

Dechra Veterinary Products A/S

Mekuvej 9
7171 Uldum
Denmark

CVR no. 10 11 42 41

Annual report 2016/17

The annual report was presented and approved at
the Company's annual general meeting on

30 November 2017

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 Dechra Veterinary Products A/S for the financial year 1 July 2016 – 30 June 2017.

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

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 30 June 2017 and of the results of the Company's operations for the financial year 1 July 2016 – 30 June 2017.

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

Uldum, 30 November 2017
Executive Board.

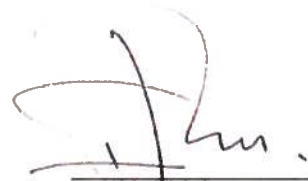


Ian David Page

Board of Directors:



Anthony Gerard Griffin
Chairman

Richard John Cotton

Ian David Page



Independent Auditor's Report

To the Shareholders of Dechra Veterinary Products A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 June 2017, and of the results of the Company's operations for the financial year 1 July 2016 - 30 June 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Dechra Veterinary Products A/S for the financial year 1 July 2016 - 30 June 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("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 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 judgment and maintain professional skepticism 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 scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Trekantområdet, 30 November 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31


Lars Almskou Ohmeyer
State Authorised Public Accountant


John Lindholm Bode
State Authorised Public Accountant

Dechra Veterinary Products A/S
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CVR no. 10 11 42 41

Management's review

Company details

Dechra Veterinary Products A/S
Mekuvej 9
7171 Uldum
Denmark

Telephone: +45 76 90 11 00
Website: www.dechra.com

CVR no.: 10 11 42 41
Established: 21 February 1986
Registered office: Uldum
Financial year: 1 July – 30 June

Board of Directors

Anthony Gerard Griffin, Chairman
Richard John Cotton
Ian David Page

Executive Board

Ian David Page

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Herredsvej 32
DK-7100 Vejle
Denmark

Management's review

Financial highlights

DKK'000	2016/17	2015/16	2014/15	2013/14	2012/13
Key figures					
Revenue	1,013,696	951,961	822,322	731,717	696,995
Gross profit/loss	111,210	124,467	101,142	126,348	186,090
Ordinary operating profit/loss	49,597	63,137	36,868	62,861	94,157
Profit/loss for the year	39,207	42,848	44,144	61,395	67,790
Total assets					
Equity	778,431	835,455	879,612	590,777	744,850
Ratios					
Gross margin	11.0%	13.1%	12.3%	17.3%	26.7%
Operating margin	4.9%	6.6%	4.5%	8.6%	13.5%
Return on equity	14.9%	18.9%	13.2%	14.3%	18.6%
Solvency ratio	36.0%	29.0%	23.6%	77.9%	53.4%
Average number of full-time employees					
	73	68	66	66	93

The financial ratios have been calculated as follows:

Gross margin
$$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$$

Operating margin
$$\frac{\text{Operating profit/loss} \times 100}{\text{Revenue}}$$

Return on equity
$$\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$$

Solvency ratio
$$\frac{\text{Equity ex. non-controlling interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$$

Management's review

Operating review

Principal activities of the Company

Dechra is an international specialist pharmaceutical and related products business. Our expertise is in the development, manufacture and sales and marketing of high quality products exclusively for veterinarians worldwide. The business sells products in several European and overseas markets through subsidiaries and a number of distribution partners. Our customers are veterinary surgeons, predominantly operating out of commercial veterinary practices.

Our Business Model

Our objectives are to innovate, develop, register, supply and market high quality products to the veterinary profession worldwide. We also offer high levels of service, technical support and educational training to support the Dechra brand and develop a strong relationship and be recognised as an important partner to veterinarians.

Our Products

Our products can be divided into four categories: Companion Animal Products (CAP), Food producing Animal Products (FAP), Equine and Nutrition and Diets. All are targeted at providing veterinary professionals with solutions for their customers' needs.

CAP is the basis upon which Dechra established its market position and continues to be our strongest sector. The majority of products in our portfolio are Prescription Only Medicines (POMs), prescribed, administered and dispensed by veterinarians working in companion animal practices. We also have a range of associated non-prescription products that complement the licensed pharmaceuticals, such as ear cleaners, dermatologically active shampoos and other topical and nutritional supplements. Key therapeutic sectors consist of endocrinology, dermatology, analgesia and anaesthesia, cardiovascular and critical care.

Dechra entered the FAP sector through the acquisition of Eurovet in 2012 by the parent company of Dechra Veterinary Products A/S. As over 60% of all global animal health sales are FAP, Dechra is underweight relative to the market and our competitors and it is an increasing area of focus, especially in our plans for geographic expansion. Our products are entirely POMs that are prescribed by veterinarians who work in either specialist veterinary practices or professional farming units. Key therapeutic sectors consist of water soluble antibiotics, poultry vaccines, locomotion (lameness) and pain management.

Equine is a sector in which few animal health companies specialise due to the relatively small number of horses in the world and the fact that in the majority of European countries the horse is classed as a food producing species which adds complexity to the licensing process. Equine veterinarians are specialised in the species and operate out of either mixed practices or, increasingly, specialist equine centres. Key therapeutic sectors consist of lameness and pain management.

Management's review

Operating review

Nutrition and Diets (Nutrition) is our range of pet foods predominantly focused on high quality nutrition to support therapeutic conditions in dogs and cats such as allergies, obesity, heart and kidney disease. They are sold through veterinary practices under the recommendation of either veterinarians or veterinary nurses and are recommended to support therapeutic recovery following diagnosis by a veterinarian of specific conditions.

Performance

During the 2017 financial year our business continued to grow. Our CAP sales were the predominant driver of revenue; FAP also delivered growth. The UK, France and Germany, the 3 main contributors to EU revenues performed well; we also delivered strong revenue growth in Italy and Poland. After a slow start to our recently formed sister company in Austria, performance is now reaching our expectations.

CAP revenues were driven by a strong performance of Zycortal, our novel endocrine product launched last year and also from established products such as Cardisure, Vetoryl and our analgesia and anaesthesia range.

We are pleased to report that our FAP portfolio has delivered its second successive year of growth, albeit modest. This performance is set against a historical decline in antibiotic sales due to concerns over antimicrobial resistance which is continuing in most markets. Despite this, we are beginning to see signs of a recovery in our water soluble antibiotics. We believe that our Solustab range is now well positioned to provide veterinarians with a robust portfolio of suitable options for prudent use of antibiotics in the treatment of the majority of infectious diseases in pigs and poultry. The first of the poultry vaccines developed for the EU, Avishield ND, was launched in Germany, the full Netherlands and Belgium. Although we do not have a full range to offer our customers, we were still able to gain market share due to the product's excellent efficacy and safety profile.

The Equine portfolio performance has been hampered by generic competition to Equipalazone, a long standing product in our portfolio. This more than offset the growth of Osphos, we believe that sales of this product are a long way from reaching full potential and will continue to grow as veterinarians gain a better understanding of this unique treatment.

The Nutrition and Diets market continues to be very competitive; we are maintaining sales of our brand, Specific following historical supply issues and are initiating a number of projects that we hope will re-invigorate the range in the near term. We have towards the end of this financial year, launched two new hypo-allergenic wet diets for dogs and cats.

Development in activities and financial position during the year under review and follow-up on forecast development for 2017/18

Group and parent company results and performance were in line with Management expectations.

The Group reports a profit before tax of DKK 51 million for 2016/17.

Management's review

Operating review

In the past period, the Company realised its planned activities.

The primary objective for 2017/18 will be to continue to focus on our strategic pillars and grow the awareness and presence of the Dechra brand across Europe.

Capital

The capital base of the Company comprises a share capital of a nominal amount of DKK 100 million subscribed at a premium. At 30 June 2017 the total equity was DKK 280 million.

Events after the balance sheet date

There are no reportable post balance sheet events.

Capital resources

The capital resources are considered sufficient to meet future requirements.

Management of special risks

Effective risk management and control is key to the delivery of our business strategy and objectives. Our risk management and control processes are designed to identify, assess, mitigate and monitor significant risks, and can only provide reasonable and not absolute assurance that the Group will be successful in delivering its objectives.

The Dechra Pharmaceuticals PLC Board is responsible for overseeing how the Group's strategic, operational, financial and compliance risks are managed, and for assessing the effectiveness of the risk management and internal control framework.

The Group Senior Executive Team (SET) owns the risk management process and is responsible for managing specific Group risks. The SET is also responsible for embedding sound risk management in strategy, planning, budgeting, performance management, and operational processes within their respective Operating Segments and business units.

The Board and SET together set the tone and decide the level of risk and control to be taken in achieving the Group's objectives. The following risks are specific to our business:

Competition

Competitor products launched against one of our leading brands. We mitigate this through focus on lifecycle management strategies for our key products to ensure our products fulfil evolving customer requirements. Product patents are monitored and defensive strategies are developed towards the end of the patent life or data exclusivity period. We monitor market activity prior to competitor products being launched, and develop a market response strategy to mitigate competitor impact.

Management's review

Operating review

Market risk

The emergence of veterinary buying groups, corporate customers and internet pharmacies. We manage and monitor our national and European pricing policies to ensure equitable pricing for each customer group. Our relationships with larger customers are managed by key account managers and our marketing strategy is designed to support veterinarians in retaining customers by promoting the benefits of our product portfolio in our major therapeutic areas.

Outlook

As outlined in this review the business is performing well. We continue to outperform the majority of markets in which we trade and we continue to identify new growth opportunities and operational efficiencies.

Current trading is in line with the Board expectations and we anticipate delivering our strategic objectives in the new financial year.

External environment

Presently, there are no matters affecting the external environment.

Corporate Social Reporting according to Section 99(a) of the Danish Financial Statements Act

In 2016 Dechra Veterinary Products A/S was certified as Sustainable Business Partner by Green Network for demonstrating the capacity to apply the CSR management system e4 in Dechra. On the basis of this certification our first CSR report was created in which the four areas based on international CSR standards: economy, ethics, environment and employment were described.

By the end of 2017 we will publish our second edition of the CSR report containing the 10 focus points that we will work with during the next 2-3 years. A new feature in the CSR report is that the Sustainability figures, which used to be in a separate report, are included in the report.

Collecting and reporting on important figures is a natural part of our daily operation at Dechra Veterinary Products A/S and they are therefore naturally integrated in every part of the business.

Environment and Climate Approach

Dechra Service Center has always had focus on good environmental controls and has always worked actively on identifying and implementing measures to minimize the impact on the environment.

Management's review

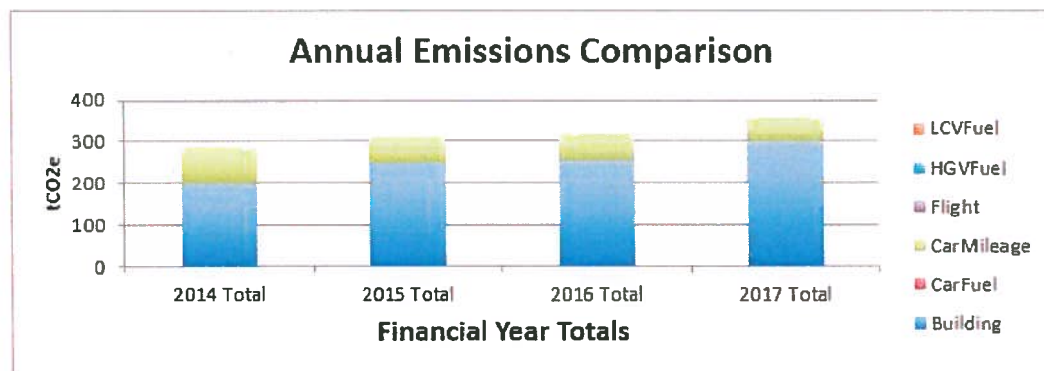
Operating review

Environmental Approach

- Comply with applicable environmental, health and safety regulations and stay ahead of forthcoming regulations.
- Identify potential resource savings in energy and water consumption.
- Work to enforce demands for resource optimization at selected suppliers.
- On a yearly basis plan and carry through environmental activities.

Dechra's key resource usage is the consumption of energy and water in connection with the operation of warehouse and administration. The key environmental factors include emissions of CO₂ into the air which comes from the company's energy consumption. There is also noise from trucks operating to and from the company, but the noise level is within the applicable limits.

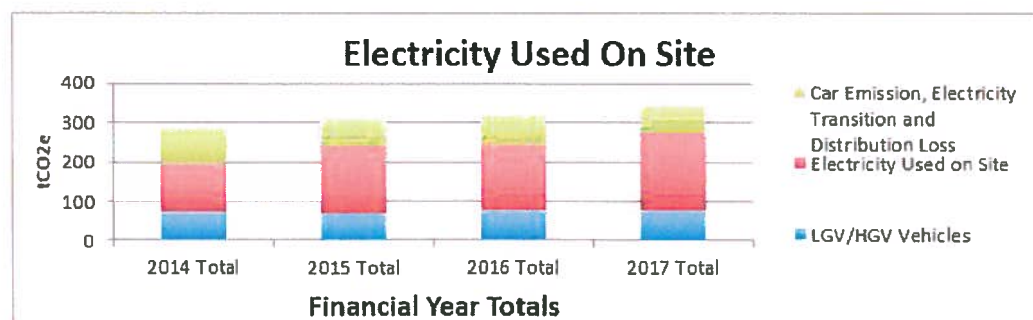
Dechra furthermore contributes to the development and implementation of alternative energy production sources such as wind and solar power through a yearly donation of 15.000 DKK.



The CO₂ emissions for the building have increased in terms of energy consumption due to increased activity in the warehouse. The increase has gone from 250t in 2014/2015 and to 255t in 2015/2016 and a further increase in 2017 to 300t. Some of the increase can be explained by the increase in activity in the old production building on Industrivej, which has been partly rented out to an upcoming production company plus our own staff use the premises for various activities. In terms of car mileage the consumption has decreased from 64t in 2016 to 58t in 2017 due to less vehicles on the road.

Management's review

Operating review



The electricity usage increased from 2015 to 2017 from 123 tons to 198 tons due to increased activity in our buildings. However, in 2017/2018 we expect to see a significant decrease with the installation of LED lighting in the warehouse and administration building on Mekuvej 9.

Work Environment Approach

Dechra Veterinary Products A/S is at the Danish Working Environment Authority rated with a green smiley, which means we have a good and healthy work environment. Our Health & Safety Board has for many years actively worked to create a safe and healthy work place both physically and psychologically for all employees. Furthermore, Dechra performs regular job satisfaction surveys in order to always be in touch with the needs and development of the organisation.

Since 1995 Dechra has been a voluntary member of CRECEA. (CRECEA is an authorized work environment consultancy company).

Work Environment Approach

- Promote communication and spirit within the company.
- Increase the level of information to the employees in the company.
- Ensure that new and young employees are trained in health and safety.
- Optimize the use of new storage facilities.
- Ensure the visibility of the Health and Safety Organization and its members.

Management's review

Operating review

Statistics on accidents and near misses

Year:	08	09	10	11	12	13	14	15	16
Reported accidents*: *: at least 1 days absense	1 <small>18 Feb 2008</small>	1 <small>8 June 2009</small>	1 <small>20 July 2010</small>	0	0	1 <small>14 Mar 2013</small>	1 <small>12 Nov 2014</small>	3 <small>27 Jan 18 Aug 6 Nov 2015</small>	0
Near misses and accidents, which do not require reporting to authorities.** ** monitored in HSE team	2	1	1	1	1	0	1	0	1

As can be seen from the table we have all years kept a very high standard in terms of work safety for our employees. Thus accidents and near misses are a rarity at our site.

At Dechra Service Center we have a long tradition for working actively with all aspects of the work environment in order to create a safe and good place to work for our employees. We have a number of committees/groups in place to capture secure our high standards and act proactively on observations which need attention.

- A HSE organisation with local groups for the administration and the warehouse
- A “Nutcracker group” for identifying and acting on workplace victimisation
- Near miss reporting system in place
- Regular job satisfaction surveys are performed
- Work Place Assessments are carried through every 3 years
- First Aid and Firefighting courses held every 2 years

Results from Work Place Assesments, Near miss reportings and other observations are registered and monitored in an online tracking system and followed up at each HSE meeting held 3 times per year.

Social Responsibility Approach

As a pharmaceutical company Dechra Service Center has always had focus on acting responsibly towards our employees and in the local community.

- Maintain and develop a strategy to have a pool of apprentices in the company.
- Stay focused on the optimization of our human resources, taking into account the well-being and good psychological work environment.

Management's review

Operating review

- Continue development of our managers to develop and motivate employees.
- Retain our employees.
- Promote Dechra spirit and culture.
- Demonstrate social responsibility towards the local community and the local authority, partly by helping with activation plans for unemployed and offer knowledge to small and medium sized companies in the local community.

Our employees are our most valuable resource. Therefore we want to create a workplace, where we focus on our employees' well-being and desire to engage in the company and the job. An employee of Dechra should be a fulfilled person, who, through his/her job, is replenished with positive energy in the form of job satisfaction and a good working atmosphere.

We take pride in developing and retaining our staff at all stages of their work life and are open to create a work-life balance which enables our employees to manage family and work in a positive way. We do this by allowing our employees to plan their own day and enabling them to work from home when needed.

In connection with staff having partial loss of ability to work, we try whenever possible to relocate the employees in other job functions.

We have group policies in place in regards to Anti-Bribery; Donation policy, Code of Conduct/Ethics; Whistleblowing and we try to live by our company values.

Our employee demographic is shown below and is monitored actively. Each month we highlight anniversaries and special anniversaries are celebrated with a small reception.

Employee Demographic

Gender	
Male	27
Female	37

Employment	
Full-time	60
Part time	4

Age	
18 - 24	6
25 - 34	9
35 - 44	27
45 - 54	16
55 - 65	6

Employment length	
Less than 12 m	4
1 - 3 y	14
3 - 5 y	12
5 - 10 y	18
10 - 15 y	6
15 - 20 y	6
20y or more	4

Management's review

Operating review

Human Rights

As Dechra Veterinary Products A/S is a Danish subsidiary of a UK listed company we do not face any challenges in regard to human rights like children's work or slavery etc. As a consequence of this a policy on this has not yet been made.

Human rights in our perspective is the ethical and respectful way we treat our employees and as well how we try to help the society surrounding us e.g. individuals who struggle to cope with the job market.

Dechra Veterinary Products A/S want to create a workplace which will, where possible, seek to help external vulnerable groups by e.g. offering short periods of work as a trainee and other initiatives. To be socially responsible in relation to our own employees, we reserve the right to be honest in assessing whether a positive outcome of such a traineeship is possible.

We seek to be part of the community we are surrounded by, amongst others to support local events/clubs but also by opening our park around the buildings, which includes barbecue areas. Our social responsibility also includes the organization of a Senior Day for former employees and the involvement of the local community in connection with open-house events.

Our commitment to help also shows in the many years of sponsorship to 3 SOS children in Africa to ensure that they go to school and live under good conditions.

We have a big focus on doing business in an ethical way supported by the widely implemented and monitored Anti-bribery and Anti-corruption policy in the business. In addition to this, there is a Code of Conduct/Ethics signed by all employees in Dechra.

We also follow the guidelines in the Data Protection Act in order to handle sensitive information in an ethical way.

Management's review

Operating review

Gender diversity according to Section 99(b) of the Danish Financial Statements Act

At Dechra Service Center there is a small overweight of female employees in the overall staff count, but in the the Board of Dechra Veterinary Products A/S there are 3 males.

For the Danish organization below board level we choose to encompass all managers. There is a total of 7 top and middle managers of whom 3 are female. This is a 43% female quota, which is considered to be an equal distribution.

It is our intention to aim to have a minimum of 30-40% women in managerial positions and as well in the management team. At present this intention is fulfilled.

In future recruitments to managerial positions we will ensure that the last short list of candidates as a minimum includes 1 female. As we more than live up to the legislation no further actions will at the moment be initiated. Also no real plans on the gender quota have been implemented yet and therefore there are no real actions to follow up on.

Financial statements 1 July – 30 June

Income statement

DKK'000	Note	2016/17	2015/16
Revenue	2	1,013,696	951,961
Cost of goods sold		-810,002	-740,573
Other operating income		33,003	35,128
Other external costs		-125,487	-122,049
Gross profit		111,210	124,467
Staff costs	3	-34,579	-34,212
Depreciation, amortisation and impairment	4	-27,034	-27,118
Operating profit		49,597	63,137
Financial income from group entities	5	14,884	16,143
Financial income		1,767	125
Financial expenses	6	-15,485	-21,997
Profit before tax		50,763	57,408
Tax on profit/loss for the year	7	-11,556	-14,560
Profit for the year	8	39,207	42,848

Financial statements 1 July – 30 June

Balance sheet

DKK'000	Note	2017	2016
ASSETS			
Fixed assets			
Intangible assets			
Goodwill	9	178,355	201,366
Development projects in progress		1,345	1,883
Software under development		33,543	29,683
		<u>213,243</u>	<u>232,932</u>
Property, plant and equipment			
Land and buildings	10	23,676	25,231
Plant and machinery		866	1,100
Fixtures and fittings, tools and equipment		4,330	2,504
		<u>28,872</u>	<u>28,835</u>
Investments			
Equity investments in subsidiaries	11	87,204	78,094
Deposits		53	53
		<u>87,257</u>	<u>78,147</u>
Total fixed assets		<u>329,372</u>	<u>339,914</u>
Current assets			
Inventories			
Raw materials and consumables		1,186	1,405
Finished goods and goods for resale		144,130	107,918
		<u>145,316</u>	<u>109,323</u>
Receivables			
Trade receivables		40,514	43,529
Receivables from group entities		248,565	112,884
Prepayments		2,399	2,918
		<u>291,478</u>	<u>159,331</u>
Cash at bank and in hand		<u>12,265</u>	<u>226,887</u>
Total current assets		<u>449,059</u>	<u>495,541</u>
TOTAL ASSETS		<u><u>778,431</u></u>	<u><u>835,455</u></u>

Financial statements 1 July – 30 June

Balance sheet

DKK'000	Note	2017	2016
EQUITY AND LIABILITIES			
Equity	12		
Contributed capital		100,000	100,000
Reserve for net revaluation under equity method		83,381	74,272
Proposed dividends for the financial year		55,000	0
Retained earnings		41,488	72,001
Total equity		279,869	246,273
Provisions			
Provisions for deferred tax	13	8,006	7,041
Total provisions		8,006	7,041
Liabilities other than provisions			
Non-current liabilities other than provisions			
Corporation tax		6,551	0
Payables to group entities	14	151,246	300,000
		157,797	300,000
Current liabilities other than provisions			
Banks, current liabilities		11,328	1,807
Trade payables		29,629	27,772
Payables to group entities	14	251,125	200,720
Corporation tax		245	9,139
Other payables		40,432	42,703
		332,759	282,141
Total liabilities other than provisions		490,556	582,141
TOTAL EQUITY AND LIABILITIES		778,431	835,455
Current liabilities other than provisions	15		
Disclosure of events after the balance sheet date	16		

Financial statements 1 July – 30 June

Statement of changes in equity

DKK'000	Contributed capital	Net revaluation reserve according to the equity method	Retained earnings	Proposed dividends	Total
Equity at 1 July 2016	100,000	74,272	72,001	0	246,273
Foreign exchange adjustment, foreign subsidiary	0	0	-5,774	0	-5,774
Net profit/loss for the year	0	9,109	-24,739	55,000	39,370
Equity at 30 June 2017	100,000	83,381	41,488	55,000	279,869

Financial statements 1 July – 30 June

Notes

1 Accounting policies

The annual report of Dechra Veterinary Products A/S for 2016/17 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

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

Going forward, the residual value of intangible assets and property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity.

Going forward, an amount corresponding to the capitalised development costs will be tied to the restricted reserve "Reserve for development costs" under equity. The reserve cannot be used for dividends, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

Going forward, intangible assets will be amortised over the useful life. Previously the maximum period of amortisation was 20 years.

Minor changes to classifications have made to balance sheet accounts for comparative figures. The changes have no monetary effect on the income statement.

The changes have no monetary effect on the income statement or the balance sheet for 2016 or for the comparative figures.

Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of Dechra Veterinary Products A/S and group entities are included in the consolidated financial statements of Dechra Pharmaceuticals PLC, 24 Cheshire Avenue, Cheshire Business Park Lostock Gralam, Great Britain - Norwich CW9 7UA

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of Dechra Pharmaceuticals PLC.

Pursuant to section 96 (3) of the Danish Financial Statements Act, the company has not disclosed the fee to the auditor appointed at the annual general meeting.

Income statement

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 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.

Revenue

Income from the sale of goods, comprising the sale of pharmaceuticals and animal feed products, is recognised in revenue when delivery and transfer of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received. The date of transfer of the most significant benefits and risks is determined using standard Incoterms ® 2010.

Revenue from the sale of goods where delivery has been postponed at the buyer's request is recognised as revenue when ownership of the goods has been transferred to the buyer.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Cost of goods sold

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the enterprise.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Other operating income and costs

Other operating income and costs comprises items secondary to the activities of the entity, including gains and losses on the disposal of intangible assets and property, plant and equipment.

Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, etc.

Staff costs

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

Income from equity investments in group entities and associates

The proportionate share of the individual subsidiaries' and associates profit/loss after tax is recognised in the Company's income statement after full elimination of intra-group gains/losses and amortisation of goodwill.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, gains and losses on securities, 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

Dechra Veterinary Products A/S is subject to the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. The subsidiaries are included in the joint taxation from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation.

Dechra Veterinary Products A/S is the administrative company for the joint taxation and accordingly settles all payments of corporation tax to the tax authorities.

On payment of joint taxation contributions, current Danish corporation tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have used the losses to reduce their own taxable profit.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Tax for the year comprises current corporation 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, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 20 years.

Software is measured at cost less accumulated amortisation and impairment losses.

Software is amortised from the date of coming into service over the projected useful life, which is 7 years.

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses as well development costs. Other development costs are recognised in the income statement.

Development costs recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Upon completion of development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 3-5 years, however, not exceeding 5 years.

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Direct production overheads and borrowing costs are recognised in cost.

Financial statements 1 July – 30 June

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1 Accounting policies (continued)

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Buildings	25 years
Plant and machinery	10 years
Fixtures and fittings, tools and equipment	3-10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Land is not depreciated.

Leases

On initial recognition, leases for fixed assets that transfer substantially all risks and rewards incident to ownership to the Company (finance leases) are recognised in the balance sheet at the lower of fair value and the net present value of future lease payments. When calculating the net present value, 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 treated as the Company's other fixed assets.

The capitalised lease obligation is recognised in the balance sheet as a liability at amortised cost, allowing the interest element of the lease payment to be recognised in the income statement over the term of the lease.

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

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Equity investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item "Equity investments in group entities" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill)

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Other fixed asset investments

Other fixed asset investments consist of deposits.

Inventories

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

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

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

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.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Prepayments and deferred income

Deferred income comprises advance invoicing regarding income in subsequent years.

Equity

Net revaluation reserved according to the equity method comprises net revaluation of equity investments in group entities and associates in proportion to cost.

Dividends

The expected dividends payment for the year is disclosed as a separate item under equity.

Liabilities other than provisions

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

Finance lease obligation comprise the capitalised residual lease obligation of finance leases.

Other liabilities are measured at net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are easily convertible into cash and which are subject to only an insignificant risk of changes in value.

Financial statements 1 July – 30 June

Notes

1 Accounting policies (continued)

Deferred tax assets and liabilities

In its capacity as the administrative company, Dechra Veterinary Products A/S is liable for the payment of Danish corporation taxes to the tax authorities concurrently with the payment of joint taxation contributions.

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases 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.

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 income 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

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

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DKK'000	2016/17	2015/16
2 Revenue		
Geographical segments		
Revenue, Denmark	61,524	63,832
Revenue, exports	952,172	888,129
	<u>1,013,696</u>	<u>951,961</u>
Business segments		
CAP	587,943	542,618
Diets	212,876	209,431
Equine	101,370	104,716
FAP	101,370	85,676
Other	10,137	9,520
	<u>1,013,696</u>	<u>951,961</u>

Information on business segments and geographical segments are based on the company's risks, returns and its internal financial reporting system. Business segments are regarded as the primary segments.

DKK'000	2016/17	2015/16
3 Staff costs		
Wages and salaries	30,851	30,663
Pensions	3,265	2,919
Other social security costs	463	630
	<u>34,579</u>	<u>34,212</u>
Average number of full-time employees	<u>73</u>	<u>68</u>

The Executive Board and the Board of Directors have not received any remuneration.

4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	23,706	24,170
Depreciation of property, plant and equipment	3,328	2,948
	<u>27,034</u>	<u>27,118</u>

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DKK'000	2016/17	2015/16		
5 Financial income from group entities				
Share of profits of subsidiaries	14,719	16,143		
Interest from intercompany loans	165	0		
	<u>14,884</u>	<u>16,143</u>		
6 Financial expenses				
Interest expense to group entities	15,458	17,688		
Other financial costs	27	99		
Exchange losses	0	4,210		
	<u>15,485</u>	<u>21,997</u>		
7 Tax on profit/loss for the year				
Current tax for the year	12,080	14,203		
Deferred tax for the year	964	549		
Adjustment of tax concerning previous years	-1,488	-192		
	<u>11,556</u>	<u>14,560</u>		
8 Proposed profit appropriation				
Reserve for net revaluation under the equity method	9,109	11,892		
Retained earnings	-24,902	30,956		
Proposed dividend for the financial year	55,000	0		
	<u>39,207</u>	<u>42,848</u>		
9 Intangible assets				
DKK'000	Software under development	Goodwill	Development projects in progress	Total
Cost at 1 July 2016	35,626	460,236	2,832	498,694
Additions	4,016	0	0	4,016
Cost at 30 June 2017	39,642	460,236	2,832	502,710
Amortisation and impairment losses at 1 July 2016	-5,943	-258,870	-949	-265,762
Amortisation	-156	-23,011	-538	-23,705
Amortisation and impairment losses at 30 June 2017	-6,099	-281,881	-1,487	-289,467
Carrying amount at 30 June 2017	33,543	178,355	1,345	213,243

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10 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Cost at 1 July 2016	48,596	3,700	10,394	62,690
Additions	0	0	3,387	3,387
Disposals	-88	0	-582	-670
Cost at 30 June 2017	48,508	3,700	13,199	65,407
Depreciation and impairment losses at 1 July 2016	-23,365	-2,600	-7,890	-33,855
Depreciation	-1,534	-234	-1,561	-3,329
Disposals	67	0	582	649
Depreciation and impairment losses at 30 June 2017	-24,832	-2,834	-8,869	-36,535
Carrying amount at 30 June 2017	23,676	866	4,330	28,872

11 Investments

DKK'000	2017	2016
Cost at 1 July	3,822	3,822
Cost at 30 June	3,822	3,822
Value adjustments at 1 July	74,272	62,378
Exchange adjustment	-5,774	-4,249
Net profit/loss for the year	14,884	16,143
Value adjustments at 30 June	83,382	74,272
Carrying amount at 30 June	87,204	78,094

Name/legal form	Registered office	Equity interest	Currency	Share capital
Subsidiaries:				
Dechra Veterinary Products OY	Finland	100%	EUR	8,000
Dechra Veterinary Products SAS	France	100%	EUR	37,000
Dechra Veterinary Products B.V	Netherlands	100%	EUR	18,000
Dechra Veterinary Products AS	Norway	100%	NOK	100,000
Dechra Veterinary Products AB	Sweden	100%	SEK	100,000
Dechra Veterinary Products Ltd.	Great Britain	100%	GBP	351,135
Dechra Veterinary Products S.L.U	Spain	100%	EUR	3,600

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12 Equity

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

The share capital consists of 100,000,000 shares of a nominal value of TDKK 1.

All shares rank equally.

13 Deferred tax

DKK'000	2017	2016
Provisions for deferred tax relate to:		
Intangible assets	7,676	6,964
Property, plant and equipment	527	456
Other items	-197	-379
	<u>8,006</u>	<u>7,041</u>

14 Non-current liabilities other than provisions

Payments due within 1 year are recognised in current debt. Other debt is recognised in non-current debt.

The debt falls due for payment as specified below:

DKK'000	2017	2016
Payables to group enterprises		
After 5 years	151,246	300,000
Other current debt to group entities	<u>251,125</u>	<u>200,720</u>
	<u>402,371</u>	<u>500,720</u>

Financial statements 1 July – 30 June

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15 Current liabilities other than provisions

Charges and security

The Company has issued an owners' mortgage of TDKK 25,000 secures upon land and buildings. The owners' mortgage is deposited with the Company. The booked value of land and buildings are TDKK 22,461 (2016: TDKK 25,231).

Rental and lease obligations

The obligation over the residual life is TDKK 1,509 (2016: TDKK 1,279).

Other contingent liabilities

The Company has provided guarantees for certain group entities' loans, which at 30 June 2017 came in at DKK 1,494 million (2016: DKK 1,412 million).

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 Dechra Veterinary Products A/S, 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.

16 Related party disclosures

Dechra Veterinary Products A/S' related parties comprise the following:

Control

Dechra Pharmaceuticals PLC, 24 Cheshire Avenue, Cheshire Business Park Lostock Gralam, Great Britain - Northwich CW9 7UA.

Dechra Pharmaceuticals PLC holds the majority of the share capital in the Company.

Dechra Veterinary Production A/S is part of the consolidated financial statements of Dechra Pharmaceuticals PLC, Northwich, which is the largest group in which the Company is included as a subsidiary.

The consolidated financial statements of Dechra Pharmaceuticals PLC can be obtained by contacting the Company.

Related party transactions

In accordance with section 98 c(7) of the Danish Financial Statements Act, the Company has not disclosed any related party transactions as they were conducted on an arm's length basis.