
Dechra Veterinary Products A/S

Mekuvej 9, DK-7171 Uldum

Annual Report for 1 July 2015 - 30 June 2016

CVR No 10 11 42 41

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
14/12 2016

Carsten Jeppesen
Chairman



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Dechra Veterinary Products A/S for the financial year 1 July 2015 - 30 June 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 30 June 2016 of the Company and of the results of the Company operations for 2015/16.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Uldum, 12 December 2016

Executive Board

Ian David Page
Executive Officer

Board of Directors

Anthony Gerard Griffin
Chairman

Suzana Cross

Ian David Page

Independent Auditor's Report on the Financial Statements

To the Shareholder of Dechra Veterinary Products A/S

Report on the Financial Statements

We have audited the Financial Statements of Dechra Veterinary Products A/S for the financial year 1 July 2015 - 30 June 2016, which comprise income statement, balance sheet, statement of changes in equity, notes and summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 June 2016 and of the results of the Company operations for the financial year 1 July 2015 - 30 June 2016 in accordance with the Danish Financial Statements Act.

Independent Auditor's Report on the Financial Statements

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management's Review is in accordance with the Financial Statements.

Trekantområdet, 12 December 2016

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Lars Almskou Ohmeyer
State Authorised Public Accountant

John Lindholm Bode
State Authorised Public Accountant

Company Information

The Company

Dechra Veterinary Products A/S
Mekuvej 9
DK-7171 Uldum

Telephone: + 45 76901100
Facsimile: + 45 76901133
Website: www.dechra.com

CVR No: 10 11 42 41
Financial period: 1 July - 30 June
Incorporated: 21 February 1986
Municipality of reg. office: Hedensted

Board of Directors

Anthony Gerard Griffin, Chairman
Suzana Cross
Ian David Page

Executive Board

Ian David Page

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Herredsvej 32
DK-7100 Vejle

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2015/16 TDKK	2014/15 TDKK	2013/14 TDKK	2012/13 TDKK	2011/12 TDKK
Key figures					
Profit/loss					
Revenue	951.961	822.322	731.717	696.995	626.301
Gross profit/loss	124.467	101.142	126.348	186.090	185.403
Profit/loss before financial income and expenses	63.137	36.868	62.861	94.157	102.002
Net profit/loss for the year	42.848	44.144	61.395	67.790	76.960
Balance sheet					
Balance sheet total	848.102	879.612	590.777	744.850	653.885
Equity	246.273	207.674	460.095	397.884	330.780
Number of employees	68	66	66	93	102
Ratios					
Gross margin	13,1%	12,3%	17,3%	26,7%	29,6%
Profit margin	6,6%	4,5%	8,6%	13,5%	16,3%
Solvency ratio	29,0%	23,6%	77,9%	53,4%	50,6%
Return on equity	18,9%	13,2%	14,3%	18,6%	26,4%

For definitions, see under accounting policies.

Management's Review

Main activity

As in previous years, the principal activities of the business are to sell Pharma, Care and Diet products through veterinaries. The products are sold 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.

Operating review

Principal activities of the Company

Market outline

Dechra is an international specialist pharmaceutical and related products business. Our expertise is in the development and sales and marketing of high quality products exclusively for veterinarians. 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.

In the veterinary pharmaceutical market, Dechra aims to provide therapeutic solutions for our veterinary customers to prescribe prescription-only medicines for their pet-owning clients. We have a clear portfolio focus and hold strong market positions in a number of our key therapeutic sectors such as endocrinology, dermatology, anaesthesia and analgesics, and equine medicine.

The global animal health market continues to demonstrate growth. This is driven in developed countries by increased medical and surgical capabilities for companion animals. In developing countries the increased demand for high quality meat protein drives the food producing animal market.

Our market

The key products in our portfolio are predominantly companion animal, equine, diets and food producing animal products. During the year, we have continued to develop the Dechra brand throughout Europe, by growing our established brands through frequent interaction with our customers, up-to-date marketing campaigns and technical support.

The European market is being served by DVP EU (Dechra Veterinary Products Europe), which is the sales & marketing organisation of the Dechra Group in Europe, which encompasses both Dechra Veterinary Products A/S and its subsidiaries and the sister company, Eurovet Animal Health BV, and its subsidiaries. The management of DVP EU is responsible for the overall activities, and as such for the sales & marketing activities of Dechra Veterinary Products A/S and its subsidiaries.

The drive to grow the brand will continue in the future with the launch of new products from the pipeline, an increased technical and educational programme, and expansion into new markets.

Management's Review

Key strengths

In order to forge relationships with customers, technical dinners and seminars are held to provide a face-to-face programme to educate veterinarians on our key therapeutic sectors. Key opinion leaders, at both local and international levels, are recruited for seminars and presentations; additionally, webinars and online interactive educational tools are available on the DVP EU website. We have identified eight specialist areas where we leverage our expertise: endocrinology, dermatology and care, anaesthesia and analgesia, cardiovascular disease, ophthalmology, equine medicine, food producing animals and pet diets. DVP EU markets both novel products, as well as generic (-plus) products and specialist, therapeutic and maintenance pet diets.

Achievements

In the financial year just ended, the Company contributed to the delivery on all but one of the strategic pillars of the Dechra Group.

Pipeline delivery

Zycortal, a novel canine endocrine product for the treatment of Addison's disease, has received approval throughout the EU and Australia.

Following the successful registration of Osphos last year in the UK, approval was subsequently received in 17 additional EU countries in September 2015. Osphos is a unique product which treats navicular syndrome in horses.

We have also had numerous successes in our Food Producing Animal Products (FAP) portfolio: two new water soluble antibiotics, Solamocta and Phenocillin® have been approved in 17 member states; a liquid antibiotic, Metaxol, was approved in 18 member states; and our existing antibiotic aerosol, Cyclopray®, was extended into 12 new territories.

Portfolio focus

Our Companion Animal Product (CAP) sales were driven predominantly by strong performance in endocrinology, and anaesthetics and analgesics. Within endocrinology, Vetoryl® continues to grow in all major territories and the launch of Zycortal into 14 countries has strengthened our position in this key therapeutic sector.

Our equine portfolio has also performed well. Osphos has been launched across all major territories and is performing to our expectations. We are also re-positioning Equipalazone® following palatability trials. Our FAP portfolio delivered growth. The decline in antibiotic sales in Germany has slowed and after several years of decline in the Netherlands we are now seeing sales flatten. Against this background, overall growth has been achieved by increasing market penetration in Poland and in countries where we had a lower market share historically, such as the UK, France, Italy and Spain. We have launched Solamocta®, a new antibiotic lifecycle improvement which will be key to our recovery in Germany. Other new product registrations have been received within FAP and are being prepared for imminent launch in Europe which should ensure that we continue to see positive momentum within this important therapeutic sector.

Diet sales have not fully returned to previous levels following the supply problems in the previous financial year. We have appointed an experienced manager to focus on developing our therapeutic diets business and have recently won two new contracts with major veterinary groups which should ensure an

Management's Review

improved position in the future.

Geographic expansion

A greenfield start-up affiliated company has been established in Austria which commenced trading in January 2016. Initial sales are progressing well. Our affiliated company in Poland which was established in the prior financial year is performing above our expectations.

Acquisition

The final strategic pillar of the Dechra group is being driven out of the Head Office in the UK.

Development in activities and financial position during the year under review and follow-up on forecast development for 2016/17

Group and parent company results and performance were in line with Management expectations. The Group reports a profit before tax of DKK 57.4 million for 2015/16. In the past period, the Company realised its planned activities.

The primary objective for 2016/17 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 2016 the total equity was DKK 246.3 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. 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 following risks are specific to our business:

Management's Review

Competition

Competitor products launched against one of our leading brands. We mitigate this through focus on lifecycle management strategies 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 exclusivity period. We monitor market activity prior to competitor products being launched, and develop a market response strategy to mitigate competitor impact.

Market risks

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 for the coming year

Although we anticipate a degree of uncertainty following Brexit, the business is naturally hedged by its geographical spread and international sourcing. Any significant downturn in the UK economy may impinge on growth rates; however, we do not anticipate any material effect on the Group.

Our pipeline has been strengthened through both new internally generated ideas and the integration of acquired development programmes. We have continued to invest in people and the infrastructure to ensure we maximize revenues and execute our strategy successfully.

The Group continues to deliver growth and identify opportunities across all aspects of our strategy; we therefore continue to look forward to the future with confidence.

External environment

Presently, there are no matters affecting the external environment.

Management's Review

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

Dechra Veterinary Products A/S was in September 2016 certified as Sustainable Business Partner by Green Network for demonstrating the capacity to apply the CSR management system e4 developed by Green Network in Dechra. The management system comprises four areas based on international CSR standards: economy, ethics, environment and employment. Dechra is certified in using recognised tools and methods to organise and manage our social responsibility, develop strategies, prepare action plans and assess our own practice.

Within the 10 CSR topics, with which we work on a daily basis, detailed below are the three overall areas maintained and developed.

Environment and climate

Dechra Veterinary Products A/S 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.

Dechra's key resource usage is the consumption of energy and water in connection with the operation of storage 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.

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.

Goals in 2015-2016

- Maintaining the high level of environmental and occupational health and safety including future regulations.
- Carry through project to reduce power consumption for administration
- Carry through project to reduce power consumption in warehouse
- Implement enforcement of environmental requirements for selected suppliers via the CSR process.

Results for 1 July 2015 to 30 June 2016

- Maintained the high level of environmental and occupational health and safety work in the organization
- Screened and tested offers for best solutions on LED lighting in warehouse and administration.
- Screened and implemented monthly reporting on CO₂ emissions for transport of our goods via

Management's Review

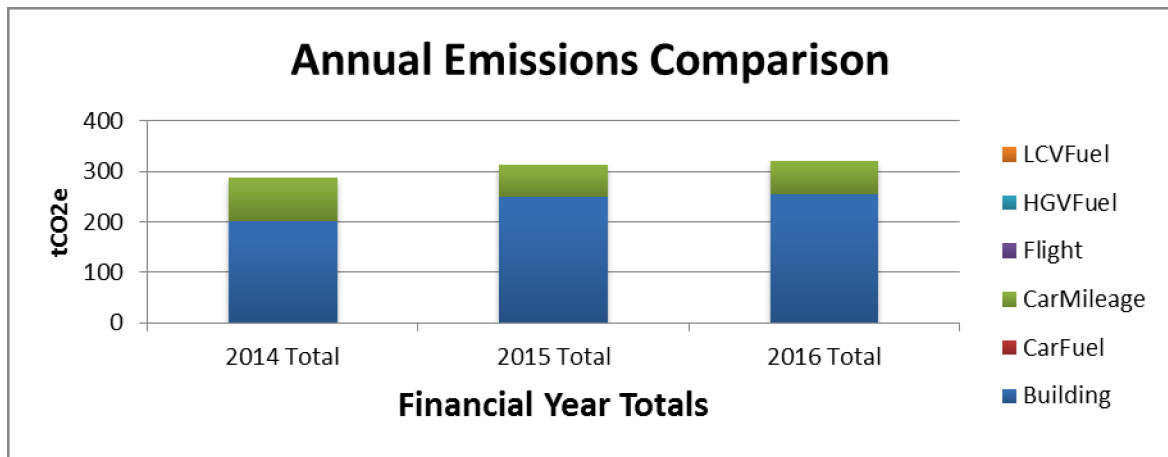
external transport companies.

Goals for 2016 – 2017

- Maintain the high level of environmental and occupational health and safety work in the organization
- Implement LED lighting in warehouse and administration.
- Screen and evaluate alternative transportation for diets from Belgium to Denmark.

An estimated 20% reduction on the distribution of 1000 containers/year – 2000TEU

CO2 Emissions													
	2015						2016						
Row Labels	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	Total
Building	27,96	30,24	24,94	20,67	15,63	14,27	14,40	8,92	13,85	20,12	25,40	30,27	246,67
CarMileage	3,81	4,78	5,51	5,44	5,52	6,35	6,33	5,02	5,40	6,13	5,91	5,45	65,65
Grand Total	31,76	35,01	30,45	26,11	21,15	20,61	20,73	13,94	19,26	26,25	31,31	35,73	312,32



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 200t in 2014 to 250t in 2015 and to a further increase in 2016 of 255t. In terms of car mileage the consumption has increased from 62t in 2015 to 64t in 2016 due and increased transportation.

Work Environment

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.

Management's Review

- 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.

Goals in 2015 - 2016

- Increase the level of communication between manager and employee, between departments and the entire organization.
- Establish a way to increase information in the warehouse on trucks to gates and arrival/departure times for trucks.
- Ensure that new employees receive adequate instruction in safety and lifting techniques in sample packing room and warehouse.
- Optimise the pharma areas, so it is optimally fit for the current workflows and functions.
- Work to minimize or completely eliminate discomfort from cold or draught in the administration area.
- All employees must know who is in the Health and Safety Organization and how they work.

Results for 1 July 2015 to 30 June 2016

- Regular management meetings are held and a general information meeting is held every month.
- Weekly whiteboard meetings in the warehouse ensure that the information level for the staff is high.
- All new employees are instructed in correct lifting techniques and furthermore it has been ensured that only small bags will be used for repacking jobs.
- The pharma area has been expanded and designed to accommodate increased activity.
- Use of heating lamps in the warehouse ceiling radiates warmth onto the floor or the offices above and ensures a comfortable room temperature.
- A link to news and updates about new minutes are published on the Intranet. Furthermore the H&S organisation has given information at the monthly information meetings.

Goals for 2016 – 2017

- Focus on psychological work environment in connection with Oracle implementation.
- Implement and maintain instructions about safety, heavy lifting and pushing/pulling for all employees in the warehouse.
- Focus on instructions and guidance to all administration employees to make use of elevating desks and chairs to a larger extend.
- Work proactively on reporting and eliminating possible risks of injuries or accidents.
- Eliminate all lifts above 14 kg.

Social Responsibility

Dechra 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 also 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 whole person, who, through his/her job, is

Management's Review

replenished with positive energy in the form of job satisfaction and a good working atmosphere.

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

We seek to be part of the environment 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.

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.

Social Responsibility Approach

- 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.
- 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 activation plans for unemployed and offer knowledge with small and medium sized companies in the local community.

Goals 2015-2016

- Retain a pool of 6 apprentices, who are trained in logistics, purchasing and warehousing. Dechra thereby contributes to the local community and secures work places in Denmark.
- Disseminate performance management throughout the organization.
- Achieve a staff turnover rate of max. 10% for employees.
- Continue to utilise employee surveys via mini-surveys every quarter, work with the relevant departments on the findings of the survey.
- Publish the first CSR report.

Results for 1 July 2015 to 30 June 2016

- Having had apprentices for a number of years now, it has proved very successful. Dechra have succeeded in educating young people, who are attractive not only to Dechra itself, but also to other companies, who are eager to headhunt our apprentices who have completed the apprentice scheme. At present we have: 2 in Logistics, 1 in Purchase and 2 in the Warehouse. We believe that this is a win-win initiative. Dechra has good, motivated young people in our business and we contribute to the society.
- We have further implemented Performance Management across the business and all white collar employees have had objectives set that underpin the achievement of the business strategy as well as seek to develop and retain the employee within Dechra.
- Take the initial steps to implement a competency matrix helping the employee and management to align job expectations. Furthermore, a number of managers have attended a coaching session regarding

Management's Review

leadership.

- Our HR manager has participated in a work force programme with Hedensted Municipality named Code of Care. The purpose of the task force in our local community is to bring long term unemployed persons back to the job market – giving self-esteem to the individual as well as reducing costs for the community.
- Carried through employee surveys via mini-surveys every quarter and worked with the departments on the findings.
- Through the help of employer involvement we published the first CSR report for Dechra Veterinary Products A/S in the spring of 2016. The management team set the framework and a group of CSR Ambassadors ensured that the chosen 10 focus areas were defined, described and implemented in each department. The 10 topics are followed each month in our site report.

Goals for 2016 - 2017

- Put more focus on attracting new and young employees by changing the way we hire staff, looking at the possibility of incorporating part-time employment to specific tasks within the company. One way of doing this is by maintaining a high level of apprentices.
- Work on an developing an attractive workplace through the change of IT-structure and physical use of office facilities.
- Update and publish the next local CSR report and follow the CSR improvements on regular basis.
- Evaluate and when possible increase the use of organic greens and meat in the kitchen

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 torture 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.

Over time we have had employees in flexi jobs. At the moment 1 employee is employed on these terms. On an annual basis we invite the local job centre to the site. The job centre brings 10-15 unemployed persons who are looking for flexi jobs. We make an effort to tell the good story of how we employ a person in flexi job – and this employee himself explains why it is important and how to get such a job. This is done as an inspiration to the unemployed persons and a motivation to persist in their search for a job.

Last year we entered a contract with the local job centre. In this contract we committed Dechra Veterinary Products A/S to help unemployed persons or persons on sick leave having been out of the job market for a long period of time. We offer a 3 month traineeship to these persons to enable them to get experience having a job and hopefully this will help them find a real job after the training period. In 2015-2016 we had 1 person in traineeship.

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.

Management's Review

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.

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

The Board of Dechra Veterinary Products A/S consists of 2 males and 1 female which gives a 33% female quota, but will from 1 January 2017 consist of 3 males.

For the Danish organization below board level we choose to encompass all managers. There is a total of 6 top and middle managers of whom 3 are female. This is a 50% 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 the present this intention is more than 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.

Income Statement 1 July - 30 June

	Note	2015/16 TDKK	2014/15 TDKK
Revenue	1	951.961	822.322
Change in inventories of finished goods, work in progress and goods for resale		14.334	1.231
Other operating income		35.128	32.210
Expenses for raw materials and consumables		-754.907	-631.181
Other external expenses		-122.049	-123.440
Gross profit/loss		124.467	101.142
Staff expenses	2	-34.212	-36.094
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-27.118	-28.180
Profit/loss before financial income and expenses		63.137	36.868
Income from investments in subsidiaries	4	16.143	14.705
Financial income		125	23.219
Financial expenses	5	-21.997	-13.068
Profit/loss before tax		57.408	61.724
Tax on profit/loss for the year	6	-14.560	-17.580
Net profit/loss for the year		42.848	44.144

Distribution of profit

Proposed distribution of profit

Extraordinary dividend paid	0	300.000
Reserve for net revaluation under the equity method	11.892	18.140
Retained earnings	30.956	-273.996
	42.848	44.144

Balance Sheet 30 June

Assets

	Note	2016 TDKK	2015 TDKK
Software under development		29.683	27.324
Goodwill		201.366	224.378
Development projects in progress		1.883	2.591
Intangible assets	7	232.932	254.293
Land and buildings		25.231	26.012
Plant and machinery		1.100	1.334
Other fixtures and fittings, tools and equipment		2.504	3.459
Property, plant and equipment	8	28.835	30.805
Investments in subsidiaries	9	78.094	66.200
Deposits		53	113
Fixed asset investments		78.147	66.313
Fixed assets		339.914	351.411
Raw materials and consumables		1.405	1.147
Finished goods and goods for resale		107.918	94.989
Inventories		109.323	96.136
Trade receivables		43.529	36.375
Receivables from group enterprises		326.511	384.593
Prepayments		2.918	7.231
Receivables		372.958	428.199
Cash at bank and in hand		25.907	3.866
Currents assets		508.188	528.201
Assets		848.102	879.612

Balance Sheet 30 June

Liabilities and equity

	Note	2016 TDKK	2015 TDKK
Share capital		100.000	100.000
Reserve for net revaluation under the equity method		74.272	62.380
Retained earnings		72.001	45.294
Equity	10	246.273	207.674
Provision for deferred tax	11	7.041	6.492
Provisions		7.041	6.492
Payables to group enterprises		300.000	300.000
Long-term debt	12	300.000	300.000
Lease obligations		0	396
Trade payables		27.772	28.101
Payables to group enterprises	12	215.174	274.214
Corporation tax		9.139	12.146
Other payables		42.703	50.589
Short-term debt		294.788	365.446
Debt		594.788	665.446
Liabilities and equity		848.102	879.612
Contingent assets, liabilities and other financial obligations	13		
Related parties	14		

Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 July	100.000	62.380	45.294	207.674
Exchange adjustments relating to foreign entities	0	0	-4.249	-4.249
Net profit/loss for the year	0	11.892	30.956	42.848
Equity at 30 June	100.000	74.272	72.001	246.273

Notes to the Financial Statements

	2015/16	2014/15
	TDKK	TDKK
1 Revenue		
Geographical segments		
Revenue, Denmark	63.832	62.646
Revenue, exports	888.129	759.676
	951.961	822.322
2 Staff expenses		
Wages and salaries	30.663	32.671
Pensions	2.919	2.809
Other social security expenses	630	614
	34.212	36.094
Average number of employees	68	66
The Executive Board and the Board of Directors have not received any remuneration.		
3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	24.170	25.119
Depreciation of property, plant and equipment	2.948	3.061
	27.118	28.180
4 Income from investments in subsidiaries		
Share of profits of subsidiaries	16.143	15.021
Adjustments to prior years	0	-316
	16.143	14.705

Notes to the Financial Statements

	2015/16	2014/15
	TDKK	TDKK
5 Financial expenses		
Interest paid to group enterprises	17.688	12.855
Other financial expenses	99	213
Exchange adjustments, expenses	4.210	0
	21.997	13.068

6 Tax on profit/loss for the year

Current tax for the year	14.203	17.565
Deferred tax for the year	549	115
Adjustment of tax concerning previous years	-192	-100
	14.560	17.580

7 Intangible assets

	Software under development	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK
Cost at 1 July	27.324	460.236	15.817
Additions for the year	2.261	0	228
Disposals for the year	-781	0	-13.213
Transfers for the year	6.822	0	0
Cost at 30 June	35.626	460.236	2.832
Impairment losses and amortisation at 1 July	0	235.858	13.226
Amortisation for the year	220	23.012	936
Reversal of amortisation of disposals for the year	-781	0	-13.213
Transfers for the year	6.504	0	0
Impairment losses and amortisation at 30 June	5.943	258.870	949
Carrying amount at 30 June	29.683	201.366	1.883
Amortised over		20 years	3-5 years

Notes to the Financial Statements

8 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment
	TDKK	TDKK	TDKK
Cost at 1 July	47.981	3.700	16.787
Additions for the year	867	0	809
Disposals for the year	-252	0	-380
Transfers for the year	0	0	-6.822
Cost at 30 June	<u>48.596</u>	<u>3.700</u>	<u>10.394</u>
Impairment losses and depreciation at 1 July	21.969	2.366	13.328
Depreciation for the year	1.633	234	1.081
Reversal of impairment and depreciation of sold assets	-237	0	-15
Transfers for the year	0	0	-6.504
Impairment losses and depreciation at 30 June	<u>23.365</u>	<u>2.600</u>	<u>7.890</u>
Carrying amount at 30 June	<u>25.231</u>	<u>1.100</u>	<u>2.504</u>
Depreciated over	<u>25 years</u>	<u>10 years</u>	<u>3-10 years</u>

Notes to the Financial Statements

	2016 TDKK	2015 TDKK
9 Investments in subsidiaries		
Cost at 1 July	3.822	3.822
Cost at 30 June	3.822	3.822
Value adjustments at 1 July	62.378	44.240
Exchange adjustment	-4.249	3.433
Net profit/loss for the year	16.143	15.021
Other equity movements, net	0	-316
Value adjustments at 30 June	74.272	62.378
Carrying amount at 30 June	78.094	66.200

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Dechra Veterinary Products OY	Finland	EUR 8.000	100%
Dechra Veterinary Products SAS	France	EUR 37.000	100%
Dechra Veterinary Products B.V.	Netherlands	EUR 18.000	100%
Dechra Veterinary Products AS	Norway	NOK 100.000	100%
Dechra Veterinary Products AB	Sweden	SEK 100.000	100%
Dechra Veterinary Products Ltd.	Great Britain	GBP 351.135	100%
Dechra Veterinary Products S.L.U.	Spain	EUR 3.600	100%

10 Equity

The share capital consists of 100,000,000 shares of a nominal value of TDKK 1. No shares carry any special rights.

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

Notes to the Financial Statements

	2016	2015
	TDKK	TDKK
11 Provision for deferred tax		
Intangible assets	835	570
Property, plant and equipment	6.584	6.584
Other items	-378	-458
Tax loss carry-forward	0	-204
	<u>7.041</u>	<u>6.492</u>

12 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Payables to group enterprises

After 5 years	300.000	300.000
Long-term part	<u>300.000</u>	<u>300.000</u>
Other short-term debt to group enterprises	215.174	274.214
	<u>515.174</u>	<u>574.214</u>

Notes to the Financial Statements

	2016 TDKK	2015 TDKK
13 Contingent assets, liabilities and other financial obligations		
Charges and security		
The following assets have been placed as security with mortgage credit institutes:		
The Company has issued an owner's 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	25.231	26.012

Rental and lease obligations

The obligation over the residual life is	1.279	1.140
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Other contingent liabilities

The Company has provided guarantees for certain group enterprises' loans, which at 30 June 2016 came in at TDKK 1.412.205 (2015: TDKK 341.126)

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 un-earned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

14 Related parties

	<u>Basis</u>
Controlling interest	
Dechra Pharmaceuticals PLC	Ultimate parent company

Consolidated Financial Statements

The consolidated financial statements of Dechra Pharmaceuticals PLC can be obtained from the company

<u>Name</u>	<u>Place of registered office</u>
Dechra Pharmaceuticals PLC	Northwich, Great Britain

The Group Annual Report of Dechra Pharmaceuticals PLC may be obtained at the following address:

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

Accounting Policies

Basis of Preparation

The Annual Report of Dechra Veterinary Products A/S for 2015/16 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

Financial Statements for 2015/16 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Dechra Pharmaceuticals PLC, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Dechra Pharmaceuticals PLC, the Company has not prepared a cash flow statement.

Recognition and measurement

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

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

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

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

Accounting Policies

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement; however, see the section on hedge accounting.

Income statements of foreign subsidiaries and associates that are separate legal entities are translated at transaction date rates or approximated average exchange rates. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the opening equity and exchange adjustments arising from the translation of the income statements at the exchange rates at the balance sheet date are recognised directly in equity.

Revenue

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

Accounting Policies

Income Statement

Revenue

Income from the sale of goods for resale and finished 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 can be measured reliably.

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

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

Expenses for raw materials and consumables

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

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses other than production wages. Refunds from public authorities have been deducted from staff costs.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

Accounting Policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Financial income and expenses comprise interest income and expense, 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 comprised by the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries.

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.

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

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

Accounting Policies

estimated useful lives. The amortisation period is usually 3-5 years, however, not exceeding 5 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

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

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Production buildings	25 years
Plant and machinery	10 years
Other fixtures and fittings, tools and equipment	3-10 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

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

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the 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 the equity method" under equity. The reserve is reduced by dividend

Accounting Policies

distributed to the Parent Company and adjusted for other equity movements in the 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 the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

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

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Accounting Policies

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 of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

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.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Accounting Policies

Financial Highlights

Explanation of financial ratios

Gross margin

$$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$$

Profit margin

$$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$$

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$

Return on equity

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