

# DECHRA VETERINARY PRODUCTS A/S

Mekuvej 9  
7171 Uldum  
Denmark

CVR no. 10 11 42 41

## **Annual report 2017/18**

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

20 December 2018

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chairman



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DECHRA VETERINARY PRODUCTS A/S  
Annual report 2017/18  
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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 2017 – 30 June 2018.

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 2018 and of the results of the Company's operations for the financial year 1 July 2017 – 30 June 2018.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, of the results for the year and of the Company's financial position.

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

Uldum, 20 December 2018  
Executive Board:

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Ian David Page

Board of Directors:

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Anthony Gerard Griffin  
Chairman

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Richard John Cotton

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Ian David Page

## Independent auditor's report

### To the shareholders of DECHRA VETERINARY PRODUCTS A/S

#### Opinion

We have audited the financial statements of DECHRA VETERINARY PRODUCTS A/S for the financial year 1 July 2017 – 30 June 2018 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are 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 2018 and of the results of the Company's operations for the financial year 1 July 2017 – 30 June 2018 in accordance with the Danish Financial Statements Act.

#### 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### 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.

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 as to 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 in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made 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 company 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.

## Independent auditor's report

- 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.

## Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the 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 of the Management's review.

Vejle, 20 December 2018

**PricewaterhouseCoopers**  
Statsautoriseret Revisionspartnerselskab  
CVR no. 33 77 12 31

Lars Almskou Ohmeyer  
State Authorised  
Public Accountant  
mne24817

John Lindholm Bode  
State Authorised  
Public Accountant  
mne32840

DECHRA VETERINARY PRODUCTS A/S  
Annual report 2017/18  
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## 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](http://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	2017/18	2016/17	2016	2015	2014
<b>Key figures</b>					
Revenue	1,140,797	1,013,696	951,961	822,322	731,717
Gross profit	94,579	111,210	124,467	101,142	126,348
Operating profit	25,589	49,597	63,137	36,868	62,861
Profit for the year	25,205	39,207	42,848	44,144	61,395
<b>Total assets</b>					
Equity	706,038	778,431	835,455	879,612	590,777
	249,484	279,869	246,273	207,674	460,095
<b>Ratios</b>					
Gross margin	8.3%	11.0%	13.1%	12.3%	17.3%
Operating margin	2.2%	4.9%	6.6%	4.5%	8.6%
Return on equity	9.5%	14.9%	18.9%	13.2%	14.3%
Solvency ratio	35.3%	36.0%	29.0%	23.6%	77.9%
<b>Average number of full-time employees</b>					
	71	73	68	66	66

Financial ratios are calculated in accordance with the guidelines "Recommendations and Ratios" issued by the Danish Society of Financial Analysts. 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

Dechra is an international specialist pharmaceutical and related products business. We are specialised in the development, manufacture and sales and marketing of high-quality products exclusively for veterinarians worldwide. The business sells products on 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 to 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. 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.

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.



## Management's review

### Operating review

#### Performance

During the 2018 financial year, our business has continued to deliver above market growth. With the consolidation of veterinary practices, we are starting to adapt the support model with an increase in key account managers and resource for the technical support team aimed at supporting these corporate groups in growing their business. Whilst consolidators put pressure on margins, they deliver volume. We believe we have strong relationships with the majority of the key players whom we clearly regard as important customers.

CAP continues to perform well with our key therapeutic sectors, especially endocrinology and anaesthesia and analgesia, delivering good growth.

FAP also continues to deliver growth despite the ongoing pressure on antibiotic reduction. We believe our FAP antibiotic range is now aligned for best prescribing practice, and the overall portfolio is in a strong position to continue to deliver future growth. Our range of in-house developed poultry vaccines will enhance this position.

Equine products have performed well, and sales of Osphos have continued to grow as its clinical merits are more widely appreciated.

The performance from Nutrition is pleasing as we have addressed historic supply and palatability issues by delivering growth. We have now launched our refreshed cat diets with a new modern packaging design, a Velcro type sealing system to keep the product fresh once opened and significantly improved palatability. Additionally, we have reduced the number of stocking units which will decrease the amount of plastic we use and reduce distribution costs. We are currently embarking on a similar programme for our dog diets.

We have also achieved the successful implementation and go live of the Oracle integrated ERP system.

### Development in activities and financial position during the year under review and follow-up on forecast development for 2018/19

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

The Group reported a profit before tax of DKK 33.6 million for 2017/18.

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

The primary objective for 2018/19 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 2018, total equity stood at DKK 249.5 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's review

### Operating review

#### 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 Board oversees the risk management and internal control framework, and the Audit Committee reviews the effectiveness of the risk management process and the 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 marketing response strategy to mitigate competitor impact.

#### 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

Following a strong set of results in 2017/18, the new financial year has come off to a good start and is in line with Management's expectations. Good progress is being made on all parts of our strategy, with several new opportunities being realised and recent Group acquisitions delivering expected returns. Whilst there are many challenges in the market, which is developing faster than at any time in history, we believe that our strategy and flexibility to adapt to changes position us well to continue to outperform.

## Management's review

### Operating review

#### External environment

The veterinary market is seeing faster change than at any time in history. European practice corporate consolidation is increasing, especially in the UK and some Northern European countries. A recent significant move is the leading USA company taking a significant presence in mainland Europe. Furthermore, veterinary distributors who operate in the majority of major countries in Western Europe are changing and are beginning to increase focus on the sales and marketing of their own products, which is often in conflict with their core historic suppliers. We are also seeing ongoing consolidation among distributors. The Board of Dechra believes that we are well positioned to support the needs of the larger practice groups alongside independent practices and that we also have the flexibility to respond quickly to any ongoing changes within the distribution network.

#### Corporate social responsibility

In the spring of 2018, we published our second CSR report containing the 10 focus points that are our focus for the next two years. Several of the points are natural prolongations of the first report, but there are also some new and interesting items among them. A new feature in this CSR report is that the Sustainability figures, which used to be in a separate report, are included in the report in order to give a full and complete picture of the Dechra Service Center as a site.

In January 2019, we will commence the preparations for our third CSR report, which will be closely linked to the Group visions for CSR building on four pillars; Our People, Our Community, Our Environment and Our Business. The Group vision goals are still in the making, but we have been invited in to participate in the setting of these goals and look forward to the work.

#### 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 minimise the impact on the environment.

#### Environment Approach

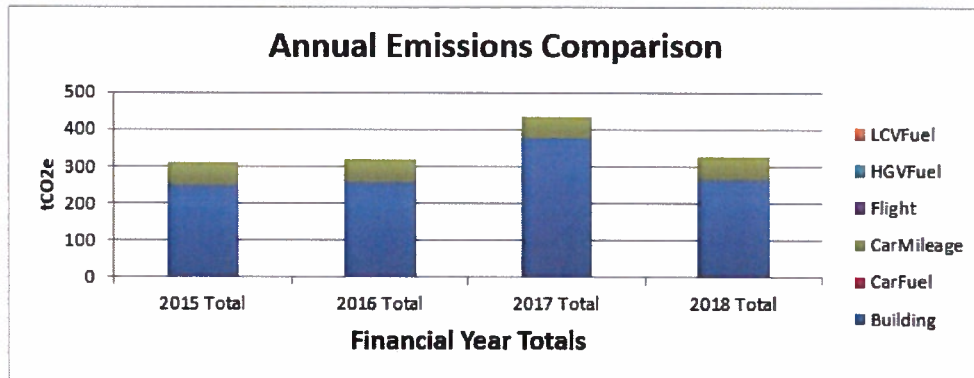
- ◆ Comply with applicable environmental, health and safety regulations and stay ahead of forthcoming regulations.
- ◆ Identify potential resource savings in energy and water consumption.
- ◆ Work to enforce demands for resource optimisation at selected suppliers.
- ◆ On a yearly basis plan and carry 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 CO<sub>2</sub> into the air, which come 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.

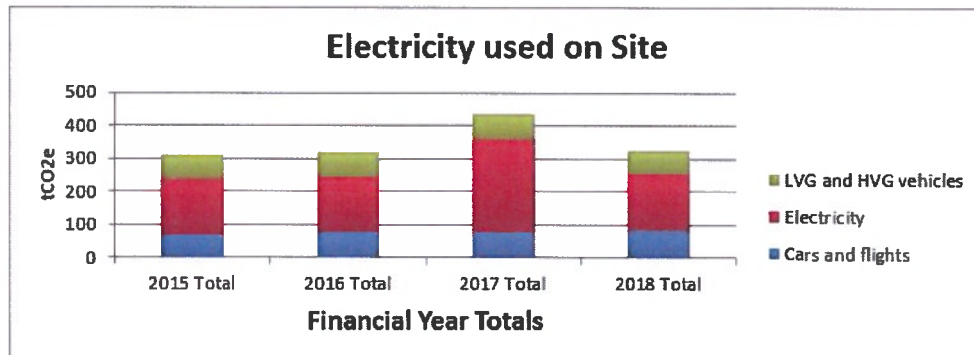
Dechra furthermore contributes to the development and implementation of alternative energy production sources such as wind and solar power through a yearly donation of DKK 15,000.

## Management's review

### Operating review



The CO2 emissions for the building have decreased considerably from 2017 to 2018 in terms of energy consumption. The decrease has gone from 377t in 2017 and to 262t in 2018. This decrease was mostly due to the installation of LED lighting on the whole site. In terms of car mileage, the consumption is back to the normal level at 63t after a dip in 2017 to 57t due to less vehicles on the road.



Electricity usage decreased expectedly from 2017 to 2018 from 287 tons to 175 tons and shows that the investment in installation of LED lighting in the warehouse and administration building on Mekuvej 9 has been worth the effort.

### Significant changes in the Company's activities and financial position

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).

- ◆ Focus on stress and psychological work environment before/during/after Oracle implementation

## Management's review

### Operating review

- ◆ Encourage the administrative employees to use the lifting desks more.
- ◆ Proactively collect and work with data to minimize the risk of incidents and accidents.
- ◆ Eliminate products packed in units more than 14 kg.

Year:	08	09	10	11	12	13	14	15	16	17
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 8 Nov 2015</small>	0	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	0

As can be seen from the table, we have all years kept a very high standard in terms of work safety for our employees. Accordingly 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 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 three years
- ◆ First Aid and Firefighting courses held every second year.

Results from Work Place Assessments, Near miss reportings and other observations are registered and monitored in an online tracking system and followed up at each HSE meeting held three times a 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 optimisation 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 to 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.

### Goals and policies for the underrepresented gender

#### Employee Demographic

Gender	
Male	33
Female	45

Employment	
Full-time	73
Part time	5

Age	
18 - 24	11
25 - 34	15
35 - 44	24
45 - 54	21
55 - 65	7

Employment length	
Less than 12 m	14
1 - 3 y	20
3 - 5 y	12
5 - 10 y	13
10 - 15 y	10
15 - 20 y	2
20y or more	7

\*Figures from Dec. 2018

At Dechra Service Center, there is a small overweight of female employees in the overall staff count, but a good distribution of males and females in the various management levels. In the Board of Dechra Veterinary Products EU, of which Dechra Service Center is a part, there are three males all placed off site in the UK and the Netherlands.



## Management's review

### Operating review

For the Danish organisation below board level, we choose to encompass all managers. There is a total of seven top and middle managers, of whom three 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 min. of 30-40% women in managerial positions and as well in the management team. At present, the intention is fulfilled.

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

At Board level, it is Dechra's aim that by 2023 there should be a female representative on the Board. In 2017/18 there has been no changes within the Board composition and therefore this goal has not been fulfilled yet.

### Human rights

As Dechra Service Center 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 has not yet been drawn up.

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 Service Center wants 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 organisation of a Senior Day for former employees and the involvement of the local community in connection with open-house events.

Our commitment to help is also shown in our long-term sponsorship of three SOS children in Africa to ensure that they go to school and live under good conditions.

We have a huge 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.

Dechra Service Center not only contributes in the local community as mentioned but also has a long tradition of sponsoring 3 SOS children, Joseph, Anita and Peter. The three children, who are either orphans or marginalized, are via our sponsorship ensured a new life and a safe childhood in an SOS Children's Village. We receive positive reports from the children and they are all doing well. Dechra has received positive feedback from the Seniors that they're very pleased to be informed of things and development at Dechra at the Seniors Day.

## Management's review

### Operating review

Dechra Service Center has succeeded in helping an employee with a chronicle rheumatoid arthritis get approved for flexijob, so she can retain her long-standing employment with Dechra. The job is tailored to her abilities and ensures that she can keep being active in the job market to the extent that is possible for her.

Furthermore, we offer on a continuous basis a 2 year apprenticeship at Dechra Service Center to 6 young people.

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



## Financial statements 1 July – 30 June

### Income statement

DKK'000	Note	2017/18	2016/17
<b>Revenue</b>	2	1,140,797	1,013,696
Cost of goods sold		-985,444	-829,869
Other operating income		35,505	33,003
Other external costs		-96,279	-105,620
<b>Gross profit</b>		94,579	111,210
Staff costs	3	-40,484	-34,579
Depreciation, amortisation and impairment	4	-28,506	-27,034
<b>Operating profit</b>		25,589	49,597
Financial income from group entities	5	18,529	14,884
Financial income		0	1,767
Financial expenses	6	-10,500	-15,485
<b>Profit before tax</b>		33,618	50,763
Tax on profit for the year	7	-8,413	-11,556
<b>Profit for the year</b>	8	25,205	39,207

## Financial statements 1 July – 30 June

### Balance sheet

DKK'000	Note	2017/18	2016/17
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Intangible assets</b>	9		
Goodwill		155,343	178,355
Software		37,876	33,543
Development projects in progress		806	1,345
		<u>194,025</u>	<u>213,243</u>
<b>Property, plant and equipment</b>	10		
Land and buildings		22,848	23,676
Plant and machinery		1,375	866
Fixtures and fittings, tools and equipment		3,830	4,330
		<u>28,053</u>	<u>28,872</u>
<b>Investments</b>	11		
Equity investments in group entities		85,900	87,204
Deposits		53	53
		<u>85,953</u>	<u>87,257</u>
<b>Total fixed assets</b>		<u>308,031</u>	<u>329,372</u>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials and consumables		456	1,186
Finished goods and goods for resale		203,601	144,130
		<u>204,057</u>	<u>145,316</u>
<b>Receivables</b>			
Trade receivables		50,436	40,514
Receivables from group entities		133,882	248,565
Prepayments		7,559	2,399
		<u>191,877</u>	<u>291,478</u>
<b>Cash at bank and in hand</b>		<u>2,073</u>	<u>12,265</u>
<b>Total current assets</b>		<u>398,007</u>	<u>449,059</u>
<b>TOTAL ASSETS</b>		<u><u>706,038</u></u>	<u><u>778,431</u></u>

## Financial statements 1 July – 30 June

### Balance sheet

DKK'000	Note	2017/18	2016/17
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Contributed capital	12	100,000	100,000
Reserve for net revaluation under equity method		82,077	83,381
Reserve for development costs		6,934	2,372
Retained earnings		60,473	39,116
Proposed dividends for the financial year		0	55,000
<b>Total equity</b>		<u>249,484</u>	<u>279,869</u>
<b>Provisions</b>			
Provisions for deferred tax	13	<u>8,983</u>	<u>8,006</u>
<b>Liabilities other than provisions</b>			
<b>Non-current liabilities other than provisions</b>			
Corporation tax		3,214	6,551
Payables to group entities	14	<u>150,821</u>	<u>151,246</u>
		<u>154,035</u>	<u>157,797</u>
<b>Current liabilities other than provisions</b>			
Banks, current liabilities		104,398	11,328
Trade payables		42,529	29,629
Payables to group entities	14	120,595	251,125
Corporation tax		14	245
Other payables		<u>26,000</u>	<u>40,432</u>
		<u>293,536</u>	<u>332,759</u>
<b>Total liabilities other than provisions</b>		<u>447,571</u>	<u>490,556</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>706,038</u></u>	<u><u>778,431</u></u>

## Financial statements 1 July – 30 June

### Statement of changes in equity

DKK'000	Contributed capital	Reserve for net revaluation under equity method	Reserve for development costs	Retained earnings	Proposed dividends for the financial year	Total
Equity at 1 July 2017	100,000	83,381	2,372	39,116	55,000	279,869
Ordinary dividends paid	0	0	0	0	-55,000	-55,000
Exchange adjustment	0	0	0	-590	0	-590
Transferred over the profit appropriation	0	-1,304	4,562	21,947	0	25,205
<b>Equity at 30 June 2018</b>	<b>100,000</b>	<b>82,077</b>	<b>6,934</b>	<b>60,473</b>	<b>0</b>	<b>249,484</b>

## Financial statements 1 July – 30 June

### Notes

#### 1 Accounting policies

The annual report of DECHRA VETERINARY PRODUCTS A/S for 2017/18 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.

#### 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.

#### Change in comparative figures

In the Annual Report, changes have been made to the presentation and classification of financial items due changes in Danish GAAP and revised view on financial items. The comparative figures has been adjusted the new presentation and classification. The changes haven't any impact on Result, Equity or Balance sheet total.

#### 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

### 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

## Financial statements 1 July – 30 June

### Notes

#### 1 Accounting policies (continued)

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

Costs of raw materials and consumables comprise raw materials and consumables consumed to achieve revenue for the entity.

#### Other operating income and costs

Other operating income and costs comprise 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 Parent Company's income statement after full elimination of intragroup 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 on which they are included in the consolidated financial statements and up to the date on which they are excluded from the consolidation.

## Financial statements 1 July – 30 June

### Notes

#### 1 Accounting policies (continued)

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.

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

### Notes

#### 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.

#### 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.



## Financial statements 1 July – 30 June

### Notes

#### 1 Accounting policies (continued)

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 entity is recognised as 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.

#### 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

Prepayments comprise prepayment of costs incurred relating to subsequent financial 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 dividend payment for the year is disclosed as a separate item under equity.

## Financial statements 1 July – 30 June

### Notes

#### 1 Accounting policies (continued)

##### Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to 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.

##### 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 receivable and payable

Current tax receivable and payable 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 as financial income and expenses.

##### Financial liabilities

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at 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.

## Financial statements 1 July – 30 June

### Notes

DKK'000	<u>2017/18</u>	<u>2016/17</u>
<b>2 Revenue</b>		
<b>Geographical segments</b>		
Revenue, Denmark	66,659	61,524
Revenue, exports	<u>1,074,138</u>	<u>952,172</u>
	<u>1,140,797</u>	<u>1,013,696</u>
<b>Business segments</b>		
CAP	637,148	587,943
Diets	218,265	212,876
Equine	173,848	101,370
FAP	101,217	101,370
Other	<u>10,319</u>	<u>10,137</u>
	<u>1,140,797</u>	<u>1,013,696</u>
<p>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.</p>		
<b>3 Staff costs</b>		
Wages and salaries	36,306	30,851
Pensions	3,712	3,265
Other social security costs	<u>466</u>	<u>463</u>
	<u>40,484</u>	<u>34,579</u>
Average number of full-time employees	<u>71</u>	<u>73</u>
<p>The Executive Board and the Board of Directors have not received any remuneration.</p>		
<b>4 Depreciation, amortisation and impairment</b>		
Amortisation of intangible assets	24,955	23,706
Depreciation of property, plant and equipment	<u>3,551</u>	<u>3,328</u>
	<u>28,506</u>	<u>27,034</u>
<b>5 Financial income from group entities</b>		
Share of profits of subsidiaries	18,529	14,719
Interest from intercompany loans	<u>0</u>	<u>165</u>
	<u>18,529</u>	<u>14,884</u>

## Financial statements 1 July – 30 June

### Notes

DKK'000	2017/18	2016/17		
<b>6 Financial expenses</b>				
Interest expense to group entities	8,866	15,458		
Other financial costs	12	27		
Exchange adjustments costs	1,613	0		
Percentage surcharge, corporation tax	9	0		
	<u>10,500</u>	<u>15,485</u>		
<b>7 Tax on profit for the year</b>				
Current tax for the year	7,435	12,080		
Deferred tax for the year	978	964		
Adjustment of tax concerning previous years	0	-1,488		
	<u>8,413</u>	<u>11,556</u>		
<b>8 Proposed profit appropriation</b>				
Reserve for development costs	4,562	0		
Reserve for net revaluation under equity method	-1,304	9,109		
Proposed dividends for the year	0	55,000		
Retained earnings	<u>21,947</u>	<u>-24,902</u>		
	<u>25,205</u>	<u>39,207</u>		
<b>9 Intangible assets</b>				
DKK'000	Goodwill	Software	Development projects in progress	Total
Cost at 1 July 2017	460,236	39,642	2,832	502,710
Additions for the year	0	5,737	0	5,737
Cost at 30 June 2018	<u>460,236</u>	<u>45,379</u>	<u>2,832</u>	<u>508,447</u>
Amortisation and impairment losses at 1 July 2017	-281,881	-6,099	-1,487	-289,467
Amortisation for the year	<u>-23,012</u>	<u>-1,404</u>	<u>-539</u>	<u>-24,955</u>
Amortisation and impairment losses at 30 June 2018	<u>-304,893</u>	<u>-7,503</u>	<u>-2,026</u>	<u>-314,422</u>
<b>Carrying amount at 30 June 2018</b>	<u>155,343</u>	<u>37,876</u>	<u>806</u>	<u>194,025</u>

## Financial statements 1 July – 30 June

### Notes

#### 10 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 July 2017	48,508	6,896	10,003	65,407
Additions for the year	629	391	1,712	2,732
Disposals for the year	-1,424	0	0	-1,424
Cost at 30 June 2018	47,713	7,287	11,715	66,715
Depreciation and impairment losses at 1 July 2017	-24,832	-5,263	-6,440	-36,535
Depreciation for the year	-1,457	-649	-1,445	-3,551
Reversed depreciation and impairment losses on assets sold	1,424	0	0	1,424
Depreciation and impairment losses at 30 June 2018	-24,865	-5,912	-7,885	-38,662
<b>Carrying amount at 30 June 2018</b>	<b>22,848</b>	<b>1,375</b>	<b>3,830</b>	<b>28,053</b>

## Financial statements 1 July – 30 June

### Notes

#### 11 Investments

DKK'000	<u>Investments</u>
Cost at 1 July 2017	3,822
Cost at 30 June 2018	3,822
Revaluations at 1 July 2017	83,382
Exchange adjustment	-591
Net profit/loss for the year	18,529
Dividends	<u>-19,242</u>
Revaluations 30 June 2018	82,078
<b>Carrying amount at 30 June 2018</b>	<u><u>85,900</u></u>

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

#### 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 DKK 1 thousand each.

All shares rank equally.

#### 13 Deferred tax

DKK'000	<u>2017/18</u>	<u>2016/17</u>
<b>Provisions for deferred tax relate to:</b>		
Intangible assets	8,509	7,676
Property, plant and equipment	523	527
Other items	<u>-49</u>	<u>-197</u>
	<u><u>8,983</u></u>	<u><u>8,006</u></u>

## Financial statements 1 July – 30 June

### Notes

#### 14 Non-current liabilities other than provisions

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

DKK'000	2017/18	2016/17
Debt falls due for payment as specified below:		
After 5 years	150,821	151,246
Other current debt to group entities	120,595	251,125
	<u>271,416</u>	<u>402,371</u>

#### 15 Current liabilities other than provisions

Changes and collateral

The Company has issued an owners' mortgage of DKK 25,000 thousand secured upon land and buildings. The owners' mortgage is deposited with the Company. The carrying amount of land and buildings represents DKK 22,848 thousand (2017: DKK 22,461 thousand).

Rental and lease obligations

The remaining obligation makes up DKK 1,621 thousand (2017: DKK 1,509 thousand).

Other contingent liabilities

The Company has provided guarantees for certain group entities' loans, which at 30 June 2018 came in at DKK 2,445 million (2017: DKK 1,494 million).

The group entities 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. Moreover, the group entities 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.

**DECHRA VETERINARY PRODUCTS A/S**  
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## **Financial statements 1 July – 30 June**

### **Notes**

#### **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.