Merck A/S

Strandvejen 102 B, 4. sal
DK-2900 Hellerup

CVR no. 32 93 22 74

Annual report 2015

The annual report was presented and adopted at the annual general meeting of the Company on 27 May 2016

Chairman

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Merck A/S for the financial year 1 January - 31 December 2015.

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

It is our opinion that the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2015 and of the result of the Company's operations for the financial year 1 January - 31 December 2015.

In our opinion, the Management's review includes a fair review of the development in the Company's operations and financial conditions, the results for the year and the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Hellerup, 27 May 2016

Executive Board

Hans Christoffer Elers Koch

Board of Directors

Sven-Olof Christer Odqvist	Tiina Marjatta Puhakka	Hans Christoffer Elers Koch

Independent auditor's report

To the Shareholder of Merck A/S

Independent auditor's report on the financial statements

We have audited the financial statements of Merck A/S for the financial year 1 January - 31 December 2015. The financial statements comprise accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Independent auditor's report

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2015 and of the results of the Company's operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Copenhagen, 27 May 2016

KPMG
Statsautoriseret Revisionspartnerselskab
CVR no.: 25 57 81 98

Casper Garrelts
State Authorised Public Accountant

Management's review

Company details

Company	Merck A/S Strandvejen 102 B, 4. sal DK-2900 Hellerup Denmark	
	Telephone: Fax: E-mail: Website:	+45 35 25 35 50 + 45 35 25 35 55 generel@merckserono.nu www.merck.dk
	CVR no.: Financial year: Incorporated: Registered office:	32 93 22 74 1 January - 31 December 5 May 2010 Hellerup
Board of Directors	Sven-Olof Christer Odqvist Tiina Marjatta Puhakka Hans Christoffer Elers Koch	
Executive Board	Hans Christoffer Elers Koch	
Auditor	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 2100 Copenhagen Ø Denmark	
General meeting	The annual general meeting is held on 27 May 2016 at the Company's address.	

Management's review

Financial highlights

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

	2015	2014	2013	2012	2011
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Key figures					
Gross profit	30,741	19,091	25,137	25,244	23,570
Profit/loss before financial income and expenses	13,174	-1,852	5,008	6,933	14,457
Net profit/loss for the year	9,632	-2,154	2,782	3,057	1,855
Balance sheet					
Balance sheet total	52,250	33,183	56,609	48,953	35,451
Equity	32,383	22,751	24,905	22,123	10,847
Ratios					
Return on assets	30,8%	-4,1%	9,5%	16,4%	65,0%
Solvency ratio	62,0%	68,6%	44,0%	45,2%	30,6%
Return on equity	34,9%	-9,0%	11,8%	18,5%	18,7%

Management's review

Operating review

Principal activities of the Company

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

Development in activities and financial position

The Company's income statement for 2015 shows a profit of DKK 9,632 thousand and the balance sheet at 31 December 2015 shows a total equity of DKK 32,383 thousand, which is to our satisfaction.

Events after the balance sheet date

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

Outlook

As the level of activity in the Company in 2016 is expected to remain unchanged compared to 2015, the result for 2016 is expected to be at the same level as in 2015.

Financial statements 1 January - 31 December

Accounting policies

The annual report of Merck A/S for 2015 has been prepared in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Gross profit

Pursuant to section 32 of the Danish Financial Statements Act the Company's revenue is not stated.

Gross profit comprise revenue, cost of sales and other external costs.

Revenue

Income from the sale of goods is recognised in the income statement when delivery and transfer of risk to the buyer have taken place and provided that the income can be reliably measured and is expected to be received.

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.

Cost of sales

Cost of sales comprises costs related to sales, advertising, administration, office premises, bad operating leases, etc.

Other external costs

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

Financial income and expenses

Interest income and expenses comprise interest income and expense, gains and losses on payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Financial statements 1 January - 31 December

Accounting policies

Tax on profit/loss for the year

Tax for the year comprises current tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity. Tax relating to profit/loss from extraordinary activities is recognised as such in the income statement. The rest is recognised as profit/loss from ordinary activities. Entities with tax losses receive joint taxation contributions from entities that have been able to use tax losses to reduce their own taxable profits.

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

Intangible assests are written down to the recoverable amount if this is lower than the carrying amount.

Gains and losses on the disposal of intangible assets are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as amortisation.

Property, plant and equipment

Fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation 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.

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

Fixtures and fittings, tools and equipment	5	years

Financial statements 1 January - 31 December

Accounting policies

Property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as depreciation.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost. Write-down is made for anticipated losses to net realisable value.

Equity - dividends

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting. The expected dividend payment for the year is disclosed as a separate item under equity.

Prepayment received from customers

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

Liabilities other than provisions

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.

Financial statements 1 January - 31 December

Accounting policies

Coporation tax and deferred tax

Current tax payable and receivable is recognised on the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction. Any deffered net assets are recognised at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates is recognised in the income statement.

Foreign currency translation

On intial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Financial Highlights overview

Financial Highlights are calculated as follows:

Return on assets	Profit before financials x 100 / Total assets
Solvency ratio	Equity at year end x 100 / Total assets
Return on equity	Net profit for the year x 100 / Average equity

Financial statements 1 January - 31 December

Income statement

	Note	2015	2014
		DKK'000	DKK'000
Gross profit		**30,741**	**19,091**
Staff costs	1	-17,321	-20,707
Impairment losses, amortisation and depreciation		-246	-236
Profit/loss before financial income and expenses		**13,174**	**-1,852**
Financial income	2	795	33
Financial expenses	3	-363	-153
Profit/loss before tax		**13,606**	**-1,972**
Tax on profit/loss for the year	4	-3,974	-182
Profit/loss for the year		**9,632**	**-2,154**

Proposed profit appropriation

Retained earnings		9,632	-2,154
		9,632	**-2,154**

Financial statements 1 January - 31 December

Balance sheet

	Note	2015	2014
		DKK'000	DKK'000
Assets			
Software		135	271
Intangible assets	5	**135**	**271**
Fixtures and fittings, tools and equipment		223	292
Property, plant and equipment	6	**223**	**292**
Non-current assets		**358**	**563**
Finished goods and goods for resale		7,485	13,315
Inventories		**7,485**	**13,315**
Trade receivables		0	6,559
Receivables from group entities		43,883	8,106
Other receivables		17	4
Deferred tax	7	377	922
Corporation tax		0	2,000
Prepayments		130	1,714
Receivables		**44,407**	**19,305**
Total current assets		**51,892**	**32,620**
Total assets		**52,250**	**33,183**

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Balance sheet

	Note	2015 DKK'000	2014 DKK'000
Equity and liabilities			
Share capital		500	500
Retained earnings		31,883	22,251
Total equity		**32,383**	**22,751**
Prepayments received from customers		11,150	0
Trade payables		1,081	1,395
Corporation tax		1,943	0
Other payables		5,693	9,037
Non-current liabilities		**19,867**	**10,432**
Total liabilities		**19,867**	**10,432**
Total equity and liabilities		**52,250**	**33,183**
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Statement of changes in equity

	Share capital	Retained earnings	Total
	DKK'000	DKK'000	DKK'000
Equity at 1 January 2015	500	22,251	22,751
Profit for the year	0	9,632	9,632
Equity at 31 December 2015	**500**	**31,883**	**32,383**

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		2015	2014
		DKK'000	DKK'000
1	**Staff costs**		
	Wages and salaries	15,702	19,014
	Pensions	1,496	1,603
	Other social security costs	123	90
		17,321	**20,707**
	Average number of employees	17	20

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

		2015	2014
2	**Financial income**		
	Interest income	795	0
	Foreign exchange income	0	33
		795	**33**

		2015	2014
3	**Financial expenses**		
	Interest expense, etc.	291	125
	Interest paid to group entities	63	0
	Foreign exchange losses	9	28
		363	**153**

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	2015	2014
	DKK'000	DKK'000
4 Tax on profit/loss for the year		
Current tax for the year	3,429	0
Deferred tax adjustment for the year	545	182
	3,974	**182**

5 Intangible assets

	Software
	DKK'000
Cost at 1 January 2015	813
Cost at 31 December 2015	813
Impairment losses and amortisation at 1 January 2015	542
Amortisation	136
Impairment losses and amortisation at 31 December 2015	678
Carrying amount at 31 December 2015	**135**
Depreciated over	3-6 years

Financial statements 1 January - 31 December

Notes

6 Property, plant and equipment

	Fixtures and fittings, tools and equipment
	DKK'000
Cost at 1 January 2015	606
Additions for the year	41
Cost at 31 December 2015	647
Impairment losses and depreciation at 1 January 2015	314
Depreciation for the year	110
Impairment losses and depreciation at 31 December 2015	424
Carrying amount at 31 December 2015	**223**

7 Deferred tax

Deferred tax at 1 January	922	1,104
Deferred tax adjustment for the year	-545	-182
	377	**922**

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8 Contingent assets, liabilities and other financial obligations

Contingent liabilities

The Company has comitted itself to provide financial support of DKK 2,422 thousand (2014: DKK 5,092 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.

Lease obligations (operating leases) falling due within five years total DKK 2,286 thousand (2014: DKK 2,551 thousand).

9 Related party disclosures

Merck A/S' related parties comprise the following:

Controlling interest

Merck Holding GmbH holds the majority of the share capital in the Company.
Other related parties comprise of the other group companies, the Company's Management and the Board of Directors.

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the voting rights of minimum 5% of the share capital:

Merck B.V.
Netherlands , 1119 NW Schiphol-Rijk
Holland

The consolidated financial statements of the Merck Group are available at the Company's address or on the Company's website www.merckgroup.com.