# Vericore Limited

# Annual report
# for the year ended 31 December 2013

Registered number: 3602306

# Vericore Limited

# Annual report
# for the year ended 31 December 2013

# Vericore Limited

## Directors and advisers

### Directors

S Webb
G W Gunn
G Hillier
E Arrocha

### Company secretary

N Maxted

### Registered office

c/o Novartis Pharmaceuticals UK Limited
Frimley Business Park
Frimley
Camberley
Surrey
GU16 7SR

### Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Portland Building
25 High Street
Crawley
West Sussex
RH10 1BG

# Vericore Limited

# Strategic report for the year ended 31 December 2013

The Directors present their strategic report for the Company for the year ended 31 December 2013. The report does not contain information on environmental, social, community and human rights issues as this is not deemed necessary for an understanding of the development, performance or position of the entity's business.

## 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 44% versus 2012 mainly due to a increase in product availability through maintenance on production facilities. Gross margin percent has increased but remains negative. Operational costs have decreased and there is in an operating loss before interest payable £1,069,000 (2012: Operating loss £1,810,000 restated). The net loss for the financial year was £1,142,000 (2012: Net loss for the financial year £1,816,000 restated).

On April 22, 2014 Novartis agreed to divest its Animal Health business to Eli Lilly and Company, USA. The transaction is subject to closing conditions, including anti-trust approvals and is expected to close by the end of the first quarter of 2015.

As a result of this, Vericore Limited will become part of Eli Lilly and Company Group as per the closing of the transaction.

At the year end, the Company continued to trade and the Directors believe the operating performance of the Company was satisfactory.

## Business environment

The Company's environment is driven by the UK animal health market which continues to grow in line with recent years, though sales wereq impacted in 2012 due to product availability issues.

# Strategic report for the year ended 31 December 2013 (continued)

## Strategy

The Company is a core European manufacturing site of the Novartis group for animal pharmaceutical solutions. However as noted above, a decision has been made by the Novartis Group to divest of the Animal Health Business to Eli Lilly. The strategy will be to maintain efficient operations and ensure high customer satisfaction both internally and externally to the close of this transaction to ensure a smooth transition to the new the ownership.

## Future outlook

The site commenced a redevelopment project in 2012 to upgrade the facilities due to general age and condition. The project continued in 2013. 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 utilising the empty space created by the cessation of sterile supply to build an upgraded facility without impacting the 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 2014.

The availability of product can impact the overall performance of the Company.

## 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

# Vericore Limited

# Strategic report
# for the year ended 31 December 2013 (continued)

## Employees (continued)

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 2013 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.

## Key performance indicators ("KPIs")

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

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

| | 2013 | Restated 2012 | |
|---|---|---|---|
| Growth / (decline) in turnover (%) | 44 | (9) | Overall 13% increase in volume produced on site in 2013 (litreage), plus impact of stock build in 2012, sold in market in 2013. |
| Gross loss (%) | (2.1) | (8.8) | Increased volume absorbed more overheads than previous year. |
| Administration expenses (£'000) | 3,621 | 2,771 | Additional costs from affiliate companies re procurement savings and higher insurance related cost |

On behalf of the Board

E Arrocha
Director
Date: 18/9/14

# Vericore Limited

# Directors' report
# for the year ended 31 December 2013

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2013. 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).

## Going concern

The Directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of Novartis AG. The Directors have received confirmation that Novartis AG intends to support the Company up to the closing of the transaction with Eli Lilly and Company, USA after these financial statements are signed. The Directors believe that continuing financial support will be available from the purchaser of the Company following the close of the transaction.

## Dividends

No dividends were paid in the year. (2012: £nil).

## Directors

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

| | |
|---|---|
| S Webb | |
| G W Gunn | |
| G Hillier | |
| S Kapadia | (resigned 26 August 2014) |
| E Arrocha | (appointed 26 August 2014) |

## 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; and
- pay in accordance with its contractual and other legal obligations.

# Directors' report
# for the year ended 31 December 2013 (continued)

## Post balance sheet event

As noted in the Directors' strategic report on April 22, 2014 Novartis agreed to divest its Animal Health business to Eli Lilly and Company, USA.
As a result of this, Vericore Limited will become part of the Eli Lilly and Company Group as per the closing of the transaction that is expected in the first half quarter 2015. There is no financial impact on these financial statements arising from this post balance sheet event.

## 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 Strategic report, 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;
- 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

# Directors' report
# for the year ended 31 December 2013 (continued)

## Statement of Directors' responsibilities (continued)

- 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/she has taken all the steps that he ought to have taken as a Director in order to make himself/herself 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

E Arrocha
Director

Date: 18|9|14

# Independent auditors' report to the members of Vericore Limited

## Report on the financial statements

### Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

### What we have audited

The financial statements, which are prepared by Vericore Limited, comprise:

- the Balance sheet as at 31 December 2013;
- the Profit and loss account and the statement of total recognised gains and losses for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual report for the year ended 31 December 2013 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on other matter prescribed by the Companies Act 2006

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

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

## Other matters on which we are required to report by exception

### Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Directors' remuneration

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

## Responsibilities for the financial statements and the audit

### Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### 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: 18 September 2014

# Vericore Limited

## Profit and loss account
## for the year ended 31 December 2013

| | Note | 2013<br>£'000 | Restated<br>2012<br>£'000 |
|---|---|---|---|
| Turnover | 3 | **20,471** | 14,221 |
| Cost of sales | | **(20,895)** | (15,476) |
| Gross loss | | **(424)** | (1,255) |
| Other operating income | | **231** | 485 |
| Administrative expenses | | **(876)** | (1,040) |
| **Operating loss** | 4 | **(1,069)** | (1,810) |
| Interest payable and similar charges | 5 | **(422)** | (434) |
| **Loss on ordinary activities before taxation** | | **(1,491)** | (2,244) |
| Tax on loss on ordinary activities | 6 | **349** | 428 |
| **Loss for the financial year** | | **(1,142)** | (1,816) |

All of the financial results in 2013 and 2012 relate to those of continuing operations.

The notes on pages 16 to 42 are an integral part of these financial statements.

# Vericore Limited

## Statement of total recognised gains and losses for the year ended 31 December 2013

| For the year ended 31 December | Note | 2013 £'000 | Restated 2012 £'000 |
|---|---|---|---|
| Loss for the financial year | | (1,142) | (1,816) |
| Actuarial (loss) / gain on pension obligation | 18 | (1,015) | 181 |
| Actuarial gain on reallocation of the defined benefit and fair value plan assets | 18 | 50 | - |
| Deferred tax on actuarial (loss) / gain | 18 | 193 | (42) |
| Deferred tax arising on changes in tax rates | 18 | (159) | - |
| **Net (loss) / profit not recognised in the profit and loss account** | | (931) | 139 |
| **Total recognised losses relating to the year** | | (2,073) | (1,677) |

Cumulative actuarial losses on the pension scheme amount to £6,206,000 (2012: £5,241,000 restated), recognised directly in the statement of total recognised gains and losses.

The notes on pages 16 to 42 are an integral part of these financial statements.

# Vericore Limited

## Balance sheet
## as at 31 December 2013

| | Note | 2013 £'000 | 2012 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Intangible assets | 8 | 9,978 | 9,978 |
| Tangible assets | 7 | 10,939 | 4,615 |
| Investments | 9 | - | - |
| | | 20,917 | 14,593 |
| **Current assets** | | | |
| Stocks | 10 | 6,972 | 6,620 |
| Debtors | 11 | 4,074 | 4,762 |
| Deferred tax assets (including £428,000 (2012:£349,000) due after one year) | 14 | 428 | 349 |
| | | 11,474 | 11,731 |
| **Creditors: amounts falling due within one year** | | | |
| Bank loans and overdrafts | 13 | 42,108 | 35,841 |
| Creditors | 12 | 3,399 | 2,541 |
| Provisions for other liabilities and charges | 15 | 200 | 152 |
| | | 45,707 | 38,534 |
| **Net current liabilities** | | (34,233) | (26,803) |
| **Total assets less current liabilities** | | (13,316) | (12,210) |
| Provisions for other liabilities and charges | 15 | 799 | 757 |
| **Net liabilities excluding pension liability** | | (14,115) | (12,967) |
| Pension liability | 18 | 3,158 | 2,232 |
| **Net liabilities including pension liability** | | (17,273) | (15,199) |
| | | | |
| **Capital and reserves** | | | |
| Called up share capital | 16 | - | - |
| Share option recharge reserve | 17 | (34) | (33) |
| Profit and loss account | | (17,239) | (15,166) |
| **Total shareholders' deficit** | | (17,273) | (15,199) |

The financial statements and notes of Vericore Limited (registered no. 3602306) on pages 16 to 42 were approved by the Board of Directors on 18th September 2014 and were signed on its behalf by:

E Arroqha

E Arroqha
Director

# Vericore Limited

## Statement of changes in equity

| | Called up share capital £'000 | Share option recharge reserve £'000 | Profit and loss account £'000 | Total shareholders' deficit £'000 |
|---|---|---|---|---|
| **At 1 January 2012** | - | (25) | (13,489) | (13,514) |
| Loss for the financial year (restated) | - | - | (1,816) | (1,816) |
| Actuarial gain on pension scheme (restated) | - | - | 181 | 181 |
| Deferred tax on actuarial gain on pension scheme (restated) | - | - | (42) | (42) |
| Share options | - | (8) | - | (8) |
| **At 1 January 2013** | - | (33) | (15,166) | (15,199) |
| Loss for the financial year | - | - | (1,142) | (1,142) |
| Actuarial loss on pension scheme | - | - | (965) | (965) |
| Deferred tax on actuarial loss on pension scheme | - | - | 193 | 193 |
| Deferred tax arising on changes in tax rates | | | (159) | (159) |
| Share options | - | (1) | - | (1) |
| **At 31 December 2013** | - | (34) | (17,239) | (17,273) |

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.

# Vericore Limited

# Notes to the financial statements for the year ended 31 December 2013

## 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.

**New and amended standards adopted by the Company:**

IAS 19R Pension reporting has been adopted by the Company effective 1 January 2013, with 2012 results restated for the impact.

**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 22 gives details of the Company's ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has adopted the intermediate parent exemption under section 400 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statements as the ultimate parent company prepares publicly available consolidated financial statements in accordance with IFRS.

# Notes to the financial statements for the year ended 31 December 2013 (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 turnover 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 which are described in further detail below.

### 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. Novartis AG has indicated its willingness to support the Company up to the closing of the transaction with Eli Lilly and Company. The Directors believe that continuing financial support will be available from the purchaser of the Company following the close of the transaction.

### Turnover

Turnover represents amounts received or receivable for goods and services invoiced to the UK and overseas net of value added tax and other related taxes.

## 1 Principal accounting policies (continued)

### Turnover (continued)

All turnover is recognised at the date of delivery and customer acceptance. All turnover 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 profit and loss account 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 profit and loss account within other operating income.

### Tangible assets

Tangible assets are 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 is carried as an intangible asset at cost less any accumulated impairment losses.

## 1 Principal accounting policies (continued)

### Goodwill (continued)

Impairment testing is carried out by management annually by discounting pre-tax cashflows at a pre-tax discount rate.

### Stocks

Stocks 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.

### 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 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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 1 Principal accounting policies (continued)

### Leases (continued)

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 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 bank and other borrowings in creditors.

### 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 (2012: 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 19R, 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.

## 1 Principal accounting policies (continued)

### Pension costs (continued)

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.

### 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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 1 Principal accounting policies (continued)

### Foreign currencies (continued)

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.

### Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors 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 profit and loss account. 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.

### Share-based payments

The senior management share plans (further details of which are set out in note 17) 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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 1 Principal accounting policies (continued)

### Share-based payments (continued)

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. 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 18.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 2 Critical accounting estimates and assumptions (continued)

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 Turnover

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.

The analysis of turnover by geographical destination is as follows:

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| United Kingdom | 13,351 | 9,758 |
| Continental Europe | 7,120 | 4,463 |
| | 20,471 | 14,221 |

## 4 Operating loss

| | 2013<br>£'000 | Restated<br>2012<br>£'000 |
|---|---|---|
| The following items have been charged / (credited) in arriving at operating loss: | | |
| Employee benefit expenses (note 17) | 5,996 | 4,107 |
| Depreciation of tangible assets | 532 | 377 |
| Loss / (gain) on disposal of tangible assets | 26 | (28) |
| Operating lease rentals payable | | |
| - plant and machinery | 49 | 51 |
| - other | 660 | 660 |
| Operating lease rental receivable | (327) | (327) |
| Exchange losses | 44 | 26 |
| Services provided by the Company's auditors | | |
| - fees payable for the audit | 20 | 20 |

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 5 Interest payable and similar charges

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Interest payable on bank overdraft and loans | (1) | (16) |
| Interest payable on loan from group undertakings | (421) | (418) |
| | (422) | (434) |

## 6 Tax on loss on ordinary activities

| **Analysis of credit in the year** | 2013 £'000 | Restated 2012 £'000 |
|---|---|---|
| Current tax - continuing operations | | |
| - UK corporation tax credit on losses for the year | 276 | 628 |
| - Adjustment in respect of prior year | 28 | 58 |
| **Total current tax** | 304 | 686 |
| Deferred tax (note 14) | | |
| Origination and reversal of temporary differences (accelerated capital allowances and other) | 117 | (128) |
| Adjustment in respect of prior years | (72) | (130) |
| **Tax credit for the year** | 349 | 428 |

| **Tax on items (credited) / charged to equity** | 2013 £'000 | Restated 2012 £'000 |
|---|---|---|
| Deferred tax on actuarial (loss) / gain | (34) | 42 |

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 6 Tax on loss on ordinary activities (continued)

The tax assessed for the year has been calculated at the standard rate of corporation tax in the UK 23.25% (2012: 24.5%). The credit for the year can be reconciled to the loss per the profit and loss account as follows:

| | 2013<br>£'000 | Restated<br>2012<br>£'000 |
|---|---|---|
| **Loss on ordinary activities before taxation** | (1,491) | (2,244) |
| Loss before tax multiplied by rate of corporation tax in the UK of 23.25% (2012: 24.5%) | (346) | (549) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 77 | 15 |
| Rate changes | (124) | 34 |
| Adjustments in respect of prior years – deferred tax | 72 | 130 |
| Adjustments in respect of prior years – income tax | (28) | (58) |
| Tax credit for the year | (349) | (428) |

Factors that may affect future tax charge:

The Finance Act 2013, which was substantively enacted in July 2013, included provisions to reduce the rate of corporation tax to 21% with effect from 1 April 2014 and to 20% with effect from 1 April 2015. Accordingly, deferred tax balances have been revalued to the lower rate of 20% in these financial statements.

# Vericore Limited

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 7 Tangible assets

| | Leasehold Land and buildings £'000 | Plant and equipment £'000 | Fixtures and fittings £'000 | Total £'000 |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2013 | 570 | 6,566 | 620 | 7,756 |
| Additions at cost | 279 | 6,533 | 96 | 6,908 |
| Disposals at cost | - | (401) | (22) | (423) |
| **At 31 December 2013** | 849 | 12,698 | 694 | 14,241 |
| **Accumulated depreciation** | | | | |
| At 1 January 2013 | 385 | 2,370 | 386 | 3,141 |
| Charge for the year | 150 | 310 | 72 | 532 |
| Disposals | - | (349) | (22) | (371) |
| **At 31 December 2013** | 535 | 2,331 | 436 | 3,302 |
| **Net book value** | | | | |
| **31 December 2013** | 314 | 10,367 | 258 | 10,939 |
| 31 December 2012 | 185 | 4,196 | 234 | 4,615 |

## 8 Intangible assets

**Goodwill**

| | £'000 |
|---|---|
| Cost | |
| **At 1 January 2013 and 31 December 2013** | 9,978 |

An impairment review 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 of the company, 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 turnover 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

## 8 Intangible assets (continued)

7%. An impairment would not be created if any reasonable sensitivities were performed on the model.

## 9 Investments

**Shares in group undertakings**

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| Cost | | |
| At 1 January | - | - |
| At 31 December | - | - |

The Company owns 100% of Novartis Animal Vaccines Limited, a company registered in England and Wales. The shares held in the subsidiary are ordinary shares only. The principal activity of the company was the manufacture and sale of animal vaccine products until the business and assets were sold at 31 August 2012. After 31 August 2012, all manufacturing 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 now receives a royalty income.

## 10 Stocks

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| Materials and consumables | 5,542 | 3,559 |
| Work in progress | 434 | 295 |
| Finished goods | 1,174 | 2,905 |
| Stock provision | (178) | (139) |
| | 6,972 | 6,620 |

The Company consumed £12,612,000 (2012: £13,554,000) of stocks during the year.
The Company reversed amounts totalling £560,000 (2012: £328,000) being part of the stock 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 2013 (continued)

## 11 Debtors

| Amounts falling due within one year: | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Trade debtors | 94 | 216 |
| Amounts owed by fellow group undertakings | 3,176 | 2,880 |
| Corporation tax receivable | 276 | 628 |
| Prepayments and other assets | 528 | 1,038 |
| | 4,074 | 4,762 |

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 credit risk provision required.

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

## 12 Creditors

| Amounts falling due within one year: | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Trade creditors | 1,837 | 1,468 |
| Amounts due to fellow group undertakings | 165 | 75 |
| Social security payable and other taxes | 163 | 108 |
| Accruals and deferred income | 1,234 | 890 |
| | 3,399 | 2,541 |

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 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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 13 Bank loans and overdrafts

| Current<br>Amounts falling due within one year: | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| Unsecured loan from group undertakings | 42,108 | 35,841 |
| | 42,108 | 35,841 |

The Company is party to a composite cross guarantee in relation to the bank overdrafts, as referred to in note 20. The overdrafts are held with HSBC and bear interest at the HSBC plc rate plus 1%.

Loans from group undertakings consist of interest bearing loans with group undertakings of £42,108,000 (2012: £35,841,000). These loans bear interest at the HSBC plc rate plus 1% and have no fixed expiry date.

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

| | 2013 | 2012 |
|---|---|---|
| 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.

## 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 timing differences under the liability method using a tax rate of 20% (2012: 23%).

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

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 14 Deferred tax asset (continued)

balance sheet date. As such, deferred tax assets and liabilities have been recognised at the rate of 20% (2012: 23%).

| Movement on deferred taxation balance in the year | 2013<br>£'000 | Restated<br>2012<br>£'000 |
|---|---|---|
| At 1 January | 349 | 649 |
| Profit and loss account | 45 | (258) |
| Retained earnings - retirement benefit obligations | 34 | (42) |
| At 31 December | 428 | 349 |

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| Capital allowance in excess of depreciation | (207) | (118) |
| Retirement benefit obligations | 631 | 461 |
| Other temporary difference | 4 | 6 |
| Total deferred tax | 428 | 349 |

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| Deferred tax assets | 635 | 467 |
| Deferred tax liability | (207) | (118) |
| Net deferred tax asset | 428 | 349 |

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax asset at 31 December 2013 was £428,000 (2012: £349,000).

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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 14 Deferred tax asset (continued)

The movement on the deferred tax asset in the year by category is as follows:

| | Capital allowance in excess of depreciation £'000 | Retirement benefit obligation £'000 | Share based payments £'000 | Total £'000 |
|---|---|---|---|---|
| As at 1 January 2013 | (118) | 461 | 6 | 349 |
| (Charge)/credit to profit and loss account – note 6 | (89) | 136 | (2) | 45 |
| Credit to equity -statement of recognised gains and losses | - | 34 | - | 34 |
| As at 31 December 2013 | (207) | 631 | 4 | 428 |

## 15 Provisions for other liabilities and charges

| | 2013 £'000 Leyland site | 2013 £'000 Dundee site | 2013 £'000 Total | 2012 £'000 Leyland site | 2012 £'000 Dundee site | 2012 £'000 Total |
|---|---|---|---|---|---|---|
| 1 January | 909 | - | 909 | 909 | - | 909 |
| Utilised in the year | (172) | - | (172) | (171) | - | (171) |
| Additions in the year | 172 | 251 | 423 | 171 | - | 171 |
| Released in year | (161) | - | (161) | - | - | - |
| 31 December | 748 | 251 | 999 | 909 | - | 909 |

The provision at 31 December 2013 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 and a new provision for dilapidations on leasehold properties at the Dundee manufacturing site. The Leyland provision is being utilised over the vacant property lease term being up to 2018. The amount of the provision at 31 December 2013 is £748,000 (2012: £909,000).

The Dundee site provision has been capitalised in 2013 and is included in additions of leasehold land and buildings per note 7. The provision is amortised over the remaining lease term. The charge to the profit and loss account in 2013 was £98,020 (2012: £Nil) and is included in depreciation expense. The amount of the provision at 31 December 2013 is £251,000 (2012: £Nil).

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 16 Called up share capital

| Authorised | | 2013 | | 2012 |
|---|---|---|---|---|
| | 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 | | 2013 | | 2012 |
|---|---|---|---|---|
| | Shares | £ | Shares | £ |
| Ordinary shares of £1 each | | | | |
| At 1 January | 2 | 2 | 2 | 2 |
| At 31 December | 2 | 2 | 2 | 2 |

## 17 Employees and Directors

| Employee benefit expenses during the year | 2013 | Restated 2012 |
|---|---|---|
| | £'000 | £'000 |
| Wages and salaries | 5,039 | 3,364 |
| Social security costs | 473 | 336 |
| Other pensions costs | 484 | 407 |
| | 5,996 | 4,107 |

| Average monthly number of people (including executive Directors) employed | 2013 Number | 2012 Number |
|---|---|---|
| Technical | 105 | 95 |
| Administration and marketing | 35 | 25 |
| | 140 | 120 |

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. 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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 17 Employees and Directors (continued)

No Director (2012: none) who is remunerated in the UK exercised options and no Director (2012: none) received shares under a long term incentive scheme in 2012.

No Directors (2012: none) are accruing benefits under the defined benefit scheme.

**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.

**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:

| | 2013<br>Number of shares | 2012<br>Number of shares |
|---|---|---|
| At 1 January | 1,258 | 1,278 |
| Shares bought | 894 | 406 |
| Shares distributed | (383) | (426) |
| At 31 December | 1,769 | 1,258 |

The market value of the shares held in trust at year end was £85,621 (2012: £48,861).

## 18 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 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.

The defined benefit scheme is closed with no member contributions nor company service cost contributions in 2013 (2012: nil). In respect of former employees the Company made contributions of £178,000.

Pension costs for the defined contribution schemes are as follows:

| | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Defined contribution schemes | 345 | 268 |

### Defined benefit plans

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

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 5.75% pa | 4.75% pa |
| Salary growth | n/a(2) | n/a(2) |
| RPI | 3.40% pa | 3.10% pa |
| Pension-in payment increases | 3.40% pa | 3.10% pa |
| Post retirement mortality assumption | S1NMA/ S1NFA(1) | S1NMA/ S1NFA |
| Expected return on assets | n/a(3) | n/a(3) |
| Current average life expectancy for 65 year old male/female | 22.8/25.1 | 23.2/25.4 |

(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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 18 Pension commitments (continued)

### Defined benefit plans (continued)

(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 adoption of IAS 19R the return on assets is no longer applicable with the discount rate being used to calculate interest income on plan assets.

The 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.

Other assets comprise investments in property and expected returns reflect long-term real rates of return experienced in the respective markets.

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 19% (2012: 15%) conversion rate since it is not expected that all employees will take the maximum cash lump sum.

Changes in the actuarial assumptions can result in significant volatility in the accounting for the Company's pension obligations. This can result in substantial changes in the Company's other comprehensive income and long-term liabilities and pension costs.

The defined benefit obligation (DBO) is significantly impacted by assumptions regarding the rate that is used to discount projected benefit payments. This rate is based on yields of high quality corporate bonds. A decrease in corporate bond yields will lead to lower discount rates which in turn will results in a higher DBO and a lower funded status.

The impact of decreasing interest rates on scheme assets is more difficult to predict. A significant portion of scheme assets is invested in bonds. Bond values usually rise when interest rates decrease and may, therefore, partially compensate for the decrease in funded status. Furthermore, the scheme assets also include significant holdings of equity instruments. Share prices tend to rise when interest rates decrease and, therefore, often counteract the negative

## 18 Pension commitments (continued)

### Defined benefit plans (continued)

impact of the rising DBO on the funded status although correlation of interest rates with equities is not as strong as with bonds, especially in the short term.

The expected rate for pension increases, which in turn depends on the expected rate of future inflation, significantly affects the DBO. Higher expected pension increases decrease the funded status. A proportion of the scheme assets are hedged against changes in the expected rate of future inflation. For the remaining assets, in the short-term, there is no strong correlation between the value of the scheme assets and pension/inflation increases.

Assumptions regarding life expectancy significantly impact the DBO with an increase in expected longevity increasing the DBO. There is no offsetting impact from the plan assets as no longevity bonds or swaps are held by the pension scheme. The assumptions allow for anticipated future improvements in longevity.

The following table shows the sensitivity of the Company's DBO to the main actuarial assumptions for its participation in the Novartis UK Pension Scheme( on an aggregated basis):

| | Change in 2013 year end defined benefit obligation £'000 |
|---|---|
| 25 basis point increase in discount rate | (511) |
| 25 basis point decrease in discount rate | 542 |
| 1 year increase in life expectancy | 414 |
| 25 basis point increase in rate of pension increase | 411 |
| 25 basis point decrease in rate of pension increase | (393) |
| 25 basis point increase of interest on savings account | - |
| 25 basis point decrease of interest on savings account | - |

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 18 Pension commitments (continued)

### Defined benefit plans (continued)

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

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Asset category | £'000 | % | £'000 | % |
| Equities and hedge funds | 2,806 | 34% | 3,447 | 47% |
| Bonds | 4,034 | 48% | 2,665 | 37% |
| Other | 1,512 | 18% | 1,190 | 16% |
| Total | 8,352 | 100% | 7,302 | 100% |

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

| | 2013 | 2012 |
|---|---|---|
| | £'000 | £'000 |
| Fair value of plan assets | 8,352 | 7,302 |
| Present value of defined benefit obligation | (11,510) | (9,534) |
| Liability in the balance sheet | (3,158) | (2,232) |

The Directors have recognised the pension liability at the year end of £3,158,000 (2012: £2,232,000).

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

| | 2013 | Restated 2012 |
|---|---|---|
| | £'000 | £'000 |
| Administration costs included in net periodic benefit cost | 37 | 21 |
| Interest cost | 443 | 452 |
| Interest income on plan assets | (341) | (334) |
| Total included within employee benefit expenses (note 17) | 139 | 139 |

The total charge is included in administrative expenses.

# Vericore Limited

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 18 Pension commitments (continued)

**Defined benefit plans (continued)**

Change in the defined benefit obligation:

| | 2013 £'000 | Restated 2012 £'000 |
|---|---|---|
| Present value of defined benefit obligation at start of year | 9,534 | 9,219 |
| Interest cost | 443 | 452 |
| Administrative expense included in net periodic benefit cost | 37 | 21 |
| Actuarial loss | 1,111 | 264 |
| Reallocation of the defined benefit and fair value plan assets | 853 | - |
| Benefit payments | (468) | (422) |
| Present value of defined benefit obligation at end of year | 11,510 | 9,534 |

Change in plan assets:

| | 2013 £'000 | Restated 2012 £'000 |
|---|---|---|
| Fair value of plan assets at start of year | 7,302 | 6,762 |
| Interest income on plan assets | 341 | 334 |
| Actuarial gain on plan assets | 96 | 445 |
| Reallocation of the defined benefit and fair value plan assets | 903 | - |
| Employer contributions | 178 | 183 |
| Contributions by plan participants | - | - |
| Benefit payments | (468) | (422) |
| Fair value of plan assets at end of year | 8,352 | 7,302 |

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 18 Pension commitments (continued)

### Defined benefit plans (continued)

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

| | 2013 | Restated 2012 |
|---|---|---|
| | £'000 | £'000 |
| Actuarial loss on defined benefit obligation | 1,111 | 264 |
| Actuarial (gain) on plan assets | (96) | (445) |
| Actuarial gain on reallocation of the defined benefit and fair value plan assets | (50) | - |
| Actuarial loss / (gain) | 965 | (181) |
| Deferred tax on actuarial (loss) / gain | (193) | 42 |
| Deferred tax arising on changes in tax rates | 159 | - |
| Net actuarial loss / (gain) recognised in the statement of total recognised gains and losses | 931 | (139) |

The history of experience (gains)/ losses:

| | 2013 | Restated 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Experience (gains) /losses on plan assets (£'000) | (96) | (445) | 517 | (392) | (1,936) |
| Percentage of plan assets | 1% | 6% | 8% | 6% | 10% |
| Experience losses / (gains) on plan obligation (£'000) | 1,111 | 264 | 555 | (523) | 4,594 |
| Percentage of plan obligation | 10% | 3% | 6% | 6% | 21% |
| Fair value of plan assets (£'000) | 8,352 | 7,302 | 6,762 | 6,672 | 19,583 |
| Present value of plan obligation (£'000) | 11,510 | 9,534 | 9,219 | 8,232 | 22,065 |
| (Deficit) / Surplus (£'000) | (3,158) | (2,232) | (2,457) | (1,560) | (2,482) |

The Company expects to contribute £178,000 to the group pension scheme in 2013 (2013: £167,000)

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 19 Operating lease commitments – minimum lease payments

| The Company has commitments under non-cancellable operating leases expiring: | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Land and buildings | | |
| - within one year | 660 | 660 |
| - two to five years | 2,046 | 2,539 |
| - after five years | - | 422 |
| Other | | |
| - within one year | 30 | 10 |
| - two to five years | 30 | 18 |
| | 2,766 | 3,649 |

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

| Receivables under non-cancellable operating leases expiring: | 2013 £'000 | 2012 £'000 |
|---|---|---|
| Land and buildings | | |
| - within one year | 327 | 327 |
| - two to five years | 332 | 593 |
| - after five years | - | 66 |
| | 659 | 987 |

## 20 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 2013, the Company was in a net overdraft position having taken cleared funds into account and therefore no contingent liability existed (2012: net overdraft position therefore no contingent liability). The maximum potential liability for the total UK group is

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 20 Contingent liabilities (continued)

limited to the overdraft position of the UK companies bank accounts, calculated on cleared funds. As at 31 December 2013 the overdraft position of the UK companies was £1,187,000 (2012: £655,000).

The total facility for the total UK group is a £6m overdraft facility (2012: £6m).

## 21 Capital and other financial commitments

| | 2013<br>£'000 | 2012<br>£'000 |
|---|---|---|
| Contracts placed for future capital expenditure not provided in the financial statements | 600 | 2,812 |

## 22 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.

# Notes to the financial statements for the year ended 31 December 2013 (continued)

## 23 Reconciliation of profit and retained earnings as a result of IAS19R restatement for 2012

Impact of restatement on the Profit and loss account:

| | 2012 |
|---|---|
| | £'000 |
| Administrative expenses under IAS 19 pension accounting as previously reported for year ended 31 December 2012 | 489 |
| Adjusted for: | |
| Administration costs | 21 |
| Interest income on pension assets calculated at discount rate | 45 |
| Restated administrative expense | 555 |

| Impact on Statement of total recognised gains and losses: | 2012 |
|---|---|
| | £'000 |
| Actuarial gain on retirement benefit scheme as previously reported for year ended 31 December 2012 | 115 |
| Adjusted for IAS 19R actuarial gain on plan assets | 66 |
| Restated actuarial gain on retirement benefit scheme before deferred tax | 181 |