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# ***Merck Life Science A/S***

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

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

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CVR No 73 13 15 10

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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## 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 Life Science A/S for the financial year 1 January - 31 December 2016.

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 2016 and of the result of the Company's operations for the year 1 January - 31 December 2016.

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

We recommend that the annual report will be approved 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

# Independent Auditor's Report

To the Shareholder of Merck Life Science 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 Merck Life Science 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 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.

## 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.

## **Independent Auditor's Report**

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.
- 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

# Independent Auditor's Report

scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 31 May 2017

**KPMG**

Statsautoriseret Revisionspartnerselskab

*CVR No 25 57 81 98*



Benny Sørensen

State Authorised Public Accountant

## **Company Information**

### **The Company**

Merck Life Science A/S  
Vandtårnsvej 62 A, 5. a.  
DK-2860 Søborg

Telephone: + 45 70 10 56 45  
Website: [www.merckgroup.com](http://www.merckgroup.com)

CVR No: 73 13 15 10  
Financial period: 1 January - 31 December  
Incorporated: 31 December 1982  
Municipality of reg. office: Gladsaxe

### **Board of Directors**

Tiina Marjatta Puhakka  
Hans Christopher Elers Koch  
Jeanette Sandholmen

### **Executive Board**

Hans Christopher Elers Koch

### **Auditors**

KPMG  
Statsautoriseret Revisionspartnerselskab  
Dampfærgevej 28  
DK-2100 København Ø

## **Management's Review**

### **Main activity**

Merck Life Science is divided into the following business units:

- The products and services portfolio of the Bioscience business units consist of protein research assays and reagents, cell culture solutions and drug discovery services for biopharmaceutical companies.
- The Lab Solutions business unit offers a comprehensive range of products (including chemicals, water purification products and bio-monitoring tools) used in research, quality, analytical and clinical laboratories.
- The Process Solutions business unit offers a variety of products and services used in biotech, pharmaceutical and food and beverage production.

The Company is part of the Merck group. The ultimate parent is E. Merck KG., a German partnership company. E. Merck KG holds approximately 70% of the entire capital of Merck KGaA ("Merck ") whose principal place of business is in Darmstadt (Germany) and has a shareholders' equity at 31 December 2016 of EUR 14,050 million and a share capital of EUR 565 million. The remaining approximately 30% of the capital of Merck is split into publicly-traded shares.

### **Development in the year**

The income statement of the Company for 2016 shows a profit of TDKK 7,936, and at 31 December 2016 the balance sheet of the Company shows equity of TDKK 27,707.

### **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>18.994</b>	<b>14.263</b>
Staff expenses	1	-7.670	-8.306
Amortisation and impairment of intangible assets		<u>-1.564</u>	<u>-1.564</u>
<b>Profit/loss before financial income and expenses</b>		<b>9.760</b>	<b>4.393</b>
Financial income	2	14	36
Financial expenses	3	<u>-263</u>	<u>-473</u>
<b>Profit/loss before tax</b>		<b>9.511</b>	<b>3.956</b>
Tax on profit/loss for the year	4	<u>-1.575</u>	<u>-643</u>
<b>Net profit/loss for the year</b>		<b><u>7.936</u></b>	<b><u>3.313</u></b>

## Distribution of profit

### Proposed distribution of profit

Retained earnings		<u>7.936</u>	<u>3.313</u>
		<b><u>7.936</u></b>	<b><u>3.313</u></b>

## Balance Sheet 31 December

### Assets

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Customer base		12.510	14.074
<b>Intangible assets</b>		<b>12.510</b>	<b>14.074</b>
<b>Fixed assets</b>		<b>12.510</b>	<b>14.074</b>
Finished goods and goods for resale		2.148	4.877
<b>Inventories</b>		<b>2.148</b>	<b>4.877</b>
Trade receivables		25.879	40.032
Deferred tax asset		274	177
Prepayments		90	65
<b>Receivables</b>		<b>26.243</b>	<b>40.274</b>
<b>Cash at bank and in hand</b>		<b>0</b>	<b>14</b>
<b>Currents assets</b>		<b>28.391</b>	<b>45.165</b>
<b>Assets</b>		<b>40.901</b>	<b>59.239</b>

## Balance Sheet 31 December

### Liabilities and equity

	<u>Note</u>	<u>2016</u> TDKK	<u>2015</u> TDKK
Share capital		2.000	2.000
Retained earnings		25.707	17.771
<b>Equity</b>	5	<u>27.707</u>	<u>19.771</u>
Incentive programs		96	97
<b>Long-term debt</b>		<u>96</u>	<u>97</u>
Prepayments received from customers		458	2.793
Trade payables		177	275
Payables to group enterprises		5.053	26.832
Corporation tax		302	416
Other payables		7.108	9.055
<b>Short-term debt</b>		<u>13.098</u>	<u>39.371</u>
<b>Debt</b>		<u>13.194</u>	<u>39.468</u>
<b>Liabilities and equity</b>		<u>40.901</u>	<u>59.239</u>
Contingent assets, liabilities and other financial obligations	6		
Related parties	7		

## Statement of Changes in Equity

	<u>Share capital</u>	<u>Retained</u>	<u>Total</u>
	TDKK	earnings	TDKK
Equity at 1 January	2.000	17.771	19.771
Net profit/loss for the year	0	7.936	7.936
<b>Equity at 31 December</b>	<b>2.000</b>	<b>25.707</b>	<b>27.707</b>

## Notes to the Financial Statements

	<u>2016</u> TDKK	<u>2015</u> TDKK
<b>1 Staff expenses</b>		
Wages and salaries	6.883	7.520
Pensions	787	767
Other social security expenses	0	19
	<u>7.670</u>	<u>8.306</u>
<b>Average number of employees</b>	<u>9</u>	<u>9</u>
<b>2 Financial income</b>		
Other financial income	3	7
Exchange adjustments	11	29
	<u>14</u>	<u>36</u>
<b>3 Financial expenses</b>		
Interest paid to group enterprises	217	448
Exchange adjustments, expenses	46	25
	<u>263</u>	<u>473</u>
<b>4 Tax on profit/loss for the year</b>		
Current tax for the year	1.656	1.106
Deferred tax for the year	-96	-158
Adjustment of tax concerning previous years	15	-305
	<u>1.575</u>	<u>643</u>
<b>5 Equity</b>		

The share capital consists of 2 shares of a nominal value of TDKK 1,000. No shares carry any special rights.

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

## Notes to the Financial Statements

	2016 TDKK	2015 TDKK
<b>6 Contingent assets, liabilities and other financial obligations</b>		
<b>Rental and lease obligations</b>		
The company has entered into leases on cars. The remaining term of the leases is 1-34 months with total remaining lease payments of	235	1.249

### Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. 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.

## 7 Related parties

### Basis

#### Controlling interest

Sigma-Aldrich Chemie N.V., Holland	Parent Company
E. Merck KG, Germany	Ultimate Parent Company

#### Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

Sigma-Aldrich Chemie N.V., Stationsplein 4 E, 3331 LL Zwijndrecht, Holland

#### Consolidated Financial Statements

The Company is included in the Group Annual Report of

Name	Place of registered office
Merck KGaA	Germany

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

Frankfurter Straße 250, 64293 Darmstadt, Germany

## **Accounting Policies**

### **Basis of Preparation**

The Annual Report of Merck Life Science A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2016 are presented in TDKK.

### **Recognition and measurement**

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

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

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

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

### **Translation policies**

On initial 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, 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.

## **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.

## **Accounting Policies**

### **Revenue**

Income from the sale of goods for resale is recognised in the income statement when delivery and transfer of risk to the buyer have taken place, and the income may be reliably measured and is expected to be received. Revenue is measured excluding VAT and taxes charged on behalf of third parties.

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

### **Cost of sales**

Cost of sales comprises costs of goods sold associated to the invoiced revenue.

### **Other external expenses**

Other external expenses comprise expenses incurred for travelling, administration and other external expenses.

### **Staff expenses**

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

### **Financial income and expenses**

Financial income and Financial 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.

### **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.

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

# **Accounting Policies**

## **Balance Sheet**

### **Intangible assets**

Customer bases are measured at the lower of cost less accumulated amortisation and recoverable amount. Customer bases are amortised on a straight-line basis over the estimated useful life, which is 10 years.

Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

### **Impairment of fixed assets**

The carrying amounts of intangible assets 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 cost in accordance with the FIFO method. Inventories are written down to the lower of net realisable value and cost.

Goods for resale 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. Provision is made for anticipated losses at net realisable value.

### **Equity**

#### ***Dividend***

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

### **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.

## **Accounting Policies**

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.

### **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.

### **Liabilities other than provisions**

Financial liabilities are measured at amortised cost. Other liabilities are measured at net realisable value.