Merck Chemicals Ltd

Directors' report and financial statements

Registered number 00660457

For the year ended 31 December 2013

Contents

Company information

Directors	RA Johnson MA Verrall S Kratzer
Company Secretary	AG Secretarial Ltd
Company number	00660457
Auditors	KPMG LLP 58 Clarendon Road Watford WD17 1DE
Bankers	Deutsche Bank AG London Bank Winchester House 1 Great Winchester Street City of London EC2N 2DB
Registered office	Boulevard Industrial Park Beeston Nottingham United Kingdom NG9 2JR

Strategic report for the year ended 31 December 2013

The directors present their strategic report for the year ended 31 December 2013.

Review of the business

The principal activities of the company during the year were the sale of speciality chemicals and the provision of research and development services.

Results and performance

The results of the Company, as set out on page 7, show a profit for the year after tax of £1,575,000 *(2012: profit £935,000)*.

Key performance indicators

The key measures of financial performance are turnover, gross profit margin, return on sales and return on capital employed. These are as follows:

	2013 £000	2012 £000
Turnover	**30,413**	29,766
Gross profit margin (Gross profit expressed as a percentage of turnover)	**30.2%**	29.8%
Return on sales (Operating result expressed as a percentage of turnover)	**6.8%**	4.1%
Return on capital employed (Operating result expressed as a percentage of net assets employed)	**14.8%**	9.7%

In addition to these financial indicators the company monitors other key performance indicators including staff statistics, marketing trends, freight and shipping statistics, and customer service levels.

Principal risks and uncertainties

The management undertake a constant and proactive review of the risks facing the company, and formally report on these at Group level twice a year. The risks considered include contractual risk, risk to property and security, risk to employees and the public, business continuity, security of systems and data. All risks are managed to a minimum level and no significant risks, financial or otherwise, which fall outside the usual risks faced by a business in this industry, have been identified.

Future developments

The company will continue to focus on its operations in the UK, and will increasingly utilise Group companies to serve customers in the export markets. Investment in research and development is key to continuing growth and adding value to the business.

By order of the board

19.09.2014

S Kratzer
Director

Boulevard Industrial Park
Beeston
Nottingham
NG9 2JR

2014

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2013.

Dividends

The directors do not recommend payment of a dividend *(2012: £nil)*.

Directors

The names of the current directors are listed on page 1. All held office throughout the year.

Employees

Disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account where decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of their business units and of the Company as a whole, and are rewarded according to the results of both through an annual bonus scheme.

Risk management

Information on the Company management of its financial risks are disclosed in the strategic report.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of this report confirms that:

1) As far as each of them is aware, there is no information relevant to the audit of the Company's consolidated financial statements for the year ended 31 December 2013 of which the auditors are unaware; and

2) The director has taken all steps that he ought to have taken in his duty as a director in order to make him aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

Stef Kratzer 19.05.2014

S Kratzer

Director

Boulevard Industrial Park
Beeston
Nottingham
NG9 2JR

2014

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report and 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 Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company, and the profit and 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 UK Accounting Standards 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, disclose with reasonable accuracy at any time the financial positions 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 taking reasonable steps for the prevention and detection of fraud and other irregularities.

KPMG

Independent auditor's report to the members of Merck Chemicals Ltd

We have audited the financial statements of Merck Chemicals Ltd for the year ended 31 December 2013 set out on pages 6 to 19. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

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 2013 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.

M Matthewman

Mark Matthewman *(Senior Statutory Auditor)*

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
58 Clarendon Road
Watford
WD17 1DE

Date: 23.9.14

Profit and loss account
for the year ended 31 December 2013

	Note	2013 £000	2012 £000
Turnover	2	**30,413**	29,766
Cost of sales		**(21,238)**	(20,890)
Gross profit		**9,175**	8,876
Distribution costs		**(5,185)**	(6,148)
Administration expenses		**(1,911)**	(1,507)
Operating profit before goodwill amortisation and additional pension contributions		**3,825**	2,968
Goodwill amortisation		**(780)**	(781)
Additional pension contributions		**(966)**	(966)
Operating profit	3	**2,079**	1,221
Interest receivable and similar income	7	**-**	94
Interest payable and similar charges	8	**(449)**	(446)
Profit on ordinary activities before taxation		**1,630**	869
Tax on profit on ordinary activities	9	**(55)**	66
Profit for the financial year		**1,575**	935

In both the current and preceding year, the Company made no material acquisitions and had no discontinued operations.

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

The notes on pages 9 to 20 form part of these financial statements.

Balance sheet
at 31 December 2013

	Note	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Intangible assets	*10*		**10,147**		10,927
Tangible assets	*11*		**7,656**		7,579
			17,803		18,506
Current assets					
Stocks	*12*	**2,555**		2,173	
Debtors	*13*	**8,691**		8,822	
Cash at bank and in hand		**31**		4	
		11,277		10,999	
Creditors: amounts falling due within one year	*14*	**(13,347)**		(15,238)	
Net current liabilities			**(2,070)**		(4,239)
Total assets less current liabilities			**15,733**		14,267
Creditors: amounts falling due after one year	*15*		**(152)**		(17)
Provisions for liabilities and charges	*16*		**(1,494)**		(1,609)
Net assets			**14,087**		12,641
Capital and reserves					
Share capital	*17*		**3,300**		3,300
Other reserves	*19*		**13,983**		14,112
Profit and loss account	*18*		**(3,196)**		(4,771)
Shareholders' funds			**14,087**		12,641

The notes on pages 9 to 20 form part of these financial statements.

These financial statements were approved by the board of directors on 19.09.2014 and were signed on its behalf by:

Stef - Kratzer

S Kratzer
Director

Company number: 00660457

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company's balance sheet shows net current liabilities of £2.1 million *(2012: net current liabilities of £4.2m)* as at the balance sheet date. After making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operation for the foreseeable future and therefore continue to adopt the going concern basis in preparing the accounts.

The Company is exempt from the requirement of FRS 1 (revised) to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking and its ultimate parent undertaking includes the Company in its own published consolidated financial statements.

Turnover

Turnover represents net invoiced sales of goods excluding value added tax, in accordance with the principal activity. Other operating income represents recharges of costs incurred for people who are wholly or partly paid here but working for another group company.

Tangible fixed assets and depreciation

Fixed assets are stated at cost less depreciation. Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Leasehold property	- over period of lease
Plant and machinery	- between 10% and 20% per annum

Assets under construction are not depreciated in line with FRS 15.

Goodwill

Goodwill arising on the purchase of assets and trade is capitalised and is amortised to nil by equal instalments over its estimated useful life, to a maximum of 20 years.

Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value. Cost, in general, is determined on a weighted average basis. Provision is made for any obsolete or slow moving items.

Foreign currencies

Assets, liabilities, revenues and costs denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transaction. Monetary assets and liabilities at the balance sheet date are translated at year end rates of exchange. Gains and losses on translation are included in the profit and loss account.

Research and development

All revenue expenditure on research and development is written off in the profit and loss account in the year in which it is incurred.

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Notes *(continued)*

1 Accounting policies *(continued)*

***Taxation** (Continued)*

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Government grants

Government grants received are included within accruals and deferred income in the balance sheet and credited to the profit and loss account to match them with the expenditure towards which they are intended to contribute.

Pension scheme

The Company participates in a funded defined benefit scheme, operated by a subsidiary of Merck KGaA, to which the Company and members make contributions. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme is accounted for by the Company as if the scheme was a defined contribution scheme. The charge in the profit and loss account represents the contributions payable to the scheme in respect of the accounting period. The contributions are held in separately administered funds from the Company's assets.

Leased assets

Where the Company enters into a lease or hire purchase contract which entails taking substantially all the risks and rewards of ownership of an asset, the asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the contract, whichever is shorter. Future instalments under such contracts, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Notes *(continued)*

1 Accounting policies *(continued)*

Related party disclosures

As the Company is wholly owned by Merck KGaA, it has taken advantage of the exemption in FRS 8 and has, therefore, not disclosed transactions or balances with entities which form part of the group headed by Merck KGaA. The consolidated financial statements of Merck KGaA, within which this Company is included, can be obtained from the address given in note 23.

2 Turnover

Turnover represents the invoiced value of goods and services supplied by the Company, and is exclusive of VAT.

	2013	2012
	£000	£000
Analysis of turnover by destination:		
United Kingdom	**13,749**	13,599
Europe	**16,664**	16,167
	30,413	29,766

3 Operating profit

	2013	2012
	£000	£000
The operating profit is stated after charging:		
Research and development (see below)	**8,565**	8,335
Hire of plant and machinery under operating leases	**140**	139
Leasehold property rent	**169**	165
Depreciation of tangible fixed assets (note 11)	**972**	992
Goodwill amortisation (note 10)	**780**	781
Auditor's remuneration:		
- audit of these financial statements	**12**	15

Substantially all the cost of research and development activity is recharged to group companies.

4 Directors and employees

	2013	2012
	£000	£000
Staff costs during the year:		
Salaries and wages	**6,258**	6,062
Social security costs	**714**	700
Other pension costs (see note 20)	**1,456**	1,341
	8,428	8,103

Notes *(continued)*

5 Number of employees

The average number of persons employed during the year, including directors, was as follows:

	Average number of employees	
	2013	2012
	Number	Number
Research and development	**85**	82
Distribution	**64**	69
Administration	**7**	8
	156	159

6 Remuneration of directors

	2013	2012
	£000	£000
Directors' emoluments	**262**	194
Pension contributions	**25**	13
	287	207

The emoluments of the highest paid director were £152,000 *(2012: £131,000)* of which £18,000 relates to pensions *(2012: £7,000).* He was not member of a defined benefit scheme.

The directors' emoluments for one *(2012: one)* of the directors have been borne by a related company.

	Average number of directors	
Retirement benefits are accruing to the following number of directors under:	**2012**	2012
Defined benefit schemes	**1**	1
Defined contribution schemes	**1**	1

7 Other interest receivable and similar income

	2013	2012
	£000	£000
Other	**-**	3
Net exchange gains	**-**	91
	-	94

Notes *(continued)*

8 Interest payable and similar charges

	2013 £000	2012 £000
On loans from group undertakings, repayable within five years	**502**	348
Other	**-**	5
Net exchange (gain)/losses	**(53)**	93
	449	446

9 Taxation

	2013 £000	2012 £000
Analysis of charge/(credit) in year		
Current tax:		
UK Corporation Tax on income for the year	**195**	110
Adjustments in respect of previous periods	**(25)**	(8)
Total current tax	**170**	102
Deferred tax (note 16)		
Origination/reversal of timing differences	**(115)**	(168)
Adjustment in respect of previous years	**-**	-
Tax charge/(credit) on ordinary activities	**55**	(66)

Factors affecting the tax charge/(credit) for the current year

The current tax charge for the year is lower *(2012: lower)* than the standard rate of corporation tax in the UK of 23.25% *(2012: 24.5%)*. The differences are explained below.

	2013 £000	2012 £000
Current tax reconciliation		
Profit on ordinary activities before tax	**1,630**	869
Current tax at 23.25% *(2012: 24.5%)*	**379**	213
Effects of:		
Expenses not deductible for tax purposes	**7**	17
Additional tax deduction on expenditure	**(346)**	(337)
Disallowable goodwill amortisation	**181**	191
Net differences between depreciation and capital allowances for the year	**(26)**	35
Timing differences in respect of provisions	**-**	(9)
Adjustments in respect of previous periods	**(25)**	(8)
Total current tax (credit)/charge (see above)	**170**	102

Notes *(continued)*

9 Taxation *(continued)*

Factors affecting future tax charges

Certain companies within the UK group may have tax losses in the future and therefore the company may claim group relief in respect of these losses without payment to group companies from which it claims losses. This will reduce taxable profits in Millipore (U.K.) Limited and therefore reduce future tax charges.

The company has not provided for a net deferred tax liability in respect of accelerated capital allowances and other timing differences that have been carried forward, as their recoverability against the generation of future taxable non-trading profits is uncertain. The total net deferred tax liability un-provided for is £49,000 (2012: deferred tax asset £263,000).

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

10 Intangible fixed assets

	Goodwill £000
Cost	
At 1 January 2013 and 31 December 2013	15,610
Amortisation	
At 1 January 2013	4,683
Charge for the year	780
At 31 December 2013	5,463
Net book value	
At 31 December 2013	**10,147**
At 31 December 2012	10,927

Notes *(continued)*

11 Tangible fixed assets

	Leasehold properties £000	Plant and machinery £000	Payments on account and assets in the course of construction £000	Total £000
Cost				
At 1 January 2013	8,239	8,481	76	16,796
Additions	234	544	275	1,053
Transfers	39	36	(75)	-
Disposals	-	(1,279)	-	(1,279)
At 31 December 2013	8,512	7,782	276	16,570
Depreciation				
At 1 January 2013	2,305	6,912	-	9,217
Charge for year	342	630	-	972
Disposals	-	(1,275)	-	(1,275)
At 31 December 2013	2,647	6,267	-	8,914
Net book value				
At 31 December 2013	**5,865**	**1,515**	**276**	**7,656**
At 31 December 2012	5,934	1,569	76	7,579

The net book value of land and buildings is made up as follows:

	2013 £000	2012 £000
Short leaseholds with less than 50 years to run as of the balance sheet date	**49**	49
Long leaseholds	**5,816**	5,885
	5,865	5,934

12 Stocks

	2013 £000	2012 £000
Finished goods	**2,555**	2,173

The directors do not consider the replacement cost of stocks to be materially different from their carrying value.

Notes *(continued)*

13 Debtors

	2013	2012
	£000	£000
Trade debtors	**4,570**	4,949
Amounts owed by group undertakings	**3,901**	3,471
Other debtors	**98**	289
Prepayments and accrued income	**122**	113
	8,691	8,822

The Company participates in a cash pool arrangement with its parent company, whereby all cash balances held with third party banks are cleared on a daily basis and transferred to a central parent account. All transferred balances are held by the parent company and made available to the Company in order to satisfy its cash flow requirements. Balances held within the cash pool arrangement are subject to interest and charges calculated on an arms length basis. As at 31 December 2013, amounts owed by group undertakings included £2,814,000 *(2012: £2,905,000)* in respect of cash pooled balances.

14 Creditors: amounts falling due within one year

	2013	2012
	£000	£000
Trade creditors	**1,480**	1,227
Amounts owed to group undertakings	**10,255**	12,633
Taxation and social security	**537**	176
Other creditors	**27**	8
Accruals and deferred income	**1,048**	1,194
	13,347	15,238

Amounts owed to group undertakings includes a loan payable to Merck Capital Ltd of £10,000,000 *(2012: £12,500,000 amount falling due after one year)*, which attracts a competitive commercial interest rate of 2.18% and is repayable on 30 September 2014. Subsequent to the year end, £2,500,000 of the loan was repaid.

15 Creditors: amounts falling due after one year

	2013	2012
	£000	£000
Amounts owed to group undertakings	**152**	-
Accruals and deferred income	**-**	17
	152	17

Notes *(continued)*

16 Provisions for liabilities and charges

	Deferred tax £000
At 1 January 2013	1,609
Deferred tax credit for the year (see note 9)	(115)
At 31 December 2013	**1,494**

The elements of deferred tax are as follows:

	2013 £000	2012 £000
Differences between depreciation and capital allowances	**1,494**	1,609

17 Share capital

	2013 £000	2012 £000
Authorised, allotted, called up and fully paid		
Equity share capital		
3,250,000 ordinary shares of £1 each	**3,250**	3,250
50,000 non-cumulative 4% preference shares of £1 each	**50**	50
	3,300	3,300

The preference shares have no voting rights. On a winding up, the surplus assets of the Company, remaining after payment of its other liabilities, will be used to repay the capital of the holders of the preference shares and ordinary shares in that order.

18 Reserves

	Profit and loss account £000
At 1 January 2013	(4,771)
Profit for the year	1,575
At 31 December 2013	**(3,196)**

Notes *(continued)*

19 Reconciliation of movements in equity shareholders' funds

	Share capital £000	Other reserves £000	Profit and loss account £000	Total £000
Opening shareholders' funds	3,300	14,112	(4,771)	12,641
Profit for the financial year	-	(129)	1,575	1,446
Closing shareholders' funds	**3,300**	**13,983**	**(3,196)**	**14,087**

20 Pension scheme

Merck Pension Scheme

The total pension costs for the year ended 31 December 2013 was £1,456,000 *(2012: £1,341,000)*. This included deficit payments to the Merck Pension Scheme totalling £966,000 over and above the normal employer contributions *(2012: £966,000)*.

The Company is a member of a pension scheme providing benefits based on final pensionable pay. Because the Company is unable to identify its share of the scheme's assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme is accounted for by the Company as if the scheme was a defined contribution scheme.

The Company is unable to identify its share of the scheme's assets and liabilities with certainty due to the high percentage of the scheme's membership who are deferred members and whose original employing company is either not known or is no longer a participating employer in the pension scheme.

The pension cost is assessed in accordance with the advice of a professional qualified actuary using the projected unit credit method. The most significant actuarial assumptions were the mortality assumptions, which are explained in more detail below, a discount rate of 4.59% and a 3.9% annual increase in pay.

A full valuation of the Merck Pension Scheme was carried out for funding purposes as at 31 December 2010. The assets and liabilities were updated in an approximate way to 31 December 2013, based on the figures carried forward from 2012 and information from the Scheme administrators, as permitted under FRS 17 and the update was based on the following key assumptions:

	2013	2012
Inflation (RPI):	**3.4% pa**	2.8% pa
Inflation (CPI):	**2.6% pa**	2.3% pa
Salary increases:	**3.9% pa**	3.3% pa
Pension increases: (on benefits earned before 1 July 2006)	**3.5% pa**	3.2% pa
Pension increases: (on benefits earned after 1 July 2006)	**3.4% pa**	2.8% pa
Discount rate:	**4.6% pa**	4.6% pa

The update revealed a market value of assets £244.4 million *(2012: £231.7 million)* and a value of liabilities of £266.9 million *(2012: £247.4 million)*. The revealed deficit of £22.5 million *(2012: £15.7 million)* has no direct impact on the Company, but the Company contributions being paid reflect the £26 million deficit revealed by the funding valuation as at 31 December 2010.

Notes *(continued)*

20 Pension scheme *(continued)*

The mortality tables used to value the Scheme's liabilities as at 31 December 2013 are SAPS, CMI 2013 long term improvement rate of 1.25% per annum, with a 90% weighting for males and a 105% weighting for females. The life expectancies from the age of 65 based on these tables, compared with those used at 31 December 2012, are as follows:

	2013		**2012**	
	Male	**Female**	**Male**	**Female**
Member age 65 (current life expectancy)	23.1	24.2	23.3	24.4
Member age 45 (life expectancy at 65)	25.3	26.6	25.6	26.8

Following the transfer of the assets and liabilities of the Seven Seas Pension Scheme into the Merck Pension Scheme on 30 November 2007, pension increases for the members of this scheme who transferred are assumed to be the same as those for benefits earned after 1 July 2006.

Merck International Pension Scheme

The Company is a member of a pension scheme providing benefits based on final pensionable pay to employees based in the Republic of Ireland. As the Company relies on the multi-employer provisions allowed by FRS 17 'Retirement Benefits', the scheme is accounted for by the Company as if it were a defined contribution scheme.

The pension cost is assessed in accordance with the advice of a professional qualified actuary using the projected unit credit method. The most significant actuarial assumptions were the mortality assumptions, which are explained in more detail below, an expected rate of return on plan assets of 4.2%, and a 3% annual increase in pay.

The mortality assumptions are based on standard mortality tables, which allow for expected future mortality improvements. The assumptions are that a member currently aged 65 will live on average a further 23 years if they are male and a further 25 years if they are female. For a member who retires in 25 years at age 65, the assumption is that they will live on average for a further 24 years if they are male and a further 27 years if they are female *(2012: 26 years and 26 years respectively)*

The Merck International Pension Scheme has a current ongoing actuarial valuation as at 31 March 2013. The assets and liabilities were based on that source data and updated in an approximate way to 31 December 2013, based on information from the Scheme administrators, as permitted under FRS 17 and the update was based on the following key assumptions:

	2013	2012
Deferred revaluation:	**2.0% pa**	2.3% pa
Salary increases:	**3.0% pa**	3.3% pa
Pension increases: (on benefits earned before 1 July 2006)	**3.3% pa**	3.2% pa
Pension increases: (on benefits earned after 1 July 2006)	**2.1% pa**	2.8% pa
Discount rate:	**3.75% pa**	3.5% pa
Expected rate of return on plan assets	**4.2% pa**	4.1% pa

The update revealed a market value of assets of £5.8 million *(2012: £5.7 million)* and a value of liabilities of £6.3 million *(2012: £6.8 million)*. Regular and deficit contributions to the scheme will be determined following the current ongoing valuation of the Scheme as at 31 March 2013.

Notes *(continued)*

21 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	2013 £000	2012 £000
Authorised but not contracted for	-	
Contracted	31	31

(b) Annual commitments under operating leases as follows:

	Land and buildings		Plant and equipment	
	2013 £000	2012 £000	2013 £000	2012 £000
Operating leases which expire:				
Within one year	-	-	-	1
In the second to fifth years inclusive	126	126	71	93
Over five years	40	40	-	5
	166	166	71	99

22 Guarantees

The three participating employers of the Merck Pension Scheme, of which Merck Chemicals Ltd is one, entered into a joint and several guarantee to cover the PPF liabilities of the Scheme on 30 March 2011. No value has currently been assigned to this guarantee, and any such amount would only be calculated in the event of a call on the guarantee.

23 Ultimate parent undertaking

The Company's ultimate parent undertaking is Merck KGaA, a company registered in Germany. This company is 73.8% owned by E. Merck, a general partnership formed pursuant to the laws of Germany, with the remaining equity being quoted on the Frankfurt stock exchange. The only group in which the results of the Company are consolidated is that headed by Merck KGaA. The consolidated financial statements of this group are available to the public and may be obtained from Frankfurter Strasse 250, D-64293 Darmstadt, Germany.