


McNeil Denmark ApS

Bregnerødvej 133, 2
DK-3460 Birkerød

CVR no. 30 07 70 08
Annual report for 2016

Adopted at the annual general
meeting on 24 May 2017



THOMAS ROAR JØRGENSEN
chairman

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Statement by management on the annual report

The executive board has today discussed and approved the annual report of McNeil Denmark ApS for the financial year 1 January - 31 December 2016.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In my opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2016 and of the results of the company's operations for the financial year 1 January - 31 December 2016.

In my opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved at the annual general meeting.

Birkerød, 24 May 2017

Executive board



Thomas Roat Jørgensen

Independent auditor's report

To the shareholder of McNeil Denmark ApS

Opinion

We have audited the financial statements of McNeil Denmark ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2016 and of the results of the company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent auditor's report
Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of management's review.

Hellerup, 24 May 2017

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31



René Otto Poulsen

Statsautoriseret revisor



Henrik Hornbæk
Statsautoriseret revisor

Company details

McNeil Denmark ApS

Bregnerødvej 133, 2

DK-3460 Birkerød

Telephone: +4570205212

Fax:: +4570205213

Website:: www.mcneil.dk

CVR-no. 30 07 70 08

Financial year: 1 January - 31 December

Domicile: Rudersdal

Executive Board

Thomas Roat Jørgensen

Auditors

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

Strandvejen 44

2900 Hellerup

Lawyers

NOVI Advokater

Strandgade 52

1401 København

Bankers

Nordea Bank Danmark A/S

Slotsgate 44

3400 Hillerød

Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Revenue	278.179	258.242	247.935	242.844	240.162
Gross profit	113.485	105.515	107.375	102.327	110.775
Operating profit/loss	14.817	20.274	17.926	12.576	11.073
Net financials	-345	-759	-3	-58	-149
Profit/loss for the year	11.208	15.352	13.142	93.378	10.803
Balance sheet					
Balance sheet total	243.456	217.043	215.751	197.029	177.944
Equity	199.430	188.222	172.871	159.761	67.300
Number of employees	19	18	18	18	18
Financial ratios					
Gross margin (%)	40,8	40,9	43,3	42,1	46,1
Profit margin	5,3	7,8	7,2	5,2	4,6
Return on assets	6,4	9,3	8,3	6,4	6,2
Solvency ratio (%)	81,9	86,7	80,1	81,1	37,8
Return on Equity	5,8%	8,4%	7,9%	82,2%	17,4%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of significant accounting policies..

Management's review

Business activities

In the Danish market, McNeil Denmark ApS sells non-prescription drugs to wholesalers, pharmacies and grocery stores, as well as various tenders for the Danish hospital service. In 2016, the company had a 46.5% market share in the OTC category in the Danish market, which is 1.4% higher than in 2015. Despite the various market challenges for McNeil Denmark ApS, the financial base remains extremely strong.

Recognition and measurement uncertainties

The recognition and measurement of items in the financial statements is not subject to any uncertainty.

Business review

The Company's income statement for the year ended 31 December shows a profit of TDKK 11.208, and the balance sheet at 31 December 2016 shows equity of TDKK 199.430.

The company's likely future development including special assumptions and uncertain factors

2017 is expected to be a challenging year for the Danish business, but overall expectations are positive based on the expected growth of existing trademarks. A few small products will be introduced to the market in 2017, but the major growth drivers are commercial innovation on existing portfolios.

The year at a glance and follow-up on expectations expressed last year

Based on our "conduct of policy", we develop, register, market and sell high quality products that improve quality of life by the best possible prevention, cure and relief. We focus on providing our business partners with the best possible conditions. This applies especially to patients, doctors, nurses and other therapists, but also to suppliers, producers, authorities and society. We want to be a leader within our focus area by offering the best products of the highest quality.

Special risks apart from generally occurring risks in industry

Operating risks

The Company is highly dependent on the OTC part of the portfolio, which represents 89% of sales, of which 68% is produced in one production facility. Any manufacturing disturbance at this facility could therefore significantly impact the Company.

The Company is working with one Distribution in the Danish market where all the sales is going through. This does represent a certain risk.

Management's review

Currency risks

The company's products are purchased and sold primarily in Danish currency, so foreign exchange risks are eliminated.

Impact on external environment and measures of preventing, reducing or mitigating damage

No production takes place in Denmark; most of the drugs are bought in packaging designed for the Danish market, whereas most of the consumer products are bought in Nordic packaging. Destruction of expired and surplus drugs is carried out by Kommunekemi in accordance with industry standards.

Research and development activities in and for reporting entity

Each year, Johnson & Johnson(including McNeil) makes considerable investments worldwide in research and development of new products.

Accounting policies

The annual report of McNeil Denmark ApS for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C as well as selected provisions as regards larger entities.

No cash flow statement has been prepared for the Company as cash flows are included in the Consolidated Cash Flow Statement cf. Danish Financial Statements Act paragraph 86.

The annual report for 2016 is presented in TDKK.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transactions. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payments are recognised as financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement.

Share Based Compensation

A number of the Company's employees are covered by share option schemes. The schemes were in 2015 accounted for as equity schemes where the fair value of the instruments were recognised as staff expense and offset against equity over the vesting period.

The company has during 2016 changed the accounting treatment of these share based payments. In 2016, the company is changing the accounting principle where the share' based instruments are recognized and booked as staff expense when the shares are exercised and invoiced from the mother company in the US.

This change of accounting principle has resulted in a TDKK 146 decrease of Sales & Distribution expenses, a TDKK 1054 decrease of the Share Based Compensation in equity, and a TDKK 908 increase in Retained Earnings for 2015.

Income statement

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Accounting policies

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Distribution costs

Distribution costs includes costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Administrative costs

Administrative costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, realised and unrealised capital/exchange gains and losses, and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

The company is subject to the Danish rules on compulsory joint taxation.

On payment of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance sheet

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Accounting policies**Income tax and deffered tax**

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Liabilities

Liabilities, which include trade receivables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Financial Highlights

Definitions of financial ratios.

Gross margin ratio	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit/loss before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/Loss before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$

Income statement 1 January 2016 - 31 December 2016

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Revenue		278.179	258.242
Cost of goods sold		-164.694	-152.727
Gross profit		113.485	105.515
Distribution costs		-90.143	-77.854
Administrative costs		-8.525	-7.387
Operating profit/loss		14.817	20.274
Financial income	1	103	104
Financial costs	2	-448	-863
Profit/loss before tax		14.472	19.515
Tax on profit/loss for the year	3	-3.264	-4.163
Net profit/loss for the year		11.208	15.352
Retained earnings		11.208	15.352
		11.208	15.352

Balance sheet at 31 December 2016

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Assets			
Trade receivables		27.026	39.179
Receivables from group enterprises		216.021	176.648
Deferred tax asset	4	<u>0</u>	<u>10</u>
Receivables		<u>243.047</u>	<u>215.837</u>
Cash at bank and in hand		<u>409</u>	<u>1.206</u>
Current assets total		<u>243.456</u>	<u>217.043</u>
Assets total		<u><u>243.456</u></u>	<u><u>217.043</u></u>

Balance sheet at 31 December 2016

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Liabilities and equity			
Share capital		125	125
Retained earnings		199.305	188.097
Equity		199.430	188.222
Trade payables		9.223	7.713
Payables to group enterprises		19.518	9.392
Corporation tax		3.254	1.274
Other payables		12.031	10.442
Short-term debt		44.026	28.821
Debt total		44.026	28.821
Liabilities and equity total		243.456	217.043
Staff	5		
Contingent assets, liabilities and other financial obligations	6		
Related parties and ownership	7		

McNeil Denmark ApS

Equity

	Share capital	Retained earnings	Total
Equity at 1 January 2016	125	188.097	188.222
Net profit/loss for the year	0	11.208	11.208
Equity at 31 December 2016	125	199.305	199.430

McNeil Denmark ApS

Equity

	Share capital	Reserve for net revalua- tion under the equity method	Share-based payments	Retained earnings	Total
Equity 1. januar 2015	125	3.183	908	168.654	172.870
Net effect from merger and acquisition under the uniting of interests method	0	-3.183	0	3.183	0
Net effect from change of accounting policy	0	0	-1.054	908	-146
Adjusted equity 1. januar 2015	125	0	-146	172.745	172.724
Transfers, reserves	0	0	146	0	146
Net profit/loss for the year	0	0	0	15.352	15.352
Equity 31. december 2015	125	0	0	188.097	188.222

Notes to the annual report

	<u>2016</u> TDKK	<u>2015</u> TDKK
1 Financial income		
Exchange adjustments	103	104
	<u>103</u>	<u>104</u>
	<u>2016</u> TDKK	<u>2015</u> TDKK
2 Financial costs		
Other financial costs	365	701
Exchange loss	83	162
	<u>448</u>	<u>863</u>
3 Tax on profit/loss for the year		
Current tax for the year	3.254	4.744
Deferred tax for the year	10	-32
Adjustment of tax concerning previous years	0	-549
	<u>3.264</u>	<u>4.163</u>

Notes to the annual report

	<u>2016</u> TDKK	<u>2015</u> TDKK
4 Provision for deferred tax		
Provision for deferred tax at 1 January 2016	10	3.078
Employed in year	-10	-3.068
Provision for deferred tax at 31 December 2016	<u>0</u>	<u>10</u>
 Provisions for deferred tax on:		
Property, plant and equipment	0	-10
Transferred to deferred tax asset	0	10
	<u>0</u>	<u>0</u>
 Deferred tax asset		
Calculated tax asset	0	10
Carrying amount	<u>0</u>	<u>10</u>

Notes to the annual report

	<u>2016</u>	<u>2015</u>
	TDKK	TDKK
5 Staff		
Wages and Salaries	12.781	13.385
Pensions	2.109	1.829
Other social security expenses	82	81
Other staff expenses	<u>463</u>	<u>581</u>
	<u>15.435</u>	<u>15.876</u>
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
Distribution expenses	14.398	14.708
Administrative expenses	<u>1.037</u>	<u>1.168</u>
	<u>15.435</u>	<u>15.876</u>
Average number of employees	<u>19</u>	<u>18</u>

According to section 98 B(3) of the Danish Financial Statements Act, remuneration to the Executive Board has not been disclosed.

Management and other employees are included in Johnson & Johnson's share based compensation programme. Warrants are granted with a vesting period of 4 years. There is performance conditions in connection with the programme. Payment to the parent company regarding shares delivered to employees according to the programme are recognized as expense in the income statement.

Notes to the annual report

6 Contingent assets, liabilities and other financial obligations

The Company is included in Danish joint taxation. Consequently, under the rules of the Danish Corporation Tax Act, the Company is jointly and severally liable for income tax etc of the jointly taxed companies.

The company has entered into operating leases with an average annual benefit of TDKK 868. Leasing contracts have a residual maturity of up to 47 months with a total residual lease payment of TDKK 1,588.

The company has entered into a lease agreement, in which the company has a cost during the notice period of TDKK 739.

7 Related parties and ownership

Cilag Holding AG, Schweiz, Switzerland
Immediate Parent Company
Johnson & Johnson, New Jersey, USA
Ultimate Parent Company

Other related parties

Thomas Roat Jørgensen

Direktion

Transactions

All intercompany transactions are based on market value.

Ownership

According to the company's register of shareholders, the following shareholder holds a minimum of 5% of the voting rights or a minimum of 5% of the share capital:

Cilag Holding AG, Switzerland

Consolidated financial statements

Consolidated Financial Statements have not been prepared, as the Group meets the exemption provisions in section 112 of the Danish Financial Statements Act for subgroups. The Company is included in the consolidated financial statements of Johnson & Johnson, New Jersey, USA. Reference is made to the Company's annual report on the Internet Address: <http://www.investor.jnj.com/secfiling.cfm?filingID=200406-16-71&CIK=200406>