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# ***Merck A/S***

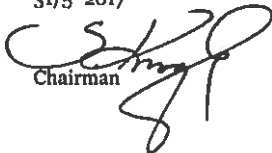
Vandtårnsvej 62 A, 5., DK-2860 Søborg

## **Annual Report for 1 January - 31 December 2016**

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CVR No 32 93 22 74

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
31/5 2017



Chairman

Susanne Krogh

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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 2016.

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 2016 of the Company and of the results of the Company operations for 2016.

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, 31 May 2017

### Executive Board



Hans Christopher Elers Koch

### Board of Directors

Tiina Marjatta Puhakka



Hans Christopher Elers Koch



Jeanette Sandholmen

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Seborg, 31 May 2017

**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

## **Opinion**

We have audited the Financial Statements of Merck A/S for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The Financial Statements are 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 of the Company 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.

## **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 judgement and maintain professional scepticism throughout the

## Independent Auditor's Report

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.

### 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 re-

# **Independent Auditor's Report**

quired under the Danish Financials Statements Act.

Based on the work we have performed, in our view, 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 in Management's Review.

Copenhagen, 31 May 2017

**KPMG**

Statsautoriseret Revisionspartnerselskab

*CVR No 25 57 81 98*



**Benny Lyng Sørensen**

State Authorised Public Accountant

## **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](mailto:genereel@merckserono.nu)  
Website: [www.merck.dk](http://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



## Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Gross profit/loss	13.539	30.741	19.091	25.137	25.244
Profit/loss before financial income and expenses	-1.928	13.174	-1.852	5.008	6.933
Net profit/loss for the year	-1.848	9.632	-2.154	2.782	3.057
<b>Balance sheet</b>					
Balance sheet total	56.408	52.250	33.183	56.609	48.953
Equity	30.535	32.383	22.751	24.905	22.123
<b>Ratios</b>					
Return on assets	-3,4%	25,2%	-5,6%	8,8%	14,2%
Solvency ratio	54,1%	62,0%	68,6%	44,0%	45,2%
Return on equity	-5,9%	34,9%	-9,0%	11,8%	18,5%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

## **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 2016 shows a loss of TDKK 1,848, and at 31 December 2016 the balance sheet of the Company shows equity of TDKK 30,535.

The expectations for 2016 were not met due to lack of sales to health care sector.

### **Targets and expectations for the year ahead**

The expectations for 2017 are positive compared to 2016. A significant increase in the sale for 2017 compared to 2016 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

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
<b>Gross profit/loss</b>		<b>13.539</b>	<b>30.741</b>
Staff expenses	1	-15.250	-17.321
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-217	-246
<b>Profit/loss before financial income and expenses</b>		<b>-1.928</b>	<b>13.174</b>
Financial income	3	93	795
Financial expenses	4	-20	-363
<b>Profit/loss before tax</b>		<b>-1.855</b>	<b>13.606</b>
Tax on profit/loss for the year	5	7	-3.974
<b>Net profit/loss for the year</b>		<b>-1.848</b>	<b>9.632</b>

## Balance Sheet 31 December

### Assets

	Note	2016 TDKK	2015 TDKK
Acquired licenses		0	135
<b>Intangible assets</b>	6	<b>0</b>	<b>135</b>
Other fixtures and fittings, tools and equipment		141	223
Property, plant and equipment in progress		194	0
<b>Property, plant and equipment</b>	7	<b>335</b>	<b>223</b>
<b>Fixed assets</b>		<b>335</b>	<b>358</b>
<b>Inventories</b>		<b>8.741</b>	<b>7.485</b>
Receivables from group enterprises		39.661	43.883
Other receivables		5.563	17
Deferred tax asset	10	444	377
Corporation tax		1.390	0
Prepayments		274	130
<b>Receivables</b>		<b>47.332</b>	<b>44.407</b>
<b>Currents assets</b>		<b>56.073</b>	<b>51.892</b>
<b>Assets</b>		<b>56.408</b>	<b>52.250</b>

## Balance Sheet 31 December

### Liabilities and equity

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Share capital		500	500
Retained earnings		<u>30.035</u>	<u>31.883</u>
<b>Equity</b>	<b>8</b>	<b><u>30.535</u></b>	<b><u>32.383</u></b>
Prepayments received from customers		0	11.150
Trade payables		17.650	1.081
Corporation tax		0	1.943
Other payables		<u>8.223</u>	<u>5.693</u>
<b>Short-term debt</b>		<b><u>25.873</u></b>	<b><u>19.867</u></b>
<b>Debt</b>		<b><u>25.873</u></b>	<b><u>19.867</u></b>
<b>Liabilities and equity</b>		<b><u>56.408</u></b>	<b><u>52.250</u></b>
Distribution of profit	9		
Contingent assets, liabilities and other financial obligations	11		
Related parties	12		
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## Statement of Changes in Equity

	<u>Share capital</u>	<u>Retained</u> <u>earnings</u>	<u>Total</u>
	TDKK	TDKK	TDKK
Equity at 1 January	500	31.883	32.383
Net profit/loss for the year	0	-1.848	-1.848
<b>Equity at 31 December</b>	<b>500</b>	<b>30.035</b>	<b>30.535</b>

## Notes to the Financial Statements

	2016 TDKK	2015 TDKK
<b>1 Staff expenses</b>		
Wages and salaries	13.847	15.702
Pensions	1.305	1.496
Other social security expenses	98	123
	<u>15.250</u>	<u>17.321</u>
<b>Average number of employees</b>	<u>16</u>	<u>17</u>
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
<b>2 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment</b>		
Amortisation of intangible assets	135	136
Depreciation of property, plant and equipment	82	110
	<u>217</u>	<u>246</u>
<b>3 Financial income</b>		
Other financial income	81	795
Exchange adjustments	12	0
	<u>93</u>	<u>795</u>
<b>4 Financial expenses</b>		
Interest paid to group enterprises	0	63
Other financial expenses	0	291
Exchange adjustments, expenses	20	9
	<u>20</u>	<u>363</u>

## Notes to the Financial Statements

	2016 <u>TDKK</u>	2015 <u>TDKK</u>
<b>5 Tax on profit/loss for the year</b>		
Current tax for the year	0	3.429
Deferred tax for the year	-66	545
Adjustment of tax concerning previous years	59	0
	<u>-7</u>	<u>3.974</u>
 <b>6 Intangible assets</b>		
		<u>Acquired licenses TDKK</u>
Cost at 1 January		<u>813</u>
Cost at 31 December		<u>813</u>
Impairment losses and amortisation at 1 January		678
Amortisation for the year		<u>135</u>
Impairment losses and amortisation at 31 December		<u>813</u>
 <b>Carrying amount at 31 December</b>		<u>0</u>
Amortised over		<u>3-6 years</u>
 <b>7 Property, plant and equipment</b>		
	<u>Other fixtures and fittings, tools and equipment TDKK</u>	<u>Property, plant and equipment in progress TDKK</u>
Cost at 1 January	647	0
Additions for the year	<u>0</u>	<u>194</u>
Cost at 31 December	<u>647</u>	<u>194</u>
Impairment losses and depreciation at 1 January	424	0
Depreciation for the year	<u>82</u>	<u>0</u>
Impairment losses and depreciation at 31 December	<u>506</u>	<u>0</u>
 <b>Carrying amount at 31 December</b>	<u>141</u>	<u>194</u>



## Notes to the Financial Statements

### 8 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.

	<u>2016</u> TDKK	<u>2015</u> TDKK
<b>9 Distribution of profit</b>		
Retained earnings	-1.848	9.632
	<u>-1.848</u>	<u>9.632</u>
Extraordinary dividend after year end	20.000	0

### 10 Deferred tax asset

Deferred tax asset at 1 January	377	922
Amounts recognised in the income statement for the year	66	-545
Amounts recognised in equity for the year	1	0
<b>Deferred tax asset at 31 December</b>	<u>444</u>	<u>377</u>

### 11 Contingent assets, liabilities and other financial obligations

#### Rental and lease obligations

Lease obligation due within 4 years	1.771	2.286
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#### Other contingent liabilities

The Company has committed itself to provide financial support of DKK 1,385 thousand (2015: DKK 2,422 thousand) to research projects.

According to the Company's accounting policies, 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 guarantee with Deutsche Bank of DKK 656 thousand regarding the rent obligation.

# Notes to the Financial Statements

## 12 Related parties

	<b>Basis</b>
<b>Controlling interest</b>	
Merck B.V., Holland	Parent company
Merck KGaA, Germany	Ultimate parent company

### Other related parties

Other group companies  
The Company's Management and 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 KGaA	Germany
Merck B.V.	Holland

The Group Annual Report of Merck KGaA may be obtained at the following address:

Frankfurter Straße 250, 64293 Darmstadt, Germany  
[www.merckgroup.com](http://www.merckgroup.com)

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

1119 NW Schiphol-Rijk, Holland  
[www.merckgroup.com](http://www.merckgroup.com)

# Notes to the Financial Statements

## 13 Accounting Policies

The Annual Report of Merck A/S 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.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2016 are presented in TDKK.

### Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Merck B.V., the Company has not prepared a cash flow statement.

### 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

## 13 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 accounting 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.

#### Amortisation, depreciation and impairment losses

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

#### 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.

## Notes to the Financial Statements

### 13 Accounting Policies (continued)

#### 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

Software 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:

Software	3-6 years
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#### 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
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Depreciation period and residual value are reassessed annually.

## Notes to the Financial Statements

### 13 Accounting Policies (continued)

#### **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 deferred tax relates to items recognised in equity.

## Notes to the Financial Statements

### 13 Accounting Policies (continued)

#### 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.

#### Deferred income

Prepayments received from customers comprise payments received in respect of income in subsequent years.

## Financial Highlights

### Explanation of financial ratios

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