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# ***MSD Animal Health A/S***

Havneholmen 25, DK-1561 København V

## **Annual Report for 1 January - 31 December 2017**

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CVR No 46 29 08 28

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
25/5 2018

Niels Walther-Rasmussen  
Chairman



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# Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of MSD Animal Health 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.

Copenhagen, 25 May 2018

## Executive Board

Pedro Miguel Rodrigues Da Silva  
CEO

## Board of Directors

Allen Harberg Jr  
Chairman

Pedro Miguel Rodrigues Da  
Silva

Torben Dahl

# Independent Auditor's Report

To the Shareholder of MSD Animal Health A/S

## Opinion

In our opinion, 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.

We have audited the Financial Statements of MSD Animal Health A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

## 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.

## 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, 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.

# Independent Auditor's Report

## **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 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.

## Independent Auditor's Report

- 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.

Hellerup, 25 May 2018

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Ulrik Ræbild  
State Authorised Public Accountant  
mne33262

Thomas Lauritsen  
State Authorised Public Accountant  
mne34342

## Company Information

### **The Company**

MSD Animal Health A/S  
Havneholmen 25  
DK-1561 København V

Telephone: + 45 44 54 69 00  
Website: [www.msd-animal-health.dk](http://www.msd-animal-health.dk)

CVR No: 46 29 08 28  
Financial period: 1 January - 31 December  
Municipality of reg. office: København

### **Board of Directors**

Allen Harberg Jr, Chairman  
Pedro Miguel Rodrigues Da Silva  
Torben Dahl

### **Executive Board**

Pedro Miguel Rodrigues Da Silva

### **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Strandvejen 44  
DK-2900 Hellerup

# Financial Highlights

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

	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK	2013 TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Revenue	280.214	262.308	228.822	174.420	162.976
Operating profit/loss	6.418	11.271	6.410	8.559	6.481
Net financials	-1	-125	-185	-1.024	-121
Net profit/loss for the year	4.792	8.674	4.376	1.882	4.663
<b>Balance sheet</b>					
Balance sheet total	110.298	110.127	86.646	62.758	51.705
Equity	53.567	48.775	40.101	35.725	33.843
Number of employees	28	28	27	27	28
<b>Ratios</b>					
Gross margin	12,1%	14,3%	13,7%	18,6%	18,8%
Profit margin	2,3%	4,3%	2,8%	4,9%	4,0%
Return on assets	5,8%	10,2%	7,4%	13,6%	12,5%
Solvency ratio	48,6%	44,3%	46,3%	56,9%	65,5%
Return on equity	9,4%	19,5%	11,5%	5,4%	14,8%

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

## Key activities

The Company's main activity comprises sale of veterinary medicine.

## Development in the year

The income statement of the Company for 2017 shows a profit of TDKK 4,792, and at 31 December 2017 the balance sheet of the Company shows equity of TDKK 53,567. The overall result was as expected and Management concludes that the result was positive.

## The past year and follow-up on development expectations from last year

The Nordic business unit continues to drive strong results for 2017, which was mainly supported by the increase of product offering within the Bravecto franchise with the launch of Bravecto Spot On Cat and for the growing performance of our Swine vaccines segment.

For the year 2018 the business is expected to continue to develop strong growth of around 8%-10% compared to 2017. The expectation is that the EBIT margin will remain at the same level as the margin in 2017. This is sustained by the performance from our Bravecto franchise, by the launch of new Swine vaccines and by the launch of a new Intradermal Vaccination Device in support of our intradermal vaccine portfolio that is expected to increase the adoption of intradermal vaccination in the Danish Swine farms.

As in past years the increased social awareness for responsible use of anti-infective is driving an increase usage of vaccination rates in food production animals which drive a continuous growth opportunity for our extensive and complete vaccine portfolio for the years to come

## Risk Factors

The most material risks are the continuously increasing competition in the market. Furthermore the concentration of customers within food production animals and companion animals exacerbates the competition for customer wallet share.

## Research and development

MSD Animal Health is a local sales company, with research and development done in the Merck & Co., Inc. Group.

## External environment

MSD Animal Health is a pure sales company with no effect on the external environment.

## Knowledge Resources

MSD Animal Health is a knowledge intensive company, with 28 skilled and dedicated employees.

# **Management's Review**

## **Uncertainty relating to recognition and measurement**

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

## **Unusual events**

The financial position at 31 December 2017 of the Company and the results of the activities of the Company for the financial year for 2017 have not been affected by any unusual events.

## **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 TDKK	2016 TDKK
<b>Revenue</b>		<b>280.214</b>	<b>262.308</b>
Cost of sales		-214.557	-195.356
Other external expenses		-31.876	-29.513
<b>Gross profit/loss</b>		<b>33.781</b>	<b>37.439</b>
Staff expenses	1	-27.363	-26.165
Depreciation and amortisation		0	-3
Other operating expenses		0	-11
<b>Profit/loss before financial income and expenses</b>		<b>6.418</b>	<b>11.260</b>
Financial income		93	49
Financial expenses	2	-94	-174
<b>Profit/loss before tax</b>		<b>6.417</b>	<b>11.135</b>
Tax on profit/loss for the year	3	-1.625	-2.461
<b>Net profit/loss for the year</b>		<b>4.792</b>	<b>8.674</b>

# Balance Sheet 31 December

## Assets

	Note	2017 TDKK	2016 TDKK
<b>Inventories</b>		<b>61.674</b>	<b>70.832</b>
Trade receivables		35.576	30.443
Receivables from group enterprises		10.380	6.063
Other receivables		497	226
Deferred tax asset	4	934	296
Prepayments		474	473
<b>Receivables</b>		<b>47.861</b>	<b>37.501</b>
<b>Cash at bank and in hand</b>		<b>763</b>	<b>1.794</b>
<b>Currents assets</b>		<b>110.298</b>	<b>110.127</b>
<b>Assets</b>		<b>110.298</b>	<b>110.127</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2017 TDKK	2016 TDKK
Share capital		20.551	20.551
Retained earnings		33.016	28.224
<b>Equity</b>	<b>5</b>	<b>53.567</b>	<b>48.775</b>
Trade payables		1.724	1.930
Payables to group enterprises		28.626	36.215
Corporation tax		2.263	2.421
Other payables		24.118	20.786
<b>Short-term debt</b>		<b>56.731</b>	<b>61.352</b>
<b>Debt</b>		<b>56.731</b>	<b>61.352</b>
<b>Liabilities and equity</b>		<b>110.298</b>	<b>110.127</b>
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## Statement of Changes in Equity

	Share capital TDKK	Retained earnings TDKK	Total TDKK
Equity at 1 January	20.551	28.224	48.775
Net profit/loss for the year	0	4.792	4.792
<b>Equity at 31 December</b>	<b>20.551</b>	<b>33.016</b>	<b>53.567</b>

# Notes to the Financial Statements

	2017 TDKK	2016 TDKK
<b>1 Staff expenses</b>		
Wages and salaries	24.327	23.042
Pensions	2.931	2.901
Other social security expenses	105	222
	<b>27.363</b>	<b>26.165</b>
<b>Average number of employees</b>	<b>28</b>	<b>28</b>
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
<b>2 Financial expenses</b>		
Interest paid to group enterprises	24	37
Other financial expenses	12	73
Exchange loss	58	64
	<b>94</b>	<b>174</b>
<b>3 Tax on profit/loss for the year</b>		
Current tax for the year	2.263	2.421
Deferred tax for the year	-638	54
Adjustment of tax concerning previous years	0	-14
	<b>1.625</b>	<b>2.461</b>

# Notes to the Financial Statements

	2017 TDKK	2016 TDKK
<b>4 Deferred tax asset</b>		
Deferred tax asset at 1 January	296	350
Amounts recognised in the income statement for the year	638	-54
<b>Deferred tax asset at 31 December</b>	<b>934</b>	<b>296</b>
Property, plant and equipment	-5	-6
Inventories	-647	-40
Other accruals	-282	-250
Transferred to deferred tax asset	934	296
	<b>0</b>	<b>0</b>
<b>Deferred tax asset</b>		
Calculated tax asset	934	296
<b>Carrying amount</b>	<b>934</b>	<b>296</b>

The recognised tax asset comprises deferred tax expected to be utilised within the next three to four years. In connection with the assessment of the utilisation of the tax asset, special emphasis has been placed on the Company's ability to generate profit, and expect to do so in the future.

## 5 Equity

The share capital consists of 1,000 shares of a nominal value of TDKK 20,551. No shares carry any special rights.

## 6 Distribution of profit

Retained earnings	4.792	8.674
	<b>4.792</b>	<b>8.674</b>



# Notes to the Financial Statements

## 7 Contingent assets, liabilities and other financial obligations

### Contingent liabilities

The Company has been joined as a co-party in a pending lawsuit between a breeder and a veterinarian. The Company's management considers it unlikely that the Company may be held liable for the raised indemnity claim.

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of MSD Danmark ApS, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on un-earned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Rental and Lease commitments comprise rent of lease vehicles and amounts to DKK'000 2.621 (2016: DKK'000 1.794)

# Notes to the Financial Statements

## 8 Related parties

	<b>Basis</b>
<b>Controlling interest</b>	
Intervet Holding B.V. Wim de Korverstraat 35 Boxmeer, 5831 Netherlands	Controlling shareholder
Merck & Co., Inc. 2000 Galloping Hill Road Kenilworth NJ 07033 USA	Ultimate parent company
<b>Other related parties</b>	
Allen Harberg Jr.	Board of Directors
Torben Dahl	Board of Directors
Pedro Miguel Rodrigues Da Silva	Board of Directors and Executive Board

### Transactions

With reference to section 98 C(7) of the Danish Financial Statements Act, related parties transactions have not been disclosed in the Annual Report.

### Consolidated Financial Statements

The company is included in the ultimate parent company Annual Report of Merck & Co., Inc.

The Group Annual Report of Merck & Co. Inc. may be obtained at the following address:

Merck & Co., Inc.  
2000 Galloping Hill Road  
Kenilworth NJ  
07033 USA

# Notes to the Financial Statements

## 9 Accounting Policies

The Annual Report of MSD Animal Health A/S for 2017 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 2017 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 & Co., Inc, 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.

# Notes to the Financial Statements

## 9 Accounting Policies (continued)

### Income Statement

#### Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

#### Cost of sales

Cost of sales comprise the raw materials and consumables consumed to achieve revenue for the year.

#### Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

#### Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses other than production wages.

#### Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of 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.

#### 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.

# Notes to the Financial Statements

## 9 Accounting Policies (continued)

The Company is jointly taxed with companies Danish Group. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

## Balance Sheet

### 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. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

### Prepayments

Prepayments comprise prepaid expenses concerning insurance premiums and subscriptions.

### 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

## 9 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

Debts are measured at amortised cost, substantially corresponding to nominal value.

# Notes to the Financial Statements

## 9 Accounting Policies (continued)

### Financial Highlights

#### Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$