax on actuarial loss on pension scheme	-	-	20	20
Share options	-	21	-	21
Total	-	21	708	729
At 1 January 2012	50	(17)	5,209	5,242
Profit for the financial year	-	-	3,777	3,777
Actuarial loss on pension scheme	-	-	(28)	(28)
Deferred tax on actuarial loss on pension scheme	-	-	6	6
Share options	-	8	-	8
At 31 December 2012	50	(9)	8,964	9,005

The share option reserve represents shares and options purchased on behalf of qualifying employees, from either the open market or the ultimate parent company, which are still to vest in future years. The share options granted are expensed to the profit and loss account over the vesting period of the options with the corresponding amount being credited to the share option reserve Any recharges made by the parent company in respect of options are debited directly to the share option reserve.

Notes to the financial statements for the year ended 31 December 2012

1 Principal accounting policies

The principal accounting policies adopted 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 As stated in the Directors' report, during 2012 as a result of the divestment of the Braintree manufacturing facility to a third party and the granting of a license to another Novartis group company to sell the Company's products, the Company continues to trade and therefore these financial statements are prepared on a going concern basis. (2011 – "break up basis" - It was foreseen at the time of the divestment in 2012 that the Company was going to cease trading activities and therefore the financial statements were prepared on a "break up" basis as foreseen by IAS 10 paragraph 14).

Basis of preparation

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) and the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS

The Company is a qualifying entity for the purposes of FRS 101. Note 20 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 1 January 2011 The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

FRS 101 sets out amendments to EU – adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. The impact of these amendments to the Company's previously adopted accounting policies in accordance with EU – adopted IFRS was not material on the shareholders' equity as at the date of transition and as at 31 December 2011 and on the profit or loss for the year ended 31 December 2011.

Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies (continued)

Basis of preparation (continued)

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows·

- Statement of cash flows
- Capital risk management
- Related party transactions
- Accounting policies issued but not yet effective
- Reduced disclosures in relation to share options

The financial statements have been prepared under the historical cost convention. A summary of the more important accounting policies is set out below
The preparation of financial statements in conformity with FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of turnovers and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting policies of the Company pertain primarily to pensions and investments which are described in further detail below.

New and amended standards adopted by the Company:

FRS101 *Reduced Disclosure Framework* has been early adopted and the standard has been applied for the first time for the financial year beginning 1 January 2012

Going concern basis

The financial statements have been prepared on a going concern basis. As stated in note 1 above and in the Directors' report, in 2012 following the divestment of the manufacturing facilities at Braintree on 31 August 2012, it was foreseen that trading activities would cease and therefore the 2011 financial statements were prepared on a "break up" basis. Following the approval of the 2011 financial statements, a decision was made by the Directors to grant a license to another Novartis group company to sell the Company's products and therefore the Company will continue to earn a royalty income for the foreseeable future. For this reason, the basis of preparation of these financial statements is now on a going concern basis.

Notes to the financial statements for the year ended 31 December 2012 (continued)

Turnover

Turnover represents amounts received or receivable for the production and distribution of animal health products invoiced to the UK and overseas, net of trade discounts, value added tax and other related taxes. All turnover is recognised at the date of delivery and client acceptance. All turnover is recognised after netting off discounts and rebates
profit and loss account

Research and development

Research and development costs are written off to the profit and loss account in the year in which they are incurred unless the development project meets the recognition criteria specified in IAS 38 in which case these costs are capitalised.

Tangible assets

All tangible assets are carried at historical purchase cost less accumulated depreciation and impairment losses. Depreciation is calculated so as to write off the cost less estimated residual value of other assets on a straight line basis over the expected useful economic lives, commencing when the assets are first brought into use The principal annual rates used for this purpose are:

Leasehold land and buildings	period of the lease
Plant and machinery	7 to 10 years
Fixtures and fittings	5 to 10 years

The residual values and the remaining useful economic lives are reviewed on an annual basis

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Intangible Assets

Acquired intangible assets are carried at historical purchase cost less accumulated amortisation. Acquired intangibles are amortised over the period of their estimated useful life.

Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies (continued)

Stock

Stock and work in progress are valued at the lower of cost and net realisable value on a first in first out basis

Costs include expenditure which is incurred in the normal course of business in bringing the product to its present location and condition and a due proportion of overhead expenses. Net realisable value is the estimated selling price less all further costs to completion and estimated selling costs

Provision is made for obsolescent, slow moving and defective stock. The charge is taken through cost of sales.

Debtors

Debtors are recognised initially at fair value less provision for impairment A provision for impairment of debtors is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the debtors Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade debtor is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit and loss account within 'selling and marketing costs'.

When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the profit and loss account.

Leases

Costs in respect of operating leases, that is, those where risks and rewards of ownership remain with the lessor, are charged on a straight line basis over the term of the lease in arriving at the operating profit for the year.

Cash at bank and in hand

Cash at bank and in hand comprise deposits with banks and bank and cash balances. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies (continued)

Pension costs

The Company contributes to the group defined benefit pension scheme and defined contribution schemes which are operated by Novartis UK Limited.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for any actuarial gains or losses and unrecognised past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

The Company recognises in full, in accordance with IAS 19, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions as they arise outside of the profit and loss account, these being presented in the statement of total recognised gains and losses, with the exception of gains and losses arising from changes in the benefits relating to past services, which are recognised in the profit and loss account.

Past service costs are recognised immediately in the profit and loss account unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time. In this case, the past service costs are amortised on a straight line basis over the vesting period

The contributions to defined contribution plans are recognised as an expense as the costs are incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available, and accrued amounts are recognised as a liability.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies (continued)

Borrowings

Borrowings are recognised at fair value, net of transaction costs and classified as current liabilities if they are due within less than one year or on demand. Costs of borrowing are expensed directly in the profit and loss account

Current taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation

Provision is made for deferred tax liabilities and assets, using full provision accounting, otherwise known as the incremental liability method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future in accordance with IAS 12.

A net deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Share-based payments

The senior management share plans (further details of which are set out in note 16) are accounted for as equity-settled The fair value is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the estimate of shares and options that will eventually vest with a corresponding credit recorded in equity. In the case of options granted, fair value is measured by use of the trinomial model

In accordance with IFRS 2 the fair value of the equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the estimate of shares and options that will eventually vest. In the case of options granted, fair value is measured by use of the trinomial model.

The recharges, net of any attributable transaction costs, made by the parent company in respect of options granted are recorded as a debit to the share

Notes to the financial statements for the year ended 31 December 2012 (continued)

1 Principal accounting policies (continued)

Share-based payments (continued)

option reserve account. The share option reserve account is credited when the options are exercised

Foreign currencies

Foreign currency transactions during the year are translated into sterling at the rates of exchange in force at the time they arise Both the functional and presentational currency is sterling.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Translation differences are taken to the profit and loss account.

2 Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual related results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are addressed below:

Going concern

The impact of the decision in 2012 to divest of the Braintree manufacturing facility, the granting of a license to sell the Company's products and continue to trade has been stated in the Directors' report and note 1. Therefore as stated in note 1, these accounts have been prepared on a going concern basis. (2011 – "break up" basis as stated in note 1)

Pensions

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

Novartis Animal Vaccines Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Critical accounting estimates and judgements

Pensions (continued)

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high quality (AA rated) bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability

Other key assumptions for pension obligations are based in part on current market conditions; additional information is disclosed in note 17.

3 Turnover

The Directors consider that the operations of the Company fell into one business class, being the production and distribution of animal health products, and provision of services, being toll manufacturing, of animal health products.

The analysis of turnover by geographical destination is as follows.

	2012 £'000	2011 £'000
United Kingdom	2,621	3,131
Continental Europe	5,148	7,079
Other	1,971	3,128
Total turnover	9,740	13,338

Notes to the financial statements for the year ended 31 December 2012 (continued)

4 Operating profit

	2012 £'000	2011 £'000
The following items have been charged/(credited) in arriving at operating profit:		
Employee benefit expenses (note 16)	1,267	1,957
Depreciation of tangible assets	-	145
Loss on disposal of tangible assets	-	13
Research and development income	-	(101)
Operating lease rentals payable		
- others	18	20
- buildings	43	84
Hire of plant and equipment	20	20
Exchange losses	95	366
Services provided by the Company's auditors		
- fees payable for the audit	16	13

5 Profit on disposal of operations

As a result of the divestment of its manufacturing facilities at 31 August 2012, the Company disposed of all tangible assets and inventory. This activity has generated a profit on disposal of operations of £3,055,000 (2011 - £nil).

6 Interest payable and similar charges and Interest receivable and similar income

	2012 £'000	2011 £'000
Interest payable and similar charges:		
Interest payable on bank overdraft and loans	(42)	(43)
Interest payable on inter-company loan	(9)	(46)
	(51)	(89)
Interest receivable and similar income.		
Interest on bank deposits	1	29
Net interest payable	(50)	(60)

Notes to the financial statements for the year ended 31 December 2012 (continued)

7 Tax on profit on ordinary activities

Analysis of charge in the year	2012 £'000	2011 £'000
Current tax – continuing operations		
- UK corporation tax on profits / (losses) of the year	379	336
- Adjustments in respect of prior years	(30)	(80)
Total current tax	**349**	256
Deferred tax		
Origination and reversal of temporary differences (accelerated capital allowances and other)	(305)	(49)
Adjustments in respect of prior years	34	28
Total tax charge for the year	78	235

Tax on items charged to equity	2012 £'000	2011 £'000
Deferred tax credit on actuarial loss (note 17)	(6)	(20)

The tax assessed for the year has been calculated at the standard rate of corporation tax in the UK 24.5% (2011· 26 5%).

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	3,855	1,003
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 24 5% (2011:26.5%)	945	266
Effects of:		
Expenses not deductible for tax purposes	5	6
Profit on sale of business eliminated by group capital losses	(915)	-
Effects of rate changes	39	15
Adjustments in respect of prior years – deferred tax	34	28
Adjustments in respect of prior years – current tax	(30)	(80)
Tax charge for the year	78	235

Notes to the financial statements for the year ended 31 December 2012 (continued)

7 Tax on profit on ordinary activities (continued)

Factors that may affect future tax charge:

The Finance Act 2012, which provides for a reduction in the main rate of UK corporation tax to 23% effective from 1 April 2013, was enacted on 17 July 2012. As this rate was substantively enacted prior to 31 December 2012, it has been reflected in the deferred tax asset at 31 December 2012

The UK Government has also indicated that it intends to enact further reductions in the main tax rate to 21% from 1 April 2014 and 20% from 1 April 2015. These changes to the main tax rate have not been substantively enacted at the Balance Sheet date, and, therefore, are not included in these financial statements.

8 Tangible assets held for sale

	Leasehold land and buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2012	771	2,549	85	3,405
Additions at cost	-	93	-	93
Disposals	(771)	(2,642)	(85)	(3,498)
At 31 December 2012	-	-	-	-
Accumulated depreciation				
At 1 January 2012	419	2,062	71	2,552
Charge for the year	-	-	-	-
Disposals	(419)	(2,062)	(71)	(2,552)
At 31 December 2012	-	-	-	-
Net book value				
31 December 2012	-	-	-	-
31 December 2011	352	487	14	853

Notes to the financial statements for the year ended 31 December 2012 (continued)

9 Intangible assets

	2012 £'000	2011 £'000
Cost		
At 1 January	1,818	1,818
At 31 December	**1,818**	**1,818**
Amortisation		
At 1 January	1,818	1,818
At 31 December	**1,818**	**1,818**
Net book value		
31 December	-	-

10 Stocks

	2012 £'000	2011 £'000
Materials and consumables	-	391
Work in progress	-	3,353
Finished goods	-	2,504
Valuation provision	-	(2,054)
Total stocks	-	4,194

The Company consumed stocks £1,861,000 (2011· consumed £3,611,000) during the year. The inventory at 31 August 2012 was sold to another Novartis group company and a third party company at cost.

The Company reversed amounts totalling £83,000 (2011: £841,000) being part of the stock write down provision, which was no longer required due to transfer of stock to a third party (2011 – due to changes in market conditions and sales levels)

Notes to the financial statements for the year ended 31 December 2012 (continued)

11 Debtors

Amounts falling due within one year.	2012 £'000	2011 £'000
Trade debtors	31	1,105
Less: provision for impairment of debtors	-	-
Trade debtors – net	31	1,105
Amounts owed by fellow group undertakings	9,427	435
Value added tax	-	558
Prepayments and other assets	1,048	307
Total debtors	10,506	2,405

Concentrations of credit risk with respect to trade debtors are limited due to the Company's customer base being large and unrelated Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful debtors All trade and other debtors are stated at book value which approximates to their fair values

The carrying amounts of the Company's trade debtors are denominated in the following currencies

	2012 £'000	2011 £'000
Pounds	31	247
Euros	-	2
Danish Krona	-	84
Norwegian Krona	-	772
US Dollars	-	-
Trade debtors	31	1,105

Notes to the financial statements for the year ended 31 December 2012 (continued)

12 Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	-	188
Amounts owed to fellow group undertakings	-	320
Current tax liabilities	380	336
Social security and other taxes	9	54
Accruals and deferred income	523	1,045
Total creditors	912	1,943

Trade and other creditors are stated at book value which approximates to their fair value. No security has been given by the Company in respect of the creditors detailed above. The Company has standard payment terms for trade suppliers of settlement of account by last day of the following month. These payment terms are on all purchase orders raised by the Company and there are no material trade suppliers subject to different terms

The note above analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.

13 Bank and other borrowings

Current Amounts falling due within one year.	2012 £'000	2011 £'000
Bank overdrafts	237	-
Unsecured loan from group undertakings	-	500
Total borrowings	237	500

The Company is party to a composite cross guarantee in relation to the bank overdrafts, as referred to in note 19 The overdrafts are held with HSBC and bear interest at the HSBC base rate plus 1%. Loans from group undertakings in 2012 consisted of an interest bearing loan with a fellow subsidiary of £nil (2011: £500,000). This loan bears interest at the HSBC base rate plus 1% and has no fixed expiry date

Notes to the financial statements for the year ended 31 December 2012 (continued)

13 Bank and other borrowings (continued)

The effective interest rates at the balance sheet dates were as follows:

	2012	2011
Bank overdraft	1.5%	1.5%
Interest bearing loans from group undertakings	-	1 5%

The carrying amount of the Company's borrowing is denominated in pounds

The note above analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amount as the impact of discounting is not significant. The book value of the borrowings approximates to the fair value

14 Deferred tax asset

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior year. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 25%).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. As such, deferred tax assets and liabilities have been recognised at the rate of 23% (2011 25%).

Movement on deferred taxation balance in the year	2012 £'000	2011 £'000
At 1 January	212	171
Profit and loss account	271	21
Retained earnings – retirement benefit obligations	6	20
At 31 December	489	212

Notes to the financial statements for the year ended 31 December 2012 (continued)

14 Deferred tax asset (continued)

	2012 £'000	2011 £'000
Capital allowance in excess of depreciation	92	(60)
Retirement benefit obligations	207	203
Share based payments	190	69
Total deferred tax asset	489	212

	2012 £'000	2011 £'000
Deferred tax assets	489	272
Deferred tax liability	-	(60)
Net deferred tax asset	489	212

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2012 was £489,000 (2011· asset £212,000).

The Directors consider that it is more likely than not that there will be sufficient taxable profits in the future such as to realise the deferred tax asset, and therefore the asset has been recognised in these financial statements

15 Ordinary shares

Authorised	2012 shares	2012 £'000	2011 shares	2011 £'000
Ordinary shares of £1 each				
At 1 January	100,000	100	100,000	100
At 31 December	100,000	100	100,000	100

Issued and fully paid	2012 shares	2012 £'000	2011 shares	2011 £'000
Ordinary shares of £1 each				
At 1 January	50,000	50	50,000	50
At 31 December	50,000	50	50,000	50

Notes to the financial statements for the year ended 31 December 2012 (continued)

16 Employees and Directors

Employee benefit expenses during the year	2012 £'000	2011 £'000
Wages and salaries	1,031	1,620
Share based payments	10	36
Social security costs	115	115
Other pension costs (note 17)	111	186
Total	1,267	1,957

Average monthly number of people (including executive Directors) employed	2012 number	2011 number
Production	23	30
Administration and marketing	1	2
Total	24	32

The emoluments of all Directors are paid by Novartis Animal Health UK Limited and other Novartis AG group companies for their services in the Group and no recharge is made to the Company. It is not possible to make an accurate apportionment in respect of their services to the Company and other Novartis group companies and their remuneration is therefore not included in the above figures Their remuneration is disclosed in the respective accounts of the Novartis company from which they receive their remuneration.

No Director (2011: nil) who is remunerated in the UK exercised options and no Director (2011: nil) received shares under a long term incentive scheme in 2012

No Director (2011: none) is accruing benefits under the defined benefit scheme.

Employee Share Participation Plans

Employee and management share participation plans consist of both share option plans and share plans.

Senior management share plans

Under the current plan, tradable share options and restricted stock are granted annually as part of remuneration of executives and other employees, as selected

Notes to the financial statements for the year ended 31 December 2012 (continued)

16 Employees and Directors (continued)

Senior management share plans (continued)

by the Group Board's Compensation Committee. Both the option and restricted stock grants have a three year vesting period. Options must be exercised within 10 years from grant date Each option entitles the holder to acquire one Novartis AG share at the exercise price, being the market value of the shares on grant date.

General employee share plans

The Novartis Share Incentive Plan ("SIP") is an HMRC approved plan open to all UK permanent employees. Eligible employees may contribute up to £125 each month and the trustee of the plan uses the money to buy shares on their behalf. For every two shares purchased the Company purchases another matching share at market price on grant date. The shares received under this plan have a three year vesting period UK based Directors are eligible to participate in the SIP

The Incentive Conversion Plan provides incentive for certain employees where 10% of the annual bonus can be converted to shares. Shares received under the plan have a three year vesting period and are matched with one share for every two shares purchased at market price on grant date In 2012 employees received nil (2011 nil) shares under the scheme.

Movements in Novartis AG shares held in trust for employee participation were as follows:

	2012 Number of shares	2011 Number of shares
At 1 January	3,989	4,221
Shares bought	56	117
Shares distributed	(3,425)	(349)
At 31 December	620	3,989

The market value of the shares held in trust at year end was £24,081 (2011: £138,813)

Notes to the financial statements for the year ended 31 December 2012 (continued)

16 Employees and Directors (continued)

General employee share plans (continued)

There were no options granted to employees in 2012 (2011 –nil). The table bellow represents options outstanding and exerciseable.

	2012		2011	
	Number of Options	Weighted average exercise price CHF	Number of Options	Weighted average exercise price CHF
Options outstanding at 1 January	37,255	66.90	37,255	66 90
Outstanding at 31 December	37,255	66.90	37,255	66 90
Exercisable at 31 December	37,255	66.90	37,255	66.90
Fair value of options granted during the year in CHF		-		-

All options were granted at an exercise price which was equal to or greater than the market price of the group's shares at the grant date.

Novartis Animal Vaccines Limited

Notes to the financial statements for the year ended 31 December 2012 (continued)

16 Employees and Directors (continued)

General employee share plans (continued)

The following table summarises information about the share options outstanding at 31 December 2012

	Options outstanding			Options exercisable	
Range of exercise prices CHF	Number outstanding	Average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
50 – 59	9,083	1.56	57.45	9,083	57.45
60 – 69	7,986	5.00	64.05	7,986	64.05
70 – 79	20,186	3.71	72.27	20,186	72.27
Total	37,255	2.39	66 90	37,255	66.90

The weighted average exercise prices and the fair value of options granted are quoted in Swiss Francs (CHF), the currency of issue of such options in the ultimate parent company

17 Pension commitments

The Company participates in defined benefit and defined contribution pension schemes operated by Novartis UK Limited for its UK employees, with assets held in a separately administered fund. The defined benefit costs and contributions attributable to Novartis Animal Vaccines Limited are calculated on a pro-rata basis on employee numbers Towers Watson are the advising actuaries for the Company scheme All actuarial gains and losses are recognised through the statement of total recognised gains and losses, with the exception of gains and losses arising from changes in the benefits regarding past services, which are recognised in the profit and loss account.

In the defined benefit plan (final salary scheme), contributions over the year ended 31 December 2012 were paid by members at a rate of 4% (minimum) or 6% (voluntary) of pensionable pay per annum (2011: 4% (minimum) or 6% (voluntary)) and by the Company of 15% of pensionable pay per annum (2011: 15%).

Notes to the financial statements for the year ended 31 December 2012 (continued)

17 Pension commitments (continued)

Pension costs for defined contribution schemes are as follows:

	2012	2011
	£'000	£'000
Defined contribution schemes	73	27

Defined benefit plans

In calculating the liabilities of the defined benefit scheme, the following financial assumptions have been used.

	2012	2011	2010	2009	2008
Discount rate	4.75% pa	5.00% pa	5.75% pa	5 75% pa	6 25% pa
Salary growth	n/a[2]	4.20% pa	4.70% pa	4 80% pa	4 10% pa
RPI	3.10% pa	3.20% pa	3.70% pa	3 80% pa	3 10% pa
Pension-in payment increases	3.10% pa	3.20% pa	3.70% pa	3 80% pa	3 10% pa
Post retirement mortality assumption	S1NMA/ S1NFA	S1NMA/ S1NFA	S1NMA/ S1NFA	PNMA00/ PNFA00[1]	PNMA00/ PNFA00[1]
Expected return on assets	n/a[3]	6 10% pa	7 20% pa	7 50% pa	7 20% pa

[1] These are updated versions of the PA92 standard mortality tables to allow for more recent mortality experience The standard table has been projected forward in line with the medium cohort projection from 2000 onwards based on each member's year of birth.

[2] Following the closure of the scheme, pension payments are linked to RPI rather than salary growth and hence this measure is no longer applicable.

[3] Following the expected adoption of IAS 19R the return on assets will no longer be applicable with the discount rate being used to calculate interest income on plan assets

The expected return on plan assets is a blended average of projected long term returns for the various asset classes. Asset classes are based on the forward looking building block approach Equity returns are developed based on the selection of an equity risk premium above the risk free rate which is measured in accordance with the yield on government bonds Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the plan's holdings of these instruments.

Notes to the financial statements for the year ended 31 December 2012 (continued)

17 Pension commitments (continued)

Defined benefit plans (continued)

Under the current pension scheme rules, retiring employees are allowed to take up to a maximum of 25% of the value of their pension fund as a lump sum

The scheme valuation has assumed a 15% (2011: 15%) conversion rate since it is not expected that all employees will take the maximum cash lump sum The major categories of assets as a percentage of total plan assets are as follows·

Asset category	2012 £'000	2012 %	2011 £'000	2011 %
Equities and hedge funds	104	47%	84	47%
Bonds	80	37%	69	39%
Other	36	16%	26	14%
Total	220	100%	179	100%

The amounts recognised in the balance sheet are determined as follows:

	2012 £'000	2011 £'000
Fair value of plan assets	220	179
Present value of defined benefit obligation	(1,061)	(973)
Deficit	(841)	(794)

The amounts recognised in the profit and loss account are as follows:

	2012 £'000	2011 £'000
Current service cost	-	139
Interest cost	49	40
Expected return on plan assets	(11)	(7)
Curtailments	-	(13)
Total included within employee benefit expenses	38	159

The total charge is included in selling and marketing expenses and in administrative expenses

Notes to the financial statements for the year ended 31 December 2012 (continued)

17 Pension commitments (continued)

Defined benefit plans (continued)

Change in the defined benefit obligation:

	2012 £'000	2011 £'000
Present value of defined benefit obligation at start of year	973	697
Current service cost	-	139
Contributions by plan participants	-	44
Interest cost	49	40
Actuarial loss	39	66
Curtailments	-	(13)
Present value of defined benefit obligation at end of year	1,061	973

Change in plan assets:

	2012 £'000	2011 £'000
Fair value of plan assets at start of year	179	-
Expected return on plan assets	11	7
Actuarial gain / (loss) on plan assets	11	(14)
Employer contributions	19	142
Contributions by plan participants	-	44
Fair value of plan assets at end of year	220	179

Amount recognised in the statement of total recognised gains and losses:

	2012 £'000	2011 £'000
Actuarial loss on defined benefit obligation	39	66
Actuarial (gain) / loss on plan assets	(11)	14
Actuarial losses	28	80
Deferred tax on actuarial loss	(6)	(20)
Net actuarial losses recognised in the statement of total recognised gains and losses	22	60

Notes to the financial statements for the year ended 31 December 2012 (continued)

17 Pension commitments (continued)

Defined benefit plans (continued)

The history of experience (losses) / gains:

	2012	2011	2010	2009	2008
Experience (loss) / gain on plan assets (£'000)	(11)	(14)	103	642	(1361)
Percentage of plan assets	5%	8%	-	10%	26%
Experience (loss) / gain on plan obligation (£'000)	(39)	(66)	48	(1,525)	(1,218)
Percentage of plan obligation	4%	7%	7%	21%	23%
Fair value of plan assets (£'000)	220	179	-	6,490	5,280
Present value of plan obligation (£'000)	1,061	973	697	7,325	5,290
Deficit (£'000)	(841)	(794)	(697)	(835)	(10)

The Company expects to contribute £19,000 to the group pension scheme in 2013 (2012: £18,000).

18 Operating lease commitments – minimum lease payments

The Company has commitments under non-cancellable operating leases expiring

	2012 £'000	2011 £'000
Land and Buildings		
- within one year	-	32
- two to five years	-	58
- after five years	-	260
Other		
- within one year	-	-
Total	-	350

The lease agreements for plant and machinery had various terms, escalation clauses and renewal rights.

Notes to the financial statements for the year ended 31 December 2012 (continued)

19 Contingent liabilities

The Company is party to a composite cross-undertaking to its principal banker (HSBC plc) to secure the liabilities to the bank of its fellow UK group companies The contingent liability is limited to the net cash position of the Company's own bank account, to the extent that it is required to cover the total liabilities of the group companies who are party to the cross guarantee.

At 31 December 2012, the Company was in a net overdraft position having taken cleared funds into account and therefore no contingent liability existed (2011. £222,000 net cash position) The maximum potential liability for the total UK group is limited to the overdraft position of the UK companies bank accounts, calculated on cleared funds As at 31 December 2012 the overdraft position of the UK companies was £655,000 (2011. net deposit and cash position £75,231,000).

The total facility for the total UK group is a £6m overdraft facility (2011: £65million borrowing facility and £35m overdraft).

20 Ultimate parent undertakings and controlling party

Novartis AG, a company incorporated in Switzerland, is the Company's ultimate parent undertaking and controlling party. Copies of the group financial statements can be obtained from Novartis AG, Building S-210, CH-4002, Basel, Switzerland

Novartis AG is the parent undertaking of the largest and smallest group of which Novartis Animal Vaccines Limited is a member and for which group financial statements are drawn up.

Vericore Limited, incorporated in Great Britain, is the immediate parent undertaking of the smallest group of which Novartis Animal Vaccines Limited is a member.