Merck A/S

Vandtårnsvej 62 A, 5. a, DK-2860 Søborg

Annual Report for 1 January - 31 December 2017

CVR No 32 93 22 74

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 20/6 2018

Susanne Krogh
Chairman

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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Merck A/S for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Company and of the results of the Company operations for 2017.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Søborg, 20/6

Executive Board

Hans Christopher Elers Koch

Board of Directors

Tiina Marjatta Puhakka

Hans Christopher Elers Koch

Jeanette Sandholmen

Independent Auditor's Report

To the Shareholder of Merck A/S

Report on the Financial Statements

Qualified opinion

We have audited the financial statements of Merck A/S for the financial year 1 January – 31 December 2017 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for qualified opinion

The Company's inventories as per 31 December 2017 amounts to DKK 6,688,590 and is accounted for using the FIFO method of accounting. Due to changes that have been made to the company's processes in 2017, we were unable to obtain sufficient appropriate audit evidence for the cost prices that have been used to value the Company's physical inventories. Consequently, we were unable to determine whether any adjustments to the recognised value of inventories were necessary.

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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified 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 that 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 as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made 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 judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the company 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 the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

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

Report on other legal and regulatory requirements

Non-compliance with the Danish bookkeeping Act.
The Company has in our opinion not complied with the Danish bookkeeping Act, as the recognised inventory in the financial statements cannot be traced to underlying transactions and related documentation.

The Company's management can be held liable for not complying with the Danish bookkeeping Act.

Copenhagen, 20 June 2018
KPMG
Statsautoriseret Revisionspartnerselskab
CVR No 25 57 81 98

Kenn Wolff Hansen
statsautoriseret revisor
mne30154

Company Information

The Company	Merck A/S Vandtårnsvej 62 A, 5. a DK-2860 Søborg Telephone: + 45 35 25 35 50 Facsimile: + 45 35 25 35 55 E-mail: genereel@merckserono.nu Website: www.merck.dk CVR No: 32 93 22 74 Financial period: 1 January - 31 December Municipality of reg. office: Gladsaxe
Board of Directors	Tiina Marjatta Puhakka Hans Christopher Elers Koch Jeanette Sandholmen
Executive Board	Hans Christopher Elers Koch
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 DK-2100 København Ø

Management's Review

Principal activities of the Company

The Company's primary activities are within fertility, neurology and oncology.

Development in the year

The income statement of the Company for 2017 shows a profit of TDKK 9,837, and at 31 December 2017 the balance sheet of the Company shows equity of TDKK 20,372.

The expectations for 2017 were not meet due to lack of sales to health care sector.

Targets and expectations for the year ahead

The expectations for 2018 are positive compared to 2017. A significant increase in the sale for 2018 compared to 2017 is expected, as well as a positive result.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2017	2016
		TDKK	TDKK
Gross profit/loss		**34.725**	**13.539**
Staff expenses	1	-21.132	-15.250
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-181	-217
Profit/loss before financial income and expenses		**13.412**	**-1.928**
Financial income	3	14	93
Financial expenses	4	-141	-20
Profit/loss before tax		**13.285**	**-1.855**
Tax on profit/loss for the year	5	-3.448	7
Net profit/loss for the year		**9.837**	**-1.848**

Distribution of profit

Proposed distribution of profit

	2017	2016
Extraordinary dividend paid	20.000	0
Retained earnings	-10.163	-1.848
	9.837	**-1.848**
Extraordinary dividend after year end	0	20.000

Balance Sheet 31 December

Assets

	Note	2017 TDKK	2016 TDKK
Acquired licenses		0	0
Intangible assets	6	**0**	**0**
Other fixtures and fittings, tools and equipment		1.131	141
Leasehold improvements		1.187	0
Property, plant and equipment in progress		0	194
Property, plant and equipment	7	**2.318**	**335**
Fixed assets		**2.318**	**335**
Inventories		**6.689**	**8.741**
Trade receivables		14.263	0
Receivables from group enterprises		14.253	39.661
Other receivables		557	5.563
Deferred tax asset	8	806	444
Corporation tax		0	1.390
Prepayments		121	274
Receivables		**30.000**	**47.332**
Currents assets		**36.689**	**56.073**
Assets		**39.007**	**56.408**

Balance Sheet 31 December

Liabilities and equity

	Note	2017 TDKK	2016 TDKK
Share capital		500	500
Retained earnings		19.872	30.035
Equity	9	**20.372**	**30.535**
Trade payables		3.645	17.650
Corporation tax		2.696	0
Other payables		12.294	8.223
Short-term debt		**18.635**	**25.873**
Debt		**18.635**	**25.873**
Liabilities and equity		**39.007**	**56.408**
Contingent assets, liabilities and other financial obligations	10		
Related parties	11		
Accounting Policies	12		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January 2017	500	30.035	30.535
Extraordinary dividend paid	0	-20.000	-20.000
Net profit/loss for the year	0	9.837	9.837
Equity at 31 December 2017	**500**	**19.872**	**20.372**

Notes to the Financial Statements

		2017	2016
		TDKK	TDKK
1	**Staff expenses**		
	Wages and salaries	19.328	13.847
	Pensions	1.690	1.305
	Other social security expenses	114	98
		21.132	**15.250**
	Average number of employees	**20**	**16**
2	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	0	135
	Depreciation of property, plant and equipment	181	82
		181	**217**
3	**Financial income**		
	Other financial income	0	81
	Exchange adjustments	14	12
		14	**93**
4	**Financial expenses**		
	Interest paid to group enterprises	33	0
	Other financial expenses	96	0
	Exchange adjustments, expenses	12	20
		141	**20**

Notes to the Financial Statements

5 Tax on profit/loss for the year

	2017 TDKK	2016 TDKK
Current tax for the year	3.810	0
Deferred tax for the year	-305	-66
Adjustment of tax concerning previous years	0	59
Adjustment of deferred tax concerning previous years	-57	0
	3.448	**-7**

6 Intangible assets

	Acquired licenses TDKK
Cost at 1 January 2017	813
Cost at 31 December 2017	813
Impairment losses and amortisation at 1 January 2017	813
Impairment losses and amortisation at 31 December 2017	813
Carrying amount at 31 December 2017	**0**
Amortised over	3-6 years

Notes to the Financial Statements

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress
	TDKK	TDKK	TDKK
Cost at 1 January 2017	647	0	194
Additions for the year	1.108	1.056	0
Disposals for the year	-174	0	0
Transfers for the year	0	194	-194
Cost at 31 December 2017	1.581	1.250	0
Impairment losses and depreciation at 1 January 2017	506	0	0
Depreciation for the year	118	63	0
Reversal of impairment and depreciation of sold assets	-174	0	0
Impairment losses and depreciation at 31 December 2017	450	63	0
Carrying amount at 31 December 2017	**1.131**	**1.187**	**0**

8 Deferred tax asset

	2017	2016
	TDKK	TDKK
Deferred tax asset at 1 January 2017	444	377
Amounts recognised in the income statement for the year	305	66
Adjustment deferred tax previous years	57	1
Deferred tax asset at 31 December 2017	**806**	**444**

9 Equity

The share capital consists of 1 share of a nominal value of TDKK 500. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

Notes to the Financial Statements

	2017	2016
	TDKK	TDKK

10 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligation due within 4 years	7.393	1.771

Other contingent liabilities

The Company has entered commitment to provide financial support of DKK 1,851 thousand (2016: DKK 1,385 thousand) to research projects.

According to the Company's accounting polices, in some cases, the customer has the right of return until final resale and delivery to third parties. The amount cannot be determined precisely but is estimated to be small.

The Company has a bank garantee with Deutche Bank of DKK 656 thousand regarding the rent obligation.

Notes to the Financial Statements

11 Related parties

	Basis
Controlling interest	
Merck B.V., Holland	Parent company
Merck KGaA, Germany	Ultimate parent company
Other related parties	
Other group companies	
The Company's Management ant the Board of Directors	

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company:

Name	Place of registered office
Merck B.V.	Holland

The Group Annual Report of Merck B.V. may be obtained at the following address:

1119 NW Schiphol-Rijk, Holland
www.merckgroup.com

Notes to the Financial Statements

12 Accounting Policies

The Annual Report of Merck A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2017 are presented in TDKK.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in 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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Notes to the Financial Statements

12 Accounting Policies (continued)

Income Statement

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

In some cases, the customer has the right of return until final resale and delivery to third party. In accordance with the acconting principle, Merck A/S also recognises this revenue at the time of the physical delivery, to the customer insofar as the part of the delivery which is not returned after the balance sheet date, can be reliably measured.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Notes to the Financial Statements

12 Accounting Policies (continued)

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Balance Sheet

Intangible assets

Acquired licenses is measured at cost less accumulated amortisation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Amortisation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Acquired licenses	3-6 years

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	5	years
Leasehold improvements	5	years

Notes to the Financial Statements

12 Accounting Policies (continued)

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the de-

Notes to the Financial Statements

12 Accounting Policies (continued)

ferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Financial liabilities which include, trade payables and amounts owed to group entities, are recognised at the date of borrowing at cost, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost.

Other liabilities are measured at net realisable value.