

Scandinavian Micro Biodevices ApS

Gammelgårdsvej 87C

3520 Farum

CVR no. 10 01 92 65

Annual report for the period 1 January to 30 November 2016

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

Chairman

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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 Scandinavian Micro Biodevices ApS for the financial year 1 January - 30 November 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 30 November 2016 and of the result of the Company's operations for the financial year 1 January - 30 November 2016.

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.

Farum, 22 March 2017

Executive Board

Ole Kring

Niels Kristian Bau-Madsen

Supervisory Board

Jarne Elleholm
Chairman

Vladimir Esteban Ostoich
Campusano

Michael Paul Sullivan

Independent auditor's report

Independent auditor's report

To the Shareholder of Scandinavian Micro Biodevices ApS

Independent auditor's report on the financial statements

We have audited the financial statements of Scandinavian Micro Biodevices ApS for the financial year 1 January - 30 November 2016. The financial statements comprise accounting policies, income statement, balance sheet 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.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 November 2016 and of the results of the Company's operations for the financial

Independent auditor's report

year 1 January - 30 November 2016 in accordance with the Danish Financial Statements Act.

Emphasis of matter

Without modifying our opinion, we draw attention to the information given in note 9 about uncertainty regarding recognition and measurement of development projects.

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, 22 March 2017

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no.: 25 57 81 98

Kenn W. Hansen
State Authorised Public Accountant

Management's review

Company details

Company	Scandinavian Micro Biodevices ApS Gammelgårdsvej 87C 3520 Farum Denmark
Telephone:	+45 70 20 73 03
Fax:	+45 70 20 73 04
CVR no.:	10 01 92 65
Financial year:	1 January - 30 November
Registered office:	Furesø

Supervisory Board	Jarne Elleholm, Chairman Vladimir Esteban Ostoich Campusano Michael Paul Sullivan
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Executive Board	Ole Kring Niels Kristian Bau-Madsen
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Auditor	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28 2100 Copenhagen Ø CVR no.: 25 57 81 98
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Bank	Danske Bank Munkeengen 30, 1 3400 Hillerød
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General meeting	The annual general meeting is held on 22 March 2017
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Management's review

Main activity

Scandinavian Micro Biodevices ApS (SMB) designs, develops, produces and sells diagnostic products to the veterinarian field consisting of analyzers with Lab-on-a-chip based cartridges.

Development in activities and financial position

SMB was acquired by Zoetis Inc in August 2016 for the sum of \$80 million (536 million DKK at the time of closing). Zoetis expects to invest significantly in SMB's operation in Farum over the coming years, thereby realizing the growth potential of SMB and creating new jobs within product development, production and support functions. In order to follow the Group's year-end date, the Company has consequently changed its financial year-end date to 30 November and the financial year 2016 therefore covers 11 months.

At the end of the year, the Company had 44 employees.

With a net result of 0.2 million DKK the Management considers the year satisfactory.

Expectations to 2016/17

The Company plans introduce new products in 2017, to hire additional employees and invest further in product development and manufacturing capability. The continued efforts in developing the Company will be financed through earnings as well as through financing by the Zoetis Group to the extend required.

Subsequent events

There have been no events after the balance sheet date which could materially affect the assessment of the annual report for the period 1 January – 30 November 2016.

Accounting policies

The annual report of Scandinavian Micro Biodevices ApS for the period 1 January – 30 November 2016 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act.

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

Due to a change in shareholder's the Company has changed its financial year-end date to 30 November and therefore the financial year 2016 covers 11 months.

General

Recognition and measurement

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

Liabilities are recognized 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 reliably measured.

On initial recognition assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each item.

In recognizing and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognized in the income statement as earned. Equally, costs incurred to generate the year's earnings are recognized, including depreciation, amortization, impairment losses and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognized in the income statement.

Income Statement

Gross profit

Gross profit/loss comprises revenue and costs incurred to achieve revenue for the year, other operating income and other external costs.

Revenue

Revenue from the sale of goods for resale and finished goods are recognized in the income statement if the risk has been transferred to the buyer before the year-end. Revenue is measured ex. VAT. All discounts granted are recognized in revenue.

Accounting policies

Other external costs

Other external costs comprise costs for distribution, sales, marketing, administration, premises, loss on debtors, operating lease costs, etc.

Staff costs

Staff costs comprise salaries and wages, including holiday allowance, pension and other social security costs, etc. to the Company's employees excluding refunds from public authorities.

Financial income and expenses

Financial income and expenses comprise interest income and expense, realized and unrealized gains and losses in respect of payables and transactions denominated in foreign currencies as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit for the year

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit/loss for the year is recognized in the income statement, and the tax expense relating to amounts directly recognized in equity is recognized directly in equity.

Balance Sheet

Development projects, patents and licenses

Development costs comprise cost including wages and salaries and amortization that directly can be attributed to the company's development activities and fulfil the recognition requirements. Capitalized development costs are measured at the lower of cost less accumulated amortization and recoverable amount.

Capitalized development costs are amortized on a straight-line basis after completion of the development work over the estimated useful life. Patents and licenses are measured at cost less accumulated amortization. Patents are amortized on a straight-line basis over the remaining term of the patent and licenses are amortized over the contract period.

The amortization period is 5-10 years.

Development costs not fulfilling the requirement for recognition in the balance sheet are charged to expenses in the year when they are paid.

Accounting Policies

Public grants

Public grants comprise grants and financing of development projects. Grants are recognized against the development projects, when there is reasonable assurance that they will be received.

Property, plant and equipment

Plant and machinery as well as fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation.

The basis of depreciation is cost less expected residual value at the end of the useful life. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Straight-line depreciation is provided on the basis of an assessment of the expected useful lives of the assets and their residual value as follows:

Plant and machinery	4-10 years
Fixtures and fittings, tools and equipment	4 years
Leasehold improvements:	4 years

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price and the carrying amount at the date of disposal. Gains and losses are recognized in the income statement as other operating income/expenses.

Leases

Leases for non-current assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are initially recognized in the balance sheet at the lower of fair value and the net present value of future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the Company's other non-current assets.

The capitalized residual lease obligation is recognized in the balance sheet as a liability, and the interest element of the lease payment is recognized in the income statement over the term of the lease.

Accounting Policies

All other leases are treated as operating leases. Payments relating to operating leases and any other leases are recognized in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed in contingencies, etc .

Impairment of non-current assets

The carrying amount of intangible and tangible assets are subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the expected net cash flows from the use of the asset or the group of assets.

Inventories

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

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

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables and salaries and indirect production overheads.

The net realizable value of inventories is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortized cost. Write-down is made for bad debt losses to net realizable value.

Prepayments

Prepayments comprise costs incurred in relation to subsequent financial years.

Accounting Policies

Equity

Dividend

Proposed dividends are recognized as a liability at the date when 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.

Corporation tax and deferred tax

Current tax payable and receivable is recognized 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.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognized at the expected value of their utilization 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.

Deferred tax is measured according to the tax rules and at the tax rate applicable at the balance sheet date when the deferred tax is expected to crystallize as current tax. Change in deferred tax as a result of changes in tax rates is recognized in the income statement.

Financial liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are recognised at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities are measured at net realisable value.

Foreign currency translation

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 recognized in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at

Accounting Policies

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 recognized in the latest financial statements is recognized in the income statement as financial income or financial expenses.

Financial statements 1 January 2016 - 30 November 2016

Income statement

	<u>Note</u>	<u>2016</u> DKK	<u>2015</u> DKK
Gross profit		21,807,507	29,864,982
Staff costs	1	-19,982,026	-17,336,292
Depreciation, amortisation and impairment of intangible and tangible assets	2	<u>-3,821,845</u>	<u>-5,637,389</u>
Profit/loss before financial income and expenses		-1,996,364	6,891,301
Financial income		1	9
Financial costs		<u>-578,702</u>	<u>-152,098</u>
Profit/loss before tax		-2,575,067	6,739,212
Tax on profit for the year	3	<u>2,751,347</u>	<u>3,576,642</u>
Profit for the year		<u>176,280</u>	<u>10,315,854</u>
Proposed distribution of profit			
Retained earnings		<u>176,280</u>	<u>10,315,854</u>
		<u>176,280</u>	<u>10,315,854</u>

Financial statements 1 January 2016 - 30 November 2016

Balance sheet

	<u>Note</u>	<u>2016</u> DKK	<u>2015</u> DKK
Assets			
Completed development projects		9,668,922	12,577,559
Acquired patents		2,463,643	2,203,235
Development projects in progress		<u>31,452,587</u>	<u>18,946,465</u>
Intangible assets	4	<u>43,585,154</u>	<u>33,727,259</u>
Plant and machinery		9,553,570	3,668,867
Other fixtures and fittings, tools and equipment		559,602	373,671
Leasehold improvements		<u>23,404</u>	<u>46,019</u>
Tangible assets	5	<u>10,136,576</u>	<u>4,088,557</u>
Other receivables		<u>816,044</u>	<u>652,066</u>
Fixed asset investments		<u>816,044</u>	<u>652,066</u>
Fixed assets		<u>54,537,252</u>	<u>38,467,882</u>
Inventories		<u>3,567,972</u>	<u>3,573,392</u>
Trade receivables		1,364,467	5,492,880
Company tax receivable		2,751,347	988,894
Other receivables		57,100	0
Receivable from shareholders and Management		<u>0</u>	<u>8,750</u>
Receivables		<u>4,172,914</u>	<u>6,490,524</u>
Cash at bank and in hand		<u>1,845,999</u>	<u>2,839,479</u>
Currents assets		<u>9,586,885</u>	<u>12,903,395</u>
Assets		<u>65,124,137</u>	<u>51,371,277</u>

Financial statements 1 January 2016 - 30 November 2016

Balance sheet

	<u>Note</u>	<u>2016</u> DKK	<u>2015</u> DKK
Equity and liabilities			
Share capital		66,238,265	66,238,265
Share premium account		700,000	700,000
Retained earnings		<u>-19,766,419</u>	<u>-19,942,699</u>
Equity	6	<u>47,171,846</u>	<u>46,995,566</u>
Lease obligations		<u>1,247,192</u>	<u>1,235,055</u>
Long-term debt	7	<u>1,247,192</u>	<u>1,235,055</u>
Lease obligations	7	0	267,034
Trade payables		5,727,293	872,241
Debt to group companies		6,300,000	0
Other payables		<u>3,677,807</u>	<u>2,001,381</u>
Short-term debt		<u>15,705,099</u>	<u>3,140,656</u>
Total debt		<u>16,952,291</u>	<u>4,375,711</u>
Liabilities and equity		<u>64,124,137</u>	<u>51,371,277</u>
Contingent assets, liabilities and other financial obligations	8		
Disclosure of uncertainties regarding recognition and measurement	9		

Financial statements 1 January 2016 - 30 November 2016

Notes

	<u>2016</u> DKK	<u>2015</u> DKK
1 Staff costs		
Wages and salaries	18,212,817	15,773,658
Pensions	1,506,966	1,324,275
Other social security costs	223,348	166,911
Other staff costs	<u>38,895</u>	<u>71,448</u>
	<u>19,982,026</u>	<u>17,336,292</u>
Average number of employees	<u>36</u>	<u>31</u>
2 Depreciation, amortisation and impairment of intangible and tangible assets		
Depreciation intangible assets	2,981,729	4,846,425
Depreciation tangible assets	<u>840,116</u>	<u>790,964</u>
	<u>3,821,845</u>	<u>5,637,389</u>
which breaks down as follows:		
Completed development projects	2,908,637	4,773,898
Acquired patents	73,092	72,527
Plant and machinery	773,959	680,790
Other fixtures and fittings, tools and equipment	43,541	39,166
Leasehold improvements	<u>22,616</u>	<u>71,008</u>
	<u>3,821,845</u>	<u>5,637,389</u>
3 Tax on profit for the year		
Tax credit for development costs	-2,751,347	-297,080
Tax credit development costs regarding prior years	0	-3,279,562
Adjustment of deferred tax	<u>0</u>	<u>0</u>
	<u>-2,751,347</u>	<u>-3,576,642</u>

At 30 November 2016 the Company has a total deferred tax asset of DKK 2.6 Million. As it is uncertain if and at what value the tax asset can be utilized, Management has decided not to recognize the tax asset in the financial statements for 2016.

Financial statements 1 January 2016 - 30 November 2016

Notes

4 Intangible assets

	Completed development projects	Other intangible assets	Development projects in progress	Total
	DKK	DKK	DKK	DKK
Cost at 1 January 2016	35,619,888	2,275,761	18,946,465	56,842,114
Additions for the year	<u>0</u>	<u>333,502</u>	<u>12,506,122</u>	<u>12,839,624</u>
Cost at 30 November 2016	<u>35,619,888</u>	<u>2,609,263</u>	<u>31,452,587</u>	<u>69,681,738</u>
Depreciation and impairment losses at 1 January 2016	23,042,329	72,526	0	23,114,855
Depreciation and impairment losses for the year	<u>2,908,637</u>	<u>73,092</u>	<u>0</u>	<u>2,981,729</u>
Depreciation and impairment losses at 30 November 2016	<u>25,950,966</u>	<u>145,618</u>	<u>0</u>	<u>26,096,584</u>
Carrying amount at 30 November 2016	<u>9,668,922</u>	<u>2,463,643</u>	<u>31,452,587</u>	<u>43,585,154</u>

Financial statements 1 January 2016 - 30 November 2016

Notes

5 Tangible assets

	<u>Plant and machinery</u>	<u>Other fixtures fittings, tools and equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
	DKK	DKK	DKK	DKK
Cost at 1 January 2016	16,356,791	2,319,144	4,978,304	23,654,239
Additions for the year	<u>6,658,662</u>	<u>229,472</u>	<u>0</u>	<u>6,888,134</u>
Cost at 30 November 2016	<u>23,015,453</u>	<u>2,548,616</u>	<u>4,978,304</u>	<u>30,542,373</u>
Impairment losses and depreciation at 1 January 2016	12,687,924	1,945,473	4,932,284	19,565,681
Depreciation and impairment losses for the year	<u>773,959</u>	<u>43,541</u>	<u>22,616</u>	<u>840,116</u>
Impairment losses and depreciation at 30 November 2016	<u>13,461,883</u>	<u>1,989,014</u>	<u>4,954,900</u>	<u>20,405</u>
Carrying amount at 30 November 2016	<u>9,553,570</u>	<u>559,602</u>	<u>23,404</u>	<u>10,136,576</u>
Value of leased assets	<u>1,355,242</u>	<u>183,678</u>	<u>0</u>	<u>1,538,920</u>

6 Equity

	<u>Share capital</u>	<u>Share premium account</u>	<u>Retained earnings</u>	<u>Total</u>
	DKK	DKK	DKK	DKK
Equity at 1 January 2016	66,238,265	700,000	-19,942,699	46,995,566
Profit/loss for the year	<u>0</u>	<u>0</u>	<u>176,280</u>	<u>176,280</u>
Equity at 30 November 2016	<u>66,238,265</u>	<u>700,000</u>	<u>-19,766,419</u>	<u>47,171,846</u>

6 Equity (continued)

The share capital is specified as follows:

26,238,265 A shares of nom. DKK 1 each	26,238,265
40,000,000 B shares of nom. DKK 1 each	<u>40,000,000</u>
	<u>66,238,265</u>

Changes in share capital are specified as follows:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	DKK	DKK	DKK	DKK	DKK
Share capital at 1 January	66,238,265	65,538,265	65,411,765	55,600,000	55,600,000
Capital increases	<u>0</u>	<u>700,000</u>	<u>126,500</u>	<u>9,811,765</u>	<u>0</u>
Share capital at 30 November / 31 December	<u>66,238,265</u>	<u>66,238,265</u>	<u>65,538,265</u>	<u>65,411,765</u>	<u>55,600,000</u>

The continued efforts in developing the Company will be financed through earnings as well as through financing by the Zoetis Group to the extend required

7 Long term debt

	<u>2016</u>	<u>2015</u>
	DKK	DKK
Lease obligations		
Between 1 and 5 years	<u>1,247,192</u>	<u>1,235,055</u>
Non-current portion	1,247,192	1,235,055
Within 1 year	<u>0</u>	<u>267,034</u>
	<u>1,247,192</u>	<u>1,502,089</u>

8 Contingent assets, liabilities and other financial obligations

Contingent assets

The tax value of the Company's unutilised tax losses and deferred tax on other items, calculated with a tax rate of 22%, is approximately DKK 2.6 Million.

Contingens liabilities

The Company has entered into operating leases and rental contracts. The lease period is 3-60 months.
Contingent assets, liabilities and other financial obligations (continued)

The obligation totals DKK 1,931 thousand (31 December 2015: DKK 1,281 thousand)

The Company has entered into a development contract with a third party. The contract holds

certain development commitments for the Company.

9 Disclosure of uncertainties regarding recognition and measurement

In accordance with its accounting policies, the Company has recognised direct costs for development projects less depreciations in the amount of DKK 41,122 thousand. Included in this amount is costs for the development of specific products already launched of DKK 9,669 thousand and DKK 31,453 related to development of products which are expected to be launched in future years.

The value of development cost is associated with uncertainty because the value depends on the future earnings from the products developed. Based on the estimated sales forecast, Management estimates that the future earnings from the products developed will exceed the carrying amount of the development projects recognized as intangible assets.