

Boehringer Ingelheim Animal Health Denmark A/S

Strødamvej 52
2100 København Ø
Denmark

CVR no. 13 52 69 90

Annual report 2018

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

31 May 2019



chairman

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Boehringer Ingelheim Animal Health Denmark A/S
Annual report 2018
CVR no. 13 52 69 90

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 Boehringer Ingelheim Animal Health Denmark A/S for the financial year 1 January – 31 December 2018.

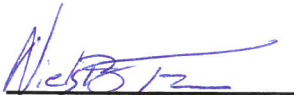
The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 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.

Copenhagen, 31 May 2019
Executive Board:



Niels Berenth From
CEO

Board of Directors:



Nicolas Charles Dumoulin
Chairman



Matthias Hasenauer



Niels Berenth From



Independent auditor's report

To the shareholders of **Boehringer Ingelheim Animal Health Denmark A/S**

Opinion

We have audited the financial statements of **Boehringer Ingelheim Animal Health Denmark A/S** for the financial year 1 January – 31 December 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 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 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.

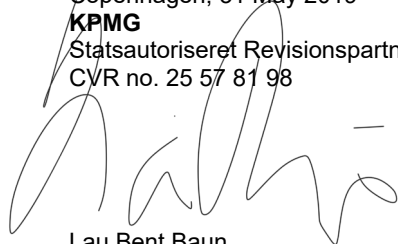
In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially 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.

Copenhagen, 31 May 2019

KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98



Lau Bent Baun
State Authorised
Public Accountant
mne26708



Henrik Kyhnau
State Authorised
Public Accountant
mne40028

Boehringer Ingelheim Animal Health Denmark A/S
Annual report 2018
CVR no. 13 52 69 90

Management's review

Company details

Boehringer Ingelheim Animal Health Denmark A/S
Strødamvej 52
2100 København Ø
Denmark

CVR no.:	13 52 69 90
Established:	1 October 1989
Registered office:	Copenhagen
Financial year:	1 January – 31 December

Board of Directors

Nicolas Charles Dumoulin, Chairman
Matthias Hasenauer
Niels Berenth From

Executive Board

Niels Berenth From, CEO

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Dampfaergevej 28
DK-2100 Copenhagen
Denmark

Management's review

Financial highlights

DKK'000	2018	2017	2016	2015	2014
Key figures					
Revenue	573,663	615,004	0	0	0
Gross profit	109,667	923,046	39,000	34,999	36,143
Ordinary operating profit	18,673	812,466	6,430	5,948	9,448
Profit/loss from financial income and expenses	-3,759	-1,984	-1,060	-854	-1,089
Profit for the year	7,631	628,833	3,876	3,679	5,823
Balance sheet					
Total assets	389,189	794,596	105,916	57,744	60,114
Equity	70,463	687,459	27,603	23,727	20,048
Investment in property, plant and equipment	2,236	4,299	44	256	33
Ratios					
Gross margin	19.1%	150.1%	0.0%	0.0%	0.0%
Operating margin	3.3%	131.9%	0.0%	0.0%	0.0%
Return on invested capital	4.9%	226.6%	24.9%	26.9%	46.6%
Current ratio	112.4%	718.2%	133.5%	165.8%	146.6%
Return on equity	2.0%	175.9%	15.1%	16.8%	28.9%
Solvency ratio	18.1%	86.5%	26.1%	41.1%	33.3%
Employees					
Average number of full-time employees	114	108	31	31	31

Pursuant to section 101(3) of the Danish Financial Statements Act, the Company has omitted to restate comparative figures for the 3rd-5th previous financial years in connection with the change of accounting policies.

Financial ratios are calculated in accordance with the guidelines "Recommendations & 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 invested capital
$$\frac{\text{Operating profit/loss} \times 100}{\text{Average invested capital}}$$

Current ratio
$$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$$

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

Boehringer Ingelheim Animal Health Denmark A/S' (BIAHDK) main activity is sale and marketing of veterinary products in the Nordic region. The Company also produces food supplements for animals in a production facility located in Kalundborg (Denmark). Furthermore, the Company develops, produces and sells veterinary diagnostic products through a branch based in Uppsala (Sweden).

Additionally, the Company is engaged in veterinary clinical development programs and contributes to the overall Research & Development activities of the corporation.

Uncertainty regarding recognition and measurement

There is no significant uncertainty relating to recognition and measurement.

Unusual circumstances

No unusual event occurred during the year.

Events after the balance sheet date

No events materially affecting the assessment of the annual report have occurred after the balance sheet date.

Development in activities and financial position

The Company's income statement for 2018 shows a profit of 7,631 thousand as against 628,833 thousand in 2017. Equity in the Company's balance sheet at 31 December 2018 stood at 70,463 thousand as against 687,459 thousand at 31 December 2017.

The 2018 revenue was satisfactory and as expected slightly below 2017. In-market demand remained stable, but the supply chain filling at the end of 2017 to secure product availability during the supply chain changes did affect the 2018 result. Supply constraints, devaluation of NOK and SEK vs DKK and strong competition in the Pet and Pet Health Care business segment influenced the performance in these areas, but the performance of products for livestock compensated that effect.

The Kalundborg site performed satisfactorily as expected, however, the Svanova branch performance still needs to improve its Innovation and Financial performance.

The Company performed a share buy back from Boehringer Ingelheim International GmbH in June 2018. The purchase price amounts to DKK 625,341 thousand.

The integration of the Merial AH business and BI AH Nordics was completed in 2017 as well as the demerger of the Nordic Animal Health business from Boehringer Ingelheim Danmark A/S. The new operational setup was in place from January 1 2018.

No further significant events effected BIAHDK during 2018.

Outlook

The main strategy for BIAHDK is to continue, through dedicated species team, to align our market approach to the evolving needs of our primary customers and our portfolio development

Special focus will be on:

— Maintaining our leading position in the swine vaccine market

Management's review

Operating review

- Utilize a multimedia approach to protecting and growing our broad companion animal portfolio for both Equine and Pets
- Strengthen our competences in the OTC market capitalizing on the opportunities of having a dedicated team for this segment
- Promoting a responsible use of antibiotics in livestock and thereby maintaining our strong position in the segment.

A continued and increased competition is expected in all primary business areas where we are active.

Based on the above, we expect a turnover and result in 2019 comparable to the 2018 before other operating income.

Intellectual capital

Intellectual capital resources in BIAHDK are a vital part in improving the value and competitiveness of the organization. BIAHDK's intellectual/human capital is driven by the knowledge and competencies residing with the Company's employees – our most valuable and relevant resource. This collective knowhow is constantly developed with leadership development and training programs as well as proper recruiting of suitable talents. It will remain a key priority for the organization moving forward (at global, regional and local level).

At Kalundborg there is a specific know-how on production of boluses for cattle.

The Svanova branch holds specific expertise on development and productions of diagnostic assays for infectious diseases.

Particular risks

Operating risks

With the head office located in Denmark and covering the Nordic region there exists an inherent risk of exchange rate fluctuation between the Danish and Swedish and Danish and Norwegian Kroner. At present, no measures are taken to limit the impact of this risk. Parallel import is increasing, especially in the pets segment, affecting several larger brands across in the Nordic region.

Consolidation of primary business relations continues, increasing the pressure for animal health companies to offer preferential terms. The potential impact is considered in the budgeting process. Diseases such as African Swine Fever (ASF) can on short notice impact the Livestock business. ASF was in 2018 detected in Belgium and is currently greatly impacting the Chinese swine production which subsequently is impacting swine production across the world.

Research and development activities

Research and development follows the primary business purpose of the different sites in BIAHDK:

Svanova

At the Svanova site in Uppsala Sweden the R&D team is specializing in the development of immunodiagnostic assays for veterinary use with primary focus on combatting infectious diseases in livestock animals.

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Operating review

Kalundborg

R&D for the Kalundborg site is conducted out of the Head Office in Ingelheim Germany, but with one employee located in the BIAHDK organization specializing in nutritional product development for livestock and companion animals.

BI-AH-Nordics

The business does not have any research and development projects but takes part in the overall clinical development programs and contributes to the R&D activities of the corporation.

Corporate social responsibility

Anti-corruption

The group Boehringer Ingelheim has an overall corporate policy covering anti-corruption. BIAHDK activities are framed by the group policies. However, this policy is not for the time being published as this is not legally required in Germany. After careful consideration and performed risk assessment for implementing local policy to this area and taking into consideration that our main operating activities are in the Nordics, following the anti-corruption laws imposed upon we see no need to further implement an individual company specific policy.

Social and Staff matters

The group Boehringer Ingelheim has an overall corporate policy covering social and staff matters. BIAHDK activities are framed by the group policies. However, this policy is not for the time being published as this is not legally required in Germany. After careful consideration and performed risk assessment for implementing local policy to this area and taking into consideration that our operating activities are in the Nordics, following the labor laws imposed upon we see no need to further implement an individual company specific policy.

Environmental matters

The group Boehringer Ingelheim has an overall corporate policy covering environmental impact. BIAHDK activities are framed by the group policies. However, this policy is not for the time being published as this is not legally required in Germany. After careful consideration and performed risk assessment for implementing local policy to this area and taking into consideration that our operating activities are in the Nordics, following the environmental laws imposed upon we see no need to further implement an individual company specific policy.

Climate impact

The group Boehringer Ingelheim has an overall corporate policy covering climate impact. BIAHDK activities are framed by the group policies. However, this policy is not for the time being published as this is not legally required in Germany. After careful consideration and performed risk assessment for implementing local policy to this area and taking into consideration that our operating activities are in the Nordics with limited climate impact, following the environmental laws imposed upon we see no need to further implement individual company specific policy.

Human rights

The group Boehringer Ingelheim has an overall corporate policy covering Human rights. BIAHDK activities are framed by the group policies. However, this policy is not for the time being published as this is not legally required in Germany. After careful consideration and performed risk assessment for implementing local policy to this area and taking into consideration that our operating activities are in the Nordics, following the labor laws imposed upon we see no need to further implement an individual company specific policy.

Management's review

Operating review

External environment

BIAHDK operate at 3 primary locations with separate influence on the external environment:

Svanova

Boehringer Ingelheim Svanova follows the Swedish legislation regarding the environmental requirements and the waste disposal is done according to the local requirements of Uppsala municipality. The manufacturing plant in Uppsala has the registration number SE 3800565311 and is under the control of the Swedish Board of Agriculture.

Kalundborg

Externally the environmental impact from the BIAHDK Kalundborg site is controlled and approved by the local municipality, Kalundborg Kommune. No critical remarks were reported at a control visit in April 2018. ISO-14001 Environmental Management system will be implemented in 2019 and expected to be active from Q3.

BI-AH-Nordics

The main activities of the BI-AH Nordics are sales and marketing of Veterinary Pharmaceuticals in the 5 Nordic Countries, which we do not consider having a significant impact on external environment.

Goals and policies for the underrepresented gender

BIAHDK values and respects its employees' differences and actively promotes a diverse, cooperative and open working environment. We are conscious of the fact that the diversity of our markets and customers should be reflected in our workforce. For us, diversity – with focus on e.g. Gender, Geography and Generation – makes the right mix, but it is inclusion which brings out the best results from this mix. We therefore focus on encouraging an inclusive environment where diversity can thrive.

BIAHDK strives – at all times – to achieve (whenever possible in relation to competencies) a state of equilibrium between men and women in management, as we are convinced that diversity improves work quality and cooperation in top management through, for example, different approaches to management tasks. BIAHDK believes that the best innovative ideas and results comes out of ensuring equal opportunities and non-discrimination behavior, and our aspiration is to have all management teams as diverse as possible.

Target figure for the Board of Directors: BIAHDK's target figure for the underrepresented gender (in this case women) on the Board of Directors is set at 1:3. BIAHDK strives to maintain a balanced composition of women and men on the Board of Directors whenever possible in relation to competencies. The current composition is three men. The aspiration is – in case of a vacancy in the Board of Directors – to elect a woman.

Target figure for other management levels: As per 31.12.2018 there were 5 female and 10 male managers, of which 1 man is member of the daily Board of Managers (Local Management Team (LMT)). LMT consists of 1 member from BIAHDK and 4 from sister company Boehringer Ingelheim Danmark A/S CVR: 14 45 08 07). Disregarding members of the board of managers, the management levels below then consist of 6 female and 9 male managers as per 31.12.2018, giving a distribution of 40/60. We will not establish any specific equality policy to increase the share of the underrepresented gender on the Board of Directors in BIAHDK or other management levels, as the pipeline of leaders (high volume of women in the level below) is considered sufficient to reach an equal gender distribution. Successor planning will always take diversity into consideration whenever possible in relation to competencies. BIAHDK has focus on the equal distribution between genders, not wishing to give one gender any preferential position compared to the other gender in relation to job and career options.

In 2013/2014, our parent company put Diversity and Inclusion on the agenda. All things considered, this will create more focus on various initiatives to promote equality at the corporation's management levels both globally and locally. In order to reach the above target figures/objectives for more females at management level, the company has since 2013 focused on and implemented a number of initiatives to

Management's review

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foster the development and support of female leaders. Since the setting of the 2013/2014 objectives, initiatives like mentor schemes and regional as well as global leadership development programs could be mentioned.

The target figure for the share of female leaders at board level for this year regarding 'a balanced composition of women and men on the board of managers' is not regarded as fulfilled, since all 3 seats are taken by men. The reason for the lack of development is a.o. the absence of changes among these management positions, which naturally limits the development. However, there will continue to be focus on this topic in case of any change of these positions.

Still, the target figure for female leaders on other management levels is satisfactory with a stable development. The (positive) constant development is based on the Company's ongoing focus on the gender distribution in terms of internal activities to maintain and develop existing, female talents, which will also be a focus area in 2019.

The timeframe for meeting our targets is set to be in 2022 at the latest.

Treasury shares

Treasury shares can be specified as follows:

DKK'000	No.	Nom.	% of contributed capital
Treasury shares acquired during the financial year	<u>2499</u>	<u>2,499</u>	<u>54</u>
Treasury shares at 31 December 2018	<u>2499</u>	<u>2,499</u>	<u>54</u>
			<u>2018</u>
Total purchase price			<u>625,341</u>

Instead of paying dividend to parent company a share-buy-back has been performed.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2018	2017
Revenue	2	573,663	615,004
Costs of raw materials and consumables		-337,367	-348,308
Other operating income		381	779,153
Other external costs		<u>-127,010</u>	<u>-122,803</u>
Gross profit		109,667	923,046
Staff costs	3	-83,812	-103,207
Depreciation, amortisation and impairment	4	<u>-7,182</u>	<u>-7,373</u>
Ordinary operating profit		18,673	812,466
Other operating costs		<u>0</u>	<u>-1,057</u>
Operating profit		18,673	811,409
Financial income	5	5,976	104
Financial expenses	6	<u>-9,735</u>	<u>-2,088</u>
Profit before tax		14,914	809,425
Tax on profit for the year	7	<u>-7,283</u>	<u>-180,592</u>
Profit for the year	8	<u><u>7,631</u></u>	<u><u>628,833</u></u>

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2018	2017
ASSETS			
Fixed assets			
Property, plant and equipment			
	9		
Land and buildings		3,414	5,132
Plant and machinery		24,976	25,150
Fixtures and fittings, tools and equipment		2,013	1,963
Leasehold improvements		0	62
Property, plant and equipment in progress		1,609	4,651
		<u>32,012</u>	<u>36,958</u>
Investments			
Deposits		951	881
Total fixed assets		<u>32,963</u>	<u>37,839</u>
Current assets			
Inventories			
Raw materials and consumables		19,509	15,467
Work in progress		8,609	6,791
Finished goods and goods for resale		157,713	125,525
Prepayments for goods		6,624	5,349
		<u>192,455</u>	<u>153,132</u>
Receivables			
Trade receivables		149,515	111,101
Receivables from group entities		0	471,391
Other receivables		1,361	970
Corporation tax		11,707	11,832
Prepayments	10	1,072	665
		<u>163,655</u>	<u>595,959</u>
Cash at bank and in hand		<u>116</u>	<u>7,666</u>
Total current assets		<u>356,226</u>	<u>756,757</u>
TOTAL ASSETS		<u><u>389,189</u></u>	<u><u>794,596</u></u>

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2018	2017
EQUITY AND LIABILITIES			
Equity			
Contributed capital	11	4,631	4,631
Retained earnings		65,832	682,828
Total equity		70,463	687,459
Provisions			
Provisions for deferred tax		1,896	1,769
Total provisions		1,896	1,769
Liabilities other than provisions			
Current liabilities other than provisions			
Prepayments received from customers		209	350
Trade payables		11,657	6,483
Payables to group entities		239,019	29,915
Corporation tax		0	9,666
Other payables		65,945	58,954
		316,830	105,368
Total liabilities other than provisions		316,830	105,368
TOTAL EQUITY AND LIABILITIES		389,189	794,596
Fees to auditor appointed at the general meeting	12		
Contractual obligations, contingencies, etc.	13		
Related party disclosures	14		

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	4,631	682,828	687,459
Purchase of treasury shares	0	-2,499	-2,499
Treasury shares premium	0	-622,842	-622,842
Exchange adjustment	0	714	714
Transferred over the profit appropriation	0	7,631	7,631
Equity at 31 December 2018	4,631	65,832	70,463

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Boehringer Ingelheim Animal Health Denmark A/S for 2018 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 Boehringer Ingelheim Auslandsbeteiligung GmbH.

Foreign currency translation

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences 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. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income 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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Income statement

Revenue

Revenue from the sale of veterinary products and food supplements for animals are recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

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

Cost of raw materials and consumables

Cost of raw materials and consumables comprises the raw materials and consumables consumed to achieve revenue for the year.

Other operating income

Other operating income comprises items secondary to the activities of the entity.

Other external costs

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

Depreciation, amortisation and impairment

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

Other operating costs

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

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Tax on profit for the year

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

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.

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:

Buildings	5 years
Plant and machinery	10 years
Fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	3-10 years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,200 are expensed in the year of acquisition.

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.

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 with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings

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1 Accounting policies (continued)

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 provision for bad debts.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Cash and cash equivalents

Cash and cash equivalents comprise cash in banks.

Equity

Dividends

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

Liabilities other than provisions

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

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2 Revenue

DKK'000	2018	2017
Geographical segments		
Revenue, Denmark	467,224	615,004
Revenue, Exports	106,439	0
	<u>573,663</u>	<u>615,004</u>

Business segments consists of only one segment.

3 Staff costs

Wages and salaries	71,778	89,422
Pensions	6,970	8,844
Other social security costs	5,064	4,941
	<u>83,812</u>	<u>103,207</u>
Average number of full-time employees	<u>114</u>	<u>108</u>

Remuneration to the Executive Board has not been disclosed in accordance with section 98b (3) of the Danish Financial Statements Act.

4 Depreciation, amortisation and impairment

Amortization of intangible assets	0	380
Depreciation of property, plant and equipment	7,182	6,993
	<u>7,182</u>	<u>7,373</u>

5 Financial income

Other financial income	274	104
Exchange adjustments	5,702	0
	<u>5,976</u>	<u>104</u>

6 Financial expenses

Interest expense to group entities	458	585
Other financial costs	178	291
Exchange adjustments costs	9,099	1,212
	<u>9,735</u>	<u>2,088</u>

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DKK'000	2018		2017			
7 Tax on profit for the year						
Current tax for the year	4,831	178,666				
Deferred tax for the year	-127	1,491				
Adjustment of tax concerning previous years	2,746	-816				
Adjustment of deferred tax concerning previous year	-167	1,251				
	<u>7,283</u>	<u>180,592</u>				
8 Proposed profit appropriation						
Proposed dividends for the year	0	624,627				
Retained earnings	7,631	4,206				
	<u>7,631</u>	<u>628,833</u>				
9 Property, plant and equipment						
DKK'000	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress	Total
Cost at 1 January 2018	8,591	46,334	4,939	318	4,651	64,833
Additions for the year	0	1,564	672	0	0	2,236
Transfers for the year	0	3,042	0	0	-3,042	0
Cost at 31 December 2018	<u>8,591</u>	<u>50,940</u>	<u>5,611</u>	<u>318</u>	<u>1,609</u>	<u>67,069</u>
Depreciation and impairment losses at 1 January 2018	-3,459	-21,184	-2,976	-256	0	-27,875
Depreciation for the year	-1,718	-4,780	-622	-62	0	-7,182
Depreciation and impairment losses at 31 December 2018	<u>-5,177</u>	<u>-25,964</u>	<u>-3,598</u>	<u>-318</u>	<u>0</u>	<u>-35,057</u>
Carrying amount at 31 December 2018	<u>3,414</u>	<u>24,976</u>	<u>2,013</u>	<u>0</u>	<u>1,609</u>	<u>32,012</u>

10 Prepayments

Prepaid expenses relate expenses to rent and insurance.

11 Equity

The share capital consists of 4,631 shares of a nominal value of DKK 1,000 each. No shares carry any special rights.

At 1 January 2018 the share capital was increased by nominally DKK 3,361 thousand from nominally DKK 1,000 thousand to a total of DKK 4,631 thousand by subscription of 3,361 new shares of DKK 1,000.

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12 Fees to auditor appointed at the general meeting

The fee to the auditor is not disclosed in accordance with the Danish Financial Statement Act section 96(3).

13 Contractual obligations, contingencies, etc.

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the Group's jointly taxed income as well as for Danish withholding taxes through dividend tax and tax on unearned income. The total amount of tax payables is included in the annual report of Boehringer Ingelheim Danmark A/S which is the administration company in relation to the joint taxation.

The Company has faced a claim regarding a product liability. At the moment there is no solution in this particular case. The management does not consider the liability to materialise and, hence, no provision has been recognised.

Furthermore the Company has assumed those for the branch customary repurchase commitments in respect of goods sold.

Operating lease obligations

Lease obligations under operating leases. Total future lease payments:

	2018	2017
Within 1 year	8,139	6,498
Between 1 and 5 years	18,011	3,159
More than 5 years	17,195	0
	<u>43,345</u>	<u>9,657</u>

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14 Related party disclosures

Boehringer Ingelheim Animal Health Denmark A/S' related parties comprise the following:

Control

Boehringer Ingelheim Animal Health Denmark A/S, Strødamvej 52, København Ø.

Boehringer Ingelheim Animal Health Denmark A/S holds the majority of the contributed capital in the Company.

Related party transactions

DKK'000	2018	2017
Sales of goods to group enterprises	83,865	78,444
Sales of services to group enterprises	10,858	38,570
Purchase of goods from group enterprises	304,162	317,760
Purchase of services from group enterprises	62,842	5,483
Interest income from group enterprises	275	24
Sale of IP rights	-	765,764
Interest expense to group enterprises	458	183

Consolidated financial statements

The company is a part of the consolidated financial statement of Boehringer Ingelheim Auslandsbeteiligung GmbH, Binger Str. 173 Ingelheim Am Rhein, 55218 Germany.