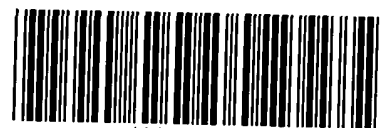


**Company Registration No. 04471100 (England and Wales)**

**Affinity Petcare UK Limited**

**Annual report and unaudited financial statements  
for the year ended 31 December 2016**

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COMPANIES HOUSE

## **Affinity Petcare UK Limited**

### **Company information**

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<b>Directors</b>	Francisco Javier Serra Torres Salvador Campañá Peña Francisco Gispert Ribera
<b>Secretary</b>	Francisco Gispert Ribera
<b>Company number</b>	04471100
<b>Registered office</b>	71 Queen Victoria Street London EC4V 4BE
<b>Accountants</b>	Saffery Champness LLP Suite C, Unex House Bourges Boulevard Peterborough Cambridgeshire PE1 1NG
<b>Bankers</b>	Deutsche Bank PO Box 441 6 Bishopsgate London EC2P 2AT

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## **Affinity Petcare UK Limited**

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Statement of comprehensive income	3
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Statement of changes in equity	6
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## **Affinity Petcare UK Limited**

### **Directors' report**

**For the year ended 31 December 2016**

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The directors present their annual report and financial statements for the year ended 31 December 2016.

#### **Principal activities**

Affinity Petcare UK Limited operates as a subsidiary company of Affinity Petcare, S.A, with the principal activities of selling dry pet food products.

#### **Results and dividends**

The results for the year are set out on page 3.

No ordinary dividends were paid. The directors do not recommend payment of a final dividend.

#### **Directors**

The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Francisco Javier Serra Torres  
Salvador Campaña Peña  
Francisco Gispert Ribera

#### **Events after the balance sheet date**

The company has subsequently decided to withdraw from the UK and Ireland market (see note 14).

#### **Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption.

On behalf of the board



Francisco Javier Serra Torres

Director

04/07/14

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**Affinity Petcare UK Limited**

**Chartered Accountants' report to the Board of Directors on the preparation of the unaudited statutory financial statements of Affinity Petcare UK Limited for the year ended 31 December 2016**

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In order to assist you to fulfil your duties under the Companies Act 2006, we have prepared for your approval the financial statements of Affinity Petcare UK Limited for the year ended 31 December 2016 set out on pages 3 to 15 from the company's accounting records and from information and explanations you have given us.

As a practising member firm of the Institute of Chartered Accountants in England and Wales, we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com>.

This report is made solely to the Board of Directors of Affinity Petcare UK Limited, as a body, in accordance with the terms of our engagement letter dated 7 May 2013. Our work has been undertaken solely to prepare for your approval the financial statements of Affinity Petcare UK Limited and state those matters that we have agreed to state to the Board of Directors of Affinity Petcare UK Limited, as a body, in this report in accordance with AAF 2/10 as detailed at <http://www.icaew.com>. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Affinity Petcare UK Limited and its Board of Directors as a body, for our work or for this report.

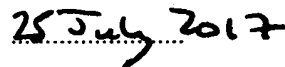
It is your duty to ensure that Affinity Petcare UK Limited has kept adequate accounting records and to prepare statutory financial statements that give a true and fair view of the assets, liabilities, financial position and profit of Affinity Petcare UK Limited. You consider that Affinity Petcare UK Limited is exempt from the statutory audit requirement for the year.

We have not been instructed to carry out an audit or a review of the financial statements of Affinity Petcare UK Limited. For this reason, we have not verified the accuracy or completeness of the accounting records or information and explanations you have given to us and we do not, therefore, express any opinion on the statutory financial statements.



Saffery Champness LLP

Chartered Accountants



Suite C, Unex House  
Bourges Boulevard  
Peterborough  
Cambridgeshire  
PE1 1NG

**Affinity Petcare UK Limited****Income statement****For the year ended 31 December 2016**

		<b>2016</b>	<b>2015</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
Revenue	<b>4</b>	2,684,579	3,031,610
Cost of sales		(1,817,595)	(2,249,770)
<b>Gross profit</b>		<b>866,984</b>	<b>781,840</b>
Distribution costs		(224,935)	(253,284)
Administrative expenses		(612,518)	(481,457)
Other operating income		16,136	99,088
<b>Operating profit</b>	<b>5</b>	<b>45,667</b>	<b>146,187</b>
Interest receivable and similar income	<b>4</b>	6,790	8,072
<b>Profit before taxation</b>		<b>52,457</b>	<b>154,259</b>
Tax on profit	<b>8</b>	(1,292)	(1,819)
<b>Profit for the financial year</b>		<b>51,165</b>	<b>152,440</b>

The income statement has been prepared on the basis that commercial operations will cease in 2017, see note 14.

**Statement of comprehensive income****For the year ended 31 December 2016**

The company has no recognised items of income and expenditure other than those included in the income statement. Total comprehensive income for the financial year is therefore equal to the profit for the financial year.

**Affinity Petcare UK Limited**

**Statement of financial position  
As at 31 December 2016**

	Notes	2016 £	2015 £
<b>Current assets</b>			
Trade and other receivables	10	1,340,355	1,782,381
Cash at bank and in hand		192,313	198,162
		<u>1,532,668</u>	<u>1,980,543</u>
<b>Creditors: amounts falling due within one year</b>			
Trade creditors and other payables	11	237,609	728,009
Taxation and social security		91,902	100,542
		<u>329,511</u>	<u>828,551</u>
<b>Net current assets</b>		<u>1,203,157</u>	<u>1,151,992</u>
<b>Total assets less current liabilities</b>		<u>1,203,157</u>	<u>1,151,992</u>
<b>Net assets</b>		<u>1,203,157</u>	<u>1,151,992</u>
<b>Capital and reserves</b>			
Called up share capital	12	1,950,000	1,950,000
Profit and loss account		(746,843)	(798,008)
<b>Total equity</b>		<u>1,203,157</u>	<u>1,151,992</u>

For the financial year ended 31 December 2016 the company was entitled to exemption from audit under section 477 of the Companies Act 2006.

**Directors' responsibilities:**

- The members have not required the company to obtain an audit of its financial statements for the year in question in accordance with section 476;
- The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to accounting records and the preparation of financial statements.

**Affinity Petcare UK Limited**


**Statement of financial position (continued)**

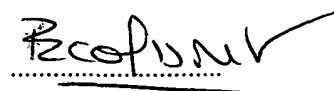
**As at 31 December 2016**

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These financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies' regime.

The financial statements were approved by the board of directors and authorised for issue on 04/07/17 and are signed on their behalf by:

  
.....  
Francisco Javier Serra Torres  
Director

  
.....  
Francisco Gispert Ribera  
Director

**Company Registration No. 04471100**



**Affinity Petcare UK Limited**

**Statement of changes in equity  
For the year ended 31 December 2016**

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	<b>Notes</b>	<b>Share capital £</b>	<b>Retained earnings £</b>	<b>Total £</b>
Balance at 1 January 2015	<b>12</b>	1,950,000	(950,448)	999,552
Profit and total comprehensive income for the year		-	152,440	152,440
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2015		1,950,000	(798,008)	1,151,992
		<hr/>	<hr/>	<hr/>
Profit and total comprehensive income for the year		-	51,165	51,165
		<hr/>	<hr/>	<hr/>
Balance at 31 December 2016		1,950,000	(746,843)	1,203,157
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## **1 Accounting policies**

### **Company information**

Affinity Petcare UK Limited ('the Company') is a company limited by shares incorporated in England and Wales. The registered office is 71 Queen Victoria Street, London, EC4V 4BE.

### **1.1 Accounting convention**

The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are set out below.

The company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement, so exempting the Company from disclosing valuation techniques and inputs used for the measurement of assets and liabilities;
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements', so exempting the Company from disclosing comparative information required by:
  - paragraph 79(a) (iv) of IAS 1 - shares outstanding at the beginning and at the end of that period,
  - paragraph 73(e) of IAS 16 Property Plant and Equipment - reconciliations between the carrying amount at the beginning and end of that period; and
  - paragraph 118 (e) of IAS 38 Intangibles Assets - reconciliations between the carrying amount at the beginning and end of that period,
- the requirements of IAS 1 Presentation of Financial Statements:
  - paragraphs 10(d) and 111, so exempting the Company from providing a cash flow statement and information;
  - paragraph 16, so exempting the Company from providing a statement of compliance with IFRS;
  - paragraph 38A, so exempting the Company from the requirement for a minimum of two of each primary statement and the related notes;
  - paragraph 38B to D, so exempting the Company from the requirement to provide additional comparative information;
  - paragraph 40A to 40D, so exempting the Company from the requirement to provide a third statement of financial position; and
  - paragraph 134-136, so exempting the Company from presenting capital management disclosures.

**Notes to the financial statements (continued)**  
**For the year ended 31 December 2016**

**1 Accounting policies (continued)**

- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, so exempting the Company from disclosing information where it has not applied a new IFRS which has been issued but is not yet effective;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures, so exempting the Company from disclosing details of key management compensation;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member ; and
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

Where required, equivalent disclosures are given in the group accounts of Affinity Petcare S.A.U.. The group accounts of Affinity Petcare S.A.U. are available to the public and can be obtained as set out in note 13.

**1.2 New and amended standards, interpretations and amendments in issue but not yet effective and have not been early adopted**

The following standards, interpretations and amendments have been published by the IASB but are yet to be endorsed by the EU or are not effective for the periods provided in the historical financial information and have not been early adopted.

Standard	Effective date, annual period beginning on or after
Annual Improvements 2014-2016 cycle	1 January 2017/ 1 January 2018
Amendments to IAS 12 – <i>Recognition of Deferred Tax for Unrealised Losses</i>	1 January 2017
Amendments to IAS 7 – <i>Disclosure Initiative</i>	1 January 2017
IFRS 9 <i>Financial instruments</i>	1 January 2018
IFRS 15 <i>Revenue from contracts with Customers</i> including amendments to IFRS 15: <i>Effective date of IFRS 15.</i>	1 January 2018
Clarifications to IFRS 15 <i>Revenue from contracts with Customers</i>	1 January 2018
IFRS 16 <i>Leases</i>	1 January 2019
IFRS 2 (amendments) <i>Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
IFRS 4 (amendments) <i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i>	1 January 2018
IFRIC Interpretation 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
Amendments to IAS 40: <i>Transfers of Investment Property</i>	1 January 2018

The directors are evaluating the impact that these standards may have on the future financial statements of the Company.

**1 Accounting policies (continued)**

**1.3 Revenue**

Revenue represents amounts receivable for goods net of VAT and other sale taxes and discounts.

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- the entity has transferred the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**1.4 Fair value measurement**

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The company is exempt under FRS 101 from the disclosure requirements of IFRS 13. There was no impact on the company from the adoption of IFRS 13.

**1.5 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

**1.6 Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting end date.

**Notes to the financial statements (continued)**  
**For the year ended 31 December 2016**

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**1 Accounting policies (continued)**

***Deferred tax***

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Timing differences are differences between Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

**1.7 Employee benefits**

The costs of short-term employee benefits are recognised as a liability and an expense, unless those costs are required to be recognised as part of the cost of inventories or non-current assets.

The cost of any unused holiday entitlement is recognised in the period in which the employee's services are received.

A termination benefit liability is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

**1.8 Foreign exchange**

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting end date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the reporting end date. Gains and losses arising on translation are included in the income statement for the period.

**1.9 Debtors and creditors**

Debtors are initially recognised at fair value and subsequently measured at this value less any provision for impairment. Where the time value of money is material, they are carried at amortised cost using the effective interest rate method. Creditors are initially recognised at fair value. Where the time value of money is material, they are carried at amortised cost using the effective interest rate method.

**2 Critical accounting judgements and key sources of estimation uncertainty**

In the application of the company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Critical judgements**

**Bad debt provision**

Management regularly review the sales ledger balances and use their judgement to determine the recoverability of outstanding amounts. Where there is doubt over the recoverability of a debt an impairment provision for the doubtful amount is made.

**3 FRS 101 transitional arrangements**

As it has not previously presented financial statements under FRS 101, the Company is required under FRS 100 and FRS 101 to apply the transitional arrangements set out in IFRS 1 'First-time adoption of International Financial Reporting Standards' in its financial statements for the year ended 31 December 2016. The key transitional arrangements are:

- an explanation of how the transition has affected the Company's reported financial position and financial performance;
- a reconciliation of the equity reported at 31 December 2014 and 31 December 2015; and
- a reconciliation of the profit and loss and other recognised gains and losses to the total comprehensive income reported for the year ended 31 December 2015.

The transition had no effect on the Company's financial position and financial performance in the current or prior year and accordingly no such explanation or reconciliations are required in these financial statements.

**Affinity Petcare UK Limited****Notes to the financial statements (continued)**  
**For the year ended 31 December 2016****4 Revenue**

An analysis of the company's revenue is as follows:

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Sale of goods	2,684,579	3,031,610

**Other significant revenue**

Interest income	6,790	8,072
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**Geographical market**

	<b>Turnover</b>	
	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
UK	2,684,579	3,031,610

**5 Operating profit**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Operating profit for the year is stated after charging/(crediting):		
Exchange losses	12,017	-

**6 Employees**

The average monthly number of persons (including directors) employed by the company during the year was:

	<b>2016</b>	<b>2015</b>
	<b>Number</b>	<b>Number</b>
Management	1	1

**Affinity Petcare UK Limited****Notes to the financial statements (continued)**  
**For the year ended 31 December 2016****6 Employees (continued)**

Their aggregate remuneration comprised:

	2016 £	2015 £
Wages and salaries	122,460	92,226
Social security costs	11,012	5,154
	<u>133,472</u>	<u>97,380</u>

**7 Investment income**

	2016 £	2015 £
Interest income		
Other interest income	6,790	8,072
	<u>6,790</u>	<u>8,072</u>

**8 Income tax expense**

	2016 £	2015 £
Current tax		
Current year taxation	1,292	1,819
	<u>1,292</u>	<u>1,819</u>

The charge for the year can be reconciled to the profit per the income statement as follows:

	2016 £	2015 £
Profit before taxation	<u>52,457</u>	<u>154,259</u>
Expected tax charge based on a corporation tax rate of 20.00%	10,491	30,852
Expenses not deductible in determining taxable profit	-	1,754
Utilisation of tax losses not previously recognised	(9,131)	(30,852)
Other differences	(68)	65
Tax charge for the year	<u>1,292</u>	<u>1,819</u>



**Affinity Petcare UK Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 December 2016**

**9 Property, plant and equipment**

	<b>Plant and machinery</b>
	<b>£</b>
<b>Cost</b>	
At 1 January 2015	1,210
At 31 December 2015	1,210
<b>Accumulated depreciation and impairment</b>	
At 1 January 2015	1,210
At 31 December 2015	1,210
<b>Carrying amount</b>	
At 31 December 2016	-
At 31 December 2015	-

**10 Trade and other receivables**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Trade receivables	792,068	999,392
Provision for bad and doubtful debts	(277,849)	(4,495)
	514,219	994,897
Other receivables	1,500	1,500
Amount owed by group undertaking	824,636	785,984
	1,340,355	1,782,381

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

**11 Trade and other payables**

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
Trade payables	34,762	27,031
Amount due to group undertaking	12,425	462,403
Accruals	190,422	238,575
	237,609	728,009

**Affinity Petcare UK Limited**

**Notes to the financial statements (continued)**  
**For the year ended 31 December 2016**

---

<b>12</b>	<b>Share capital</b>	<b>2016</b>	<b>2015</b>
		<b>£</b>	<b>£</b>
	<b>Ordinary share capital</b>		
	<b>Authorised</b>		
	2,000,000 Ordinary Shares of £1 each	2,000,000	2,000,000
		<u>          </u>	<u>          </u>
	<b>Issued and fully paid</b>		
	1,950,000 Ordinary Shares of £1 each	1,950,000	1,950,000
		<u>          </u>	<u>          </u>

The shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemption.

**13 Controlling party**

The immediate parent company is Affinity Petcare S.A.U., a company incorporated in Spain. The ultimate parent company is Corporacion Agrolimen S.A., a company registered in Spain. There is no ultimate controlling party.

Consolidated accounts are prepared by Affinity Petcare S.A.U. and can be obtained from Gran Via de les Corts Catalanes, 184, 08038 Barcelona, Spain.

**14 Post balance sheet event**

Post year end the directors have decided to withdraw from the UK and Ireland market.

The directors have not altered the accounts as they have determined that the figures will not change as a result of this decision.

**Affinity Petcare UK Limited**

**Management information  
for the year ended 31 December 2016**

**Affinity Petcare UK Limited****Detailed trading and profit and loss account  
For the year ended 31 December 2016**

---

		2016		2015
	£	£	£	£
<b>Revenue</b>				
Sales		2,684,579		3,031,610
<b>Cost of sales</b>				
Finished goods purchases	1,077,054		1,713,465	
Discounts given	740,541		536,305	
		<u>(1,817,595)</u>		<u>(2,249,770)</u>
<b>Gross profit</b>		<u>866,984</u>		<u>781,840</u>
<b>Other operating income</b>				
Sundry income		16,136		99,088
<b>Distribution costs</b>	224,935		253,284	
<b>Administrative expenses</b>	612,518		481,457	
		<u>(837,453)</u>		<u>(734,741)</u>
<b>Operating profit</b>		<u>45,667</u>		<u>146,187</u>
<b>Investment revenues</b>				
<b>Profit before taxation</b>		<u><u>52,457</u></u>		<u><u>154,259</u></u>

**Affinity Petcare UK Limited****Schedule of administrative expenses  
For the year ended 31 December 2016**

---

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Distribution costs</b>		
Postage, courier and delivery charges	224,935	253,284
	<u>224,935</u>	<u>253,284</u>
 <b>Administrative expenses</b>		
Wages and salaries	122,460	92,226
Social security costs	11,012	5,154
Management charge	60,599	76,278
Premises insurance	721	4,937
Computer running costs	-	321
Travelling expenses	21,062	12,372
Legal and professional fees	16,518	6,820
Bank charges	2,184	2,546
Bad and doubtful debts	282,135	4,495
Advertising	80,716	272,607
Telecommunications	2,167	2,756
Sundry expenses	927	945
Exchange differences arising on trading transactions	12,017	-
	<u>612,518</u>	<u>481,457</u>

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Affinity Petcare UK Limited  
71 Queen Victoria Street  
London  
United Kingdom  
EC4V 4BE

Saffery Champness LLP  
Unex House  
Bourges Boulevard  
Peterborough  
United Kingdom  
PE1 1NG

Dear Sir

This representation letter is provided in connection with your preparation of the financial statements of Affinity Petcare UK Limited for the year ending 31 December 2016 for the purpose of filing the financial statements with Companies House and computing the tax liability in accordance with The Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101').

#### **Financial Statements**

1. We have as directors fulfilled our responsibility, as set out in the terms of your engagement dated 29 March 2017 for preparing financial statements in accordance with The Companies Act 2006 and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) which give a true and fair view of the financial position of the company as of 31 December 2016 and of the results of its operations and its cash flows for the year then ended and for making accurate representations to you.
2. Significant assumptions used by us in making accounting estimates are reasonable.
3. We have no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.
4. We have disclosed all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and these have been disclosed in accordance with the requirements of accounting standards.
5. Related party relationships and transactions have been appropriately accounted for and disclosed and we are not aware of further related party matters that require disclosure.
6. All events since subsequent to the date of the financial statements and which require disclosure or which would materially affect the amounts in the financial statements have been adjusted or included in the financial statements.
7. The financial statements are free of material misstatements, including omissions. We believe that those uncorrected misstatements identified during the preparation of the financial statements are immaterial both individually and in aggregate to the financial statements as a whole.
8. We confirm that we have decided post 31 December 2016, to withdraw from the UK and Ireland market. We confirm that the figures within the accounts do not change as a result of this decision.

9. We confirm that at 31 December 2016 the amount due from Affinity Petcare SA was £824,635 and the amount due to Affinity Petcare SA was £12,424.
10. We confirm that all transactions between Affinity Petcare UK Ltd and other related group companies have been carried out at arm's length.

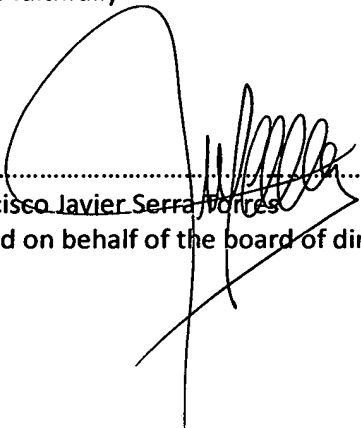
**Information provided**

11. All accounting records and relevant information have been made available to you for the purpose of your preparation of the financial statements. We have provided to you all other information requested and given unrestricted access to persons within the entity from whom you have deemed it necessary to request information. All other records and related information have been made available to you.
12. All transactions undertaken by the company have been properly reflected in the accounting records and are reflected in the financial statements.
13. We acknowledge our responsibility for the design, implementation and maintenance of controls to prevent and detect fraud. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves management, employees who have a significant role in internal control, or others, where fraud could have a material effect on the financial statements.
15. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
16. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
17. We confirm that we have disclosed to you the identity of the entity's related parties and all related party relationships and transactions relevant to the company that we are aware of.
18. The company has satisfactory title to all assets, and there are no liens or encumbrances on the assets except for those disclosed in the financial statements.
19. There are no liabilities, contingent liabilities or guarantees to third parties other than those disclosed in the financial statements.
20. The company has at no time during the year entered into any arrangement, transaction or agreement to provide credit facilities (including loans, quasi loans or credit transactions) for directors, nor to guarantee or provide security for such matters, except as disclosed in the financial statements.

We confirm to the best of our knowledge and belief that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

X



.....

Francisco Javier Serra Torres

Signed on behalf of the board of directors

Date:



**AFFINITY PETCARE, S.A.U.  
AND SUBSIDIARIES**

Independent Auditor's Report,  
Consolidated annual accounts  
and directors' report for the fiscal year  
ended 31 December 2016

ELOISA MOYANO PRADOS  
Traductora - Intérprete Jurada de INGLÉS  
Nº 1940

ELISA MOYANO PRADOS  
Traductora - ~~Intérprete~~ Jurada de INGLÉS  
Nº 1940



## INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Sole Shareholder of Affinity Petcare, S.A.U. (Sociedad Unipersonal):

### Report on the consolidated financial statements

We have audited the consolidated financial statements of Affinity Petcare, S.A.U. and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2016, the consolidated profit and loss account, the overall consolidated income statement, the statement of changes in consolidated equity, the consolidated statement of changes in cash flows and the notes to the financial statements for the year then ended.

### *Responsibility of the directors with respect to the consolidated financial statements*

The Directors of the parent company are responsible for drawing up the consolidated financial statements attached. They should reflect a true and fair image of the equity, financial position and the consolidated results of Affinity Petcare S.A.U. and its subsidiaries, pursuant to the International Financial Reporting Standards adopted by the European Union, the regulatory framework on financial reporting that applies to the group in Spain, and the internal controls they consider necessary to enable them to prepare the consolidated financial statements free of material misstatement due to fraud or error.

### *Responsibility of the auditor*

Our responsibility is to express an opinion on the financial statements attached based on our audit. We have conducted our audit in accordance with generally accepted auditing standards in Spain. These standards are subject to ethical requirements, in addition to requiring us to plan and conduct our audit in order to be reasonably certain that the consolidated financial statements are free of material misstatement.

An audit is subject to the use of procedures in order to obtain audit evidence on the amounts and disclosures reported in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the risk assessment of material misstatement in the consolidated financial statements due to fraud or error. On conducting this risk assessment, the auditor took into account the relevant internal controls used by the Directors in drawing up the consolidated financial statements, in order to design auditing procedures suited to the circumstances, rather than for the purposes of expressing an opinion on the effectiveness of the Group's internal controls. An audit should also include an assessment of the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the directors, as well as an assessment of the presentation of the consolidated financial statements as a whole.

In our opinion, the audit evidence that we obtained provided sufficient basis to express a qualified opinion on the financial statements audited.

### *Basis of the qualified opinion*

The consolidated financial statements for the year ended at 31<sup>st</sup> December 2016 do not include information related to the amount paid in salaries, travel expenses or remunerations of any kind whatsoever, nor do they reflect the liabilities incurred with regard to pensions and life insurance schemes accrued over the course of this business year and the previous one for the senior management of the parent company, the owner of the Consolidated Group, as required by section 48 of the Code of Commerce under points six and seven. Our audit opinion on the consolidated financial statements for business year ended at 31<sup>st</sup> December 2015 contained a qualification on this issue.

ELOISA MOYANO PRADOS  
Traductora - Intérprete Jurada de INGLÉS  
Nº 1940

PricewaterhouseCoopers Auditores, S.L., Avinguda Diagonal, 640, 08017 Barcelona, España  
Tel.: +34 932 532 700 / +34 902 021111, Fax: +34 934 059 032, [www.pwc.es](http://www.pwc.es)



**pwc**

*Qualified opinion*

In our opinion, apart from the above paragraph ("Basis of the qualified opinion"), the attached consolidated financial statements express, in all significant aspects, a true picture of the consolidated equity and financial position of Affinity Petcare, S.A.U. and its subsidiaries at 31<sup>st</sup> December 2016, as well as of the consolidated results of its operations and its cash flows for the business year ending on this date, in accordance with the International Financial Reporting Standards adopted by the European Union, and with the regulatory framework on financial reporting that apply in Spain.

*Emphasis of matter*

We should draw attention to note 2 of the consolidated financial statements, in which it is highlighted that the consolidated financial statements for 2016 attached hereto are the first that the Directors of the parent company have drawn up using the International Financial Reporting Standards adopted by the European Union (IFRS-EU), which as a general rule require that the financial statements should show the comparative information obtained by applying the IFRS-EU rules in force at 31<sup>st</sup> December 2016. Therefore, the figures for the previous business year differ from those contained in the approved consolidated financial statements for business year 2015, as reflected in note 28 of the consolidated report attached in which the differences are highlighted by applying the IFRS-EU rules in respect of the consolidated equity at 1<sup>st</sup> January and 31<sup>st</sup> December 2015, and the consolidated results for 2015. This matter does not change our opinion.

**Report on other legal requirements and regulations**

The attached consolidated directors' report for business year 2016 contains the explanations that the Directors of the parent company consider appropriate regarding the situation of Affinity Petcare S.A.U. and its subsidiaries, the growth of its business and other matters. It does not form an integral part of the financial statements. We have checked that the accounting information disclosed in the consolidated directors' report is consistent with that contained in the 2016 consolidated financial statements. Our work as auditors was confined to reviewing the directors' report within the aforementioned scope, and did not include a review of any information other than that obtained from the accounting records of the Affinity Petcare, S.A.U. and its subsidiaries.

PricewaterhouseCoopers Auditores, S.L.

[Signature]

José M. Solé Farré

23 June 2017

[Stamp: ASSOCIATION OF CHARTERED  
ACCOUNTANTS OF CATALONIA  
PRICEWATERHOUSECOOPERS AUDITORES, S.L.  
Year 2017 No. 20/17/12621  
MEMBERSHIP FEES: 96.00 EUR  
Report subject to the Spanish or international regulations on  
audits of accounts]

ELOISA MOYANO PRADOS  
Traductora - Intérprete Jurada de INGLÉS  
Nº 1940

**AFFINITY PETCARE, S.A.  
AND SUBSIDIARIES**

**Consolidated annual accounts and directors' report for the fiscal year ended 31  
December 2016**

ELOISA MOYANO PRADOS  
Traductora - Interprete Jurada de INGLÉS  
Nº 1940

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
Consolidated income statement for the fiscal year ended  
31 December 2016  
(Epressed in thousand EUR)

ASSETS	Note	At 31 December		At 1 January
		2016	2015	2015
<b>NON-CURRENT ASSETS</b>				
Intangible assets	7	150,893	51,879	52,082
Goodwill		116,056	41,282	41,282
Industrial property, concessions and other rights		34,084	9,465	9,565
Computer applications		753	1,132	1,235
Property, plant and equipment	8	75,260	40,776	36,181
Land and buildings		32,894	15,623	15,124
Plant and other tangible fixed assets		21,991	15,851	16,050
Work in progress and advance payments		20,375	9,302	5,007
Non-current investments in group enterprises and associates	10	21,826	18,054	-
Investments carried by equity method		21,826	18,054	-
Non-current financial investments	11	403	152	13,572
Equity instruments		4	-	13,256
Other financial assets		399	152	316
Deferred tax assets	19	5,031	4,041	4,563
<b>Total non-current assets</b>		<b>253,413</b>	<b>114,902</b>	<b>106,398</b>
<b>CURRENT ASSETS</b>				
Inventories	13	31,269	21,970	20,112
Trade and other accounts receivable	12	83,910	67,240	60,937
Clients for sales and services rendered		74,807	63,546	55,423
Clients, associate enterprises		142	55	-
Sundry receivables		677	64	-
Other taxes receivables		8,048	3,412	4,854
Advances – wages paid to personnel		105	92	223
Accrual accounts		131	71	437
Current financial investments in group companies	11	5,016	6,115	8,848
Other financial assets		5,016	6,115	8,848
Current financial investments:	11	-	-	1,804
Cash and cash equivalents	14	14,615	24,226	4,523
<b>Total current assets</b>		<b>134,810</b>	<b>119,551</b>	<b>96,224</b>
<b>TOTAL ASSETS</b>		<b>388,223</b>	<b>234,453</b>	<b>202,622</b>

The accompanying notes 1 to 29 and Annex I are an inseparable part of these consolidated annual accounts.

ELOISA MOYANO PRADOS  
Traductora - Interprete Jurada de INGLÉS  
Nº 1940

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
Consolidated income statement for the fiscal year ended  
31 December 2016  
(Epressed in thousand EUR)

EQUITY AND LIABILITIES	Note	At 31 December		At 1 January
		2016	2015	2015
<b>EQUITY</b>	<b>15</b>			
Capital		90,363	90,363	90,363
Reserves and retained earnings		32,862	24,612	18,555
Exchange differences		(2,648)	(6,744)	-
Results for the year attributable to the parent company		35,646	32,750	27,180
(Interim dividends)		(20,000)	(17,623)	(15,000)
Net equity attributable to the owners of the parent company		136,223	123,358	121,098
Non-controlling Interests		31,795	907	(81)
Total equity		168,018	124,265	121,017
 <b>NON-CURRENT LIABILITIES</b>				
Non-current provisions	16	3,133	1,088	940
Non-current financial debt	17	76,693	-	32
Non-current payables to group companies and associates	24	-	-	842
Deferred tax liabilities	19	13,664	5,464	5,362
Total non-current liabilities		93,390	6,552	7,176
 <b>CURRENT LIABILITIES</b>				
Current financial debt	17	162	-	7
Current payables to Group companies and associates	24	22,775	18,921	-
Other debt		22,775	18,921	-
Trade and other accounts payable	18	101,687	84,251	74,192
Suppliers		27,966	22,954	23,467
Suppliers, group enterprises		2,360	1,293	-
Other creditors		54,260	44,774	45,563
Personnel		10,459	8,965	-
Other taxes payable		6,642	6,265	5,162
Current tax liabilities	19	2,191	464	230
Total current liabilities		126,815	103,636	74,429
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>388,223</b>	<b>234,463</b>	<b>202,622</b>

The accompanying notes 1 to 29 and Annex I are an inseparable part of these consolidated annual accounts.

ELOÍSA MOYANO PRADOS  
Traductora - Intérprete Jurada de INGLÉS  
Nº 1940

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
Consolidated income statement for the fiscal year ended  
31 December 2016  
(Epressed in thousand EUR)

For the fiscal year ended 31  
December

	Note	Fiscal year 2016	Fiscal year 2015
<b>CONTINUING OPERATIONS</b>			
<b>Net turnover</b>	20	374,407	290,616
Sales		374,407	290,616
Service provision		-	-
<b>Variation in stocks of finished products and work in progress</b>		151	1,306
<b>Supplies</b>	21	(168,296)	(126,347)
Consumption of raw materials and other consumables		(168,088)	(126,596)
Impairment of goods, raw materials and other supplies	13	(208)	249
<b>Other operating revenue</b>		625	161
Sundry and incidental income		478	129
Operating grants released to income during the year		147	32
<b>Staff costs</b>	22	(47,725)	(40,027)
Wages, salaries and similar		(35,005)	(29,269)
Employee benefits		(12,720)	(10,758)
<b>Other operating expenses</b>		(99,277)	(78,000)
Losses, impairment and changes in trade provisions	12	(350)	(637)
Other current operating expenses	20	(98,927)	(77,363)
<b>Fixed asset depreciation</b>	7 and 8	(6,490)	(4,586)
<b>Impairment and profit/loss on fixed asset disposals</b>		(277)	(117)
Impairment and losses	7	(250)	(100)
Losses on disposals and other		(27)	(17)
<b>Operating results</b>		53,118	43,006
<b>Financial income</b>		79	334
From shares in equity instruments		-	-
From marketable securities and other financial instruments		79	334
<b>Financial expense</b>		(973)	(198)
<b>Variation in fair value of financial instruments</b>		(17)	41
Trading portfolio and other		(17)	41
<b>Gains (losses on exchange)</b>		(261)	127
Other exchange differences		(261)	127
<b>Impairment and profit/loss on disposal of financial instruments</b>		-	-
Impairment and losses		-	-
<b>Financial income</b>	23	(1,172)	304
<b>Investments carried by equity method</b>	10	(76)	1,853
<b>Pre-tax profit/(loss)</b>		51,870	45,163
Income tax	19	(15,570)	(12,347)
<b>FY profit/loss from continuing operations</b>		36,300	32,816
<b>Profit for the year attributable to minority interests</b>	15.e	654	66
<b>Profit for the year attributable to the owners of the parent company</b>		35,646	32,750

The accompanying notes 1 to 29 and Annex I are an inseparable part of these consolidated annual accounts.

ELOISA MOYANO PRADOS  
Traductora - Intérprete Jurada de INGLÉS  
Nº 1940



**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
Statement of change in total equity for the fiscal year ended 31 December 2016  
(in thousands of Euros)

	Fiscal year ended 31 December	
	2016	2015
Operating results	36,300	32,816
Other overall year profit/(loss):		
Items that may later be restated to income		
Exchange differences	4,323	(6,744)
Tax effect	-	-
<b>Total annual profit/(loss), net of taxes</b>	<b>40,623</b>	<b>26,072</b>
Attributable to:		
- Parent company	39,742	26,006
- Minority interests	881	66
<b>Overall profit and loss for the year</b>	<b>40,623</b>	<b>26,072</b>

The accompanying notes 1 to 29 and Annex I are an inseparable part of these consolidated annual accounts.

ELOSAMORANO PRADOS  
Traductora - Interprete Jurada de INGLES  
Nº 1940

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
Statement of change in total equity for the fiscal year ended 31 December 2016  
(in thousands of Euros)

	Capital	Reserves and retained earnings	Exchange differences	Results for the year attributable to the parent company	(Interim dividends)	Non-controlling interests	Total equity
<b>BALANCE AT 1 JANUARY 2015</b>	90,363	19,807	(1,252)	27,180	(15,000)	(81)	121,017
<b>Total comprehensive income for 2015</b>	-	-	(6,744)	32,750	-	66	26,072
Dividends	-	(6,720)	-	-	(17,623)	-	(24,343)
Adjustment 1st IFRS consolidation	-	(1,252)	1,252	-	-	-	-
Other movements	-	12,777	-	(27,180)	15,000	922	1,519
<b>Other variations in equity</b>	-	4,805	-	27,180	(2,623)	922	(22,824)
<b>2015 YEAR-END BALANCE</b>	90,363	24,612	(6,744)	32,750	(17,623)	907	124,265
<b>BALANCE AT 1 JANUARY 2016</b>	90,363	24,612	(6,744)	32,750	(17,623)	907	124,265
<b>Total comprehensive income for 2016</b>	-	-	4,096	35,646	-	881	40,623
Dividends	-	(7,182)	-	-	(20,000)	-	(27,182)
Acquisitions (sales) of minority interests	-	-	-	-	-	30,007	30,007
Other movements	-	15,432	-	(32,750)	17,623	-	305
<b>Other variations in equity</b>	-	8,250	-	(32,750)	(2,377)	30,007	3,130
<b>2016 YEAR-END BALANCE</b>	90,363	32,862	(2,648)	35,646	(20,000)	31,795	168,018

The accompanying notes 1 to 29 and Annex I are an inseparable part of these consolidated annual accounts.

## **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

### **1. General information**

AFFINITY PETCARE, S.A. (Sociedad Unipersonal - Sole Proprietorship) (hereinafter, the parent company), is the head of the group composed of various companies (hereinafter, the Group or Affinity Group) whose main business activities consist of producing and/or marketing pet food, pet health products and other animal products.

Its industrial facilities are located in Sta. Margarida i els Monjos (Barcelona) and at the site of its investee company located in La Chapelle Vendomoise (France) and Castelvigo (Italy). Since 2016, its central offices are located in l'Hospitalet de Llobregat (Barcelona).

The parent company was founded in the public deed executed on 8 June de 2000 under the name of ALTEX 2000, S.A. The original name was changed to GALLINA BLANCA PURINA, S.A. on 2 September 2002 (the date on which it merged with the company of the same name). Subsequently, on 25 November 2002, the Company once again changed its name to the current one, AFFINITY PETCARE, S.A. The information on the merger was included in the 2002 consolidated financial statements.

The details of the companies that make up the Affinity Group along with the parent company and their main lines of business, registered addresses, percentage of ownership and equity, based on their individual annual accounts are shown in Annex I, enclosed herewith.

The parent company belongs to the Agrolimen Group whose parent company is in turn Agrolimen, S.A., with registered offices in L'Hospitalet de Llobregat (Barcelona), which owns 100% of the shares of AFFINITY PETCARE, S.A. (Sociedad Unipersonal - Sole Proprietorship)

### **2. Basis for presentation of consolidated annual accounts**

The 2016 consolidated annual accounts of the Affinity Group were created from the accounting records of the parent company and other member companies of the Group by the directors of the parent company at the Board of Directors meeting held on el 31 March 2017.

The Affinity Group's consolidated annual accounts at 31 December 2016 were prepared in accordance with International Financial Reporting Standards (hereinafter, IFRS) adopted for use in the European Union (hereinafter "IFRS-EU") and the interpretations of the Interpretation Committee of the International Financial Reporting Standards (hereinafter "IFRIC"), which were approved by the European Commission Regulations and took effect on 31 December 2016. These are the first consolidated annual accounts prepared under said standards (see Note 28). All mandatory accounting standards and principles and mandatory measurement criteria as well as the Commerce Code, the Capital Companies Act and other applicable commercial laws were considered so as to show a true image of the Group's consolidated financial situation at 31 December 2016, the results of its operations and changes

Traductora - Intérprete Jurada de INGLÉS

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
**Consolidated cash flow statement for the fiscal year ended**  
**31 December 2016**  
**(in thousands of Euros)**

	Note	Fiscal year 2016	Fiscal year 2015
<b>CASH FLOWS FROM OPERATIONS (I):</b>		<b>48,328</b>	<b>38,354</b>
Pre-tax results for the period		51,870	45,163
Adjustments to profit (loss)		8,430	2,779
Amortisation of fixed assets	7 and 8	6,490	4,586
Adjustment due to impairment		456	185
Changes in provisions		285	147
Profit/ loss on write-offs and disposals of fixed assets		27	17
Financial income	23	(79)	(334)
Financial costs	23	1,234	198
Gains/(losses) on exchange	23	-	(127)
Change in fair value of financial instruments	23	17	(41)
Share in profits (losses) of companies carried by the equity method	10	76	(1,853)
Changes in working capital		110	790
Inventories		(1,421)	(1,306)
Trade and other receivables		(770)	(6,925)
Other current assets		10,165	1,581
Creditors and other accounts payable		1,964	10,293
Total current liabilities		-	(10)
Other non-current assets and liabilities		-	(2,843)
Other cash flows from operations		(12,082)	(10,377)
Payment of interest		(973)	(198)
Dividends received	10	481	-
Interest payments received		79	334
Amounts received (paid) for tax on profit		(12,044)	(10,514)
Other payments (collections)		299	-
<b>CASH FLOWS FROM INVESTMENTS (II)</b>		<b>(90,111)</b>	<b>(11,904)</b>
Payments for investments		(96,135)	(16,312)
Associate companies		(5,016)	(7,199)
Intangible assets	7	-	(2)
Intangible assets	8	(18,869)	(9,111)
Other financial assets		-	-
Business unit	6	(72,250)	-
Amounts collected from divestitures		6,024	4,408
Group companies, net of cash in consolidated enterprises		5,837	2,500
Intangible assets	7	11	-
Intangible assets	8	119	18
Other financial assets		57	1,890
<b>CASH FLOWS FROM FINANCING (III)</b>		<b>32,172</b>	<b>(6,747)</b>
Expenses and payments for liability financing		56,977	(27)
- Bank loans		70,000	-
- Return and amortisation of other payables		(13,023)	(27)
Dividend payments and returns on other equity instruments		-	-
Dividends		(24,805)	(6,720)
<b>EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV)</b>		<b>-</b>	<b>-</b>
<b>NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS (I+II+III+IV)</b>		<b>(9,611)</b>	<b>19,703</b>
Cash or cash equivalents at the beginning of the financial year		24,226	4,523
Cash and cash equivalents - year end		14,615	24,226

The accompanying notes 1 to 29 and Annex I are an inseparable part of these consolidated annual accounts.

ELOISA MOYANO PRADOS  
Traductora - Intérprete Jurada de INGLÉS  
Nº 1940

## **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

in equity and cash flows for the fiscal year ending on that date.

The preparation of consolidated annual accounts in conformity with IFRS-EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Affinity Group's accounting policies. Note 4 discloses the areas that require a higher level of judgment or entail greater complexity, and the areas where assumptions and estimates are significant for the consolidated annual accounts.

The Affinity Group's consolidated annual accounts for the fiscal year ended 31 December 2015 were approved by the shareholders at the General Meeting held on 28 June 2016.

### **2.1 First-time adoption of International Financial Reporting Standards**

The consolidated annual accounts of the Affinity Group were prepared according to IFRS-EU and the interpretations of the IFRS Interpretations Committee in force 31 December 2016 and all other commercial laws applicable to companies that prepare financial information according to IFRS.

These are the first consolidated annual account prepared according to IFRS-EU after establishing 1 January 2015 as the transition date to IFRS. Note 28 details the effects of the first-time application of IFRS-EU to the Group's consolidated annual accounts.

Until the fiscal year ended 31 December 2015, the Group's consolidated annual account were prepared in compliance with the applicable commercial laws in Spain contained in the Commercial Code, amended by Law 16/2007 of 4 July on the reform and adaptation of accounting legislation to bring it into line with international regulations and EU legislation; Royal Decree 1514/2007 of 20 November which approved the new Spanish Chart of Accounts, and Royal Decree 1159/2010 of 17 September which approved the rules for drawing up consolidated annual accounts, to the extent that it does not conflict with the amended mercantile regulations mentioned above, in order to present fairly the Group's financial situation and results and the veracity of the cash flows included in the consolidated cash flow statement. Since these standards differ in some areas from IFRS, Group management has restated in these consolidated annual accounts the figures at 31 December 2016 and 1 January 2015 in order to present comparative information in accordance with IFRS-EU.

The consolidated annual accounts have been prepared on a historical cost basis.

In preparing the consolidated annual accounts at 31 December 2016, the Group applied IFRS 1. The Group prepared the opening and closing balance sheets for 2015 and 2016 according to IFRS in effect at 31 December 2016 as required by IFRS 1, applying all mandatory exceptions and operating exemptions (See Note 28).

ÉLOÏSA MOYANO PRADOS

Traductora - Intérprete Jurada de INGLÉS 9

Nº 1940

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

**2.2 Mandatory standards, modifications and interpretations for all fiscal years beginning on or after 1 January 2016**

- **Annual Improvements of IFRS, 2010 – 2012 Cycle:** In December 2013 the IASB published the Annual Improvements to IFRS for the 2010-2012 cycle which affect IFRS 2, IFRS 3, IFRS 8, IAS 16 and IAS 24.
- **IAS 19 (Amendment) “Defined benefit plans: Employee contributions:** IAS 19 (revised in 2011) distinguishes between employee contributions related to the service rendered and others not associated with the service. This Amendment also distinguishes between contributions linked to the service only in the year in which they occur and those linked to services rendered across more than one fiscal year. With this Amendment, the contributions linked to the service that do not vary over time can be deducted from the cost of the benefits accrued in the fiscal year in which the service is rendered. Contributions linked to the service that do vary over the course of the service must be spread out over the service provisions period using the same method of assignment as the one that applies to benefits. This Amendment applies to the fiscal years starting on or after 1 February 2015 and applies retroactively. Early implementation is allowed.
- **IFRS 11 (Amendment) “Accounting for acquisitions of interests in joint ventures”:** Requires that the accounting principles of a business combination be applied to an investor who acquires an interest in a joint operation that constitutes a business. More specifically, the identifiable assets and liabilities must be measured at fair value; the costs associated with the acquisition must be recognised; deferred taxes must be recognised and residual value must be recognised as goodwill. All other accounting principles for business combinations apply as long as they do not conflict with IFRS 11. This Amendment will be applied prospectively for fiscal years starting on or after 1 January 2016, although it can be implemented early.
- **Annual improvements to IFRS, 2011-2014 Cycle.** The IASB published the Annual Improvements to IFRS for the 2012-2014 cycle which affect IFRS 5, IFRS 7, IFRS 7, IAS 19 and IAS 34.
- **IAS 1 (Amendment) “Disclosure initiative”:** The amendments to IAS 1 encourage companies to use their professional judgement to determine which information should be disclosed on the financial statements. The amendments clarify that materiality applies to the financial statements as a whole and that the inclusion of information that is immaterial could diminish the usefulness of the financial information. In addition, the amendments clarify that entities should use their professional judgment when determining where and in what order the information is presented on the financial statements. The amendments to IAS 1 can be applied immediately and will be mandatory for fiscal years starting on or after 1 January 2016.

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The application of this standard has not had a significant impact on the consolidated annual accounts.

### 2.3 Standards, amendments and interpretations that have not taken effect but can be adopted prior to the fiscal year beginning on or after 1 January 2016.

When these consolidated annual accounts were drawn up, the IASB and the IFRS Interpretations Committee had published the following new standards, modifications and interpretations, although they will be adopted early by the Group.

- **IFRS 9, "Financial instruments":** Addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was published in July 2014 and replaces IAS 39 on the classification and measurement of financial instruments.

IFRS 9 maintains but also simplifies the mixed measurement model and establishes three main valuation categories for financial assets depending on the entity's business model and the characteristics of the contractual cash flows of the financial asset. No changes were made to the classification and measurement of financial liabilities. IFRS 9 introduces a new impairment loss model - the expected credit loss model - that replaces the incurred impairment loss model of IAS 39. This will allow losses to be recognised earlier than had previously been the case under IAS 39. IFRS 9 relaxes the requirements for the effectiveness of the hedge. Finally, additional information is required including a reconciliation of the starting and ending amounts of the provisions for expected credit losses, hypothesis and data, and a reconciliation of the transition between the original classification categories under IAS 39 and the new classification categories under IFRS 9.

IFRS 9 will be effective for fiscal years starting on or after 1 January 2018, although it can be implemented earlier. IFRS will be applied retroactively, although it will not be necessary to re-express the comparative figures.

- **IFRS 15 "Ordinary income from contracts with clients":** In May of 2014, the IASB and the FASB issued a joint standard in relation to the recognition of ordinary income from contracts with clients. Under this standard, income is recognised when the client assumes the control over the product or service in question, i.e., when the client has the ability to determine how the product or service is used and to generate profits using it. This IFRS standard includes new guidelines for determining whether income should be recognised over time or at a particular moment in time. IFRS 15 requires detailed reporting of recognised income and the income that is expected to be recognised in the future in relation to existing contracts. It also requires quantitative and qualitative information on the significant judgments used by management to determine the amount of income recognised.

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income and the changes to those judgments.

Subsequently, in April 2016 IASB published amendments to this standard to clarify some of the more complex aspects, although the basic principles remain unchanged.

IFRS 15 will be effective in fiscal years beginning on or after 1 January 2018, although it can be implemented early.

### 2.4 Standards, amendments and interpretations of existing standards that cannot be adopted early or have not been adopted by the European Union:

When these consolidated annual accounts were drawn up, the IASB and the IFRS Interpretations Committee had published the following new standards, modifications and interpretations, which are pending implementation by the EU.

- **IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or transfer of assets between an investor and its associates or joint ventures":** These modifications clarify the accounting treatment of sales and transfers of assets between an investor and its associates or joint ventures, which depends on whether or not the non-monetary assets sold or contributed to an associate or joint venture constitute a "business".

These amendments to IFRS 10 and IAS 28 were originally prospective, applicable to fiscal years beginning on or after 1 January 2016. However, at the end of 2014 IASB made the decision to postpone the effective date of the changes (without specifying a new date) since a more extensive review is planned that could simplify the way in which these transactions are accounted for and other aspects of accounting for associates and joint ventures.

- **IFRS 16. "Leases":** IASB published this new standard in January 2016 as the result of a joint project with FASB, which abolishes IAS 17. "Leases".

IASB and FASB have reached the same conclusions in many areas related to accounting for leases, including the definition of a lease, the requirements, as a general rule, to reflect leases on the balance sheet and the measurement of liabilities associated with leases. IASB and FASB also agreed not to introduce substantial accounting changes for the lessor, keeping the requirements similar to those already existing in the previous rule.

This standard applies to the fiscal years beginning on or after 1 January 2019. It can be adopted early if IFRS 15 "Ordinary income from contracts with clients" is adopted at the same time.

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- **IAS 7 (Amendment) "Disclosure initiative":** Entities are obligated to disclose information that enables users to understand the changes in liabilities arising from financing activities. This includes the changes arising from cash flows, such as drawdowns and loan repayments; and non-monetary changes such as acquisitions, disposals and unrealised gains or losses on exchange.

The amendment suggests that this disclosure requirement can be met by including a reconciliation of the opening and closing balances of liabilities arising from financing activities, although no specific format is established.

These changes apply to the fiscal years starting on or after 1 January 2017.

- **IAS 12 (Amendment) "Recognition of deferred tax assets for unrealised losses".** The changes made to IAS 12 clarify the requirements for recognising deferred tax assets from unrealised losses. The amendment clarifies the accounting treatment of deferred tax assets for assets stated at fair value when the fair value is lower than the asset's tax base. It also clarifies other aspects of the tax treatment of deferred tax assets.

These changes apply to the fiscal years starting on or after 1 January 2017.

- **Annual improvements to IFRS. 2014-2016 Cycle.** The changes affect IFRS 1, IFRS 12, IAS 19 and IAS 28 and apply to the fiscal years beginning on or after 1 January 2018 in the case of changes to IFRS 1 and IAS 28 and 1 January 2017 for the changes to IFRS 12, all subject to adoption by the EU.
- **IFRS Interpretations Committee 22 "Transactions and balances in foreign currencies":** This IFRS Interpretation deals with how to determine the transaction date when applying IAS 21 to foreign currency transactions. The interpretation applies when an entity makes or receives payments under contracts in foreign currencies. The aim of the guideline is to reduce divergence in practice.

This Amendment will apply to fiscal years beginning on or after 1 January 2018, although it can be implemented early.

The group has decided not to proceed with the early implementation of the standards and interpretations discussed above, which will only be considered by the group once they have been approved by the European Union.

However, the Directors of the Group are evaluating the potential impact of applying the standards in the future.

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### **2.5 Consolidation principles**

#### **a) Subsidiaries**

Subsidiaries are entities over which the group exercises control (including structured entities). The Group controls an entity when it has the chance or the right to obtain certain variable income for its involvement in the investee and has the ability to use its power over the investee to so as to influence its profits. Subsidiaries are consolidated as of the date on which control is transferred to the Group and are excluded from the consolidation on the date on which such control ceases.

The Group accounts for business combinations using the acquisition method. The consideration paid for the acquisition of an investee is the fair value of the transferred assets, the liabilities incurred by the previous owners and the equity shares issued by the Group. The transferred consideration includes the fair value of any asset or liability arising from a contingent agreement. Identifiable assets acquired and liabilities and contingencies assumed in a business combination are measured initially at their fair value at the acquisition date. For each business combination, the Group may choose to recognise the fair value of the minority interest in the acquired business or the proportional part of the minority interest in the net identifiable assets of the acquired business.

Costs related to the acquisition are recognised as expenses in the fiscal years in which they are incurred.

If the business combination is carried out in stages, the carrying value of the interest in the net equity of the acquired company previously maintained by the buyer is re-measured at fair value on the acquisition date; any profit or loss arising from this new measurement is recognised in fiscal year results.

Any contingent consideration to be paid by the Group is recognised at fair value on the acquisition date. Subsequent changes in the fair value of the contingent consideration that are considered assets or liabilities are recognised according to IAS 39 either in income or with a change to other comprehensive income. Contingent considerations classified as equity are not re-measured and when subsequently settled they are carried to equity.

Goodwill is initially recognised as the excess consideration paid, the amount of any minority position in the acquired business and fair value of the interest in the net equity of the acquired business previously held by the buyer on the acquisition date over the net amount on the date when the identifiable assets are acquired and the liabilities

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assumed. If this amount is lower than the fair value of the net assets of the acquired business, as in the case of purchases under advantageous conditions, the difference is recognised as a gain in the consolidated income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. The amounts reported by subsidiaries are adjusted as needed to bring them in line with the groups accounting policies.

b) Non-controlling interests

Non-controlling interests are presented on the consolidated balance sheet separately from the equity attributable to the parent company. The share of non-controlling interests in the consolidated FY results (and total consolidated income for the year) is also shown separately in the consolidated income statement (consolidated statement of comprehensive income) and including under the heading of non-controlling interests on the balance sheet.

c) Changes in the holdings in subsidiary undertakings without change of control

The Group accounts for transactions with minority interests that do not involve a loss of control as transactions with the owners of the Group's assets. In purchases of minority interests, the difference between the consideration paid and proportional carrying value of the minority's net assets is carried to equity. Gains or losses on the disposal of minority interests are also recognised in equity.

d) Disposal of subsidiaries

When the Group loses control, any retained investment in the entity is re-measured at the fair value on the date on which control is lost, and the change in the carrying value is recognised in results. The fair value is the initial carrying value for accounting for the purpose of accounting for the retained investment as an associate, joint venture or financial asset. In addition, any amount previously recognised in relation to the said entity in other comprehensive income is accounted for as though the Group had directly sold the related assets or liabilities. This can mean that the amounts previously recognised in other comprehensive income must be restated on the consolidated income statement.

e) Associates

Associates are all those entities over which the Group exercises significant influence but not control, which is generally accompanied by a shareholding of 20 to 50% of voting rights. Investments in associated are carried according to the equity method. Under the equity method, the investment is initially stated at cost and the carrying value

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is increased or decreased to recognise the investor's interest in the investee's profit or loss after the acquisition date. The Group's investment in associates includes the goodwill identified at the time of acquisition. The policy on impairment of non-financial assets, including goodwill, is described in Note 3.4.

If the shareholding in an associate is reduced but remains significant, the proportional amounts previously recognised in other results are only reclassified to the income statement if deemed appropriate.

The Group's participation profit (loss) after the acquisition of an associate is recognised in the consolidated income statement and its participation in movements subsequent to the acquisition in other comprehensive income with the corresponding adjustment to the carrying value of the investment. When the Group's share of the losses of an associate is equal to or higher than its shareholding in the same, including any other uninsured receivable, the Group does not recognise additional losses unless it has assumed legal or tacit obligations or made payments in the associate's name.

On each filing date of financial information, the Group calculates whether there is any objective evidence that the value of the investment in the associate has fallen. Should this be the case, the Group calculates the amount of the loss due to the impairment of value as the amount recoverable from the associate and its book value, and recognises the underlying value under "Appropriation of profit/(loss) of an associate" in the income statement.

Profit and loss from ascending and descending transactions between the Group and associates are recognised on the Group's financial statements only to the extent that they refer to the holdings of other investors in the associates unrelated to the investor. Unrealised losses are also eliminated unless the transaction shows evidence of an impairment of the transferred asset. The investees' accounting policies have been modified as necessary to ensure that they are consistent with the policies adopted by the Group.

Diluted profit and loss arising from investments in associates are recognised on the consolidated income statement.

### **f) Joint arrangements**

The Group applies IFRS 11 to all joint arrangements. Investments in joint arrangements under IFRS 11 are classified as joint operations or joint business depending on the contractual rights and obligations of each investor. The Group has evaluated the nature of its joint arrangements and has determined that they are joint businesses. Joint businesses are accounted for by the equity method.

Under the equity method, interests in jointly-controlled entities are initially recognised at

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cost and thereafter adjusted to recognise the group's interest in profit and loss subsequent to acquisition and changes in comprehensive income. If the group's share of the losses incurred by a joint business is equal to or greater than its interest in the joint business (including any long-term interest which is in essence part of the group's net investment in the joint business), the group does not recognise additional losses unless any obligations have been assumed or payments made in connection with the joint business.

Unrealised gains on transactions between the Group and its joint businesses are eliminated on the basis of the Group's interest percentage in them. Unrealised losses are also eliminated unless the transaction shows evidence of an impairment of the transferred asset. The accounting policies of the joint businesses have been modified as necessary to ensure that they are consistent with the policies adopted by the Group.

### **2.6 Changes in the scope of consolidation**

#### **FY 2016**

On 5 April 2016, Affinity Petcare Italia, S.R.L. acquired 75% of the Italian company, Agrifan, S.R.L., the sole shareholder of the Italian company Nova Foods, S.R.L. The company makes pet food under the name of "Trainer", a well-known brand in the Italian market. Both companies are consolidated in 2016 using the global integration method, as of the date on which the group assumed control (Note 6).

#### **FY 2015**

In fiscal year 2015, the following business transactions had an impact on the list of consolidated enterprises:

- In 2013, the parent company acquired 95% of Biocentury Brasil Importação, Armazenagem e Comercio Atacadista de productos alimenticios Ltda for 2,000 euros (which later became known as Affinity Petcare Brasil Participações, Ltda.), with the remaining 5% in the hands of the related party Inveramen, S.A. (member of the Agrolimen Group). Affinity Petcare Brasil Participações, LTDA. acquired a 50% stake in the capital of the Brazilian company Mogiana Alimentos, S.A., from an independent third party and the subscription of convertible debentures issued by the same company, subject to a condition precedent.
- On 23 February 2015, the condition precedent for the acquisition of 50% of the share capital of the Brazilian company Mogiana Alimentos, S.A. was resolved, following which the operations provided for in the purchase agreement went ahead so that the takeover of 50% of the shareholding could be completed through the subsidiary Affinity Petcare Brasil Participações, Ltda. As a result, in fiscal year 2015, the company Mogiana Alimentos, S.A. was consolidated.

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S.A. was added to the Group's list of consolidated joint arrangements, carried by the equity method (Note 6).

### **3. Accounting policies**

The main accounting policies adopted in the preparation of these consolidated annual accounts are described below. These policies have been applied consistently for all years presented.

#### **3.1 Intangible assets**

##### **a) Trademarks and licences**

The amounts paid to acquire the ownership or usage rights to the different embodiments are registered in this account, as are the expenses incurred to register the Group's intellectual property.

Under the heading of licenses and trademarks there are certain trademarks with indefinite useful lives given that there is no foreseeable limit on the period during which these assets will generate net cash flows for the Group. These assets are not amortised and are tested annually for impairment. They are carried at cost less accumulated impairment losses. Value adjustments due to impairment are acknowledged as an expense in the income statement.

##### **b) Goodwill**

Goodwill arises when subsidiaries are acquired and represents the excess of consideration paid, the amount of any minority position in the acquired business and the fair value of the interest in the net equity of the acquired business previously held by the buyer on the acquisition date as compared to the net amount on the date when the identifiable assets are acquired and the liabilities assumed. If the sum of the consideration paid, the recognised non-controlling interest and the previously held interest at fair value is less than the fair value of the net assets of the subsidiary acquired under very advantageous conditions, the difference is recognised directly in the income statement.

Goodwill is not depreciated. It is checked for impairment annually. Losses due to goodwill impairment are reviewed annually or more frequently if changing circumstances or events indicate potential impairment losses. The carrying value of a cash-generating unit ("CGU") or group of cash-generating units containing goodwill is compared against the recoverable value, which is the value-in-use or the fair value less the cost of the sale, whichever is greater. Any loss due to impairment is recognised immediately in the income statement and may not be reversed at a later date.

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In order to test for impairment, the goodwill arising from the business combinations mentioned above is assigned to each cash-generating unit (CGU) or groups of CGUs which are expected to benefit from the synergies of the business combination. The CGUs or groups of CGUs are identified at the lowest level at which goodwill is controlled internally.

At the end of each fiscal year and whenever management detects any indications of impairment, the Company tests the corresponding assets to determine whether their recoverable amount has fallen below their carrying amount. Losses due to impairment are recognised immediately in the income statement and may not be reversed at a later date.

If the Company must recognise impairment losses on a cash-generating unit to which some or all of the goodwill was assigned, the first thing to be reduced is the carrying value of the goodwill pertaining to that unit. If the impairment exceeds the amount of the goodwill, then the carrying value of the rest of the cash-generating unit's assets is reduced down to the higher of the following values: fair value less the cost of sales, value-in-use or zero.

When an impairment loss subsequently reverts (which in the particular case of goodwill is not allowed), the carrying amount of the asset or cash-generating unit is written up to its recoverable amount, so long as the restated carrying amount does not exceed the carrying amount that would have been recognised had no impairment loss been recognised in prior years. The reversion of an impairment loss is recognised as income.

The Company has chosen to claim an exemption from IFRS 1 for business combinations and not re-state them according to IFRS-EU (IFRS 3). The values are therefore the same as they were under the former accounting plan (Note 28).

### **c) Computer applications.**

The Group recognises the costs incurred to acquire computer programmes. The cost of maintaining the computer software is recorded in the consolidated income statement for the financial year in which it is incurred. Computer applications are depreciated using a straight-line method over their useful lives of 3 or 5 years.

Software development costs recognised as assets are amortised over the software's estimated useful life.

### **d) Research and development expenses**

Research expenditure is recognised as an expense when incurred. Development costs incurred in projects are recognised as intangible assets when it is probable that the

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project will be a success considering its technological and commercial feasibility, there are sufficient technical and financial resources to complete it, the costs incurred may be measured reliably and a profit is likely to be generated.

Other development expenses are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent years.

Development costs with a finite useful life that have been capitalised are amortised on a straight-line basis over the period of the project's expected benefit, not exceeding five years.

If an asset's carrying value is greater than the estimated recoverable amount, the carrying value is written down immediately to the recoverable amount (Note 3.3).

If the circumstances favouring the project that permitted the capitalisation of the development costs change, the unamortized portion is expensed in the year of change.

### **3.2 Property, plant and equipment**

PPE is recorded at historical cost, less accumulated depreciation. Cost includes any costs directly attributable to the acquisition of the items. The cost may also include profits or losses on qualified cash flow hedges of acquisitions of PPE items in foreign currency moved transferred from equity.

Work done on the Group's own assets is calculated by adding the cost of the consumable materials to the direct or indirect costs attributable to such assets.

The costs of extending, upgrading or improving property, plant and equipment are only carried as an increase in the asset's value when they entail an increase in its capacity, productivity or the extension of its useful life, provided that the carrying value is known or can be estimated in the case of assets written off from inventories owing to replacement.

Financial expenses that are directly attributable to the acquisition or construction of items that constitute fixed assets that require a period of more than one year to be ready for use are reported at their cost until they are ready for operation.

The cost of major repairs is capitalised and depreciated over the estimated useful life of the asset, whilst recurring maintenance costs are charged to the income statement in the year in which they are incurred.

The depreciation of property, plant and equipment, with the exception of land, which is not depreciated, is calculated systematically using the straight-line method over the assets'

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estimated useful lives based on the actual decline in value brought about by operation, use and possession. Estimated useful lives are as follows:

<b>Item</b>	<b>Years of useful life</b>
Buildings	33.3
Technical plant and machinery	8.33 - 10
Other plant, equipment and furniture	2-10
Data processing equipment	4
Vehicles	8.33

The residual value and the useful life of the assets are reviewed, and adjusted if necessary, every time a balance sheet is drawn up.

Gains and losses on the sale of the property, plant and equipment are calculated by comparing the income received against the amount recorded in the books, and are then recorded in "Impairment and proceeds from fixed asset disposals".

### **3.3 Borrowing costs**

Borrowing costs directly associated with the acquisition, construction or production of assets that require a substantial amount of time before they are ready for their intended use are added to the cost of these assets during the period of time during which they are being prepared or completed.

Financial income from the temporary investment of loans that will be used to acquire assets once they are ready is deducted from capitalised interest.

All other borrowing costs are recognised in the consolidated income statement in the year in which they are incurred.

### **3.4 Losses due to impairment of non-financial assets**

The Group assesses the indications of asset impairment on each balance sheet closing date. If there are indications of impairment or when the annual impairment test is conducted (e.g. on goodwill), the Group estimates the recoverable amount, this being understood as the fair value less the cost of sale or the value in use, whichever is greater.

If the asset does not generate cash flows by itself independently from other assets (as in the case of goodwill), the group estimates the fair market value or value in use of the CGU to which the asset pertains. If there losses due to impairment of a CGU, the book value of the goodwill assigned to it, if any, is written down and the book value of the rest of the assets which are part of the CGU are written down proportionally.

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Impairment, when it occurs, is recorded in the consolidated income statement.

With the exception of losses due to impairment of goodwill, which are irreversible, at the end of the year the losses due to impairment recognised in prior years are evaluated by the group to determine whether the impairment has disappeared or eased. If so, the group estimates the recoverable value of the impaired asset.

A previously recognised impairment loss is reversed if and only if there is a change in the estimates used to determine the recoverable amount since the latest impairment loss was recognised. If this is the case, the carrying value of the asset is written up to the recoverable value which may not exceed what would have been the book value, net of depreciation, have the impairment loss not been recognised in a previous fiscal year. The reversal is charged to the consolidated income statement.

**3.5 Leases**

**a) Finance leases**

Leases of property, plant and equipment in which the Group holds a substantial portion of all the risks and advantages deriving from the ownership of the assets are classified as financial leases. Finance leases are recognised at the start of the contract at either the fair value of the leased asset or the present value of the minimum lease payments, whichever is lower. Each lease payment is broken down to show the reduction in the debt and the financial charge such that a consistent interest rate is obtained on the balance of the debt payable. The payment obligation deriving from the lease, net of the financial charge, is recognised under non-current payables. The interest associated with the financial charge is debited in the income statement over the term of the lease in order to obtain a constant regular interest rate on the balance of the debt payable in each period. Property, plant and equipment acquired under financial lease contracts are depreciated over the useful life of the asset or the lease, whichever is shorter.

The Group has evaluated its current leases and concluded that there are no contracts that meet the legal requirements to be considered financial leases. Therefore, all of the Group's leases are considered operating leases.

**b) Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments (net of any incentive received by the lessor) are debited in the income statement on a straight-line basis over the lease period

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### **3.6 Financial assets**

#### **a) Classification**

The Group divides its financial assets into the following sub-categories: financial assets at fair value through profit or loss, loans and accounts receivable, held to maturity investments and financial assets available for sale. The classification depends on the purposes for which the assets were acquired. Management determines how financial assets are classified at the time they are initially recognised.

##### **1) *Financial assets at fair value with changes in the income statement***

Financial assets at fair value with changes in the income statement are financial assets held for trading. A financial asset is classified in this category if it is mainly acquired for sale in the short term. Derivatives are also classified as acquired for trading unless they are designated as hedges. Assets in this category are classified as current if they are to be realised within 12 months of the balance sheet date; otherwise, they are classified as non-current.

##### **2) *Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables include the balance sheet items "Trade and other accounts receivable" (Note 12).

##### **3) *Investments held until maturity***

Held-to-maturity investments are non-derivative financial assets with fixed maturity dates and fixed or quantifiable payments which the group has not only the intention but also the capacity to hold until maturity.

##### **4) *Available-for-sale financial assets***

Available-for-sale financial assets include debt securities and equity instruments that are not classified in any of the above categories. They are recognised as non-current assets unless the maturity date falls within 12 months of the balance sheet date or management intends to dispose of the investment within 12 months of the balance sheet date.

There were no significant balances under this heading at the end of fiscal years 2015 or 2016.

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b) Recognition and measurement

Initial valuation

Financial assets are initially stated at the fair value of the consideration paid plus the costs directly attributable to the transaction.

Subsequent valuation

Following the initial recognition, loans, credit facilities and other receivables are stated amortized cost, calculated using the effective interest rate method.

The group leader calculates the amortised cost of held to maturity financial assets. At least once at the end of each fiscal year, the Group tests financial assets for impairment. Objective evidence of impairment exists if the recoverable value of the financial asset is lower than the carrying value. Impairment losses, if any, are recognised in the consolidated income statement.

In particular, the Group calculates valuation adjustments relating to "trade and other receivables", if any, by estimating the fair value of the balances in light of estimated future receipts which will be collected either from the borrower or from the insurance company that has guaranteed payment.

Following the initial recognition, available-for-sale assets are measured at fair value without deducting the transaction costs that may be incurred in the process of selling or disposing of the asset. However, investments in equity instruments that do not trade on active markets and whose fair market value cannot be reliably estimated are stated at cost.

Derecognition of financial assets

The Group derecognises financial assets when they mature or the rights over the related cash flows are assigned and the risks and benefits incidental to their ownership have been substantially transferred, such as in firm sales of assets, trade credit assignments in "factoring" operations where the company retains no credit or interest risk, sales of financial assets with agreement to buy them back at their fair value or securitisation of financial assets where the assigning company neither retains any subordinate financing nor does it give any guarantee or assume any other type of risk.

On the other hand, the Company does not derecognise financial assets and recognises a financial liability equal to the consideration received in those cases where a substantial portion of the risks and rewards inherent to ownership are retained, such as discounts and "factoring with recourse".

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### **c) Compensation of financial instruments**

Financial assets and liabilities are only compensated and shown at net value on the balances sheet when the Group has an enforceable right to offset the amounts recognised and intends to settle the net amount, or to realise the asset and settle the liability simultaneously. The legally enforceable right should not be contingent or dependent upon future events and should be enforceable in the normal course of business and in cases of non-fulfilment, insolvency or bankruptcy of the counterparty.

### **3.7 Financial liabilities**

Financial liabilities are the debits and balances payable by the Group originating from goods purchased and services received in the course of the Company's normal operations or those which, while not considered trade payables, cannot be considered derivative financial instruments.

#### **Debits and accounts payable**

Debits and other payables are originally stated at the fair value of the consideration received, adjusted by the costs that are directly attributable to the transaction. The liabilities are subsequently stated at amortised cost using the effective interest rate method.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

#### **Bank borrowings**

Borrowings are initially recognised at fair value, net of the transactions costs incurred. Borrowings are subsequently measured at amortised cost. Any differences between the funds obtained (net of the costs incurred to obtain them) and repayment value are recognised in the income statement over the life of the debt using the effective interest rate method.

Bank borrowings are classed as current liabilities unless the Group has an unconditional right to defer repayment for at least 12 months after the balance sheet date.

Commissions paid to arrange credit facilities are recognised as part of the cost of the loan transaction insofar as it is probable that some or all lines of credit will be used. In such cases, commissions are deferred until the line is used. Insofar as there is no evidence of the likelihood of the credit line being used, the commission is capitalised as an advance payment for liquidity service and amortised over the period during which the line of credit is available.

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### **3.8 Inventories**

Inventories are measured at cost or net realisable value, whichever is less. Trade discounts, rebates, similar items and interest included in the face value of the related payables are deducted in order to determine the purchases price.

Costs are assigned using the weighted average cost method. The cost of finished products and work in progress includes raw materials, direct labour, other direct costs and general production overheads (based on normal production capacity). The net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses and, in the case of raw materials and work in progress, the estimated production costs.

Supplier discounts are recognised when it is likely that the conditions will be met to receive the discounts. Discounts are recognised as a reduction in the cost of inventories and any excess is recognised as a reduction of the "supplies" balances on the consolidated income statement.

The cost of inventory may be corrected when the cost exceeds the net realisable value.

The correction of a previously recognised value reverts to income if the circumstances that caused the impairment have ceased to exist or there is clear evidence of an increase in net realisable value as a consequence of a change in economic circumstances. The limit on the reversal of a value correction is the lesser of cost and the new net realisable value.

Value corrections and reversals due to inventory impairment are recognised under the caption "Supplies" on the consolidated income statement for raw materials, commercial inventory and supplies. Value corrections and reversals due to impairment of finished products are recognised under the heading of "Variation in supplies" on the consolidated income statement.

### **3.9 Cash and cash equivalents**

Cash and cash equivalents include cash, demand deposits at credit institutions, other short-term highly liquid investments with an original maturity of three months or less and bank overdrafts. Bank overdrafts are classified as borrowings under current liabilities on the balance sheet, whereas for the purposes of preparing the cash flow statement bank overdrafts are deducted from cash and cash equivalents.

### **3.10 Share capital**

Ordinary shares are classed as equity.

Incremental costs directly attributable to the issue of new shares or options are presented in equity as a deduction from the revenue obtained, net of taxes.

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**3.11 Current and deferred tax**

The corporate tax income or expense includes both the current and deferred portions of the corporate tax income and expense.

Current tax is the amount of income taxes payable by the Company on taxable profit for a single year. Current tax is reduced by tax deductions and other income tax credits, excluding withholdings and payments on account, and the application of tax losses carried forward.

Deferred tax expense or income corresponds to the recognition and derecognition of deferred tax assets and liabilities. These include taxable and deductible temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, and the carryforward of unused tax credits and unused tax losses. These amounts are calculated by applying to the timing differences or credits the tax rate at which they are expected to be recovered or settled.

Deferred tax liabilities are recognised for all temporary tax differences with the exception of those derived from the initial recognition of goodwill or other assets and liabilities in transactions that do not affect tax results or carrying results and are not business combinations.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available to the Group against which the temporary differences can be utilised.

At the consolidated level, any differences between the consolidated value of an investee and its tax base are also considered. These differences generally arise from the cumulative results between the acquisition date of the investee and the closing date, the tax deductions on the investment and the exchange gains (losses) if the investee's operating currency is different than the euro. The deferred tax assets and liabilities arising from these differences are recognised unless, in the case of taxable differences, the investor has control over when the differences are reversed and it is not likely that they will be reversed in the foreseeable future; deductible differences are not recognised if the difference is expected to be reversed in the foreseeable future and it is likely that the Group company will have sufficient taxable income in the future.

Deferred tax assets and liabilities arising from transactions with direct debits or credits to equity or other comprehensive income are recorded with a balancing entry in other comprehensive income or equity, respectively.

At the year end, the deferred tax assets are reconsidered and corrections are made accordingly if there are doubts about their future recovery. Also at the end of each year, the deferred tax assets not recognised on the balance sheet are evaluated and recognised to the extent that it is likely that they will be recovered with future tax profits.

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The parent company files its corporation taxes on a consolidated basis with the Sole Shareholder and other member companies of the Agrolimen Group. The subsidiaries file their corporation tax returns individually in their respective countries.

In addition to the parameters considered above for each company individually, the accrued corporate taxes are determined by taking the following aspects into account:

- The temporary and permanent differences that arise as a consequence of eliminating the operations between companies in the same tax group from the results in the process of determining the consolidated taxable base.
- The tax deductions and credits to which each company in the consolidated tax group is entitled. For these purposes, the tax deductions and credits are applied to the company that performed the activity or earned the yields necessary to make it eligible for the tax credit or deduction.

### **3.12 Employee benefits**

The Group offers various pension plans, included defined benefit and defined contribution plans.

#### **Defined contribution plans**

Under a defined contribution plan, the Group makes fixed contributions to a separate entity and has no legal, contractual or implicit obligation to make additional contributions if this entity does not have sufficient assets to meet the commitments assumed. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits when they accrue.

#### **Defined benefit plans**

Pension plans that have no defined contribution are considered defined benefit plans. Defined benefit plans generally stipulate the amount of the benefit that will be received by an employee on retirement, normally on the basis of one or more factors such as age, years of service or salary.

The liability recognised on the balance sheet with respect to defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan's assets.

The present value of the obligation is determined through actuarial calculation methods and unbiased, mutually compatible financial and actuarial methods.

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The cost of servicing the defined benefits plan for the year, recognised in the income statement as a staff welfare expense except when it is included in the cost of an asset, reflects the increase in the defined benefit obligation as a result of the employee's time of service, changes in features, reductions and liquidations. The cost of past services are recognised immediately in the income statement.

Actuarial gains and losses deriving from adjustments due to experience and changes in actuarial assumptions are charged or credited, as appropriate, directly to equity in the year in which they arise.

Under the terms of a local collective bargaining agreement, Affinity La Chapelle, S.A.S. offers its employees a retirement premium. Entitlement to these benefits is usually contingent upon the employee remaining in service up to retirement age and the completion of a minimum number of years of service. The expected cost of these benefits is accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses deriving from adjustments due to experience and changes in actuarial assumptions are charged or credited, as appropriate, directly to equity in the year in which they arise. The value of these obligations is determined each year by qualified independent actuaries.

The Italian companies Affinity Petcare Italy, S.r.L. and Nova Foods, S.r.L. have no pension plans for their employees with the exception of the "Trattamento di fine rapporto o T.F.R." (Note 16). This is a scheme in which a part of the employee's salary is deferred and paid to the employee when the employment relationship comes to an end, regardless of the reason.

For recognition and measurement purposes, the criteria established in IAS 19 apply to defined benefit plans.

The main actuarial assumptions used by the Group to calculate the current value are as follows:

	<b>2016</b>	<b>2015</b>
Discount rate	1.31%	2.03%
Wage growth (only applies to retirement premium)	1.08%	0.97%
Mortality rates	2012-2014 (France Métropolitaine according to INSEE)	2012-2014 (France Métropolitaine according to INSEE)

### **3.13 Termination benefits**

The Group is legally obligated to provide employees who are terminated under certain conditions with severance benefits. Severance payments that can be reasonably estimated

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are registered as an expense in the year in which the redundancy decision is taken and a valid expectation is created.

Termination benefits are payable when the employment is terminated by the Group before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises these benefits on one of the following dates, whichever is earlier: when the Group can no longer withdraw the offer or when the company recognises the reorganisation costs within the framework of IAS 37 and this results in the requirement to pay severance. When an offer is made to encourage the voluntary resignation of employees, the severance packages are determined by the number of employees who are expected to accept the offer. The benefits that are not going to be paid in the twelve months following the date of the balance sheet are discounted to their current value.

### **3.14 Employee bonus plans**

The Group recognises an asset and an expense for employee bonuses using the formula stipulated in the personnel compensation policy. The Group recognises a provision when it is contractually obliged to do so or when past practices have created an implicit obligation.

### **3.15 Provisions**

The provisions for risks and expenses are recognised when:

- (i) The Group has a present obligation, legal or implicit, as a result of past events;
- (ii) An outflow of funds will probably be required to settle the obligation; and
- (iii) The amount can be reliably estimated.

462,377 Provisions are not recognised for future operating losses.

Where there is a similar number of liabilities, the likelihood that an outflow of funds will be necessary for settlement is determined by considering the type of liabilities as a whole. A provision is recognised even though the likelihood of an outflow occurring with respect to an item included in the same type of liability is low.

Provisions are stated at the present value of the payments that are expected to be necessary to settle the obligation using a pre-tax rate that reflects an evaluation of the current market, the current value of money and the specific risks of the obligation. The increase in the provision which results from the passing of time is recognised as interest expenditure.

### **3.16 Revenue recognition**

Ordinary income includes the fair value of the consideration received or to be received for sales of assets and services in the ordinary course of Group's business, net of VAT refunds

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and discounts, following the elimination of intragroup sales. The Group recognises revenues when the amount of the same may be reliably measured, future economic benefits are likely to flow to the entity and the specific conditions for each of the Group's activities are met. It is understood that the amount of income cannot be reliably determined until all contingencies related to the sale have been resolved. Revenues are recognised as follows:

a) Sale of goods

Sales of goods are recognised when the goods have been delivered to the customer and there are no pending obligations to be fulfilled that could affect the acceptance of the products by the customer. Delivery does not take place until the goods have been dispatched to a specific location, the risks of obsolescence and loss have been transferred to the customer and the customer has accepted the goods in accordance with the sales contract, the acceptance period has ended or the Group has objective evidence that the necessary conditions for acceptance have been met.

Customer discounts are recognised as a reduction of income from sales when it becomes likely that the conditions for them to be granted will be met.

b) Interest income

Interest income is recognised using the effective interest rate method. When an account receivable balance becomes impaired, the Group reduces the carrying value to the recoverable value, discounting estimated future cash flows at the original effective interest rate of the instrument and continues updating the account as a decrease in interest revenue. Interest income on loans that have become impaired is recognised using the effective interest rate method.

c) Dividend income

Dividend income is recognised as revenue in the consolidated income statement when the right to receive payment is established.

### 3.17 Dividend payments

The payment of dividends to the parent company's shareholders is recognised as a liability in the Group's consolidated financial statements in the year in which the dividends are approved by the parent company's shareholders.

### 3.18 The Environment

Expenses deriving from business actions taken to protect and improve the environment are recorded as expense in the year incurred. When such expenses entail additions to property, plant and equipment, the purpose of which is to minimise the environmental impact and

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protect and improve the environment, they are accounted for as an increase in the value of fixed assets.

### **3.19 Foreign currency transactions**

#### **a) Functional and presentation currency**

The items included in the financial statements of each Group company are measured using the currency of the principal economic environment where the company operates («functional currency»). All Group companies use the official currency of the countries where they are located as their operating currency.

The consolidated annual accounts are expressed in euro, which is the Group's functional currency.

#### **b) Transactions and balances**

Transactions in foreign currency are translated to the functional currency using the exchange rates in force at the transaction dates. The profit and losses in foreign currencies resulting from the settlement of these transactions and the conversion at the closing exchange rates are generally recorded in the income statement. They are deferred in equity if they refer to qualified cash flow hedges and qualified net investment hedges or if they are party attributable to the net investment in a foreign business.

Gains and losses on exchange related to financial debt and/or cash and cash equivalents are shown on the income statement under "Gains (losses) on exchange". All other gains or losses on exchange are shown on the income statement under "Other income and expenses".

Changes in the fair value of monetary assets denominated in foreign currency classified as available for sale are analysed on the basis of translation differences resulting from changes in the amortised cost of the asset and other changes in the carrying value. Conversion differences relative to variations in amortised costs are recognised in the income statement and other changes to carrying values are recognised in other comprehensive income.

Conversion differences in respect of non-monetary items such as equity instruments held at fair value with changes in the income statement are presented as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in other comprehensive income.

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c) Group companies

The results and financial positions of all Group companies (none of which is in a country with a hyperinflationary economy) whose functional currency is different than the reporting currency are translated into the reporting currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) The income and expenses in each income statement are converted at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates existing at the transaction dates, in which case income and expenses are converted at the rates on the transaction dates) and
- (iii) The conversion differences that arise are recognised in other comprehensive income on the income statement.

On consolidation, any differences resulting from the conversion of net investments in foreign companies, loans and other financial instruments in foreign currencies designated as hedges of those investments are recognised in other comprehensive income. When a foreign business is sold and a foreign debt that is part of a net investment is paid, the associated conversion difference is recognised on the income statement as part of the profit or loss from the sale.

Adjustments to goodwill and fair value arising on the acquisition of a foreign company are treated as assets and liabilities of the foreign company and translated at the year-end exchange rate. The translation differences that arise are recognised in other comprehensive income.

3.20 Related party transactions

Transactions between group companies excluded from the consolidation group, except those related to mergers, spin-offs and non-monetary contributions of business lines mentioned in the previous sections, are recognised at the fair value of the consideration given or received. The difference between this value and the agreed amount is recognised in keeping with the underlying economic substance.

The Group performs all its transactions with related parties on an arm's length basis. Additionally, transfer prices are properly supported and, consequently, the directors of the parent company believe that there are no significant risks in this regard that may give rise to significant liabilities in the future.

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### **3.21 Current and non-current balances**

Non-current balances, under both assets and liabilities, are those with maturity dates more than 12 months away from the balance sheet closing date.

### **4. Accounting estimates and judgments**

In preparing the Group's consolidated financial statements, the directors must make certain estimates and judgments affect the application of accounting policies, the balances shown for assets, liabilities, income and expenses and the breakdown of contingent assets and liabilities as of the issue date of the annual accounts.

The related estimates and assumptions are based on past experience and a number of other factors considered to be reasonable based on the circumstances. The results form the basis for making judgments regarding the carrying value of the assets and liabilities that are not easily measured using other methods. The respective estimates and assumptions are continuously reviewed; the results of these reviews of accounting estimates are recognised in the current period if they only affect the current period or in the current and future periods if the effects extend into the future. However, the uncertainty inherent to the estimates and assumptions could lead to results that may require future adjustments to the value of the assets and liabilities.

These estimates are explained in each one of the explanatory notes to the balance sheet headings. The most significant estimates and judgments that could result in future adjustments are explained below.

#### **a) Recoverability of goodwill and intangible assets with indefinite useful lives**

Each year, the Group verifies whether there is any impairment of goodwill or assets with indefinite useful lives, in accordance with the accounting policy described in Note 3.1. The recoverable amounts of cash-generating units (CGUs) have been determined by calculating the value-in-use. These calculations require the use of estimates (Note 7).

The assumptions used to determine EBITDA of the CGUs (operating profit plus depreciation and amortisation, basis for calculating free cash flow) and future growth, which is in turn used to analyse the recoverability of goodwill and intangible assets with indefinite useful lives, are the ones defined in the financial budgets approved by management.

For all goodwill and intangible assets with indefinite useful lives assigned to the corresponding CGUs that were tested for impairment at 31 December 2016, if the recoverable amount calculated by value in use were subjected to a sensitivity analysis

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in which the growth rate were to increase by 1% or the discount rate were to fall by 2 basis, it would not necessarily result in significant impairment.

**b) Recoverability of deferred tax assets**

At the year end, the deferred tax assets are reconsidered and corrections are made accordingly if there are doubts about their future recovery. Also at the end of each year, the deferred tax assets not recognised on the balance sheet are evaluated and recognised to the extent that it is likely that they will be recovered with future tax profits.

**c) Useful lives of PPE and intangible assets**

Management estimates the useful lives and relevant depreciation and amortisation charges for its property, plant and equipment and intangible assets. The useful lives of fixed assets are estimated based on the period of time during which the items will generate economic profits. The Group reviews the useful lives of the fixed assets at the end of each year. If the estimates differ from previous ones, the change is recorded prospectively starting in the year when the change occurs.

**d) Calculation of provisions.**

Provisions are recognised when it is likely that a present obligation resulting from past events will give rise to an outflow of resources and the amount of the obligation can be reliably estimated. To comply with accounting requirements, meaningful estimates must be made. By evaluating all of the available information and the relevant events, management estimates the probabilities of contingencies materialising and the amount of the liability that will have to be paid in the future.

**e) Pension obligations**

The current value of future pension obligations to employees depends on certain factors that are determined on an actuarial basis using a series of assumptions. The assumptions used to determine the net pension cost (income) include the discount rate. Any change in these assumptions will have an effect on the book value of the pension obligations.

The Group determines the appropriate discount rate at the end of the year. The discount rate is the interest rate used to determine the current value of the outgoing cash flows that will be necessary to meet the pension obligations.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information about these assumptions is included in Note 16.

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### **f) Tax on profit**

The Group is subject to corporate income tax in many jurisdictions. Significant judgment is required to determine the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.. The Group recognizes liabilities for potential tax claims based on an estimate of whether additional tax will have to be paid.

### **5. Financial risk management**

The Group's business activities are exposed to a number of financial risks: market risk (including foreign exchange risk and interest rate risk); credit risk and liquidity risk.

The Group's overall risk management program focuses on uncertainty in financial markets and seeks to minimise the potential adverse impact on its financial profitability.

The Group's financial risk management is centralised in its Corporate Finance Department, which has established the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk.

#### **5.1 Market risk**

##### **a) Exchange rate risk**

The Group operates internationally and is therefore exposed to exchange rate risks from operations in foreign currencies.

The Group holds various investments in operations abroad, whose net assets are denominated in British pounds and Brazilian reals and therefore exposed to foreign exchange risk.

The parent had no financial derivative instruments to hedge the exchange rate risk in 2016 or 2015, since its exposure level is negligible.

At the 2016 year-end, consolidated companies with functional currencies other than the euro accounted for 7% of the total consolidated assets and 0% of the total consolidated liabilities (2015: 8% of total consolidated assets and 1% of total consolidated liabilities). In 2016, 1% of sales were transacted in currencies other than the euro (1% of total sales in 2015).

In addition, at the 2016 year-end the group recognised in the income statement losses due to exchange rate differences in the amount of EUR 261,000 (EUR 127,000 in 2015). The conversion differences carried to consolidated equity in fiscal year 2016 totalled EUR 4,323,000 in gains, of which EUR 4,096,000 pertained to the parent

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company (in 2015, the conversion differences carried to consolidated equity totalled EUR 6,744,000 in losses).

A 10% variation in the exchange rate of the leading functional currencies other than the euro would not have a significant impact on the group's results and equity once the financial statements of the subsidiaries that work with other currencies were converted to euros.

### **b) Impact of interest rate risk on cash flows and fair value**

Because the Group has bank borrowings reference to floating interest rates, it is exposed to interest rate variations that can have a direct impact on the income statement. The general objective of the strategy will be to reduce the negative impact of interest rate increases and to leverage as far as possible the positive impact of potential interest rate cuts.

At the end of 2016 and 2015, the Company had no debt covered by interest rate hedges.

The sensitivity of the annual financial statements to interest rates is limited to the direct effect which a change in interest rates could have on financial instruments reference to interest rates recognised on the balance sheet. At the 2016 in 2015 year-end close, the Group did not have significant leveraging. Therefore, the sensitivity of the income statement to a variation in interest rates would not have a significant impact on pre-tax results.

### **5.2 Credit risk**

Credit risk is associated with cash and cash equivalents, derivative financial instruments and bank deposits as well as the exposure to wholesale and retail customer credit, including trade receivables and scheduled transactions.

With the exception of accounts receivable, credit risk is managed at the group level. Each company is responsible for analysing and managing the credit risk of new customers before offering them the standard payment terms and conditions.

Generally speaking, the Group keeps its cash and cash equivalents in financial institutions with high credit ratings. Moreover, most of the Group's accounts receivable are covered by credit insurance, so credit risk is not heavily concentrated in third parties. In 2016, credit insurance covered a significant amount of the accounts receivable. Moreover, the Group has no single client that represents a relevant percentage of consolidated annual turnover whose balances are not covered and/or guaranteed by a credit insurance policy.

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The Group monitors the evolution of average payment times on a regular basis and keeps track of those customers who, for whatever reason, are late making their payments.

In financial year 2016, the parent company entered into non-recourse factoring agreements with different financial institutions. At 31 December 2016, the balance of factored receivables stood at EUR 11,252,000 (2015: EUR 9,737,000).

### 5.3 Price risk

The Group has no policy for equity instruments since the balances are negligible. A change in prices would not result in a significant adjustment to the income statement or equity.

### 5.4 Liquidity risk

Prudent management of the liquidity risk entails maintaining sufficient cash and available financing through sufficient credit facilities. In this respect, the Group's strategy is to maintain the necessary financing flexibility through committed credit lines arranged by the Group's Treasury department. Additionally, and depending on its liquidity needs, the Group uses liquidity financial instruments to maintain liquidity levels and the structure of working capital required under its business plans.

The maturity dates of the Group's financial liabilities at 31 December 2016, based on the nominal amounts, are shown on the following table:

	LESS THAN 12 MONTHS	1 - 5 YEARS	> 5 YEARS	TOTAL	Carrying value
Loans	-	77,888	-	77,888	76,593
Payable to group companies	25,135	-	-	25,135	25,135
Other	82,225	-	-	82,225	82,225
<b>TOTAL PAYABLES</b>	<b>107,360</b>	<b>77,888</b>	<b>-</b>	<b>185,248</b>	<b>183,953</b>

The maturity dates at the 2015 year-end are shown for comparative purposes:

	LESS THAN 12 MONTHS	1 - 5 YEARS	> 5 YEARS	TOTAL
Loans	-	-	-	-
Credit policies	-	-	-	-
Financial leases	-	-	-	-
Other	84,715	-	-	84,715
<b>TOTAL PAYABLES</b>	<b>84,715</b>	<b>-</b>	<b>-</b>	<b>84,715</b>

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The Group believes that, given the volume of flows generated, the debt policies, the debt maturity table, the cash situation, and the availability of credit policies guarantee that the Group will be able to meet the financial obligations assumed at 31 December 2016.

### **5.5 Capital management**

The Group's equity management objectives are to safeguard its capacity to continue operating as a going-concern in order to obtain a return for shareholders and profits for other stakeholders and maintain an optimal equity structure by reducing the cost of capital.

In this regard, it is important to note that at 31 December 2016 and 2015, the Group had a positive net financial position since the financial debt was lower than the current financial assets, cash and cash equivalents.

The group does not offer employees any share or options-based compensation.

### **5.6 Estimation of fair value**

The fair value of financial assets and liabilities is determined as follows:

- Valuation techniques are used for financial instruments that do not trade on active markets.
- Agent-quoted or market-quoted prices are used for non-current debt.
- Other techniques, such as estimated discounted cash flows, are used to determine fair value for other financial instruments.

Financial instruments measured after the initial recognition at fair value are classified in levels 1 through 3, based on the degree to which the fair value is observable.

- Level 1: those reference to quoted prices (unadjusted) on active markets for identical assets or liabilities.
- Level 2: those referenced to other inputs "inputs" (other than quoted prices included in Level 1) observable for the asset or liability, either directly (i.e., prices) or indirectly (i.e., price-derived).
- Level 3: those referenced to valuation techniques that include "inputs" for the asset or liability not based on observable market data (unobservable "inputs").

The Group defines the fair value of a financial instrument as the price it would pay or be paid to transfer the instrument to a third-party, including the inherent credit risk.

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To determine the credit risk adjustment for derivative measurement purposes, the Group used a technique based on simulations of total anticipated exposure (which includes both actual and potential exposure) adjusted by the probability of default over time and severity (or potential loss) assigned to the Group and to each one of the counterparties. The total anticipated exposure of derivatives is obtained using observable market inputs such as interest rate curves, exchange rates and volatilities, based on market conditions on the measurement date.

The inputs applied to obtain the Group's own credit risk and that of its counterparties (probability of default) are based primarily on the use of the Group's own credit spread or those of comparable companies that currently trade on the market (CDS curves, IRR on debt issues).

At 31 December 2016 and 2015, the Group had no significant financial assets or liabilities measured at fair value (subsequent to initial recognition).

### **6. Business combinations**

As described in note 2.6, on 5 April 2016 the company Affinity Petcare Italia, S.R.L. acquired 75% of the Italian company, Agrifan, S.R.L., the sole shareholder of the Italian company Nova Foods, S.R.L.

Agrifan, S.R.L. is a holding company. Its subsidiary, Nova Foods, S.R.L., is a company that produces and sells pet food. This operation will enable the Group to move forward with its international expansion.

The value of the assets and liabilities contributed to the Group on the date of the transaction under the IFRS-EU accounting policies described in note 2 are as follows:

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	<b>Agrifan, S.R.L.</b>	<b>Nova Foods, S.R.L.</b>	<b>Total</b>
<b>NON-CURRENT ASSETS</b>	-	<b>20,570</b>	<b>20,570</b>
Tangible assets	-	19,042	19,042
Intangible assets	-	553	553
Non-current financial investments	-	308	308
Deferred tax assets	-	667	667
<b>CURRENT ASSETS</b>	<b>946</b>	<b>41,140</b>	<b>42,086</b>
Inventories	-	7,734	7,734
Trade and other accounts receivable	-	16,190	16,190
Accruals	-	397	397
Cash and cash equivalents	946	16,819	17,765
<b>TOTAL ASSETS</b>	<b>946</b>	<b>61,710</b>	<b>62,656</b>
<b>NON-CURRENT LIABILITIES</b>	<b>(18)</b>	<b>(9,772)</b>	<b>(9,790)</b>
Non-current provisions	(18)	(1,742)	(1,760)
Non-current payables	-	(8,030)	(8,030)
<b>CURRENT LIABILITIES</b>	<b>(772)</b>	<b>(26,448)</b>	<b>(27,220)</b>
Current payables	-	(11,748)	(11,748)
Trade and other payables	(772)	(14,700)	(15,472)
<b>TOTAL LIABILITIES</b>	<b>(790)</b>	<b>(36,220)</b>	<b>(37,010)</b>
<b>CARRYING VALUE OF NET ASSETS PER IFRS</b>	<b>156</b>	<b>25,490</b>	<b>25,646</b>

According to the accounting policy described in note 2.4, for each business combination the Group may choose to recognise the fair value of the minority interest in the acquired business or the proportional part of the minority interest in the net identifiable assets of the acquired business. In this case, the group chose to recognize the fair value of the minority interest (25%).

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The details of the consideration paid, the net assets acquired and goodwill are as follows:

	<u>Total</u>
<b>IFRS carrying value of net assets contributed</b>	<b>25,646</b>
<b>Consideration paid (1)</b>	<b>120,027</b>
Intangible assets recognised (2)	24,340
Property, plant and equipment recognised (2)	2,820
Deferred tax liability recognised (2)	(7,553)
Goodwill (Note 7)	74,774
<b>Non-controlling interests (3)</b>	<b>30,007</b>

(1) Total value of the consideration for 100% of the company (75% parent, 25% non-controlling interest).

(2) 100% of the assets and liabilities were recognised on the balance sheet since the companies are fully consolidated.

(3) Non-controlling interests recognised at fair value. Includes 25% of goodwill and recognised assets and liabilities.

During the time between the acquisition date and 31 December 2016, the business has generated sales and profits for the Group totalling EUR 53,910,000 and EUR 2,736,000, respectively.

If the date of the acquisition had been 1 January 2016, the Group's sales would have increased by EUR 23,189,000 and the consolidated result for the year would have been increased by EUR 1,739,000.

As mentioned in Note 2.6, on 23 February 2015, the standstill clause for the acquisition of 50% of the share capital of the Brazilian company Mogiana Alimentos S.A. was resolved.

The main figures for the above operation were as follows:

	<u>Thousand euro</u>
Acquisition cost of the shareholding	16,173
Fair value of the net assets acquired (50%)	9,914
Goodwill attributable to the Group (1)	6,259
Cash payment made in business year 2015	2,917
Financial investments in third parties at 31.12.2014	13,256
Acquisition cost of the shareholding	<u>16,173</u>

- (1) The goodwill generated by the acquisition is attributed to the growth potential and synergies expected to arise from integrating the business into the Group and it is accounted for as an increase in the equity (Note 10).

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**7. Intangible assets**

The composition and changes in intangible assets in 2016 and 2015 are shown below:

2016	Industrial property, concessions and licenses	Goodwill	Goodwill on consolidation	Computer applications	Total
Cost at 01/01/2016	27,635	53,401	8,959	7,770	97,765
Additions	-	-	-	-	-
Removals	(5,610)	-	-	(1,255)	(6,865)
Transfers between accounts	-	-	-	258	258
Inclusion in the consolidation scope (note 6)	24,869	-	74,774	24	99,667
Cost at 31.12.16	46,894	53,401	83,733	6,797	190,825
Accumulated amortisation at 01/01/2016	(14,943)	(15,981)	(5,097)	(6,639)	(42,660)
Amortisation funding	-	-	-	(647)	(647)
Removals	2,383	-	-	1,242	3,625
Transfers between accounts	-	-	-	-	-
Accumulated amortisation at 31.12.16	(12,560)	(15,981)	(5,097)	(6,044)	(39,682)
Accumulated impairment at 01/01/2016	(3,228)	-	-	-	(3,228)
Impairment losses	(250)	-	-	-	(250)
Removals	3,228	-	-	-	3,228
Accumulated impairment at 31.12.16	(250)	-	-	-	(250)
Net carrying value 31.12.16	34,084	37,420	78,636	753	150,893

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	Industrial property, concessions and licenses	Goodwill	Goodwill on consolidation	Computer applications	Total
<b>2015</b>					
Cost at 01/01/2015	27,636	53,401	8,959	7,137	75,994
Additions	-	-	-	7	2
Removals	-	-	-	-	-
Transfers between accounts	-	-	-	632	632
<b>Cost at 31.12.15</b>	<b>27,636</b>	<b>53,401</b>	<b>8,959</b>	<b>7,771</b>	<b>97,767</b>
Accumulated amortisation at 01/01/2015	(14,943)	(15,981)	(5,097)	(5,902)	(41,923)
Amortisation funding	-	-	-	(737)	(737)
Removals	-	-	-	-	-
Transfers between accounts	-	-	-	-	-
<b>Accumulated amortisation at 31.12.15</b>	<b>(14,943)</b>	<b>(15,981)</b>	<b>(5,097)</b>	<b>(6,639)</b>	<b>(42,660)</b>
Accumulated impairment at 01/01/2015	(3,128)	-	-	-	(3,128)
Impairment losses	(100)	-	-	-	(100)
Removals	-	-	-	-	-
<b>Accumulated impairment at 31.12.15</b>	<b>(3,228)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,228)</b>
<b>Net carrying value 31.12.15</b>	<b>9,465</b>	<b>37,420</b>	<b>3,862</b>	<b>1,132</b>	<b>51,879</b>

## Industrial property, concessions and licenses

The patents and trademarks with finite and indefinite useful lives are included under this heading, which at 31 December 2016 and 2015 and 1 January 2015 were as follows:

### 31 December 2016

	Cost	Accumulated amortisation	Impairment	Total
Patents and trademarks with finite useful lives	350	(350)	-	-
Patents and trademarks with indefinite useful lives	46,544	(12,210)	(250)	34,084
	<b>46,894</b>	<b>(12,560)</b>	<b>(250)</b>	<b>34,084</b>

### 31 December 2015

	Cost	Accumulated amortisation	Impairment	Total
Patents and trademarks with finite useful lives	350	(350)	-	-
Patents and trademarks with indefinite useful lives	27,286	(14,593)	(3,228)	9,465
	<b>27,636</b>	<b>(14,943)</b>	<b>(3,228)</b>	<b>9,465</b>

### 1 January 2015

	Cost	Accumulated amortisation	Impairment	Total
Patents and trademarks with finite useful lives	350	(350)	-	-
Patents and trademarks with indefinite useful lives	27,286	(14,593)	(3,128)	9,565
	<b>27,636</b>	<b>(14,943)</b>	<b>(3,128)</b>	<b>9,565</b>

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Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

As a result of the business operation described in Note 6, the Group recognised the trademarks of Nova Foods, S.R.L. as intangible assets in the amount of EUR 24,869,000.

In addition, in 2016 the Group derecognised fully amortised or impaired trademarks in the amount of EUR 5,610,000.

### Goodwill and consolidation goodwill

#### a) Goodwill

The details of the net book value of consolidation good by cash-generating unit is as follows:

	31.12.16	31.12.15	01/01/2015
Affinity Petcare, S.A.	36,517	-	36,517
Affinity Petcare Italia, S.R.L.	903	-	903
	<u>37,420</u>	<u>-</u>	<u>37,420</u>

The goodwill refers mainly to the company Affinity Petcare, S.A. On 26 June 2002, the Universal Extraordinary General Meetings of Altex 2000, S.A. (currently Affinity Petcare, S.A.) and Gallina Blanca Purina, S.A. agreed to a merger by absorption in which the latter (absorbed company) was absorbed by the former (surviving company). As a result of the merger, which was executed in a public deed on 2 September 2002, the absorbing company (currently Affinity Petcare, S.A.) absorbed Gallina Blanca Purina, S.A. and all of the property, rights, obligations, shares and contracts making up the latter's equity was transferred to and assumed by the former and hence all assets and liabilities were incorporated into the surviving company. The absorbed company was dissolved but not liquidated. Goodwill arose as a consequence of this merger.

#### b) Goodwill on consolidation

The details of the net book value of consolidation good by cash-generating unit is as follows:

	31.12.16	31.12.15	01/01/2015
Affinity Petcare France, S.A.S.	3,862	3,862	3,862
AgriFan S.R.L. and Nova Foods S.R.L. (Note 6)	74,774	-	-
	<u>78,636</u>	<u>3,862</u>	<u>3,862</u>

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c) Goodwill recoverability tests

Goodwill has been assigned to the Group's cash-generating units (CGUs) by grouping together under each CGU all the Group's assets and liabilities that jointly and indivisibly generate cash flows in a particular area of the business, considering the synergies and shared risks.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash-flow projections based on financial budgets approved by management.

For each cash-generating unit, management prepares a business plan broken down by markets and activities. The main components of the plan include:

- Forecasts that usually cover a space of five years and residual value calculations based on the last year of the forecast, as long as the flows are representative of standardised flows.
- Investment and working capital projections, using similar hypotheses as those used to forecast profits.

The forecasts are prepared based on past experience and on the best available estimations, which are consistent with outside information. The business plans prepared in this way are reviewed and given final approval by Group management.

The main variables that affect the calculation of the CGUs' recoverable value are:

- The discount rate (WACC), understood as the weighted average cost of capital after taxes. The main inputs determining this are the cost of debt and risks specific to the assets involved. The discount rate (WACC) used for impairment testing for the 2016 fiscal year ranges between 4.8% and 5.1% (8% in 2015).
- The cash flow growth rate used to extrapolate the cash flow forecasts beyond the period covered by the budgets or forecasts. The residual value is calculated by applying a nominal growth rate to perpetual income which is never higher than the estimated long-term rate for the market where the CGUs operate. For the 2016 financial year, the growth rate was between 1% and 2% (1% in 2015).

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- Budgeted EBITDA (operating profit plus depreciation and impairment) is determined by management in their strategic plans, taking into account the global situation of the markets where the companies operate, the outlook for those markets, operations with structures similar to the current ones and past experience. EBITDA fluctuates depending on the type of business. The after-tax free cash flows are then calculated using these amounts. The mean annual growth of EBITDA over the next five years used in the forecasts prepared in 2016 varies from one CGU to the next within the range of 1% and 2% (between 1% and 2% in 2015)

The result of using pre-tax cash flows and a pre-tax discount rate does not differ significantly from the result obtained using after tax cash flows and after tax discount rates.

Cash flows beyond the Group's five-year forecast are calculated using a standardised cash flows, sustainable over time, based on the fifth year estimate, eliminating extraordinary or non-recurring items and making prudent assumptions regarding future growth rates. These assumptions are based on estimated GDP growth and inflation rates in the different markets, evaluating the investment level needed for such growth. The cash flows are updated to calculate the residual value, considering the discount rates and growth rates used in the forecasts.

The Group has verified that goodwill did not suffer any impairment loss in 2016 or 2015.

Note 4.a) includes a sensitivity analysis of the calculation of the impairment loss on goodwill.

### Impairment testing of assets with indefinite useful lives.

Intangible assets include EUR 34,084,000 for assets with indefinite useful lives which refer primarily to the additions following the inclusion of Nova Foods, S.R.L. as a consolidated company.

At the end of each fiscal year the Group runs impairment tests on the assets to determine any loss of value and whether the recoverable amount has fallen below their carrying amount.

The Group assigns the trademarks with indefinite useful lives to the corresponding CGUs since it is not possible to separate the business flows from the CGUs in which the trademarks are capitalised, due primarily to the synergies created between the different trademarks and the efficiency of joint sales and distribution operations.

The recoverable value of these intangible asset items is determined by calculating the value-in-use of the business related to the distribution of these products in Spain and the rest of Europe. These calculations use cash-flow projections based on five year financial budgets approved by management. Cash flows for periods more than five years out are extrapolated using the estimated growth rates that are consistent with the general forecasts for the sector.

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Since trademarks are tested for impairment at the CGU level, the main assumptions are the ones discussed in the note on the impairment testing of goodwill.

The Group has verified that its intangible assets with indefinite useful lives suffered impairment losses of EUR 250,000 in 2016 and EUR 3,288.000 in 2015. Note 4 a) includes a sensitivity analysis of the calculation of the impairment loss on goodwill.

### 8. Property, plant and equipment

The breakdown and changes in this section of the consolidated balance sheet during 2016 and 2015 were as follows:

2016	Land and buildings	Plant and other assets	Assets under construction	Total
<b>Cost at 1 January 2016</b>	<b>24,939</b>	<b>77,074</b>	<b>9,302</b>	<b>111,315</b>
Additions	405	764	17,700	18,869
Removals	(1,442)	(5,142)	-	(6,584)
Transfers between accounts	4,297	3,503	(8,059)	(259)
Inclusion in the consolidation scope (note 6)	13,763	6,667	1,432	21,862
<b>Cost at 31 December 2016</b>	<b>41,962</b>	<b>82,866</b>	<b>20,375</b>	<b>145,203</b>
<b>Accumulated amortisation at 1 January 2016</b>	<b>(9,316)</b>	<b>(60,894)</b>	<b>-</b>	<b>(70,210)</b>
Depreciation and amortisation	(1,048)	(4,795)	-	(5,843)
Removals	1,296	5,143	-	6,439
Transfers between accounts	-	-	-	-
<b>Cumulative amortisation at 31 December 2016</b>	<b>(9,068)</b>	<b>(60,546)</b>	<b>-</b>	<b>(69,614)</b>
<b>Accumulated amortisation at 1 January 2016</b>	<b>-</b>	<b>(329)</b>	<b>-</b>	<b>(329)</b>
Additions	-	-	-	-
Removals	-	-	-	-
<b>Cumulative impairment at 31 December 2016</b>	<b>-</b>	<b>(329)</b>	<b>-</b>	<b>(329)</b>
<b>Net carrying value at 31 December 2016</b>	<b>32,894</b>	<b>21,991</b>	<b>20,375</b>	<b>75,260</b>

As a result of the business operation described in Note 6, the Group recognised the trademarks of Nova Foods, S.R.L. as intangible assets in the amount of EUR 21,862,000.

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2015	Land and buildings	Plant and other assets	Assets under construction	Total
Cost at 1 January 2015	23,842	77,596	5,007	106,445
Additions	-	453	8,658	9,111
Removals	-	(3,609)	-	(3,609)
Transfers between accounts	1,097	2,634	(4,363)	(632)
Cost at 31 December 2015	24,939	77,074	9,302	111,315
Accumulated amortisation at 1 January 2015	(8,718)	(61,217)	-	(69,935)
Depreciation and amortisation	(598)	(3,251)	-	(3,849)
Removals	-	3,574	-	3,574
Transfers between accounts	-	-	-	-
Accumulated amortisation at 31 December 2015	(9,316)	(60,894)	-	(70,210)
Accumulated amortisation at 1 January 2015	-	(329)	-	(329)
Additions	-	-	-	-
Removals	-	-	-	-
Accumulated impairment at 31 December 2015	-	(329)	-	(329)
Net carrying value at 31 December 2015	15,623	15,851	9,302	40,776

Under the heading of land and buildings there was a total net book value of EUR 5,417,000 at 31 December 2016 and 2015 and 1 January 2015, that refers to the assignment of unrealised capital gains following the merger that took place during the business year ended 31 December 2002 between Altex 2000, S.A. and Gallina Blanca Purina, S.A. (Note 1).

The separate net book value of land and buildings owned by the Group at the end of 2016 and 2015 and the beginning of 2015 is as follows:

Item	Thousands of euros		
	31.12.2016	31.12.2015	01.01.2015
Land	12,903	6,979	6,979
Buildings	19,991	8,644	8,145
Total	32,894	15,623	15,124

## a) Assets used as collateral

At 31 December 2016 and 2015 and at 1 January 2015 there are no tangible fixed assets used as collateral.

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b) Insurance

The Group's policy is to take out insurance policies to cover the risks to which the different fixed asset items are exposed. At the 2016 and 2015 year end and at 1 January 2015, the coverage provided by these insurance policies was considered sufficient.

c) Capitalisation of interest

There was no significant capitalisation of interest in 2016 or 2015.

9. Leases

At the end of 2016 and 2015, the future minimum payments on of operating leases which cannot be cancelled are as follows:

Total future minimum payments for operating leases	31.12.2016	31.12.2015
Up to one year	773	160
Between one and five years	1,482	589
More than five years	-	200
	<u>2,255</u>	<u>949</u>

10. Non-current investments in group enterprises and associates

The amounts recognised in the balance sheet were calculated as follows:

	31.12.16	31.12.2015	01.01.2015
Joint ventures	21,826	18,054	-
Total	<u>21,826</u>	<u>18,054</u>	-

The amounts recognised in the income statement are as follows:

	31.12.16	31.12.2015
Jointly-controlled business	(76)	1,853
Total	<u>(76)</u>	<u>1,853</u>

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**a) Investments in joint ventures**

Joint venture investments refer to the stake in the Brazilian company, Mogiana Alimentos, S.A. consolidated by the equity method starting in 2015:

	2016	2015
1 January	18,054	-
Inclusion in the scope of consolidation	-	14,444
Share in profits/losses	(76)	1,853
Goodwill (Note 6)	-	6,259
Dividend charged to voluntary reserves	248	-
Dividends	(481)	-
Exchange differences	4,081	(4,502)
At 31 December	21,826	18,054

The share capital of the joint venture mentioned below is composed of ordinary shares held by the Group directly.

The nature of the investments in joint ventures at 31 December 2016 and 2015 is as follows:

Name	Primary location / country	Company through which it participates	% of direct ownership	Nature of the relationship	Valuation method
Mogiana Alimentos, S.A.	Brazil	Affinity Petcare Brasil Participações, Ltda.	50%	(1)	Participation

(1) Mogiana Alimentos, S.A. produces, markets and distributes products under the Guabi, Gran Plus, Faro and Heroi brands, mostly in Brazil.

The associate company Mogiana Alimentos, S.A. is not listed.

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**Condensed financial information for joint ventures**

Condensed financial information for Mogiana Alimentos, S.A., which is carried using the equity method, is provided below.

<b>Condensed balance sheet (amounts in BRL)</b>	<b>31.12.16</b>	<b>31.12.2015</b>
<b>Current</b>		
Cash and cash equivalents	26,344	31,086
Other current assets (excluding cash)	64,713	68,087
<b>Total current assets</b>	<b>91,057</b>	<b>99,173</b>
Financial liabilities (excluding suppliers)	-	(22)
Other current liabilities (including suppliers)	(61,696)	(43,174)
<b>Total current liabilities</b>	<b>(61,696)</b>	<b>(43,196)</b>
<b>Non-current</b>		
<b>Assets</b>	<b>87,848</b>	<b>78,716</b>
Financial liabilities	(2,904)	(22,199)
Other liabilities	(14,535)	(15,463)
<b>Total non-current liabilities</b>	<b>(17,439)</b>	<b>(37,662)</b>
<b>Net assets</b>	<b>99,497</b>	<b>97,031</b>

**Condensed statement of comprehensive (amounts in BRL)**

	<b>31.12.2016</b>	<b>31.12.2015</b>
Ordinary income	287,191	298,339
Cost of sale	(207,367)	(202,512)
Other expenses	(79,784)	(77,779)
Interest income	-	2,583
Interest charges	(66)	-
<b>Pre-tax profit from continuing operations</b>	<b>(26)</b>	<b>20,631</b>
Expenditure on capital gains tax	(656)	(6,657)
<b>Pre-tax profit from continuing operations</b>	<b>(682)</b>	<b>13,974</b>
<b>Pre-tax profit from discontinued operations</b>	<b>-</b>	<b>-</b>

The information detailed above reflects the amounts in BRL that appear on the financial statements of the jointly-controlled business, adjusted by the differences in the accounting policies of the Group and the jointly-controlled business (excluding the portion of those amounts pertaining to Grupo Affinity Petcare, S.A.).

Financial information on pre-tax profits and dividends received in euros is presented below.

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<b>Pre-tax profit from continuing operations</b>	<b>(151)</b>	<b>3,757</b>
<b>Dividends received from business combinations or associates</b>	<b>481</b>	<b>-</b>

Reconciliation of the condensed financial information showing the carrying value of the jointly-controlled business:

<b>Condensed financial information</b>	<b>2016</b>	<b>2015</b>
<b>Opening net assets at 1 January</b>	<b>25,335</b>	<b>28,888</b>
Profit/(loss) for the year	(151)	3,706
Other comprehensive income	496	-
Dividends	(962)	-
Exchange differences	5,346	(7,260)
<b>Closing net assets</b>	<b>30,064</b>	<b>25,334</b>
50% stake in jointly-controlled business	15,032	12,667
Goodwill	5,495	6,259
Goodwill conversion differences	1,408	(872)
- Other debts	(109)	-
<b>Carrying value</b>	<b>21,826</b>	<b>18,054</b>

## **11. Financial investments**

### Non-current financial investments

Thousand euro	Loans and receivables			Total		
	31.12.16	31.12.15	01/01/15	31.12.16	31.12.15	01/01/15
Deposits and bonds and other receivables	399	152	316	399	152	316
Non-current security portfolio (Note 10)	4	-	13,256	4	-	13,256
<b>Total</b>	<b>403</b>	<b>152</b>	<b>13,572</b>	<b>403</b>	<b>152</b>	<b>13,572</b>

The amount of "loans and accounts receivable" at 1 January 2015 refers primarily to the financial investment described in Note 2.5.

### Current financial investments

The balance under "Current financial investments" at the end of 2016 and 2015 and the beginning of 2015 is as follows:

Thousand euro	Loans and receivables			Total		
	31.12.16	31.12.15	01/01/15	31.12.16	31.12.15	01/01/15
Other loans	5,016	6,115	10,652	5,016	6,115	10,652
<b>Total</b>	<b>5,016</b>	<b>6,115</b>	<b>10,652</b>	<b>5,016</b>	<b>6,115</b>	<b>10,652</b>

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The "loans and accounts receivable" at 31 December 2016 refer primarily to the short term loan extended by the parent company to the related party of the Agrolimen, S.A. Group. (Note 24).

The "loans and accounts receivable" at 31 December 2015 refer primarily to the short term loan extended by the parent company to the related party, Ridere, S.L. (Note 24).

**12. Trade and other accounts receivable**

	31.12.2016	31.12.2015	01.01.2015
Customers	76,971	65,085	56,456
Less: value adjustment for impairment of accounts receivable	(2,164)	(1,539)	(1,033)
<b>Clients – net</b>	<b>74,807</b>	<b>63,546</b>	<b>55,423</b>
Accounts receivable from related parties (Note 24)	142	55	-
Advances on wages to personnel	105	92	223
Other taxes receivable (Note 19)	8,048	3,412	4,854
Accruals and prepayments	808	135	437
<b>Total</b>	<b>83,910</b>	<b>67,240</b>	<b>60,937</b>

Trade receivables and debit balances do not vary from fair market value on the basis of the relevant cash flows discounted at market rates.

The carrying value of the Group's trade and other accounts receivable is denominated in the following currencies (thousands of euros):

Currency	2016	2015	2014
Euros	83,396	66,242	59,888
Other currencies	514	998	1,409
	<b>83,910</b>	<b>67,240</b>	<b>60,937</b>

The ageing analysis of customer accounts is as follows:

	2016	2015
Less than 3 months	74,480	53,870
3-6 months	60	307
More than 6 months	267	791
<b>Total</b>	<b>74,807</b>	<b>63,546</b>

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Movements in the adjustment made to the Group's trade and other accounts receivable for impairment are as follows:

	31.12.2016	31.12.2015
<b>Opening balance</b>	<b>(1,539)</b>	<b>(1,033)</b>
Value adjustment due to impairment of accounts receivable	(350)	(637)
Accounts receivable de-recognised as bad debts	186	131
Additions to the scope of consolidation	(461)	-
<b>Closing balance</b>	<b>(2,164)</b>	<b>(1,539)</b>

Impaired accounts receivable for which adjustments have been made refer primarily to balances that are more than 6 months old.

The funding and application of the value correction for impaired accounts receivable is included under "Losses, impairment and changes in trade provisions" in the income statement.

The credit ratings of the financial assets that have not yet fallen due and that have not suffered losses due to impairment are high with low credit risk.

## **13. Inventories**

Inventories at 31 December 2016 and 2015 and 1 January 2015 are as follows:

	31.12.2016	31.12.2015	01.01.2015
Raw materials and other supplies	15,376	9,570	9,249
Financial risk factors	1,043	584	369
Finished products	16,207	12,317	11,547
Impairment of raw materials and other supplies	(1,357)	(501)	(1,053)
	<b>31,269</b>	<b>21,970</b>	<b>20,112</b>

The changes in the value of "inventories" due to impairment on the enclosed consolidated balance sheet were as follows:

**FY 2016**

Thousands of euros						
	01.01.16	Additions to the consolidation scope (Note 6)	Additions	Reversal	Allocation	31.12.16
Impairment of raw materials and other supplies	(231)	(870)	(208)	-	430	(879)
Impairment of inventories	(270)	(130)			18	(478)

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Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

### FY 2015

Thousands of euros						
	01.01.15	Additions to the consolidation scope (Note 6)	Additions	Reversal	Allocation	31.12.15
Impairment of inventories	(1,053)	-	-	-	552	(501)

The Group normally derecognises the amounts charged to the impairment account when no more cash is expected to be recovered.

The Group has taken out a number of insurance policies to cover risks relating to inventories. The coverage of these policies is considered sufficient.

### **14. Cash and cash equivalents**

Cash and other cash equivalents at 31 December 2016 and 2015 and 1 January 2015 are as follows:

Thousands of euros			
	31.12.2016	31.12.2015	01.01.2015
Cash and banks	14,558	15,226	4,523
Other liquid assets	57	9,000	-
<b>Total</b>	<b>14,615</b>	<b>24,226</b>	<b>4,523</b>

Short-term investments of cash surpluses maturing in less than three months are recognised under "Other liquid assets".

The carrying value of the Group's accounts receivable is denominated in the following currencies:

Thousands of euros			
	31.12.2016	31.12.2015	01.01.2015
Euros	14,613	24,225	4,523
US dollar	7	1	-
- Other debts	-	-	-
<b>Total</b>	<b>14,615</b>	<b>24,226</b>	<b>4,523</b>

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**15. Net equity**

**a) Subscribed capital**

The parent company's share capital is EUR 90,363 represented by 601,380 shares with a par value of EUR 150,26 each, all in the same class and all fully subscribed and paid in. The parent company's shares do not trade on the stock exchange. The company's sole shareholder is Agrolimen, S.A. (Note 1).

The parent company is registered in the Business Register as a sole proprietorship.

The parent company has signed a contract with the sole shareholder for the provision of corporate services and in addition the parent company files its taxes on a consolidated basis with the sole shareholder.

**b) Reserves and retained earnings**

The details of the parent company's reserves at 31 December 2016 and 2015 and at 1 January 2015 are as follows:

	Thousands of euros		
	31.12.2016	31.12.2015	01.01.2015
Legal reserves	17,986	14,945	12,247
Voluntary reserves	70,644	50,601	48,041
Reserves in consolidated companies	(55,768)	(58,896)	(57,129)
Goodwill reserves	-	17,962	15,396
<b>Total</b>	<b>32,862</b>	<b>24,612</b>	<b>18,555</b>

**Legal reserves**

In accordance with the Capital Companies Act, public limited companies must allocate 10% of their profits to legal reserves each year until it represents at least 20% of share capital. The legal reserves may be used to increase capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until it exceeds 20% of share capital and provided there are no sufficient available reserves, the legal reserve may only be used to offset losses.

At 31 December 2016, this reserve amounts to EUR 17,986,000 (€14,945,000 in 2015). The legal reserves are not fully funded.

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## **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

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### **Goodwill reserves**

According to the Capital Companies Act, when allocating the financial year's results, a restricted reserve account equal to the goodwill that appears on the asset side of the balance sheet must be set up, depositing profits that represent at least five percent of goodwill into the account. If there are no profits or the profits are insufficient, freely available reserves should be used.

According to the modifications introduced by Royal Decree 602/2016 of 2 December, as of 1 January 2016, goodwill reserves should be classified as voluntary reserves and the amount that exceeds the goodwill recognised on the balance sheet will be available for use. The goodwill reserve was classified to voluntary reserves as of 31 December 2016, although the amount of EUR 20,528,000 (EUR 17,962,000 in 2015) was maintained as restricted, which is the amount by which the goodwill reserve was short of the carrying value of goodwill on the books.

### **c) Dividend payments**

On 12 December 2016, the sole shareholder approved the payment of a dividend in the amount of EUR 20,000,000 against the current year's profits.

Below is the provisional accounting statement justifying the existence of sufficient liquidity to pay the interim dividend:

	<b>30.11.2016</b>
Unused credit facilities	24,000
Cash and cash equivalents	6,066
<b>Cash available for dividend payment:</b>	<b>30,066</b>
Profits earned from end of last business year (net of taxes)	26,112
Funding of reserves	(2,611)
<b>Profits available for dividend payment:</b>	<b>23,501</b>

The interim dividend was pending disbursement at the end of 2016 (note 24).

On 4 December 2015, the Sole Shareholder approved the payment of a dividend in the amount of EUR 17,623,000 against the current year's profits.

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

**d) Exchange differences**

The exchange gains (losses) reflected in the consolidated balance sheet from the Group's incorporated companies, classified by currency, are shown below:

Currency (thousands of euros)	31.12.2016	31.12.2015
BRL	(2,724)	(6,712)
GBP	13	(2)
<b>Total</b>	<b>(2,648)</b>	<b>(6,744)</b>

The effects of fluctuations in exchange rates reflect the portion attributable to the parent company, net of the portion attributable to non-controlling interests. The total amount is presented under "conversion differences" on the statement of comprehensive income.

Of the total conversion differences, those generated by Affinity Petcare Brasil Participações, Ltda. and Mogiana Alimentos, S.A. are in Brazilian reais and those generated by Affinity Petcare UK, Ltd. are in pound sterling.

**e) Non-controlling interests**

Condensed financial information for each subsidiary that has material, non-controlling interests for the Group is shown below. The amounts shown for each subsidiary are prior to inter-company eliminations.

	Affinity Petcare Brasil Participações Ltda.			Agrifan, S.R.L.	Nova Foods, S.R.L.
	2014	2015	2016	2016	2016
Current assets	1,868	232	762	498	25,910
Current liabilities	(16,850)	(20)	(35)	(2)	(16,049)
<b>Net current assets</b>	<b>(14,982)</b>	<b>212</b>	<b>727</b>	<b>466</b>	<b>9,861</b>
Non-current assets	13,419	16,457	20,206	4,003	24,174
Non-current liabilities	-	-	-	-	(8,415)
<b>Net non-current assets</b>	<b>13,419</b>	<b>16,457</b>	<b>20,206</b>	<b>4,003</b>	<b>15,759</b>
<b>Net assets</b>	<b>(1,563)</b>	<b>16,669</b>	<b>20,933</b>	<b>4,469</b>	<b>25,621</b>

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

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## Condensed statement of comprehensive income

	Affinity Petcare Brasil Participações Ltda.			Agrifan, S.R.L.	Nova Foods, S.R.L.
	2014	2015	2016	2016	2016
Sales	-	-	-	-	53,910
Net profit	487	397	(292)	(69)	2,736
Other comprehensive income	1,357	2,210	(2,430)	-	-
<b>Total comprehensive income</b>	<b>1,844</b>	<b>2,607</b>	<b>(2,722)</b>	<b>(69)</b>	<b>2,736</b>
Profit/(loss) attributable to minority interests	(25)	66	(13)	(17)	684

The details for fiscal years 2016 and 2015 were as follows:

	2016	2015
Affinity Petcare Brasil Participações Ltda.	1,121	907
Agrifan, S.R.L.	30,674	-
	<b>31,795</b>	<b>907</b>

## f) Proposed distribution of parent company profits

The application of the financial year's profits of Affinity Petcare, S.A. proposed by the directors of the parent company which will be presented to the General Meeting of Shareholders for approval is as follows:

	2016	2015
<b>Available for distribution:</b>		
Profit or loss (Profit)	34,793	30,414
	<b>34,793</b>	<b>30,414</b>
<b>Distribution:</b>		
Legal reserves	85	3,041
Goodwill reserves	-	2,568
Dividends	14,708	7,182
Interim dividends	20,000	17,623
	<b>34,793</b>	<b>30,414</b>

The distribution of 2015 profits was approved by the General Shareholders' Meeting on 28 June 2016.

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

## **16. Provisions and contingencies**

### **a) Provisions**

The non-current provisions on the consolidated balance sheet at the 2016 and 2015 year end were primarily to cover the different defined benefit obligations to employees assumed by some Group companies.

The major changes that occurred during the year are as follows:

#### **FY 2016**

Provisions	01.01.16	Opening balance NFV (Note 6)	Thousands of euros			31.12.16
			Funded	Applied	Income	
Retirement benefits and other commitments	1,088	1,347	336	(255)	-	2,516
Provision for other trade risks	-	2	617	(413)	-	617
<b>Total non-current</b>	<b>1,088</b>	<b>1,760</b>	<b>953</b>	<b>(668)</b>	<b>-</b>	<b>3,133</b>
Provision for other trade risks	-	-	-	-	-	-
<b>Total current</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

#### **FY 2015**

Provisions	01/01/15	Thousands of euros			31.12.15
		Funded	Applied		
Retirement benefits	940	148	-	-	1,088
<b>Total non-current</b>	<b>940</b>	<b>148</b>	<b>-</b>	<b>-</b>	<b>1,088</b>

### **b) Non-current obligations to personnel**

The details of the amounts recognised in the consolidated balance sheet for non-current employee benefits and the corresponding charges to the consolidated income statement are as follows:

	31.12.2016	31.12.2015	01.01.2015
<b>Obligations on the balance sheet for:</b>			
- Defined-contribution retirement benefits	2,516	1,088	940
<b>Balance sheet liability</b>	<b>2,516</b>	<b>1,088</b>	<b>940</b>
<b>Charges in the income statement included in operating results:</b>			
- Defined-contribution retirement benefits	336	148	4
	<b>336</b>	<b>148</b>	<b>4</b>

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The charge to the income statement included in operating profits includes the cost of ordinary services, interest, the cost of past services and the profits and losses from settlements and reductions.

The movement in the defined benefit obligation in 2016 is as follows:

	Present value of the obligation
At 1 January 2016	1,088
Cost of current services	39
Interest expense/(income)	20
Recalculations:	
- Yields on plan assets, excluding amounts included in interest expense/(income)	11
- (Gains)/losses due to changes in demographic assumptions	109
- (Gains)/losses due to changes in financial assumptions	74
- (Gains)/losses due to experience	31
- Changes to limits on assets, excluding amounts included as interest expense	(26)
- Inclusion of Nova Foods, S.R.L in the scope of consolidation	1,347
Gains/(losses) on exchange	-
Contributions:	1.
- Employers	-
- Plant participants	-
Plan payments:	-
- Benefits paid	(185)
At 31 December 2016	2,516

The main actuarial assumptions used are those described in Note 3.12.

The Group does not anticipate significant impact due the sensitivity of the calculations to a change of assumptions.

#### c) Contingencies

The Group has contingent liabilities for disputes that have arisen during the normal course of business, from which it is not expected that significant liabilities will arise other than those for which provisions have already been made.

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**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

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**17. Bank borrowings**

**Non-current financial debt**

The balance of non-current payables at the end of 2016 and 2015 and at 1 January 2015 is as follows:

	Bank borrowings (thousands of euros)		
	31.12.2016	31.12.2015	01.01.2015
Bank loans	76,593	-	-
Other financial liabilities	-	-	32
<b>Total</b>	<b>76,593</b>	<b>-</b>	<b>32</b>

The balance of EUR 70,000,000 shown under bank borrowing at 31 December 2016 refers to four loans taken out by the parent company with different banks in 2016. These loans are repayable in three years from 2018 to 2020. Some have fixed annual interest rates (between 0.75% and 0.8%) and others have floating rates referenced to the Euribor.

Of the bank loans indicates above, the one for EUR 10,000,000 is subject to certain conditions and ratios. This means that the company is obligated to meet certain requirements and indicators, the most important of which are as follows:

- Sales, operating income and/or equity and reserves cannot vary by more than 30% per year and/or the company's pre-tax profits cannot decline by more than 30% from one year to the next.
- The ratio of net debt to EBITDA cannot be higher than 3.5.

The company has no reason to believe that these conditions will not be met.

Moreover, this heading includes three other loans totalling EUR 6,593,000 euros taken out by the Group company Nova Foods, S.R.L. These loans will be repaid between 2020 and 2022 and are subject to floating annual interest rates referenced to the Euribor.

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The details of "non-current payables" is as follows, by maturity date:

**FY 2016**

	Thousands of euros			Total
	2018	2019	2020 and thereafter	
Bank loans	26,573	24,950	25,070	76,593
<b>Total</b>	<b>26,573</b>	<b>24,950</b>	<b>25,070</b>	<b>76,593</b>

**FY 2015**

	Thousands of euros			Total
	2017	2018	2019 and thereafter	
Bank loans	-	-	-	-
Other financial liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**FY 2015 opening balance**

	Thousands of euros			Total
	2016	2017	2018 and thereafter	
Other financial liabilities	-	-	32	32
<b>Total</b>	<b>-</b>	<b>-</b>	<b>32</b>	<b>32</b>

**Current bank borrowings debt**

The balance under the heading of "Current payables" at the end of 2016 is for the accrued interest payable on the bank loans.

**18. Trade and other accounts payable**

The details of the item titled "trade and other payables" is as follows:

	Thousands of euros		
	31.12.2016	31.12.2015	01.01.2015
Suppliers	27,966	22,954	23,467
Suppliers, group companies and associates (Note 24)	2,360	1,293	-
Staff (remuneration pending payment)	10,459	8,965	-
Trade payables	54,260	44,774	45,563
Taxes payable (Note 19)	6,642	6,265	5,162
<b>Total</b>	<b>101,687</b>	<b>84,251</b>	<b>74,192</b>

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**a) Information on deferred payments to suppliers**

The details of the payments made by the Group's Spanish companies on trade operations during the fiscal year and pending payment at year-end in view of the legal payment deadlines established in Act 15/2010 are as follows:

	Days	
	31.12.2016	31.12.2015
Average period of payment to suppliers	50	48
Ratio of operations paid	51	52
Ratio of outstanding payments	39	27

	Amount (thousands of euros)	
	31.12.2016	31.12.2015
Total payments made	162,818	115,646
Total outstanding payments	15,358	17,699

**19. Taxes and tax situation**

The parent company files its taxes on a consolidated basis along with the Sole Shareholder and other companies of the Agrolimen Group.

Since the parent company files its taxes as part of a consolidated tax group, the company's corporate tax becomes part of the balance of the Group's parent, Agrolimen, S.A.

Corporate income tax is calculated on the economic or book results, which are obtained by applying generally accepted accounting principles, which does not necessarily coincide with taxable base.

**a) Taxes payable and receivable**

The composition of the tax balances payables and receivable is as follows:

**Taxes receivable**

	Thousands of euros		
	31.12.16	31.12.15	01/01/2015
Value added tax	4,617	3,139	2,841
Personal income tax	3,431	273	2,013
Other accounts receivable	-	-	-
<b>Total receivables</b>	<b>8,048</b>	<b>3,412</b>	<b>4,854</b>
Corporate tax receivable	-	-	-
<b>Total</b>	<b>8,048</b>	<b>3,412</b>	<b>4,854</b>

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

## **Taxes payable**

	Thousands of euros		
	31.12.16	31.12.15	01/01/2015
VAT	3,832	3,665	2,867
Personal income tax	984	734	1,024
Other payables	-	-	-
Social Security tax	1,826	1,866	1,271
<b>Total</b>	<b>6,642</b>	<b>6,265</b>	<b>5,162</b>
Corporate income tax	2,191	464	230
<b>Total</b>	<b>8,833</b>	<b>6,729</b>	<b>5,392</b>

## b) **Breakdown of corporate tax expense**

Following is the reconciliation of the tax on profits obtained by applying the effective tax rate in Spain and the recognised tax charge:

	2016
Consolidated profit (continuing operations)	36,300
Corporation tax	15,570
Permanent differences	8,064
Timing differences:	
- Arising in the year	(764)
- Arising in prior years	(456)
Offset of tax loss carryforwards:	(671)
<b>Taxable base (tax result)</b>	<b>58,043</b>

The breakdown of the corporate tax expense is as follows:

	31.12.2016
Current tax	15,265
Deferred tax (timing differences)	305
Deferred tax (tax credits)	-
<b>Total</b>	<b>15,570</b>

The current-year corporation tax is obtained by applying the tax rate in the country where the Group subsidiary is located to the taxable base. The tax deductions taken in 2016 totalled EUR 307,000 (EUR 220,000 in 2015).

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The breakdown of the corporate tax expense in each one of the countries where the Group does business is as follows:

		Thousands of euros					
		2016			2015		
	Tax rate	Expenses accrued	Receivable	Payable	Expenses accrued	Receivable	Payable
Affinity Petcare, S.A. (Nota24)	25% in 2016 28% in 2015	12,203	-	2,774	9,688	-	1,298
APC Italy, S.A.	27.5%+3.9%	-	-	-	-	-	7.
APC, La Chapelle, S.A.S.	33.33%	257	-	19	222	-	18
APC France, S.A.S.	33.33%	1,826	-	112	2,133	-	246
CIE Deutschland, GmbH	29.72%	-	-	-	84	-	-
APC UK, Ltd	21.00%	7.	-	7.	1	-	7.
APC Nederland, B.V.	20.00%	(5)	-	-	3	-	6
Affinity Portugal – Produtos para Animais Domésticos, Unipessoal Lda	23.00%	82	-	-	216	-	194
Agrifan, S.R.L.	27.5%+3.9%	-	-	-	N/A	N/A	N/A
Nova Foods, S.R.L.	27.5%+3.9%	1,204	-	2,058	N/A	N/A	N/A
<b>TOTAL</b>		<b>15,570</b>	<b>-</b>	<b>4,965</b>	<b>12,347</b>	<b>-</b>	<b>1,766</b>

### c) Deferred tax

The breakdown of deferred tax is as follows:

	31.12.16	31.12.15	01/01/2015
Deferred tax assets	5,031	4,041	4,563
Deferred tax liabilities	(13,664)	(5,464)	(5,362)
<b>Net tax assets/liabilities</b>	<b>(8,633)</b>	<b>(1,423)</b>	<b>(799)</b>

The overall movement in the deferred tax account is as follows:

	31.12.2016	31.12.2015	01.01.2015
At 1 January	(1,423)	(799)	(4,406)
Gains/(losses) on exchange	-	-	(58)
Additions to the scope of consolidation (Note 6)	(13,664)	-	3,569
Other movements	(19)	-	-
Charge to income statement	(305)	(624)	-
<b>Taxes debited/credited to equity</b>	<b>-</b>	<b>-</b>	<b>96</b>
<b>At 31 December</b>	<b>(8,633)</b>	<b>(1,423)</b>	<b>(799)</b>

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Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

The composition of deferred tax assets and liabilities at the year-end are as follows:

Deferred tax assets/liabilities	Temporary differences	Deductions	Tax loss carryforwards	Total
At 1 January 2015	(13,664)	2,311	265	(1,178)
Debit/(credit) to income statement	(245)	-	-	(245)
At 31 December 2015	(3,999)	2,311	265	(1,423)
Debit/(credit) to income statement	(305)	-	-	(305)
Other movements	-	(19)	-	(19)
Additions to the scope of consolidation (Note 6)	(7,050)	164	-	(6,886)
At 31 December 2016	(11,354)	2,456	265	(8,633)

The deferred tax assets and liabilities refer to timing differences, credits for tax losses and tax deductions generated by the parent company, all of which it is considered will be recovered in subsequent tax years.

Temporary differences are primarily the result of the different criteria used to determine the deductibility of some provisions, differences between the tax value and carrying value of the goodwill, and the different fiscal and accounting amortisation criteria.

The parent company recognised deferred tax assets for deductions from prior fiscal years in the amount of EUR 2,311,000 on the basis of the best possible estimate at year-end that could be recovered in the consolidated tax group to which the Company belongs.

The parent company has accredited tax deductions for different items pending application to future tax profits. They will not be recognised on the books until it is likely that there will be future tax profits against which to offset them.



**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

The breakdown of these deductions is as follows:

<u>Year generated</u>	<u>Thousands of euros</u>	<u>Available for offset until</u>
2002	3,502	2017
2007	214	2017
2003	211	2018
2008	144	2018
2004	8,579	2019
2009	175	2019
2002	46	2020
2005	2,485	2020
2010	207	2020
2003	52	10,165
2006	325	10,165
2011	228	10,165
2007	1	2022
2004	118	2022
2007	174	2022
2012	245	2022
2008	4	2023
2005	249	2023
2008	37	2023
2013	215	2023
2006	189	2024
2009	11	2024
2014	215	2024
2007	100	2025
2010	10	2025
2015	254	2025
2008	148	2026
2016	320	2026
2012	1	2027
2009	88	2027
2012	9	2027
2013	1	2028
2013	4	2028
2014	1	2029
2011	496	2029
2012	653	2030
2013	31	2031
2014	64	2032
2015	34	2033
2015	14	-
2016	20	-
<b><u>19,893</u></b>		

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## **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

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In 2016 the company took EUR 307,000 in deductions (EUR 220,000 in 2015).

The parent did not offset any tax losses this year, which means there are still EUR 71,000 of tax losses from the year 2004 and EUR 989,000 from 2005 to be offset in the future, both arising as a consequence of the tax audit carried out by the German tax authorities on fiscal years 2002-2005 (Note 19 d).

### **d) Fiscal years open to tax inspection and verification**

The parent company's corporate tax returns for the last four years are open to inspection by the tax authorities and all other taxes are open to inspection for the last four years. Filed income tax returns are not considered final until they have been audited by the tax authorities or until they have prescribed, which takes place four years after the filing deadline. The Group's management does not believe there are any significant contingent tax liabilities in this regard.

### **Tax information on subsidiaries**

The subsidiaries file their taxes in the countries where they are tax residents in accordance with local tax laws. The business years subject to audit for the main taxes which the subsidiaries must pay depends on local laws, although it generally covers the last four years, or fewer in those cases where the subsidiaries have existed for less time.

The subsidiary, Affinity Petcare Deutschland GmbH, was audited by the German tax authorities for business years 2002 to 2005 and 2006 to 2009, as a result of which assessments were issued to the German subsidiary, primarily in relation to the application transfer pricing policies. Regarding the 2002-2005 audit, the Group was notified of the amicable settlement in November 2012, which was still pending enforcement by the Spanish government at the end of 2013. The resolution was enforced by the Spanish authorities in 2014 along with the adjustments made by the tax authorities to the tax returns of Affinity Petcare S.A. which ended up having a negative impact on the company's corporate tax expense in the amount of EUR 398,000 and generated tax losses of EUR 2,037,000 (EUR 1,048,000 from in 2004 and EUR 989,000 from 2005). Regarding the 2006-2009 audit, it is currently subject to a reconciliation process between the Spanish and German tax authorities.

As a result of the audit of the 2002 through 2005 tax returns, the German and Spanish tax authorities entered into an amicable process in which was resolved in December 2014 and the final impact of which was accounted for in 2015 with a negligible adjustment by Affinity Petcare La Chapelle, S.A.S.

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## **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

In addition, on 18 December 2015 Affinity Petcare Deutschland was notified that the tax authorities were opening an inspection of the company's taxes for the years 2011 through 2013. The inspection was concluded in 2016 with favourable results.

The subsidiary, Affinity Petcare Belgium, S.A., was audited by the Belgian tax authorities for business years 2003 to 2007, as a result of which an assessment was issued to the Belgian subsidiary, primarily in relation to the application of transfer pricing policies. At present, this case is being settled by the Belgian and Spanish tax authorities.

On 14 December 2015, Affinity Petcare La Chapelle, S.A.S. was notified of an impending tax inspection. The inspection was concluded in 2016 with an assessment of EUR 109,000 which was recognised by the subsidiary.

In any event, the directors do not believe that there will be any significant tax liabilities for the company or the Group.

The subsidiaries have incurred tax losses from previous financial years, of which a total of EUR 24,749,000 remains (EUR 24,622,000 in 2015), neither of which had been capitalised at the 2016 and 2015 year-end, as it was considered that the circumstances were not suitable for doing so.

### **20. Income and expenses**

#### **a) Foreign currency transactions**

The details of the Group's most significant foreign currency transactions, at the average exchange rate, are as follows (thousands of euros):

	2016	2015
Purchases	(447)	(263)
Sales	3,328	4,576
Services received	(836)	(689)
Services provided	-	-
Other	-	-
Total	2,045	3,624

#### **b) Net turnover**

Movements in income from products and services are as follows:

	2016	2015
Analysis of income by category		
- Petfood	373,965	290,273
- Accessories	442	343
Total	374,407	290,616

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Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

The breakdown of net turnover as a percentage of geographical market is as follows:

Geographical markets	% of sales	
	2016	2015
Domestic	42	46
European Union	58	54
Total	100	100

c) Other operating expenses

The details of other operating expenses are as follows:

	2016	2015
Leases and royalties	5,933	4,935
Conservation and repairs	2,888	2,449
Contract labour	4,327	2,754
Transport	14,169	13,101
Insurance premiums	566	751
Bank and similar services	825	257
Advertising and public relations	38,187	30,652
Supplies	7,036	5,318
Other services	23,712	15,875
Taxes	5,933	1,271
Total	98,927	77,363

21. Supplies

The composition of the balance shown under "Supplies" for 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Consumption of goods for resale, raw materials and other consumables:		
Purchases	173,894	126,099
Variation in inventories	(5,806)	(321)
Impairment of raw materials	208	249
Work carried out by other companies	-	(1)
Total	168,296	126,347

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

**22. Staff costs**

The composition of the balance under "Employee benefits" for fiscal years 2016 and 2015 is as follows:

	Thousands of euros	
	2016	2015
Salaries and wages	35,005	29,269
Staff welfare expenses:		
Social security contributions payable by the company (Spanish companies)	11,414	9,637
Cost of set pension contributions and other commitments	970	973
Contribution to defined benefit pension plans	336	148
<b>Total staff costs</b>	<b>47,725</b>	<b>40,027</b>

In fiscal year 2016, the caption titled "Wages, salaries and similar" in the accompanying consolidated income statement includes severance pay owed to Group personnel in the amount of EUR 247,000 (EUR 340,000 at 31 December 2015).

**23. Financial income and expenses**

	Thousands of euros	
	2016	2015
Financial costs		
- Interest on bank borrowings	(381)	(175)
- Interest on loans with Group enterprises	(592)	(23)
Total financial expenses:	(973)	(198)
Less: capitalisation of qualified assets		
<b>Financial costs</b>	<b>(973)</b>	<b>(198)</b>
Financial income:		
- Interest income on short-term bank deposits	26	205
- Interest income on loans to related parties	53	129
<b>Financial income</b>	<b>79</b>	<b>334</b>
Gains/(losses) net of foreign currency transactions	(261)	127
Gains on fair value of financial instruments	(17)	41
Assets and liabilities at fair value with changes in the income statement	-	-
<b>Financial income</b>	<b>(1,172)</b>	<b>304</b>

**24. Related party transactions and balances**

For the purposes of this note, the following are considered related parties in fiscal years 2016 and 2015:

- **Shareholder:** Agrolimen, S.A.
- **Related parties:** Inveramen, S.A. and Ridere, S.A.
- **Joint ventures:** Mogiana Alimentos, S.A. (Brazil)
- **Key management personnel:** Senior management personnel of parent company
- **Members of the Board of Directors**

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

## **a) Related party transactions**

The details of the related party transactions are as follows:

### **FY 2016**

	Thousands of euros				
	Shareholders	Related parties			Joint ventures
	Agrolimen, S.A.	Inveramen, S.A.	Ridere, S.L.	Other	Mogiana Alimentos, S.A.
Interests received	-	-	41	-	-
Interest paid	-	-	(592)	-	-
Other revenue	-	-	-	-	-
Services received	(5,522)	-	-	(7)	-
Services provided	95	-	-	-	-
Other expenses	-	-	-	-	-
Dividends	(27,182)	-	-	-	-

### **FY 2015**

	Thousands of euros			
	Shareholders	Related parties		Joint ventures
	Agrolimen, S.A.	Inveramen, S.A.	Ridere, S.L.	Mogiana Alimentos, S.A.
Interests received	-	-	115	-
Other revenue	55	-	-	-
Services received	1,817	-	-	-
Other expenses	-	23	-	-
Dividends	24,343	-	-	-

In 2016, the sum of EUR 27,182,000 in dividends was paid to the sole shareholder, Agrolimen, S.A. EUR 7,182,000 in dividends on 2015 profits and EUR 20,000,000 in dividends on 2016 profits.

In 2015 profits, the sole shareholder, Agrolimen, S.A. received a dividend payment of EUR 6,720,000 for 2014 and EUR and 17,623,000 as an interim dividend against 2015 profits.

## **b) Related party balances**

The composition of the balances with related parties was as follows:

# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

## **FY 2016**

	Shareholder	Related parties		Joint ventures	Total
	Agrolimen, S.A.	Ridere, S.L.	Inveramen, S.A.	Mogiana Alimentos, S.A.	
Consolidated corporate tax	(2,775)	-	-	-	(2,775)
Financial investments in associates	5,016	-	-	-	5,016
Receivable from associates (Note 12)	142	-	-	-	142
Suppliers, group enterprises and others (Note 18)	(22,360)	-	-	-	(22,360)

## **FY 2015**

	Shareholder	Related parties		Joint ventures	Total
	Agrolimen, S.A.	Ridere, S.L.	Inveramen, S.A.	Mogiana Alimentos, S.A.	
Consolidated corporate tax	(1,298)	-	-	-	(1,298)
Financial investments in associates		6,115	-	-	6,115
Receivable from associates (Note 12)	55	-	-	-	55
Suppliers, group enterprises and others (Note 18)	(18,916)	-	-	-	(18,916)

## **FY 2015 opening balance**

	Shareholder	Related parties		Joint ventures	Total
	Agrolimen, S.A.	Ridere, S.L.	Inveramen, S.A.	Mogiana Alimentos, S.A.	
Payable to group companies			(842)		(842)
Financial investments in associates	145	8,703	-	-	8,848
Suppliers, group enterprises	(733)	-	-	-	(733)

The balance receivable at the 2015 year-end from Ridere, S.L. refers to a short-term loan granted by the parent company to this related party company, which is subject to floating interest referenced to the Euribor.

At 31 December 2016, the parent company owes Agrolimen, S.A. EUR 25,135,000, broken down into EUR 2,775,000 for corporate income tax as part of the consolidated tax group (EUR 1,298,000 at 31 December 2015), EUR 2,630,000 for corporate services and expenses (EUR 1,293,000 at the end of 2015) and EUR 20,000,000 for an interim dividend payment (EUR 17,623,000 at the end of 2015). (Note 15.c).

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**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

**25. Other disclosures****a) Human Resources**

The average number of employees at the end of 2016 and 2015, (by professional category and gender) was as follows:

**FY 2016**

Categories	Total employees		Average number employees
	Men	Women	
Senior Management	5	2	7
Middle managers, technical and administrative personnel	94	150	233
Semi-skilled workers	249	53	288
Sales	96	35	125
<b>Total</b>	<b>444</b>	<b>240</b>	<b>653</b>

**FY 2015**

Categories	Total employees		Average number employees
	Men	Women	
Management	5	2	7
Senior Management	80	142	222
Middle managers, technical and administrative personnel	178	26	204
Semi-skilled workers	89	34	123
<b>Sales</b>	<b>352</b>	<b>204</b>	<b>556</b>

In 2016, the Group had 7 employees with disabilities of 33% or greater (5 in 2015).

**b) Compensation paid to the Board of Directors**

The members of the Board of Directors did not receive any salaries, allowances or compensation of any kind for sitting on the Board in fiscal year 2016. The Group has not extended loans or advances directors and has no obligations to the members of the Board of Directors in respect of pension plans, life insurance premiums or equity instrument based payments. The Group did not pay any liability insurance premiums for the directors.

There were no expenses of this kind for the fiscal year ended 31 December 2015.

At 31 December 2016, the Group had no balances payable to its directors. Likewise, at 31 December 2015, the Group had no balances payable to its directors.

The members of senior management did not receive any advances or loans from the Group.

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## **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

### **c) Conflicts of interest involving Directors**

Pursuant to the obligation to avoid conflicts of interest in the parent company, the directors who sat on the Board of Directors during the 2016 financial year complied with the obligations set out in section 228 of the amended text of the Capital Companies Act. Both they and the persons related to them have abstained from being involved in situations that could be construed as a conflict of interest pursuant to the terms of article 229 of the aforementioned law. No direct or indirect conflicts of interest were reported to the Board of Directors of the parent company for its consideration during the year.

### **d) Auditor's fees**

The fees charged during fiscal year 2016 by PricewaterhouseCoopers Auditores, S.L. for auditing and other verification services totalled EUR 93,000 and EUR 42,000, respectively (EUR 93,000 and EUR 2,000 in 2015).

The fees charged during the year by other member companies of the PwC group for auditing and other services totalled EUR 129,000 and EUR 1,000, respectively (EUR 154,000 and EUR 1,000, respectively, in 2015).

No other expenses were incurred during the year by other auditors for audits conducted on the subsidiaries (8,000 euros in 2013).

## **26. Commitments and guarantees**

### **a) Purchase and sale commitments**

At 31 December 2016, the Group had assumed firm commitments to purchase raw materials in the amount of EUR 59,687,000 (EUR 47,291,000 in 2015).

### **b) Guarantees and bonds.**

At 31 December 2016, the parent company had issued bank bonds in the amount of EUR 1,240,000 (EUR 1,378,000 at 31 December 2015).

At 31 December 2016, the Group had no commodity futures. At 31 December 2015, the Group had commodity futures in the amount of EUR 352,000.

The Group neither gave nor received guarantees.

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**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

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**27. Environmental information**

All operations designed mainly to minimise environmental impacts and protect and improve the environment are deemed to be environmental activities.

The net book value of the systems, equipment and installations used for environmental activities are as follows:

	2016	2015
Buildings	76	437
Machinery	6	434
Other property, plant and equipment	758	
	<u>840</u>	<u>871</u>

In financial years 2016 and 2015, no major environmental investments were made by the Group.

Possible contingencies, indemnities and other environmental risks to which the Group could be exposed are adequately covered by third-party liability insurance policies.

Furthermore, it was not considered necessary to make provisions for environmental risks and expenses since it is not believed that there are any contingencies related to protecting and improving the environment.

**28. First-time adoption of International Financial Reporting Standards (IFRS-EU)**

**a. Transition to IFRS**

**1. Application of IFRS 1**

The consolidated annual accounts at 31 December 2015 are the first ones prepared by the Group under IFRS-EU. Therefore the Group has applied IFRS 1 in their preparation.

The transition date to IFRS set by Grupo Affinity Petcare, S.A.U. is 1 January 2015 (Note 2). The Group prepared the opening balance sheet in accordance with IFRS at that date.

## **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

In preparing these consolidated annual financial statements, Group management has applied all mandatory and optional IFRS exemptions indicated below, retroactively, as indicated in IFRS 1 "Adoption of International Financial Reporting Standards":

- The Group chose not to apply the requirements of IAS 21 "Effects of exchange rate fluctuations in foreign operations" to the cumulative gains/losses on exchange (in the functional currency, EUR). This means that:
  - the cumulative gains/losses on exchange from foreign transactions are considered null and void as of the transition date and
  - the gains or losses on disposal of a foreign business cancel out the exchange gains or losses arising prior to the transition date to IFRS, but include the gains/losses on exchange arising after the transition date.
- The Group has chosen not to re-state the business combinations that took place prior to the transition date.
- The Group has chosen to use the cost model from the previous GAP to measure its fixed assets.
- It was decided to apply IAS 32 and IAS 39 for derivatives and financial assets and liabilities since the transition date, so there is no need to restate the comparative figures.

### **b. Reconciliation between IFRS y General Accounting Plan (GAP)**

The following reconciliations quantify the impact of IFRS transition. The first reconciliation provides an overview of the impact of the transition on equity as of the transition date of 1 January 2015 and 31 December 2015. The following reconciliations show the effects of the transition in respect of:

- Consolidated equity at 1 January 2015
- The consolidated balance sheet and consolidated equity at 31 December 2015
- Consolidated results for the year ended 31 December 2015

#### **1. Summary of the main equity adjustments**

No adjustment were made to the Group's equity in the year of transition to IFRS. The only aspect related to that transition that had an effect on equity was the adjustment to foreign exchange gains (losses) in the amount of EUR 1.252,000, according to the exemption established in IFRS 1.

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

## 2. Reconciliation of consolidated equity at 1 January 2015

	GAP	Effect of transition to IFRS (Note 28.4)	IFRS
<b>EQUITY</b>			
<b>Capital and reserves attributable to shareholders</b>			
Capital	90,363	-	90,363
Reserves	19,807	(1,252)	18,555
Results for the year attributable to the parent company	27,180	-	27,180
(Interim dividends)	(15,000)	-	(15,000)
Value adjustments	(1,252)	1,252	-
Minority shareholders	(81)	-	(81)
<b>Total equity</b>	<b>121,017</b>	<b>-</b>	<b>121,017</b>

## 3. Reconciliation of the consolidated balance sheet and consolidated equity at 31 December 2015

	GAP	Effects of transition to IFRS (Note 28.4)	IFRS
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Intangible assets	40,776	-	40,776
Goodwill	41,282	-	41,282
Other intangible assets	10,597	-	10,597
Non-current investments in group and associated companies	18,054	-	18,054
Non-current financial investments	152	-	152
Deferred tax assets	4,041	-	4,041
<b>Total non-current assets</b>	<b>114,902</b>	<b>-</b>	<b>114,902</b>
<b>CURRENT ASSETS</b>			
Inventories	21,970	-	21,970
Trade and other accounts receivable	67,240	-	67,240
Current financial investments in group companies	6,115	-	6,115
Cash and cash equivalents	24,226	-	24,226
<b>Total current assets</b>	<b>119,551</b>	<b>-</b>	<b>119,551</b>
<b>TOTAL ASSETS</b>	<b>234,453</b>	<b>-</b>	<b>234,453</b>

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

<b>EQUITY AND LIABILITIES</b>	<b>GAP</b>	<b>Effects of transition to IFRS (Note 28.4)</b>	<b>IFRS</b>
<b>EQUITY</b>			
Capital and reserves attributable to shareholders			
Capital	90,363	-	90,363
Reserves	25,864	(1,252)	24,612
Results for the year attributable to the parent company	32,750	-	32,750
Value adjustments	(7,996)	1,252	(6,744)
(Interim dividends)	(17,623)	-	(17,623)
Shareholder equity	123,358	-	123,358
Non-controlling interests	907	-	907
<b>Total equity</b>	<b>124,265</b>	<b>-</b>	<b>124,265</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current provisions	1,088	-	1,088
Deferred tax liabilities	5,464	-	5,464
<b>Total non-current liabilities</b>	<b>6,552</b>	<b>-</b>	<b>6,552</b>
<b>CURRENT LIABILITIES</b>			
Current payables to group companies and associates	18,921	-	18,921
Trade and other payables	84,715	-	84,715
<b>Total current liabilities</b>	<b>103,636</b>	<b>-</b>	<b>103,636</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>234,453</b>	<b>-</b>	<b>234,453</b>

## **4. Explanation of the effect of the transition to IFRS**

Set out below are the most significant adjustments relating to IAS/IFRS conversion of the 2015 opening consolidated balance sheet and the balance sheet and income statement for the fiscal year ended 31 December 2015, which are due to the reclassification of cumulative conversion difference as provided for in the exemption established in IFRS 1.

ELOISA MOYANO PRADOS  
 Traductora - Intérprete Jurada de INGLÉS  
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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

## **5. Reconciliation of the income statement for the year ended 31 December 2015**

An explanation of the most significant adjustments and restatements due to the transition to IFRS affecting the results of the fiscal year ended 31 December 2015 prepared according to local criteria (GAP) is given below:

	Note 28.5	GAP	Effects of transition to IFRS	IFRS
<b>CONTINUING OPERATIONS</b>				
Net turnover	a)	377,204	(86,588)	290,616
Sales	a)	377,204	(86,588)	290,616
Service provision		-	-	-
Variation in stocks of finished products and work in progress		1,306	-	1,306
Supplies		(126,347)	-	(126,347)
Consumption of raw materials and other consumables		(126,596)	-	(126,596)
Impairment of goods, raw materials and other supplies		249	-	249
Other operating revenue		161	-	161
Sundry and incidental income		129	-	129
Operating grants released to income during the year		32	-	32
Staff costs		(40,027)	-	(40,027)
Wages, salaries and similar		(29,269)	-	(29,269)
Employee benefits		(10,758)	-	(10,758)
Other operating expenses	a)	(164,588)	86,588	(78,000)
Losses, impairment and changes in trade provisions		(637)	-	(637)
Other current operating expenses	a)	(163,951)	86,588	(77,363)
Fixed asset depreciation		(4,586)	-	(4,586)
Impairment and profit/loss on fixed asset disposals		(117)	-	(117)
Impairment and losses		(100)	-	(100)
Losses on disposals and other		(17)	-	(17)
<b>Operating results</b>		<b>43,006</b>	-	<b>43,006</b>
Financial income		334	-	334
Financial costs		(198)	-	(198)
Gains/(losses) on exchange		41	-	41
Impairment and profit/loss on disposal of financial instruments		127	-	127
Financial income		304	-	304
Investments carried by equity method		1,853	-	1,853
<b>Pre-tax profit/(loss)</b>		<b>45,163</b>	-	<b>45,163</b>
Income tax		(12,347)	-	(12,347)
<b>FY profit/loss from continuing operations</b>		<b>32,816</b>	-	<b>32,816</b>
<b>Profit for the year attributable to minority interests</b>		<b>66</b>	-	<b>66</b>
<b>Profit for the year attributable to the owners of the parent company</b>		<b>32,750</b>	-	<b>32,750</b>

**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

**a) Income**

Among the items negotiated with its clients, there are certain charges for miscellaneous items related to the Group's sales activities. In the transition to IFRS, these charges are treated, from an accounting perspective, the same way as sales discounts, reducing revenues by EUR 86,588,000 and "other operating expenses" by the same amount, which is where they were recognised in the consolidated financial statements under GAP.

**29. Events after the balance sheet date**

Between the 31st December 2016 and the date of these consolidated financial statements, there were no materially significant events.

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

## **ANNEX**

The most significant information relative to the interests held in group and associated enterprises at 31 December 2016 and 2015 was as follows:

### **31 December 2016**

Name	Thousands of euros			
	Affinity Petcare Italy, S.R.L.	Affinity La Chapelle, S.A.S.	Affinity Petcare France, S.A.S.	Affinity Petcare Deutschland GmbH
Address				
Activity				
	Pet food sales	Pet food sales	Pet food sales	Pet food sales
Local currency	Euro	Euro	Euro	Euro
% interest held:				
Directly	100%	100%	100%	100%
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Capital	92,731	8,788	5,468	2,530
Reserves	2,815	2,094	715	(1,069)
Net income	522	701	3,186	106
All other equity	-	-	-	-
Total equity	96,068	11,584	9,368	1,567
Operating results	1,565	1,011	4,919	102
Dividends paid	-	640	3,718	-
Carrying value of the interest:	103,378	6,374	24,623	1,567
Costs	107,340	6,374	24,623	29,025
Impairment for the year	-	-	-	-
Accumulated impairment	(3,962)	-	-	(27,458)
Auditor	PwC	PwC	PwC	Unaudited

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

**Notes to the consolidated financial statements for the fiscal year ended 31 December 2016**

**Thousands of euros**

Name	Affinity Petcare UK Limited	Affinity Petcare Belgium, S.A.	Affinity Petcare Nederland B.V.	Affinity Petcare Portugal – Produtos para Animais Domésticos, Unipessoal Lda.
Address				
Activity	Pet food sales	Pet food sales	Pet food sales	Pet food sales
Local currency	Pound sterling	Euro	Euro	Euro
% interest held:				
- Directly	100%	100%	100%	100%
- Indirectly				
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Capital	2,596	1,442	68	670
Reserves	(1,019)	53	96	134
Net income	(168)	43	6	366
All other equity	-	-	-	-
Total equity	1,409	1,538	170	1,170
Operating results	108	26	-	441
Dividends paid	-	-	-	419
Carrying value of the interest:	1,331	1,537	68	670
Costs	2,596	3,261	68	670
Impairment for the year	-	-	-	-
Accumulated impairment	(1,267)	(1,724)	-	-
Auditor	Unaudited	PwC	Unaudited	PwC

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**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
**Notes to the consolidated financial statements for the fiscal year ended 31 December 2016**

Thousands of euros				
Name	Affinity Petcare Brasil Participações Ltda.	Mogiana Alimentos, S.A.	Agrifan, SRL	Nova Foods, SRL
Address				
Activity	Shareholdings in other companies	Pet food sales	Shareholdings in other companies	Pet food sales
Local currency	Puerto Real	Puerto Real	Euro	Euro
% interest held:				
- Directly	95%	-	75%	75%
- Indirectly		48%		
Consolidation method	Full consolidation	Equity method	Full consolidation	Full consolidation
Capital	22,733	46,064*	103	47
Reserves	(2,205)	50,908	2,761	21,099
Net income	(290)	(682)*	1,605	4,474
All other equity	-	-	-	-
Total equity	20,238	96,290	4,469	25,620
Operating results	(189)	4	(187)	7,117
Dividends paid	-	472		2,000
Carrying value of the interest:	21,596	18,054	90,021	1,803
Costs	21,596	18,054	90,021	1,803
Impairment for the year	-	-	-	-
Accumulated impairment	-	-	-	-
Auditor	Unaudited	KPMG	PwC	PwC

\*The company's operating currency (thousands of Brazilian reals).

# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

**31 December 2015**

Thousands of euros				
Name	Affinity Petcare Italy, S.R.L.	Affinity La Chapelle, S.A.S.	Affinity Petcare France, S.A.S.	Affinity Petcare Deutschland GmbH
Address				
Activity				
	Pet food sales	Pet food sales	Pet food sales	Pet food sales
Local currency	Euro	Euro	Euro	Euro
% interest held:				
- Directly	100%	100%	100%	100%
- Indirectly				
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Capital	2,681	8,788	5,468	2,530
Reserves	1,316	1,991	721	963
Net income	1,500	743	3,712	106
All other equity	-	-	-	-
Total equity	5,497	11,522	9,900	1,461
Operating results	1,397	1,024	5,619	33
Dividends paid	1,325	598	3,388	-
Carrying value of the interest:	8,896	6,374	24,623	1,461
Costs	17,290	6,374	24,623	29,025
Impairment for the year	1,499	-	-	(106)
Accumulated impairment	(8,394)	-	-	(27,564)
Auditor	PwC	PwC	PwC	Unaudited

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

Thousands of euros

Name	Affinity Petcare UK Limited	Affinity Petcare Belgium, S.A.	Affinity Petcare Nederland B.V.	Affinity Petcare Portugal – Produtos para Animais Domésticos, Unipessoal Lda.
Address				
Activity	Pet food sales	Pet food sales	Pet food sales	Pet food sales
Local currency	Pound sterling	Euro	Euro	Euro
% interest held:				
- Directly	100%	100%	100%	100%
- Indirectly				
Consolidation method	Full consolidation	Full consolidation	Full consolidation	Full consolidation
Capital	2,596	1,442	68	670
Reserves	1,408	3	93	36
Net income	310	50	3	517
All other equity	56	-	-	-
Total equity	1,554	1,495	164	1,223
Operating results	186	22	4	747
Dividends paid	-	-	-	260
Carrying value of the interest:	1,499	1,494	68	670
Costs	2,596	3,261	68	670
Impairment for the year	310	49	-	-
Accumulated impairment	(1,097)	(1,767)	-	-
Auditor	Unaudited	PwC	Unaudited	PwC

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# **AFFINITY PETCARE, S.A. AND SUBSIDIARIES**

Notes to the consolidated financial statements for the fiscal year ended 31 December 2016

Thousands of euros

Name	Affinity Petcare Brasil Participações Ltda.	Mogiana Alimentos, S.A.
Address		
Activity	Shareholdings in other companies	Pet food sales
Local currency	Euro	Puerto Real
% interest held:		
- Directly	95%	-
- Indirectly		48%
Consolidation method	Full consolidation	Equity method
Capital	22,733	46,064*
Reserves	(1,188)	50,908
Net income	1,326	13,974*
All other equity	112	-
Total equity	18,312	110,946*
Operating results	196	18,048*
Dividends paid	-	-
Carrying value of the interest:	21,596	18,054
Costs	21,596	18,054
Impairment for the year	-	-
Accumulated impairment	-	-
Auditor	Unaudited	KPMG

\*The company's operating currency (thousands of Brazilian reals).

The information shown above was provided by Group companies from their individual financial statements at 31 December 2016 and 2015 adapted to IFRS-EU standards by the Affinity Group.

None of the group companies is listed on the stock exchange.

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**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
**2016 Directors' Report**

**DIRECTORS' REPORT**

**Evolution of the Business**

The leading economic indicators in the markets where the Group operates improved in 2016. GDP grew by 3.2% in Spain, 1.2% in France 0.9% in Italy and fell sharply by 3.6% in Brazil.

The unemployment rate in Spain declined by 2.3 points and remained stable in France and Italy.

The economic context is one of weak growth in the majority of European countries where the Group operates and incipient economic recovery in Brazil, with expected growth of 0.5% vs. -3.6 in 2016.

The Group saw a 10.3% increase in turnover, not counting the acquisition of Nova Foods, S.R.L. on 1 April 2016. The increase was due primarily to a better market mix.

73% of the company's growth is focused on the generation of value through high value added brands. Ultima and Advance were the leading brands in terms of growth. In 2016 the Group gained market share in all core countries.

Fluctuations in the cost of raw material prices did not have a relevant impact in 2016.

The company has a policy of investing in fixed assets to increase production capacity to ensure that it can adapt to the Group's needs and enhance the value added products it is able to offer. In 2016 the Group invested EUR 13.5 million, not counting the investment in the company, Nova Foods, S.R.L.

On 1 April 2016, the Group acquired 75% of Agrifan, S.R.L., which in turn controls 100% of the shares of Nova Foods, S.R.L. Trainer is the most well-known brand of the company Nova Foods, S.R.L within the natural segment which basically markets products in specialised channels.

With this inorganic operation, the Company continues to move forward with its international expansion and maintains its position of leadership in the countries of Southern Europe. The Group's products are currently sold in more than 60 countries.

Sales in the early months of 2017 were in line with the sales trends of late 2016.

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**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
**2016 Directors' Report**

**Research and development**

Research, development and technological innovation are priorities for the Group, which is committed to launching new added value products, adapting to our customers' needs and continuously improving our productive and innovative processes.

In 2016, the Company launched two new products in the natural segment: Ultima Nature and True Instinct, introducing innovations that focus on the specific needs of each type of animal. Innovation continues to be one of the Group's basic pillars, accounting for nearly 17% of the growth in turnover.

**Risks and uncertainties**

The outlook for economic growth in the euro zone is similar to what it was in 2016, with an incipient recovery expected for the Brazilian economy.

While there is some uncertainty in some of the markets where the Group operates, they do not have a relevant impact on turnover or profits.

Environmental protection continues to be a priority for the Group, which has taken the actions needed to detect and prevent issues of this kind.

**Derivative financial instruments**

The Group does not use derivative financial instruments to hedge commodity price fluctuations for negligible amounts.

**Treasury stock**

Group companies held no treasury stock in the parent company at the beginning of the year and did not acquire any during the year.

**Average days to pay suppliers**

The average number of days to pay Spanish suppliers in 2016 was 50, which complies with the Spanish laws in force on commercial payments.

\*\*\*\*\*

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**AFFINITY PETCARE, S.A. AND SUBSIDIARIES**  
Formulation of the 2016 consolidated financial statements

**ACKNOWLEDGEMENT:** It is hereby noted for the purposes of article 253.2 of the Capital Companies Act that the Group's consolidated annual accounts consisting of the consolidated balance sheet, the consolidated income statement, the consolidated statement of change in equity, the consolidated cash flow statement, the notes to the consolidated financial statements and the director's report *[in their Spanish version]* are contained on 99 sheets of stamped paper, series OM9272597 to OM9272695, both inclusive, and are signed below this acknowledgement by all the directors of the parent company.

Sant Cugat del Vallès, 31 March 2017.

\_\_\_\_\_  
*[signature]*  
Artur Carulla Font  
Chairman

\_\_\_\_\_  
*[signature]*  
Joan Cornudella Marqués  
Director

\_\_\_\_\_  
*[signature]*  
Manuel Gálvez Giménez  
Secretary

ELOÍSA MOYANO PRADOS  
Traductora - Intérprete Jurada de INGLÉS  
Nº 1940



Sworn Translation

**CERTIFICATE**

I, Eloisa Moyano Prados, Sworn Translator of English/Spanish, appointed by the Spanish Ministry of Foreign Affairs and Cooperation hereby certify that the preceding is a faithful and accurate translation into English of a document written in Spanish.

Barcelona, 04 August 2017

**CERTIFICACIÓN**

Dña Eloisa Moyano Prados, Traductora-Intérprete Jurada de inglés nombrada por el Ministerio de Asuntos Exteriores y de Cooperación, certifica que la que antecede es traducción fiel y completa al inglés de un documento redactado en español.

En Barcelona, a 04 de agosto de 2017

Signature and stamp / Firma y sello:

ELOISA MOYANO PRADOS

Traductora - Intérprete Jurada de INGLÉS

Nº 1940

Eloisa Moyano Prados

# AA06

## Statement of guarantee by a parent undertaking of a subsidiary company



Companies House

☒ **What this form is for**  
You may use this form as a  
statement of guarantee for a  
subsidiary company.

☒ **What this form is NOT for**  
You cannot use this form as a  
statement of guarantee for a  
subsidiary which is an LLP. Use  
form LLAA06.

For further information, please  
refer to our guidance at  
[www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

### 1 Subsidiary company details

Please enter the registered name and number of the company delivering  
this statement.

Company number 0 4 4 7 1 1 0 0

Company name in full Affinity Petcare UK Limited

→ **Filling in this form**  
Please complete in typescript or in  
bold black capitals.

All fields are mandatory unless  
specified or indicated by \*

### 2 Relevant financial year

Please show the financial year end date to which the guarantee relates.

Date of financial year ending 3 1 1 2 2 0 1 6

### 3 Guarantee \*

Please show details of the guarantee.

Affinity Petcare SA, a company registered in Spain in  
Registro Mercantil de Barcelona, NIF A-62295761, is the  
Parent undertaking of its 100% owned subsidiary  
company, Affinity Petcare UK Limited 04471100. Under  
section 479C CA06, Affinity Petcare SA guarantees all  
outstanding liabilities to which the subsidiary company is  
subject at the end of the financial year to which the  
guarantee relates, until they are satisfied in full; and the  
guarantee is enforceable against the parent undertaking  
by any person to whom the subsidiary is liable in respect  
of those liabilities.

- You must include:**  
Details of the section of the  
Companies Act 2006 under which  
the guarantee is being given:
- a. Section 394C—exemption  
from preparing accounts for a  
dormant subsidiary.
  - b. Section 448C—exemption from  
filing accounts for a dormant  
subsidiary.
  - c. Section 479C—audit exemption  
for a subsidiary company.

The name of the parent undertaking  
and:

- a. If the parent was incorporated  
in the UK its registered number  
(if any); or
- b. If the parent was incorporated  
and registered (in the same  
country) elsewhere in the EEA,  
its registration number and the  
identity of the register where it  
is registered.

**Schedule**

If necessary, please attach a  
schedule to this form:

AA06

Statement of guarantee by a parent undertaking of a subsidiary company

4

Statement date

Please insert the date the statement was made.

Date

d 2 7 m 0 9 y 2 0 1 7

5

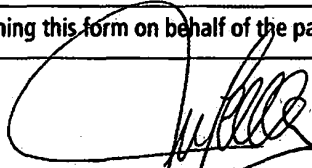
Signature on behalf of the parent undertaking<sup>②</sup>

I am signing this form on behalf of the parent undertaking.

Signature

Signature

X



FRANCISCO JAVIER SERRA TORRES

X

② This section must be signed on behalf of the parent undertaking.

6

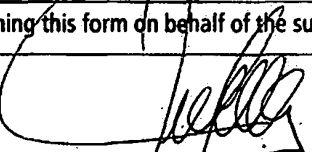
Signature of subsidiary<sup>③</sup>

I am signing this form on behalf of the subsidiary company.

Signature

Signature

X



FRANCISCO JAVIER SERRA TORRES

X

③ This form must be signed by a director of the subsidiary company

**Presenter information**

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name

Company name

Address

Post code

County/Region

Postcode

Country

DX

Telephone

**Checklist**

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and number match the information held on the public Register.
- ☐ You have entered the date of the financial year in Section 2.
- ☐ You have completed Section 3.
- ☐ You have entered the date of the statement in Section 4.
- ☐ A representative of the parent has signed their name in Section 5.
- ☐ A director of the subsidiary has signed the form.
- ☐ To benefit from one of these exemptions, the subsidiary must also submit the following documents to the registrar of companies on or before the date on which its accounts are due:
  - a written notice that all members of the subsidiary agree to the exemption in respect of the relevant financial year; and
  - a copy of the parent undertaking's consolidated accounts, including a copy of the auditor's report and the annual report on those accounts.

**Important Information**

Please note that all information on this form will appear on the public record.

**Where to send**

You may return this form to any Companies House address, however for expediency we advise you to return it to the appropriate address below:

**For companies registered in England and Wales:**  
The Registrar of Companies, Companies House,  
Crown Way, Cardiff, Wales, CF14 3UZ.  
DX 33050 Cardiff.

**For companies registered in Scotland:**  
The Registrar of Companies, Companies House,  
Fourth floor, Edinburgh Quay 2,  
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.  
DX ED235 Edinburgh 1  
or LP - 4 Edinburgh 2 (Legal Post).

**For companies registered in Northern Ireland:**  
The Registrar of Companies, Companies House,  
Second Floor, The Linenhall, 32-38 Linenhall Street,  
Belfast, Northern Ireland, BT2 8BG.  
DX 481 N.R. Belfast 1.

**Further information**

For further information, please see the guidance notes on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk) or email [enquiries@companieshouse.gov.uk](mailto:enquiries@companieshouse.gov.uk)

This form is available in an alternative format. Please visit the forms page on the website at [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

## **Affinity Petcare UK Limited**

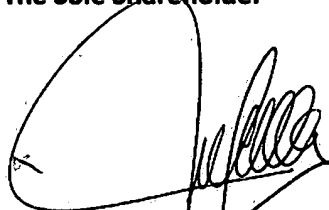
### **Written Notice**

**To the Directors**

I, the undersigned, acting in the name and on behalf of Affinity Petcare, S.A., the Sole Shareholder of **Affinity Petcare UK, Limited** (hereinafter, the "**Company**") do hereby agree to the Company taking the audit exemption under section 479A of the Companies Act 2006 in respect of the financial year ended 31 December 2016.

**Dated:** 27/09/17

**The Sole Shareholder**



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**On behalf of Affinity Petcare S.A.**  
**Mr. Francisco Javier Serra Torres**