Vericore Limited

Annual report
for the year ended 31 December 2011

Registered number: 3602306

Vericore Limited

Annual report
for the year ended 31 December 2011

Vericore Limited

Directors and advisers

Directors

S Webb
G W Gunn
G Hillier
S Kapadia

Company secretary

N Maxted

Registered office

Frimley Business Park
Frimley
Camberley
Surrey
GU16 7SR

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium
1 Harefield Road
Uxbridge
Middlesex
UB8 1EX

Vericore Limited

Directors' report
for the year ended 31 December 2011

The Directors present their annual report and the audited financial statements of the Company for the year ended 31 December 2011. These financial statements are prepared under EU adopted International Financial Reporting Standards ("IFRS").

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The Novartis group has indicated its willingness to support the Company for at least 12 months after the date of signing these financial statements.

Principal activity

The principal activity of the Company is to produce and distribute animal health pharmaceuticals The vast majority of the Company's products are manufactured at its Dundee site The customer base is made up of both third party customers and inter-company affiliates.

The Company is a private 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

Review of business

Sales have increased 21% versus 2010 mainly due to an increased demand for Denegard, as well as an expanding market for Clik. Gross margin percent has increased and operational costs have decreased, resulting in an operating profit before finance costs £303,000 (2010. Operating loss £614,000). The net loss tax for the year was £58,000 (2010: Net loss £783,000)

Business environment

The Company's environment is driven by the UK animal health market which continues to grow in line with recent years.

Strategy

The Company is a core European manufacturing site of the Novartis group for animal pharmaceutical solutions. The strategy is to maintain efficient operations and ensure high customer satisfaction both internally and externally.

Future outlook

The site is undergoing a redevelopment project to upgrade the facilities due to general age and condition. While still in good working order, getting replacement parts is starting to get more difficult and with vessels over 30 years old they are starting to show signs of wear and tear. The site is utilizing the empty space created by the cessation of sterile supply to build an upgraded facility without impacting ability to manufacture in the existing area. The key benefits of the new area will be larger manufacturing vessels (double in batch size), upgraded filling equipment which is faster and geared towards the changing needs of the business and will enhance adherence to the new quality manual.

Principal risks and uncertainties

More recently the Company has seen other industries facing financial uncertainty with the economic downturn. The Directors do not anticipate this downturn will have a significant impact on the business due to the industry in which the Company operates. The Company continues to face strong competition from both generic and branded pharmaceuticals However, the strong performance of our key brands and the pipeline of new products ensure that the Company has a strong platform moving forward into 2012.

Financial & capital risk management

Refer to note 3 for details of the applicable financial and capital risks and the measures in place to manage these risks

Dividends

No dividends were paid in the year. (2010: £nil)

Key performance indicators ("KPIs")

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

Directors' report
for the year ended 31 December 2011 (continued)

Key performance indicators ("KPIs") (continued)

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

	2011	2010	
Growth / (decline) in revenue (%)	21	(15)	Increase in 2011 sales due to increased demand for Denegard and an expanding market for Clik.
Gross margin (%)	6.4	2 7	Increase in gross margin was driven by higher volume leading to gains on overhead recovery and production variances.
Selling and admin (£'000)	696	964	Focus on expense reduction and lower provisions for property dilapidations and property maintenance.

Directors

The Directors who held office during the year and up to the signing of the financial statements were as follows:

S Webb	
T Jose	(resigned 6th March 2012)
G W Gunn	
M Collinson	(resigned 5th April 2011)
G Hillier	(appointed 5th April 2011)
S Kapadia	(appointed 6th March 2012)

Research and development

The Company devotes resources to research and development aimed at new products, registrations and markets After recharges to group companies this amounted to nil for the current year (2010: £nil).

Properties

The Directors are of the opinion that the current market value of the Company's properties is not significantly different from the amount at which they are included in the balance sheet.

Vericore Limited

Directors' report
for the year ended 31 December 2011 (continued)

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 arranges for the appropriate training of, employees who become disabled persons whilst employed by the Company. Disabled employees are treated no differently 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 2011 to encourage employee involvement in the Company's performance. The share scheme relates to shares in Novartis AG, the ultimate parent company of Vericore Limited.

Creditors

The Company does not follow a universal code which deals specifically with payments to suppliers but, where appropriate, the Company's practice is to:

- agree the terms of payment at the start of business with the supplier;
- ensure that those suppliers are made aware of the terms of payment,
- pay in accordance with its contractual and other legal obligations.

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

Directors' report
for the year ended 31 December 2011 (continued)

Statement of Directors' responsibilities (continued)

statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' report
for the year ended 31 December 2011 (continued)

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: 11/09/12

Independent auditors' report to the members of Vericore Limited

We have audited the financial statements of Vericore Limited for the year ended 31 December 2011 which comprise the Income statement, the Statement of comprehensive income, the Balance sheet, the Statement of changes in equity, the Cash flow statement and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' responsibilities 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 Directors 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 2011 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006

Independent auditors' report to the members of Vericore Limited (continued)

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
Uxbridge

Date: 12 September 2012

Vericore Limited

Income statement
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Revenue	4	15,569	12,824
Cost of sales		(14,570)	(12,474)
Gross profit		999	350
Selling and marketing costs		-	(89)
Administrative expenses		(696)	(875)
Operating profit / (loss)	5	303	(614)
Finance costs	6	(402)	(401)
Loss before tax		(99)	(1,015)
Income tax credit	7	41	232
Loss for the year		(58)	(783)

All of the results in 2011 and 2010 relate to those of continuing operations.

The notes on pages 16 to 47 are an integral part of these financial statements.

Vericore Limited

Statement of comprehensive income for the year ended 31 December 2011

For the year ended 31 December	Note	2011 £'000	2010 £'000
Loss for the year		(58)	(783)
Other comprehensive income			
Actuarial (loss) / gain on pension obligation	19	(1,072)	915
Deferred tax on actuarial (loss) / gain	19	268	(300)
Other comprehensive (expense) / income for the year, net of tax		(804)	615
Total comprehensive expense for the year		(862)	(168)

Cumulative actuarial losses on the pension scheme amount to £5,422,000 (2010: £4,350,000), recognised directly in the statement of comprehensive income.

The notes on pages 16 to 47 are an integral part of these financial statements.

Vericore Limited

Balance sheet
as at 31 December 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Property, plant and equipment	8	2,150	2,072
Intangible assets	9	9,978	9,978
Investments	10	-	-
Deferred tax asset	15	649	640
		12,777	12,690
Current assets			
Inventories	11	4,202	4,619
Trade and other receivables	12	2,702	1,478
Cash and cash equivalents	24	-	901
		6,904	6,998
Total assets		19,681	19,688
Current liabilities			
Financial liabilities: borrowings	14	27,127	26,890
Trade and other payables	13	2,702	2,953
Provisions for other liabilities and charges	16	130	120
		29,959	29,963
Net current liabilities		(23,055)	(22,965)
Non-current liabilities			
Retirement benefit liability	19	2,457	1,560
Provisions for other liabilities and charges	16	779	842
		3,236	2,402
Net liabilities		(13,514)	(12,677)
Capital and reserves attributable to the owners of the Company			
Ordinary shares	17	-	-
Share option recharge	18	(25)	(50)
Retained losses		(13,489)	(12,627)
Total equity		(13,514)	(12,677)

The financial statements and notes of Vericore Limited (registered no. 3602306) on pages 16 to 47 were approved by the Board of Directors on 11th September 2012 and were signed on its behalf by:

S Kapadia
Director

Vericore Limited

Statement of changes in equity for the year ended 31 December 2011

	Ordinary shares £'000	Share option recharge £'000	Retained earnings £'000	Total £'000
At 1 January 2010	-	(21)	(12,459)	(12,480)
Loss for the financial year	-	-	(783)	(783)
Actuarial gain on pension scheme	-	-	915	915
Deferred tax on actuarial gain on pension scheme	-	-	(300)	(300)
Share options	-	(29)	-	(29)
Total	-	(29)	(168)	(197)
At 1 January 2011	-	(50)	(12,627)	(12,677)
Loss for the financial year	-	-	(58)	(58)
Actuarial loss on pension scheme	-	-	(1,072)	(1,072)
Deferred tax on actuarial loss on pension scheme	-	-	268	268
Share options	-	25	-	25
Total	-	25	(862)	(837)
At 31 December 2011	-	(25)	(13,489)	(13,514)

The share option recharge 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.

Vericore Limited

Cash flow statement
for the year ended 31 December 2011

	Note	2011 £'000	2010 £'000
Cash used in operating activities			
Cash (used in) / generated from operations	24	(801)	821
Share based payments		(18)	(15)
Interest paid	6	(402)	(401)
Net tax received		521	148
Net cash (used in) /generated from operating activities		(700)	553
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		15	-
Purchase of property, plant and equipment		(418)	(400)
Net cash used in investing activities		(403)	(400)
Cash flows from financing activities			
Net proceeds from issue of new borrowings		167	130
Net cash generated from financing activities		167	130
Effects of exchange rate changes		(35)	(61)
Net (decrease) / increase in cash and cash equivalents		(971)	222
Cash, bank overdrafts and cash equivalents at 1 January	24	901	679
Cash, bank overdrafts and cash equivalents at 31 December	24	(70)	901

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. These financial statements were prepared on a going concern basis.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union (EU), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. 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 IFRS 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 revenues 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 estimates for the Company are described in further detail below.

(a) New and amended standards adopted by the Company:

There were no applicable new standards and amendments to standards applied for the first time for the financial year beginning 1 January 2011.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted with possible significance for the Company:

In 2009, 2010 and 2011, IFRS 9 Financial Instruments was issued which will substantially change the classification and measurement of financial instruments, hedging requirements and the recognition of certain fair value changes in the financial statements. Currently, only new requirements on the classification and measurement for financial assets and financial liabilities have been issued. The mandatory effective date for requirements issued as part of IFRS 9 will be on or after January 1, 2015. Early application of the requirements is permitted.

In 2011, IAS 19 revised on Employee Benefits was issued, for adoption by January 1, 2013. The principal impact for the Company will be that the

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Principal accounting policies (continued)

Basis of preparation (continued)

concepts of expected return on plan assets and interest expense on the defined benefit obligation as separate components of defined benefit cost will be replaced by a concept that interest will be calculated on the net of the defined benefit obligation and funded post-employment obligation assets generally using an interest rate reflecting market yields of high quality corporate bonds in deep markets. The Company will retrospectively adopt the standard on January 1, 2013.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted:

IFRS 10, Consolidated Financial Statements, effective for annual periods beginning on or after January 1, 2013

IFRS 11, Joint Arrangements, effective for annual periods beginning on or after January 1, 2013

IFRS 12, Disclosures of interests in other entities, effective for annual periods beginning on or after January 1, 2013

IFRS 13, Fair value measurement, effective for annual periods beginning on or after January 1, 2013

Amendment to IAS 1, Presentation of items of other comprehensive income, effective for annual periods beginning on or after July 1, 2012

Although the Directors are still completing their evaluation of these new standards, apart from where indicated, they do not currently consider that the other new standards will have a significant impact.

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Company will continue in operational existence for the foreseeable future. The Novartis group has indicated its willingness to support the Company for at least 12 months after the date of signing these financial statements.

1 Principal accounting policies (continued)

Revenue recognition

Revenue represents amounts received or receivable for goods and services invoiced to the UK and overseas net of value added tax and other related taxes. All revenue is recognised at the date of delivery and customer acceptance. All revenue is recognised after the netting off of discounts and rebates.

Research and development

Research and development expenditure incurred on behalf of Novartis AG, the ultimate parent company in Switzerland, is written off to the income statement in the year in which it is incurred unless the development project meets the recognition criteria specified in IAS 38 in which case these costs are capitalised. This expenditure is recovered from the ultimate parent company and recorded in the income statement within administrative expenses

Property, plant and equipment

All property, plant and equipment is carried at historic purchase cost less accumulated depreciation and impairment losses. No provision is made for depreciation on freehold land. 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	shorter of economic life or period of the lease
Plant and equipment	4 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 by the management.

Management tests assets 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.

Goodwill

Goodwill is measured at acquisition date as the residual cost of acquisition after recognising the identifiable assets, liabilities and contingent liabilities. Goodwill

1 Principal accounting policies (continued)

Goodwill (continued)

is carried as an intangible asset at cost less any accumulated impairment losses. Impairment testing is carried out by management annually by discounting pre-tax cashflows at a pre-tax discount rate.

Inventories

Inventory 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 inventory.

Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables 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 receivables. 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 receivable 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 income statement within 'selling and marketing costs'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

1 Principal accounting policies (continued)

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

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

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks and bank and cash balances. For the purpose of the cash flow statement cash and cash equivalents include bank overdrafts In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

Employee benefit costs

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

The liability (2010: liability) recognised in the balance sheet in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the balance sheet date, 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 income statement, these being presented in the statement of comprehensive income, with the exception of gains and losses arising from changes in the benefits relating to past services, which are recognised in the income statement

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Principal accounting policies (continued)

Employee benefit costs (continued)

Past service costs are recognised immediately in the income statement 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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date

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 as recoverable and therefore 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.

Current tax

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

Notes to the financial statements for the year ended 31 December 2011 (continued)

1 Principal accounting policies (continued)

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 income statement.

Trade payables

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

Investments

Investments are stated at cost unless, in the opinion of the Directors, a permanent diminution in the value of the investment has occurred In these circumstances the investment is stated at its written down value which is calculated by discounting pre-tax future cashflows at a pre-tax discount rate and the related impairment is charged to the income statement. Directors perform an impairment review annually.

Provisions for other liabilities and charges

Provisions, in particular for restructuring costs and leasehold restorations, are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation The increase in the provision due to the passage of time is recognised as interest expense.

Related party disclosures

The Company is a wholly owned subsidiary of Novartis Animal Health UK Limited which itself is a wholly owned subsidiary of Novartis AG, a company incorporated in Switzerland. The ultimate parent company is Novartis AG, a company incorporated in Switzerland. All intra group and other related party disclosure as required under IAS 24 is included in note 23.

1 Principal accounting policies (continued)

Consolidation

The Company adopts the intermediate parent exemption under IAS 27 and section 400 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statements where the ultimate parent company prepares consolidated financial statements in accordance with IFRS and they are made available to the public.

Share-based payments

The senior management share plans (further details of which are set out in note 18) 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.

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

2 Critical accounting estimates and assumptions

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:

a) 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

Notes to the financial statements for the year ended 31 December 2011 (continued)

2 Critical accounting estimates and assumptions (continued)

Any changes in these assumptions will impact the carrying amount of pension obligations.

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 19

b) Goodwill

The Company tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated above. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates in relation to the future profitability and future cash flows from operations.

3 Financial risk management

Principal risks and uncertainties

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks· currency risk, price risk, credit risk and liquidity risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the Company's financial performance.

The Company is exposed to market risk, primarily related to foreign currency exchange rates, interest rates and the market value of investments of liquid funds.

Novartis UK Limited, a fellow subsidiary company in the UK, actively monitors these exposures on behalf of the Company and manages the volatility relating to these exposures, by entering into a variety of derivative financial instruments, as required.

Notes to the financial statements for the year ended 31 December 2011 (continued)

3 Financial risk management (continued)

Principal risks and uncertainties (continued)

a) Market Risk

(i) Foreign exchange risk

The Company has limited foreign exchange risk due to invoicing a vast majority of sales in sterling. All inventory purchased from fellow group undertakings is also invoiced in sterling. Foreign denominated cash balances are managed by Novartis UK Limited to limit exchange rate exposure on cash balances. Novartis UK Limited enters into various contracts that reflect the changes in value of foreign currency exchange rates to preserve the value of assets, commitments and anticipated transactions. Novartis UK Limited also uses forward contracts and foreign currency option contracts to hedge certain anticipated net revenues in foreign currencies

As at 31 December 2011 and 2010, there would be no material impact, with all other variables held constant, on the Company of movements of 10% of foreign currency denominated cash balances. A 10% fluctuation of EUR/GBP exchange rates would not have had a material impact on the Company's Balance Sheet as at 31 December 2011 and 2010

ii) Price risk

The Company holds no assets or receivables that vary with market price change other than the retirement benefit obligations which are managed by the Trustees with the key assumptions set out in note 19

iii) Interest rate risk

The Company's interest rate risk arises only from borrowings from the related parties. Novartis UK Limited manages the interest rate risk profile of the Company. The Company has no significant interest-bearing assets.

Novartis UK Limited addresses its net exposure to interest rate risk mainly through the proportion of fixed rate financial debt and variable rate financial debt ratio in its total debt portfolio. To manage this mix, Novartis UK Limited may enter into interest rate swap agreements, in which it exchanges periodic payments based on a notional amount and agreed upon fixed and variable interest rates.

3 Financial risk management (continued)

Principal risks and uncertainties (continued)

b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to wholesale customers and distributors in respect of outstanding receivables. To manage the risk the Company periodically assesses the financial reliability of customers, taking into account their past financial track record, their market potential, their management and their competitors.

Please refer to note 12 for details of the credit risk policy in relation to trade receivables and the credit quality of these assets The Company is also exposed to credit risks in the form of cross guarantees it is party to in relation to fellow UK Group companies. See note 21 for further details of this arrangement. There are no other material risks identified in relation to credit risk.

The credit rating of HSBC, the Company's principal banker, is AA (2010. AA) as per Standard & Poor's rating guide.

c) Liquidity risk

The Company's liquidity is managed by Novartis UK Limited by adjusting inter-company loan balances in line with cash-flow requirements of the Company, monitored on a regular basis. An analysis of borrowings, applicable interest rates and repayment dates are given in note 14.

3.2 Capital risk management

The Company manages cash and cash equivalents as capital The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is a wholly owned subsidiary of Novartis Animal Health UK Limited, and its borrowing is managed by Novartis UK Limited.

4 Revenue

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

Notes to the financial statements for the year ended 31 December 2011 (continued)

4 Revenue (continued)

The analysis of revenue by geographical destination is as follows:

	2011 £'000	2010 £'000
United Kingdom	10,767	9,880
Continental Europe	4,677	2,735
Other	125	209
	15,569	12,824

5 Operating profit / (loss)

	2011 £'000	2010 £'000
The following items have been charged / (credited) in arriving at operating profit / (loss):		
Employee benefit expenses (note 18)	3,391	2,871
Depreciation of property, plant and equipment	336	281
(Gain) / loss on disposal/write down of property, plant and equipment	(11)	148
Operating lease rentals payable		
- plant and machinery	87	57
- other	622	622
Operating lease rental receivable	(314)	(314)
Exchange losses	35	56
Services provided by the Company's auditors		
- fees payable for the audit	2	2

6 Finance costs

	2011 £'000	2010 £'000
Finance expense:		
Interest payable on bank overdraft and loans	(10)	(8)
Interest payable on loan from group undertakings	(392)	(393)
Finance costs	(402)	(401)

Notes to the financial statements for the year ended 31 December 2011 (continued)

7 Income tax credit

Analysis of credit in the year	**2011** £'000	2010 £'000
Current tax - continuing operations		
- UK corporation tax credit on losses for the year	136	359
- Adjustment in respect of prior year	164	74
Total current tax	300	433
Deferred tax (note 15)		
Origination and reversal of temporary differences (accelerated capital allowances and other)	(160)	(132)
Adjustment in respect of prior years	(99)	(69)
Tax credit for the year	41	232

Tax on items charged to equity	**2011** £'000	2010 £'000
Deferred tax on actuarial (loss) / gain	(268)	300

The tax assessed for the year has been calculated at the standard rate of corporation tax in the UK 26.5% (2010: 28%). The credit for the year can be reconciled to the loss per the income statement as follows·

	2011 £'000	2010 £'000
Loss before tax	(99)	(1,015)
Loss before tax multiplied by rate of corporation tax in the UK of 26.5% (2010: 28%)	(26)	(284)
Effects of·		
Expenses not deductible for tax purposes	17	33
Rate changes	33	24
Adjustments in respect of prior years – deferred tax	99	69
Adjustments in respect of prior years – income tax	(164)	(74)
Tax credit for the year	(41)	(232)

Vericore Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

7 Income tax credit (continued)

Factors that may affect future tax charge·

During the year, as a result of the changes in the UK main corporation tax rate to 26% that was substantively enacted on 29 March 2011 that was effective from 1 April 2011, and to 25% that was substantively enacted on 5 July 2011 and was effective from 1 April 2012, the relevant deferred tax balances have been re-measured. Further reductions to the UK corporation tax rate were announced in the March 2011 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate by 1% per annum to 23% by 1 April 2016. The changes had not been substantively enacted at the balance sheet date and, therefore, are not recognised in these financial statements.

8 Property, plant and equipment

	Leasehold Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2011	570	3,495	474	4,539
Additions at cost	-	333	85	418
Disposals	-	(43)	-	(43)
At 31 December 2011	570	3,785	559	4,914
Accumulated depreciation				
At 1 January 2011	289	1,887	291	2,467
Charge for the year	48	250	38	336
Disposals	-	(39)	-	(39)
At 31 December 2011	337	2,098	329	2,764
Net book value				
31 December 2011	233	1,687	230	2,150
31 December 2010	281	1,608	183	2,072

Notes to the financial statements for the year ended 31 December 2011 (continued)

8 Property, plant and equipment (continued)

	Leasehold Land and buildings £'000	Plant and equipment £'000	Fixtures and fittings £'000	Total £'000
Cost				
At 1 January 2010	570	3,230	339	4,139
Additions at cost	-	265	135	400
At 31 December 2010	570	3,495	474	4,539
Accumulated depreciation				
At 1 January 2010	118	1,662	258	2,038
Charge for the year	23	225	33	281
Write down on assets	256	-	-	256
Disposals	(108)	-	-	(108)
At 31 December 2010	289	1,887	291	2,467
Net book value				
31 December 2010	**281**	**1,608**	**183**	**2,072**
31 December 2009	452	1,568	81	2,101

9 Intangible assets

Goodwill

	£'000
Cost	
At 1 January 2011 and 31 December 2011	9,978

Impairment analysis has been performed on the goodwill value shown above. There are no other intangible assets. The recoverable amount has been based on value in use, and cash flow projections have been made based on management's strategic plan for the business for the next five years. The five year strategic plan is based on recent business performance in addition to forecast business activity for the next five years, taking both anticipated modest sales revenue growth by product, and current market share into consideration. The terminal growth rate used for cash flow projections was 2% which is in line with the industry norm. The pre-tax discount rate used for cash flow projections was 7%.

Vericore Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

10 Investments

Shares in group undertakings

	2011 £'000	2010 £'000
Cost		
At 1 January	-	38
Impairment	-	(38)
At 31 December	-	-

The Company owns 100% of Novartis Animal Vaccines Limited, a company registered in England and Wales. The shares held within the subsidiary are ordinary shares only. The principal activity of the company is the manufacture and sale of animal vaccine products

11 Inventories

	2011 £'000	2010 £'000
Materials and consumables	3,575	3,796
Work in progress	347	261
Finished goods	380	763
Inventory provision	(100)	(201)
	4,202	4,619

The Company consumed £7,725,000 (2010· £11,182,000) of inventories during the year.

The Company reversed amounts totalling £151,000 (2010· £62,000) being part of the inventory write down provision, which were no longer required due to changes in market conditions

Notes to the financial statements for the year ended 31 December 2011 (continued)

12 Trade and other receivables

Amounts falling due within one year:	2011 £'000	2010 £'000
Trade receivables (financial asset)	116	106
Amounts owed by fellow group undertakings (financial asset)	598	854
Corporation tax receivable (non-financial asset)	136	358
Prepayments and other assets (non-financial asset)	1,851	160
	2,702	1,478

Concentrations of credit risk with respect to trade receivables are limited due to the Company's customer base being large and unrelated. Due to this, management believes there is no credit risk provision required.

All trade and other receivables are stated at book value which approximates to their fair value and are denominated in pounds sterling.

Trade receivables that are less than 90 days past due are generally not considered impaired unless specific circumstances indicate otherwise As of 31 December 2011, trade receivables of £ 30,000 (2010· £ 17,000) were past due but not impaired These relate to customers for whom there is no recent history of default.

The provision for impairment of trade receivables was £nil (2010 £nil) and there was no movement in the year. (2010 £nil).

None of the financial assets that are fully performing have been renegotiated in the last year.

Where customers are independently rated, these ratings are used to determine credit risk Otherwise, if there is no independent rating, credit control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management The utilisation of credit limits is regularly monitored.

Credit risks arise from the possibility that customers may not be able to settle their obligations as agreed To manage this risk the Company periodically assesses the financial reliability of customers, taking into account the financial position, past experience and other factors. Individual risk limits are set accordingly.

12 Trade and other receivables (continued)

The other classes of assets within trade and other receivables do not contain impaired assets

13 Trade and other payables - current

Amounts falling due within one year:	2011 £'000	2010 £'000
Trade payables (financial liability)	155	396
Amounts due to fellow group undertakings (financial liability)	1,435	1,444
Social security payable and other taxes (non-financial liability)	395	434
Accruals and deferred income (non-financial liability)	717	679
	2,702	2,953

Trade and other payables are stated at book value which approximates to their fair value No security has been given by the Company in respect of the payables detailed above.

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 balances as the impact of discounting is not significant.

14 Financial liabilities: borrowings

Current Amounts falling due within one year:	2011 £'000	2010 £'000
Unsecured bank overdrafts due within one year or on demand	70	-
Unsecured loan from group undertakings	27,057	26,890
	27,127	26,890

14 Financial liabilities: borrowings (continued)

The Company is party to a composite cross guarantee in relation to the bank overdrafts, as referred to in note 21. The overdrafts are held with and HSBC and bear interest at the HSBC rate plus 1%.

Loans from group undertakings consist of interest bearing loans with group undertakings of £27,057,000 (2010: £26,890,000). These loans bear interest at the HSBC rate plus 1% and have no fixed expiry date.

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

	2011	2010
Interest bearing loans from group undertakings	1.5%	1.5%

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

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 balances as the impact of discounting is not considered significant.

15 Deferred tax asset

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior period. Deferred tax is calculated in full on temporary timing differences under the liability method using a tax rate of 25% (2010· 27%)

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 25% (2010: 27%).

Movement on deferred taxation balance in the year	2011 £'000	2010 £'000
At 1 January	640	1,141
Income statement	(259)	(201)
Retained earnings - retirement benefit obligations	268	(300)
At 31 December	649	640

Notes to the financial statements for the year ended 31 December 2011 (continued)

15 Deferred tax asset (continued)

	2011 £'000	2010 £'000
Capital allowance in excess of depreciation	(81)	(37)
Retirement benefit obligations	723	669
Other temporary difference	7	8
Total deferred tax	649	640

	2011 £'000	2010 £'000
Deferred tax assets	730	677
Deferred tax liability	(81)	(37)
Net deferred tax asset	649	640

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2011 was £649,000 (2010: £640,000).

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.

16 Provisions for other liabilities and charges

	2011 £'000	2010 £'000
1 January	962	1,131
Utilised in the year	(169)	(551)
Additions in the year	116	382
31 December	909	962

The provision at 31 December 2011 relates to the expected liabilities arising from vacant properties and dilapidation on leasehold properties at the Leyland site following the acquisition of the Vericore Holdings group by Novartis Pharma AG on 19 January 2000. The provision is being utilised over the

Notes to the financial statements for the year ended 31 December 2011 (continued)

16 Provisions for other liabilities and charges (continued)

vacant property lease term being up to 2018. The amount of the provision at 31 December 2011 is £909,000 (2010 £962,000).

In 2007 Novartis Group initiated a worldwide restructuring project ("forward") which included Vericore Limited From the 2007 provision (£1,274,000) £379,000 was still recognised at 31 December 2009 which was fully utilised in 2010.

17 Ordinary shares

Authorised		2011		2010
	Shares	£	Shares	£
Ordinary shares of £1 each				
At 1 January	100	100	100	100
At 31 December	100	100	100	100

Issued and fully paid		2011		2010
	Shares	£	Shares	£
Ordinary shares of £1 each				
At 1 January	2	2	2	2
At 31 December	2	2	2	2

18 Employees, key management and Directors

Employee benefit expenses during the year	2011 £'000	2010 £'000
Wages and salaries	2,863	2,482
Social security costs	224	144
Other pensions costs	304	245
	3,391	2,871

Average monthly number of people (including executive Directors) employed	2011 Number	2010 Number
Technical	81	77
Administration and marketing	22	15
	103	92

Notes to the financial statements for the year ended 31 December 2011 (continued)

18 Employees, key management and Directors

The emoluments of all Directors are paid by other companies in the Novartis Group and no recharge is made to the Company for their services. Their remuneration is therefore not included in the above figures and no separate disclosure is given here.

No Director (2010· none) who is remunerated in the UK exercised options and no Director (2010: none) received shares under a long term incentive scheme in 2010.

The accrued pension for the highest paid Director was £nil (2010: £nil) per annum under the defined benefit scheme.

No Directors (2010: none) are accruing benefits under the defined benefit scheme.

Key management compensation

	2011 £'000	2010 £'000
Salaries and short-term employee benefits	**114**	240

The key management figures given above include the Directors and business unit heads. Four (2010: four) of the identified key management are remunerated by the parent Company with no recharge to the Company. The disclosure above therefore excludes these individuals

Employee share participation plan

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

Senior management share plans

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

Notes to the financial statements for the year ended 31 December 2011 (continued)

18 Employees, key management and Directors (continued)

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. The shares received under this plan have a three year vesting period. UK based Directors are eligible to participate in the SIP.

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

	2011 Number of shares	2010 Number of shares
At 1 January	2,206	3,719
Shares bought	469	383
Shares distributed	(1,397)	(1,896)
At 31 December	1,278	2,206

The market value of the shares held in trust at year end was £47,317 (2010. £83,034).

19 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 Vericore 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 comprehensive income, with the exception of gains and losses arising from changes in the benefits regarding past services, which are recognised in the income statement.

In the defined benefit plan (final salary scheme), contributions over the year ended 31 December 2011 were paid by members at a rate of 4% (minimum) or 6% (voluntary) of pensionable pay per annum (2010. 4% (minimum) or 6% (voluntary)) and by the Company of 15% of pensionable pay per annum (2010: 15%).

19 Pension commitments (continued)

Pension costs for the defined contribution schemes are as follows.

	2011 £'000	2010 £'000
Defined contribution schemes	69	55

Defined benefit plans

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

	2011	2010	2009	2008	2007
Discount rate	5 00% pa	5 75% pa	5 75% pa	6 25% pa	5 70% pa
Salary growth	4 20% pa	4 70% pa	4 80% pa	4 10% pa	4 30% pa
RPI	3.20% pa	3.70% pa	3 80% pa	3.10% pa	3.30% pa
Pension-in payment increases	3 20% pa	3 70% pa	3 80% pa	3 10% pa	3.30% pa
Post retirement mortality assumption	S1NMA/ S1NFA	S1NMA/ S1NFA	PNMA00/ PNFA00[1]	PNMA00/ PNFA00[1]	PNMA0mc/ PNPA00 mc[1]
Expected return on assets	6 10% pa	7.20% pa	7 50% pa	7 20% pa	7 00% 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.

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. The expected return on assets for 2012 is 6.0% (2011:6.1%).

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% (2010: 15%) conversion rate since it is not expected that all employees will take the maximum cash lump sum.

Notes to the financial statements for the year ended 31 December 2011 (continued)

19 Pension commitments (continued)

The major categories of assets as a percentage of total plan assets are as follows:

	2011		2010	
Asset category	£'000	%	£'000	%
Equities and hedge funds	3,171	47%	4,403	66%
Bonds	2,617	39%	1,735	26%
Other	974	14%	534	8%
Total	6,762	100%	6,672	100%

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

	2011	2010
	£'000	£'000
Fair value of plan assets	6,762	6,672
Present value of defined benefit obligation	(9,219)	(8,232)
Liability in the balance sheet	(2,457)	(1,560)

The Directors have recognised the pension liability at the year end of £2,457,000 (2010: £1,560,000).

The amounts recognised in the income statement are as follows:

	2011	2010
	£'000	£'000
Current service cost	241	374
Interest cost	463	1,257
Expected return on plan assets	(469)	(1,441)
Total included within employee benefit expenses (note 18)	235	190

The total charge is included in administrative expenses.

Notes to the financial statements for the year ended 31 December 2011 (continued)

19 Pension commitments (continued)

Change in the defined benefit obligation.

	2011 £'000	2010 £'000
Present value of defined benefit obligation at start of year	8,232	22,065
Current service cost	241	374
Interest cost	463	1,257
Contributions by plan participants	90	78
Actuarial loss / (gain)	555	(523)
Reallocation of the defined benefit obligation and the fair value of plan assets	-	(14,625)
Benefit payments	(362)	(394)
Present value of defined benefit obligation at end of year	9,219	8,232

Change in plan assets:

	2011 £'000	2010 £'000
Fair value of plan assets at start of year	6,672	19,583
Expected return on plan assets	469	1,441
Actuarial (loss) / gain on plan assets	(517)	392
Reallocation of the defined benefit obligation and the fair value of plan assets	-	(14,625)
Employer contributions	410	197
Contributions by plan participants	90	78
Benefit payments	(362)	(394)
Fair value of plan assets at end of year	6,762	6,672

A full actuarial valuation of the Novartis UK Pension Scheme was carried out as at 31 December 2009. As part of the valuation, updated data on the allocation of the Scheme's members to each of the employers participating in the Scheme was used. This has led to a reallocation of the defined benefit obligation and the fair value of plan assets amongst the employers, effective as at 31 December 2010. The above disclosures show a decrease in both the defined benefit obligation and fair value of plan assets at the 2010 year end of £14,625,000. As the defined benefit obligation and fair value of plan assets have been adjusted by equal amounts, there was no impact on the overall pension liability shown in these

19 Pension commitments (continued)

financial statements, nor was there any effect on the income statement for the current year

Amount recognised in the statement of comprehensive income:

	2011 £'000	2010 £'000
Actuarial loss / (gain) on defined benefit obligation	555	(523)
Actuarial loss / (gain) on plan assets	517	(392)
Actuarial loss / (gain)	1,072	(915)
Deferred tax on actuarial (loss) / gain	(268)	300
Net actuarial loss / (gain) recognised in the statement of comprehensive income	804	(615)

The history of experience (gains)/ losses:

	2011	2010	2009	2008	2007
Experience gains / (losses) on plan assets (£'000)	517	(392)	(1,936)	4,276	35
Percentage of plan assets	8%	6%	10%	26%	0%
Experience losses / (gains) on plan obligation (£'000)	555	(523)	4,594	(3,856)	(868)
Percentage of plan obligation	6%	6%	21%	23%	9%
Fair value of plan assets (£'000)	6,762	6,672	19,583	16,594	9,643
Present value of plan obligation (£'000)	9,219	8,232	22,065	16,554	9,413
(Deficit) / Surplus (£'000)	(2,457)	(1,560)	(2,482)	40	230

The Company expects to contribute £170,000 to the group pension scheme in 2012 (2011: £202,000)

Vericore Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

20 Operating lease commitments – minimum lease payments

The Company has commitments under non-cancellable operating leases expiring:	2011 £'000	2010 £'000
Land and buildings		
- within one year	660	622
- two to five years	2,539	2,576
- after five years	824	1,369
Other		
- within one year	27	33
- two to five years	26	57
	4,076	4,657

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

Receivables under non-cancellable operating leases expiring	2011 £'000	2010 £'000
Land and buildings		
- within one year	314	314
- two to five years	820	1,068
- after five years	133	199
	1,267	1,580

21 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 2011, the Company was in a net overdraft position having taken cleared funds into account and therefore no contingent liability existed (2010: £937,000 net cash position) The maximum potential liability for the total UK group is limited to the net loan and overdraft position of the UK

Notes to the financial statements for the year ended 31 December 2011 (continued)

21 Contingent liabilities (continued)

companies bank accounts, calculated on cleared funds. As at 31 December 2011 the net borrowing and overdraft position of the UK companies was £75,231,000 (2010. net borrowing and overdraft position £34,428,000)

The total facilities for the total UK group are £65million borrowing facility and £35m overdraft facility (2010· £65million borrowing facility and £35m overdraft).

22 Capital and other financial commitments

	2011 £'000	2010 £'000
Contracts placed for future capital expenditure not provided in the financial statements	25	13

23 Related party transactions

	2011 £'000	2010 £'000
Sales of goods to related parties		
Fellow group undertakings	15,527	12,651
Sales of services to related parties		
Fellow group undertakings	1,756	1,720
Purchase of goods from related parties		
Fellow group undertakings	4,060	5,870
Purchase of services from related parties		
Fellow group undertakings	823	782
Movement in financing from related parties		
Fellow group undertakings	167	130

Vericore Limited

Notes to the financial statements for the year ended 31 December 2011 (continued)

23 Related party transactions (continued)

Year end balances arising from sales, purchases of goods and services and financing activities are as follows.

	2011 £'000	2010 £'000
Receivables from related parties		
Fellow group undertakings	598	854
Payables to related parties		
Fellow group undertakings	(1,435)	(1,444)
Financing from related parties		
Fellow group undertakings	(27,057)	(26,890)

Key Management compensation is disclosed in note 18.

24 Cash flow from operating activities

Cash flow from operating activities	2011 £'000	2010 £'000
Net loss	(58)	(783)
Adjustments for·		
Tax	(41)	(232)
Depreciation	336	281
Profit on disposal of property, plant and equipment	(11)	-
Write down on fixed assets	-	148
Interest expense	402	401
Exchange loss	35	56
Non cash pension gain in the year	(175)	(7)
Share based compensation	44	(15)
Changes in working capital:		
Decrease / (increase) in inventories	417	(1,523)
(Increase) / decrease in trade and other receivables	(1,446)	566
(Decrease) / increase in payables	(251)	2,098
Decrease in provisions	(53)	(169)
Cash (used in) / generated in continuing operations	(801)	821

Analysis of cash and cash equivalents	2011 £'000	2010 £'000
Bank balances and other liquid funds	-	901
Bank overdrafts (note 14)	(70)	-
	(70)	901

Notes to the financial statements for the year ended 31 December 2011 (continued)

25 Ultimate parent undertakings and controlling parties

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 Vericore Limited is a member and for which group financial statements are drawn up

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