
Intervet Danmark A/S

Havneholmen 25, DK-1561 København V

Annual Report for 1 January - 31 December 2016

CVR No 46 29 08 28

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

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 Intervet Danmark 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.

Copenhagen, 31 May 2017

Executive Board

Jan Möhlenbrock
CEO

Board of Directors

Allen Harberg Jr.
Chairman

Torben Dahl

Jan Möhlenbrock

Independent Auditor's Report

To the Shareholder of Intervet Danmark 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 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.

We have audited the Financial Statements of Intervet Danmark 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").

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.

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 misstate-

Independent Auditor's Report

ment, 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.
- 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.

Independent Auditor's Report

- 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, 31 May 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Ulrik Ræbild

State Authorised Public Accountant

Thomas Lauritsen

State Authorised Public Accountant

Company Information

The Company

Intervet Danmark A/S
Havneholmen 25
DK-1561 København V

Telephone: 44 54 69 00
Website: 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
Torben Dahl
Jan Möhlenbrock

Executive Board

Jan Möhlenbrock

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:

	2016 TDKK	2015 TDKK	2014 TDKK	2013 TDKK	2012 TDKK
Key figures					
Profit/loss					
Revenue	262.308	228.822	174.420	162.976	154.917
Operating profit/loss	11.271	6.410	8.559	6.481	5.109
Net financials	-125	-185	-1.024	-121	-114
Net profit/loss for the year	8.674	4.376	1.882	4.663	3.549
Balance sheet					
Balance sheet total	110.127	86.646	62.758	51.705	55.143
Equity	48.775	40.101	35.725	33.843	29.180
Investment in property, plant and equipment	0	0	0	0	40
Number of employees	28	27	27	28	28
Ratios					
Gross margin	14,3%	13,7%	18,6%	18,8%	18,2%
Profit margin	4,3%	2,8%	4,9%	4,0%	3,3%
Return on assets	10,2%	7,4%	13,6%	12,5%	9,3%
Solvency ratio	44,3%	46,3%	56,9%	65,5%	52,9%
Return on equity	19,5%	11,5%	5,4%	14,8%	12,9%

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 2016 shows a profit of TDKK 8,674, and at 31 December 2016 the balance sheet of the Company shows equity of TDKK 48,775. The overall result was as expected and Management concludes that the result was satisfying.

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

The new Nordic business unit continues to drive great results for 2016, which was supported by Bravecto and new vaccines in the swine segment.

Looking forward we expect that the business will keep growing with a lower speed. It will be supported by the launch of new products. The positive sales development will also continue to drive our net profit. The ongoing political discussion about the use of antibiotic in the livestock business results in a higher vaccination rate which will continue to drive our vaccine business in the next years. Following the launch of new products and the political discussion to reduce anti-infective use via e.g. higher vaccination for the livestock business will drive positively sales and profit in the next years.

Risk Factors

The most material risks are the continuously increasing competition in the market and the increased Regulatory demands from authorities. Both could affect the coming year's result negatively. Furthermore, we still see signs of reduction in farm incomes and land abandonment, which has and will mean increased pressure on our pricing and earnings.

Research and development

Intervet Danmark is a local sales company, with research and development done in the Merck & Co., Inc. Group.

External environment

Intervet Danmark is a pure sales company with no effect on the external environment.

Knowledge Resources

Intervet Danmark is a knowledge intensive company, with 28 skilled and dedicated employees.

Uncertainty relating to recognition and measurement

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

Management's Review

Unusual events

The financial position at 31 December 2016 of the Company and the results of the activities of the Company for the financial year for 2016 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	2016 TDKK	2015 TDKK
Revenue		262.308	228.822
Cost of sales		-195.356	-169.173
Other external expenses		-29.513	-28.288
Gross profit/loss		37.439	31.361
Staff expenses	1	-26.165	-24.943
Depreciation and amortisation	2	-3	-8
Other operating expenses		-11	0
Profit/loss before financial income and expenses		11.260	6.410
Financial income		49	0
Financial expenses	3	-174	-185
Profit/loss before tax		11.135	6.225
Tax on profit/loss for the year	4	-2.461	-1.849
Net profit/loss for the year		8.674	4.376

Balance Sheet 31 December

Assets

	Note	2016 TDKK	2015 TDKK
Other fixtures and fittings, tools and equipment		0	14
Property, plant and equipment	5	0	14
Fixed assets		0	14
Inventories		70.832	57.833
Trade receivables		30.443	23.883
Receivables from group enterprises		6.063	2.491
Other receivables		226	283
Deferred tax asset	6	296	350
Prepayments		473	832
Receivables		37.501	27.839
Cash at bank and in hand		1.794	960
Currents assets		110.127	86.632
Assets		110.127	86.646

Balance Sheet 31 December

Liabilities and equity

	Note	2016 TDKK	2015 TDKK
Share capital		20.551	20.551
Retained earnings		28.224	19.550
Equity	7	48.775	40.101
Trade payables		1.930	2.650
Payables to group enterprises		36.215	22.634
Corporation tax		2.421	1.714
Other payables		20.786	19.547
Short-term debt		61.352	46.545
Debt		61.352	46.545
Liabilities and equity		110.127	86.646
Distribution of profit	8		
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Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January	20.551	19.550	40.101
Net profit/loss for the year	0	8.674	8.674
Equity at 31 December	20.551	28.224	48.775

Notes to the Financial Statements

	2016 TDKK	2015 TDKK
1 Staff expenses		
Wages and salaries	23.042	22.092
Pensions	2.901	2.640
Other social security expenses	222	211
	26.165	24.943
Average number of employees	28	27
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
2 Depreciation and amortisation		
Depreciation of property, plant and equipment	3	8
	3	8
3 Financial expenses		
Interest paid to group enterprises	37	31
Other financial expenses	73	131
Exchange loss	64	23
	174	185
4 Tax on profit/loss for the year		
Current tax for the year	2.421	1.714
Deferred tax for the year	54	-60
Adjustment of tax concerning previous years	-14	195
	2.461	1.849

Notes to the Financial Statements

5 Property, plant and equipment

	Other fixtures and fittings, tools and equipment
	<u>TDKK</u>
Cost at 1 January	44
Disposals for the year	<u>-44</u>
Cost at 31 December	<u>0</u>
Impairment losses and depreciation at 1 January	30
Depreciation for the year	3
Reversal of impairment and depreciation of sold assets	<u>-33</u>
Impairment losses and depreciation at 31 December	<u>0</u>
Carrying amount at 31 December	<u>0</u>

Notes to the Financial Statements

	2016 TDKK	2015 TDKK
6 Deferred tax asset		
Deferred tax asset at 1 January	350	291
Amounts recognised in the income statement for the year	-54	60
Amounts recognised in equity for the year	0	-1
Deferred tax asset at 31 December	296	350
Property, plant and equipment	-6	-5
Inventories	-40	-191
Other accruals	-250	-154
Transferred to deferred tax asset	296	350
	0	0
Deferred tax asset		
Calculated tax asset	296	350
Carrying amount	296	350

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 Companys ability to generate profit, and expect to do so in the future.

7 Equity

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

8 Distribution of profit

Retained earnings	8.674	4.376
	8.674	4.376

Notes to the Financial Statements

9 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 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 unearned 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 1.794 (2015: DKK'000 2.269)

Notes to the Financial Statements

10 Related parties

	Basis
Controlling interest	
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
Other related parties	
Allen Harberg Jr.	Board of Directors
Torben Dahl	Board of Directors
Jan Möhlenbrock	Supervisory Board 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

11 Accounting Policies

The Annual Report of Intervet Danmark 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.

Financial Statements for 2016 are presented in DKK'000.

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.

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

Notes to the Financial Statements

11 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 and depreciation

Amortisation and depreciation comprise amortisation and depreciation 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 core activities of the enterprise, 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

11 Accounting Policies (continued)

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

Balance Sheet

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. In the case of assets of own construction, cost comprises direct and indirect expenses for labour, materials, components and sub-suppliers.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

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 etc.	3-10 years
Leasehold improvements	5-10 years

Assets costing less than DKK 12,900 are expensed in the year of acquisition.

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 in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in expected sales sum.

Notes to the Financial Statements

11 Accounting Policies (continued)

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, including the tax base of tax loss carry-forwards, 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.

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

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

Notes to the Financial Statements

11 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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$