20 Years of Strategic Growth

Dechra®
Pharmaceuticals PLC

Annual Report and Accounts for the year ended 30 June 2017

Company Number: 3369634

Welcome to Dechra Pharmaceuticals PLC

Dechra is an international specialist veterinary pharmaceuticals and related products business. Our expertise is in the development, manufacture, and sales and marketing of high quality products exclusively for veterinarians worldwide.

Getting Around the Report

Icons are used within the Report to assist the reader to identify links to other relevant sections of interest. Below is a selection of icons you will see used within this Report:

For more information see further pages within the Report

More information online at: **www.dechra.com**

Glossary
Terms used within this section

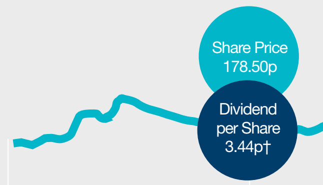
Forward-Looking Statements

This document contains certain forward-looking statements. The forward-looking statements reflect the knowledge and information available to the Company during preparation and up to the publication of this document. By their very nature, these statements depend upon circumstances and relate to events that may occur in the future and thereby involve a degree of uncertainty. Therefore, nothing in this document should be construed as a profit forecast by the Company.

Open the flaps to view Our History

Delivering Consistently for Our Shareholders

Dechra is a company that has consistently delivered on its strategic objectives resulting in a strong track record of growth.



1 July 1996 to 30 June 1997

June 1997
Management buyout from Lloyds Chemist plc supported by Mercury and Bank of Scotland.

1 July 1997 to 30 June 1998

Underlying Profit Before Taxation
£0.1m

1 July 1998 to 30 June 1999

Underlying Profit Before Taxation
£0.7m

1 July 1999 to 30 June 2000

Underlying Profit Before Taxation
£2.1m

1 July 2000 to 30 June 2001

Underlying Profit Before Taxation
£5.8m

Market Capitalisation
£88.9m

September 2000
Dechra listed on the London Stock Exchange at 120 pence per share, with a market capitalisation of £60.0 million.

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April 20
Felimazo
the UK.

May 20
Acquired
Plc for a
£2.5 mill
doubled
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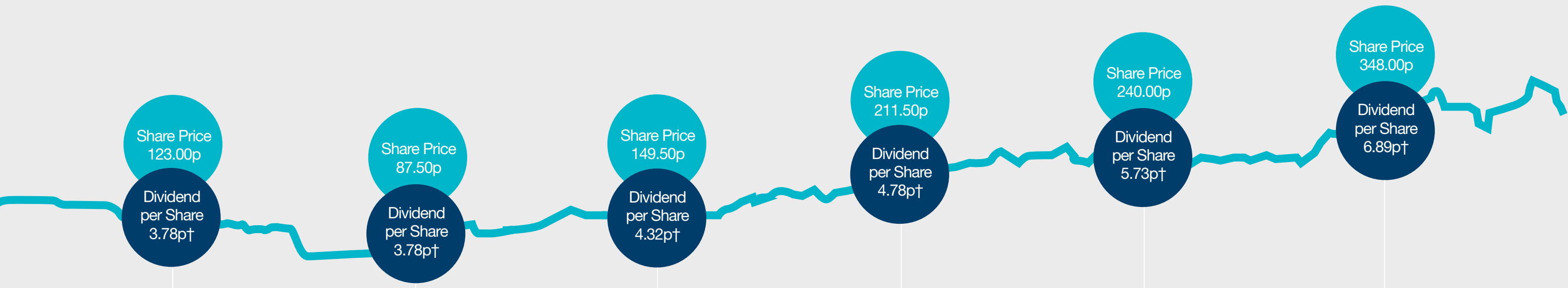
Our History

The Company was incorporated in May 1997 to effect the management buyout from Lloyds Chemist plc. Three years later, in 2000, the issued ordinary share capital of Dechra was listed on the London Stock Exchange. Since 2000, the Company has grown strongly through a combination of innovation, organic growth and acquisition.

Underlying Profit Before Taxation is defined as operating profit excluding amortisation of acquired intangibles and impairment of acquired intangibles, impairment of investments, acquisition expenses, fair value uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration



2001 to 30 June 2002

Underlying Profit Before Taxation **£7.5m**

Market Capitalisation **£62.0m**

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turing revenues.

1 July 2002 to 30 June 2003

Underlying Profit Before Taxation **£6.7m**

Market Capitalisation **£44.6m**

April 2003
North Western Laboratories rebranded to NationWide Laboratories.

May 2003
Entered into a sub-licence agreement with Bioenvision Inc. to develop *Vetoryl* for future marketing in the US and Canada.

1 July 2003 to 30 June 2004

Underlying Profit Before Taxation **£8.1m**

Market Capitalisation **£76.2m**

December 2003
Entered into a European marketing agreement with Janssen Animal Health, allowing Janssen full marketing and distribution rights to *Felimazole* and *Vetoryl* in mainland Europe.

1 July 2004 to 30 June 2005

Underlying Profit Before Taxation **£9.7m**

Market Capitalisation **£108.1m**

November 2004
Granted a full EU licence for *Felimazole* and granted a UK licence for a new 2.5mg *Felimazole* tablet.

April 2005
Granted a range extension for a 30mg *Vetoryl* capsule.

April 2005
Opened a US operation based in Kansas City.

April 2005
Acquired *Vetivex*®, a licensed veterinary fluid therapy product for £0.8 million.

1 July 2005 to 30 June 2006

Underlying Profit Before Taxation **£11.0m**

Market Capitalisation **£124.6m**

July 2005
Received approval to market *Vetoryl* in 19 major European countries.

June 2006
Signed a development and marketing agreement for *Vetoryl* in Japan with Kyoritsu Seiyaku.

1 July 2006 to 30 June 2007

Underlying Profit Before Taxation **£12.7m**

Market Capitalisation **£183.7m**

December 2006
Acquired the intellectual property for *Equidone*® Gel.

April 2007
Acquired Leeds Veterinary Laboratories for £0.75 million.

May 2007
Secured a long term trademark licence and marketing agreement with Pharmaderm Animal Health for a consideration of US$5.0 million, to supply a range of dermatological, ophthalmic and optic products to the US veterinary market.

1 July 2007 to 30 June 2008

Underlying Profit Before Taxation £16.9m

Market Capitalisation £274.0m

January 2008
Acquired VetXX Holding A/S, a leading developer, producer and marketer of companion animal products, for a total consideration of £61.7 million.

1 July 2008 to 30 June 2009

Underlying Profit Before Taxation £23.4m

Market Capitalisation £276.9m

December 2008
VetXX integrated and rebranded Dechra Veterinary Products.

December 2008
Received FDA approval for *Vetoryl* in the USA.

May 2009
New therapeutic canine diet developed and marketed to aid treatment of osteoarthritis in dogs, known as *Specific*®.

June 2009
Received approval to market *Felimazole* in the US.

1 July 2009 to 30 June 2010

Underlying Profit Before Taxation £26.1m

Market Capitalisation £254.4m

November 2009
Achieved mutual recognition of *Malaseb*® in 17 European countries.

February 2010
DVP UK's logistics and finance function integrated into an European central logistic and shared service centre in Uldum, Denmark.

1 July 2010 to 30 June 2011

Underlying Profit Before Taxation £30.1m

Market Capitalisation £326.1m

October 2010
Acquired DermaPet® Inc., a Florida based dermatological business, for a total consideration of US$64.0 million. The acquisition strengthened Dechra's position as a leader in the worldwide veterinary dermatological market.

December 2010
Acquired Genitrix Limited, a privately owned veterinary company with a range of products complementary to Dechra's, for a total consideration of £6.4 million.

1 July 2011 to 30 June 2012

Underlying Profit Before Taxation £33.0m

Market Capitalisation £422.1m

January 2012
Acquired the worldwide rights (excluding Canada) to *HY-50*® for a cash consideration of CAD 8.03 million.

May 2012
Acquired Eurovet® Animal Health B.V., an expert in developing, registering, producing and marketing added value, companion and farm animal veterinary pharmaceutical products, for a total cash consideration of €135 million.

1 July 2012 to 30 June 2013

Underlying Profit Before Taxation £44.6m

Market Capitalisation £601.3m

May 2013
Skipton and Bladel sites renamed Dechra Manufacturing. Announced the closure of our manufacturing site in Uldum, Denmark.

† Adjusted for the bonus element of the Rights Issue.

1 July 2013 to 30 June 2014

Underlying Profit Before Taxation
£39.8m

Market Capitalisation
£634.6m

August 2013
Divested Services Segment to Patterson Companies, Inc. for £87.5 million, creating a pure veterinary pharmaceuticals and related products business.

March 2014
Commenced trading in Italy.

May 2014
Acquired business and assets of PSPC, Inc. for a consideration of up to US$10 million.

1 July 2014 to 30 June 2015

Underlying Profit Before Taxation
£45.1m

Market Capitalisation
£864.7m

January 2015
Commenced trading in Canada.

May 2015
Commenced trading in Poland.

1 July 2015 to 30 June 2016

Underlying Profit Before Taxation
£49.7m

Market Capitalisation
£1,087.0m

October 2015
Acquired 92.65% controlling interest in Genera® d.d., the oldest and largest manufacturer of animal health products in Croatia, for a total consideration of £26.8 million.

January 2016
Acquired 100% of Laboratories Brovel S.A. de C.V., a family owned veterinary pharmaceutical company located in Mexico City, Mexico, for a consideration of £3.3 million and a further £0.6 million contingent upon reaching registrations milestones.

January 2016
Commenced trading in Austria.

April 2016
Acquired Putney®, Inc., a leading developer of FDA approved CAP in the US, for a consideration of £134.2 million.

1 July 2016 to 30 June 2017

Underlying Profit Before Taxation
£77.0m

Market Capitalisation
£1,584.0m

October 2016
Acquired business and assets of Apex Laboratories Pty Ltd, a veterinary pharmaceutical company which manufactures, markets and sells branded generic prescription products for companion animals in Australia and New Zealand for a total consideration of AUD$55.0 million (£34.2 million).

March 2017
Entered a long term Intellectual Property Licensing Agreement with Animal Ethics Pty Ltd to sell and market Tri-Solfen® for all animal species in all international markets, excluding Australia and New Zealand. Acquired 33.0% of the issued share capital of Medical Ethics Pty Ltd (Medical Ethics), the parent company of Animal Ethics, for a total consideration of AUD$18.0 million (£11.0 million).

Continuing Our Growth Story

- Clear Strategic Focus
- Development Pipeline
- Entrepreneurial and Innovative
- Manufacturing Flexibility
- Growing Animal Health Market
- Focused Portfolio
- Recognised Brand
- Expanding International Focus
- Talented People and Expertise
- Strong Balance Sheet

Continuing Our Growth Story

Creating value by:

Clear Strategic Focus
We have a defined strategy focused on four main drivers: portfolio focus, geographical expansion, pipeline delivery and targeted acquisition.

Development Pipeline
We have a strong pipeline of novel pharmaceuticals, generic pharmaceuticals and specialist pet diets and a track record of pipeline delivery. We are proactive in recognising and bringing new development opportunities into the portfolio.

Entrepreneurial and Innovative
Dechra encourages an entrepreneurial and innovative approach from its management team which is underpinned by appropriate internal controls and robust systems and procedures.

Manufacturing Flexibility
Our manufacturing sites offer a wide range of dosage forms and packaging capabilities which can be produced in small to large-scale production batches. This flexibility is a key requirement in producing our varied product portfolio.

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

Focused Portfolio
We have a clear portfolio focus and hold strong market positions in a number of our key therapeutic sectors such as endocrinology, dermatology, anaesthesia and analgesics, and equine medicine.

Recognised Brand
Dechra is recognised as a global animal healthcare company with a strong and growing reputation as a provider of high quality, specialist veterinary medicines and related products.

Expanding International Focus
In line with our strategy we are focused on extending the Dechra brand into new countries. We are also increasing distribution of our products on a global basis with selected partners, currently into over 50 countries.

Talented People and Expertise
We have attracted and retained a qualified and skilled workforce throughout the organisation. This stable and motivated team has many years' experience within the markets we serve. Our people strategy is underpinned by the Dechra Values.

Strong Balance Sheet
The Group maintains prudent management of its balance sheet and achieves strong cash flows. This position provides flexibility to invest in initiatives to drive long term growth.

Products distributed to more than 50 countries

Employing 1,344 people

Investor Website
We maintain a corporate website at **www.dechra.com** containing a wide range of information of interest to both institutional and private investors including:

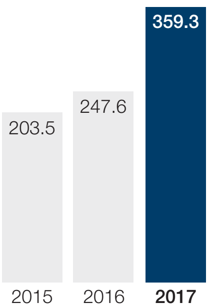
- Latest news and press releases
- Annual reports and investor presentations

Online Report
Visit our online Annual Report at: **dechra.annualreport2017.com**

Highlights

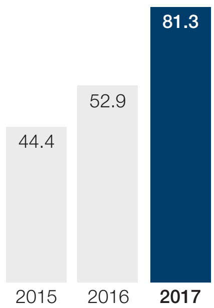
Total Revenue
£359.3m
2016: £247.6m

CER: +28.3%
AER: +45.1%



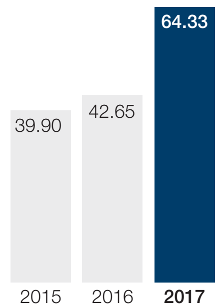
Underlying Operating Profit
£81.3m
2016: £52.9m

CER: +36.9%
AER: +53.7%



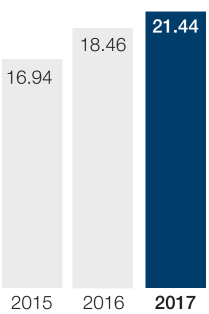
Underlying Diluted Earnings Per Share
64.33p
2016: 42.65p

CER: +35.1%
AER: +50.8%



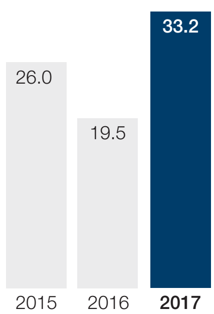
Dividend Per Share
21.44p
2016: 18.46p

CER: +16.1%
AER: +16.1%



Reported Operating Profit
£33.2m
2016: £19.5m

CER: +42.6%
AER: +70.3%



Reported Diluted Earnings Per Share
27.93p
2016: 13.90p

CER: +69.1%
AER: +100.9%

CER is defined as Constant Exchange Rate against prior year, whilst £ is at reported, Actual Exchange Rate (AER). A reconciliation of underlying to reported measures can be found on page 22.

Financial Performance

- Strong revenue growth of 28.3% at constant exchange rates (CER).
- Solid revenue growth in Companion Animal Products (CAP), Food producing Animal Products (FAP), and Equine.
- 36.9% growth at CER in underlying operating profit.
- Strong operational leverage and full year synergies from acquisitions lifts EBIT margin 140 bps to 22.6%.
- Consistently strong cash conversion of 115.9%, driving Net Debt/ underlying EBITDA leverage down from 2.0 to 1.4 times.
- Underlying diluted EPS growth of 35.1%; increase in full year dividend to 21.44 pence.

Strategic Progress

- Core portfolio growth solid in EU, excellent in NA; major therapeutic sectors continue to grow.
- Strong performance from prior year acquisitions.
- Apex (Australia) completed and integrated, and 33.0% share of Medical Ethics Pty Ltd acquired.
- New geographic territories performing well; new Dechra Veterinary Products International team to create greater focus.
- Significant pipeline delivery with two new FAP EU registrations and numerous international approvals.
- Exploring several new pipeline opportunities.

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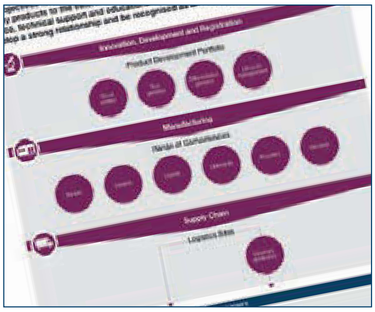

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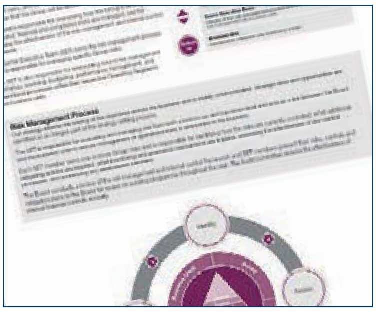

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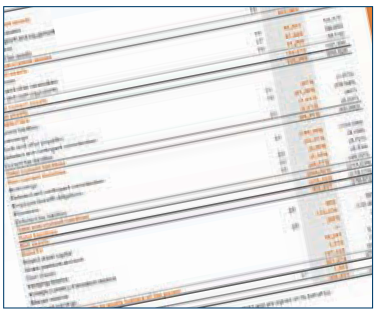


Overview

Strategic Report

Governance

Financial Statements

Company Information

Strategic Report

Our Business Model

Open the flap to view Our Business Model Explained

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

Innovation, Development and Registration

Product Development Portfolio

- Novel entities
- True generics
- Differentiated generics
- Lifecycle management

Manufacturing

Range of Competencies

- Tablets and capsules
- Creams
- Liquids
- Ointments
- Powders
- Vaccines

Supply Chain

Logistics Sites

- Veterinary distributors and wholesalers

Our Customers

- Veterinary practices and professional farming units
- Veterinary professionals

Sales and Marketing

- Telephone sales representatives
- Field based representatives
- Educational programmes
- Technical support helplines

Our Business Model Explained

Innovation, Development and Registration

Product development ideas are generated in numerous ways, including:

- regular cross functional meetings are held where all senior staff are encouraged to bring new ideas from their experience in the market place.
- networking with key opinion leaders, especially in our focus therapeutic areas, to identify and develop ideas.
- employing very talented veterinary scientists who extensively trawl scientific papers looking for new technologies that might have an application in our marketplace.

In addition, our profile as the only major British veterinary pharmaceutical company gives us exposure to human pharmaceutical and biotech companies that are developing technologies, usually for human medicine, but often with a veterinary application. We spread our development portfolio across novel entities, differentiated generics, true generics and lifecycle management projects across multiple species.

Our formulation and development laboratories are located at our manufacturing sites which allows us to emulate the manufacturing equipment at laboratory scale, a key expertise for in-house product development.

After opportunities have been identified we have an evaluation phase where we conduct preliminary studies to assess suitability. Once a product has been classed as suitable for development it will be allocated to an internal development team who will be responsible for taking the product all the way through feasibility and development to regulatory submission. Once all the studies are concluded, if the product reaches the required safety, efficacy and stable chemical formula, regulatory dossiers are prepared for registration and filing with the relevant regulatory authorities.

Read about **Product Development** on pages 44 and 45

Manufacturing

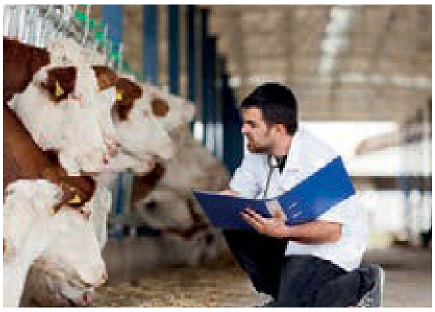
Manufacturing is a key competence of the Group; the prime objective is to deliver safe, efficacious, cost effective, quality products. Veterinary products come in many dosage forms, and often, batch runs for veterinary medicines are relatively small compared to human production; therefore it is often very difficult to outsource supply. We have a wide range of competencies across our six sites including tablets, creams, liquids, ointments, powders and vaccines that can be packed in a multitude of different presentations.

Read more in the **Manufacturing and Supply Chain** case study on page 40

Supply Chain

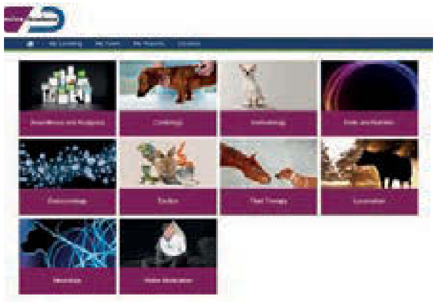
Our products are distributed through two major logistics sites. The principal objective is to deliver a customer's order on time and in full every time. Our European and International markets are serviced from our own logistics facility based in Uldum, Denmark and North America is supplied out of a third party logistics supplier in Kansas City. The majority of veterinary practices are supplied through specialised veterinary distribution companies that operate as one-stop shops. They stock the majority of items veterinary practices need and offer high levels of service, often with a next day delivery. These distributors, on the whole, are not proactive in selling product; they predominantly supply to demand where the demand is driven by Dechra's own sales activities within veterinary practices. There are a few markets where we offer direct supply, such as Germany, that are not fully supported by veterinary distributors or where legislation enforces all pharmaceuticals to be sold through pharmacies, such as Denmark, Italy, Norway and Sweden.

Our Customers



All our products and sales and marketing activities are targeted at veterinary professionals. The majority of veterinarians prescribe and dispense the drugs, although there are a few territories in the world where the veterinarian writes a prescription and the drugs are purchased by the animal owner at a pharmacy. The majority of our sales are made into veterinary practices that tend to specialise in either companion animal or food producing animal treatment; however, there are numerous practices that are classified as mixed and who service all species. There is also an increasing number of equine practices and referral hospitals that provide high levels of specialisation. The veterinary profession is going through huge change as incorporated practice groups are consolidating practices at an increasing rate. In many countries, our relationship with these groups is very important; we are increasingly focused on key account management. With the ongoing integration of professional farming units, our Food producing Animal Product sales efforts are now often focused on these major integrators; however, the integrators themselves employ veterinarians who remain responsible for the prescribing and administration of our products.

Sales and Marketing



Dechra operates its own sales force and provides in-house marketing and technical support in 24 countries, predominantly in Europe and North America. In almost all these territories we have highly skilled field based representatives who make regular calls with all major veterinary practices in their territory. The representatives' brief is to sell the product on a technical basis, outlining the beneficial aspects of our products and to provide educational support on how best to treat animals in our key therapeutic sectors.

We also provide high levels of technical support and pharmacovigilance through helplines in every country in which we operate. These helplines provide veterinarians with support on how best to use our products and with free advice on any difficult or complex cases that may be encountered.

The relationship with veterinarians is key and, to this end, we provide added value services. We offer high level educational programmes focused on the treatment of conditions in our key therapeutic sectors. We deliver this education through many channels, including major conferences, regional groups, to individual practices and increasingly through digital channels. These programmes are certified to offer veterinarians and veterinary nurses the continuing professional education points they require to maintain their professional qualification.

Our Dechra Veterinary Products International sales, into over 50 additional countries, are through marketing and distribution partners who mainly promote our product range under the Dechra brand names in their own livery, often alongside their own or other in-licensed products.

Turn the page to read about Our Products

Our Products

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

CAP

This is the basis upon which Dechra established its market position and continues to be our strongest sector, representing 62.3% of revenue. The majority of products in our portfolio are Prescription Only Medicines (POMs), prescribed, administered and dispensed by veterinarians working in companion animal practices. We also have a range of associated non-prescription products that complement the licensed pharmaceuticals, such as ear cleaners, dermatologically active shampoos and other topical and nutritional supplements.

Key therapeutic sectors:
Endocrinology, dermatology, analgesia and anaesthesia, cardiovascular and critical care.

Species:
Dogs and cats.

Market dynamics:
The principal driver of growth in companion animal markets is the pet owners' compassion for their animals. The market has historically been orientated around developed countries such as Western Europe, North America, Australia and Japan. However, with increasing wealth in several developing regions, the companion animal market is now also emerging. Expenditure on companion animals continues to grow due to increasing pet ownership, advances in nutrition, increased competence in complex conditions by veterinarians, preventative healthcare and wellness and by increasing availability of more specialist pharmaceuticals. Dechra has developed a strong position in providing specialist and clinically necessary novel products. We also supply a range of products which complement these products in key therapeutic sectors where we are seen as the company of choice by many veterinarians.

FAP

Dechra entered the FAP sector through the acquisition of Eurovet in 2012; it currently represents 13.2% of revenue. However, as over 60% of all global animal health sales are FAP, Dechra is underweight relative to the market and our competitors and it is an increasing area of focus, especially in our plans for geographical expansion. Our products are entirely POMs that are prescribed by veterinarians who work in either specialist veterinary practices or professional farming units.

Key therapeutic sectors:
Water soluble antibiotics, poultry vaccines, locomotion (lameness) and pain management.

Species:
Poultry, pigs and an increasing presence in cattle.

Market dynamics:
The key driver for growth in this sector is a huge increase in the global demand for high quality animal protein and dairy products. Vaccines are the biggest growth sector of the veterinary market and are anticipated to continue to outgrow therapeutic treatments. The majority of our sales are currently antibiotics which are sold mainly into Western Europe. Western Europe has been extremely proactive over the last five years in reducing antibiotic use due to concerns over antimicrobial resistance and 'super bugs'. Dechra's portfolio is positioned to match current best practice prescribing habits; additionally, our recent move into poultry vaccines should provide growth opportunities in future years as we seek global registrations.

Equine

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

Key therapeutic sectors:
Lameness and pain management.

Species:
Horses and ponies.

Market dynamics:
The horse is classed as a minor species as there are very few, even in major countries such as the US where current estimates are only eight million and the UK at approximately one million. Although there is a big overlap, the market can be divided roughly into high performance sports horses and leisure horses and ponies. The market is variable and can be linked to the economy; however, high value sports horses will be treated at almost any cost. Dechra has developed a strong position in lameness and pain management with unique products that have superior efficacy compared to historic treatments.

Nutrition and Diets (Nutrition)

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

Key therapeutic sectors:
Our pet diets are available to support the well being of animals with numerous therapeutic conditions. The ability to offer our wide range of products, branded *Specific*, is necessary to remain competitive in this sector.

Species:
Dogs and cats.

Market dynamics:
The global pet food market is huge and dwarfs the animal health pharmaceuticals market. The veterinary recommendation is respected by pet owners which allows them to take a small but significant part of this diet market. Dechra's focus is predominantly therapeutic diets which are not available for self-selection through supermarkets and require advice from the veterinarian. There are very few competitors in this specialist sector of the pet food market and although we compete with huge global multinational companies, we are able to differentiate our position through the use of higher quality ingredients and through innovation.

Dechra Values

Delivering Our Strategy

Since 2013, our priorities for each Strategic Growth Driver and Enabler have been clearly defined and communicated and are outlined in the table overleaf. In this section of the Annual Report we describe the progress we have made towards achieving our strategic objectives.

Generate long term value for shareholders

International specialist veterinary pharmaceuticals and related products business

Strategic Growth Drivers

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition

Strategic Enablers

- Manufacturing and Supply Chain
- Technology
- People

Dechra Values

- Dedication
- Enjoyment
- Courage
- Honesty
- Relationships
- Ambition

Read more on **Strategic Growth Drivers** on pages 32 to 39

Read more on **Strategic Enablers** on pages 40 to 43

Delivering Our Strategy
continued

Our Strategic Priorities	Our Progress in 2017
Pipeline Delivery We must deliver our pipeline on time, at the right costs and with the expected returns. It is also important that we refill the pipeline so that we get a constant flow of new products in future years.	• Signed Animal Ethics licensing agreement, and building pipeline of other in-licensing opportunities. • Vaccines development strategy defined and new opportunities identified. • Zagreb product development laboratory commissioned and operational. • Putney's Amoxi-Clav tablet development completed and other projects continuing. • A number of minor FAP market authorisations gained.
Portfolio Focus We are a specialist veterinary pharmaceuticals business focused on CAP, Equine, FAP and Nutrition. We look to maximise our revenue by focusing on clearly defined therapeutic sectors.	• Strong CAP and Equine growth continuing across the Group. FAP returned to growth. • Increased effective use of CRM tools in EU and NA. • Expanded sales force effectiveness training. • Unblocking of distribution channels for Putney products in the US has opened up market for enlarged NA business growth.
Geographical Expansion We have identified a number of markets that present both volume and profit opportunities in the medium to long term. Our entry strategies will vary depending on the local market dynamics.	• Several international product registrations achieved. • Established Dechra Veterinary Products International business. • Commenced appointment of the Dechra Veterinary Products International team.
Acquisition Our priority is to target strategic acquisitions that will expand our geographical footprint and/or enhance our product portfolio.	• Successful integration and operation of Genera, Brovel, Putney and Apex. • Acquisition of Apex, opening up new bridgehead into Australasia and South East Asia. • Acquisition of 33.0% of Medical Ethics Pty Ltd provides the Group with secure access to novel therapeutic areas/product development.
Strategic Enablers Our strategic enablers, Manufacturing and Supply Chain, People and Technology, support the execution of our strategy.	• Developed new Manufacturing and Supply Chain strategy. • Continued strengthening of Senior Executive Team with key appointments of Richard Cotton, Giles Coley, Anthony Lucas and Greig Rooney. • Ongoing progress in Oracle deployment. • IT user hardware standardised across the Group.

Future Priorities	Link to Strategy in Action
• Continue to identify innovative development opportunities. • Further develop Dechra laboratory network, including further FDA licensing. • Continue to develop Vaccines pipeline. • Explore and negotiate further in-licensing deals.	**Amoxi-Clav** See pages 32 and 33
• Deepen market penetration of existing products across all territories. • Enhance Nutrition and FAP sales growth. • Continue to drive marketing and sales force effectiveness.	**Our Key Therapeutic Areas** See pages 34 and 35
• Develop Dechra Veterinary Products International business. • Continue to leverage current registration portfolio in newer territories. • Increase international country registrations.	**Dechra Veterinary Products International** See pages 36 and 37
• Continue integration and leverage of recent acquisitions. • Acquire businesses in target geographical/therapeutic markets.	**Integration of Acquisitions** See pages 38 and 39
• Execute Manufacturing and Supply Chain remodelling strategy. • Develop and integrate procurement activities. • Continue to develop leadership effectiveness, and quality of talent. • Continue to develop Oracle ERP and other business systems.	**Manufacturing and Supply Chain** See page 40 for more on **Manufacturing and Supply Chain** **SET (Senior Executive Team)** See pages 42 and 43 for more on **People** **People – 20th Anniversary** See page 41 for more on **People - 20th Anniversary**

See our **Key Performance Indicators** on pages 30 and 31

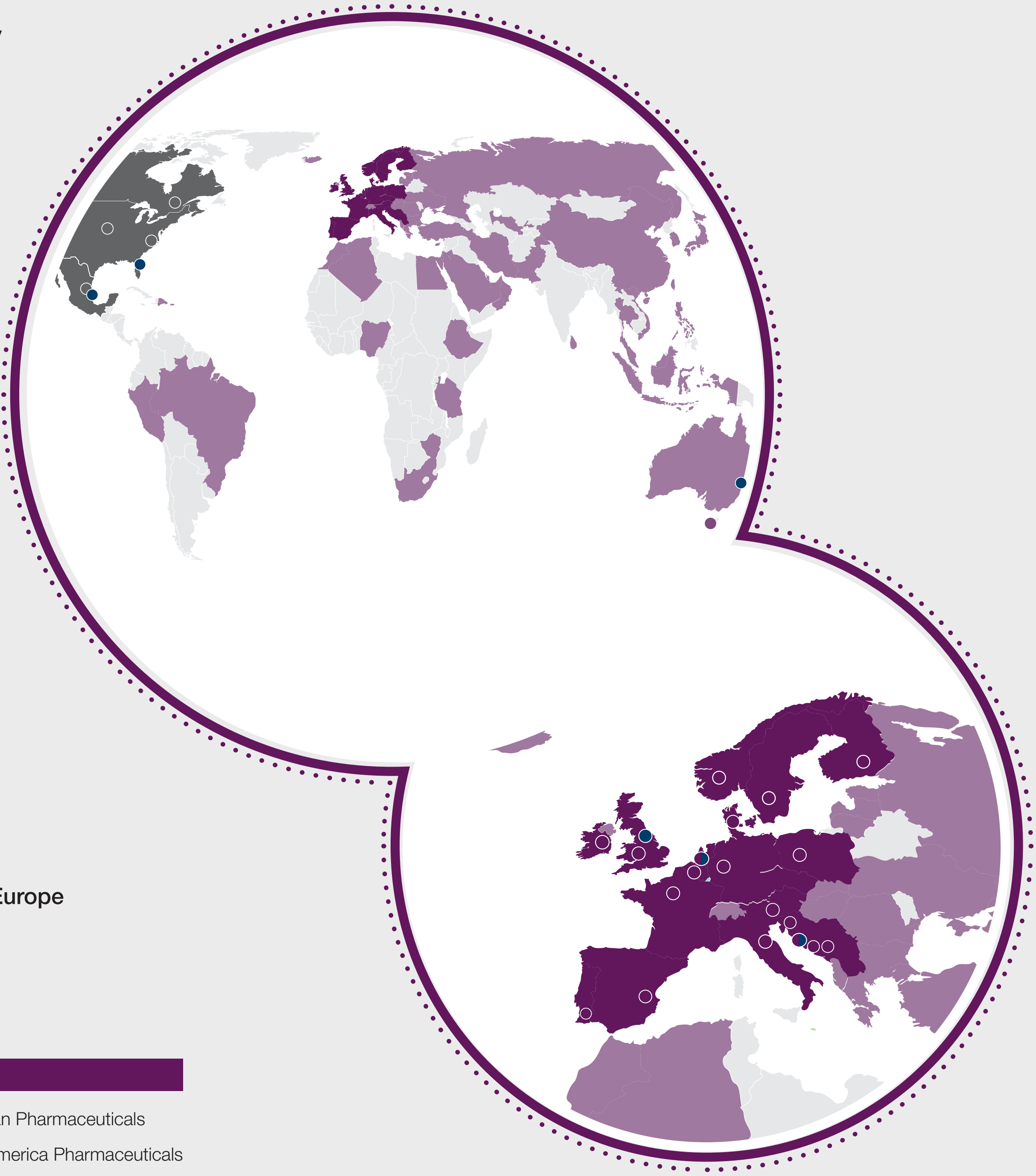
Read about **Understanding Our Key Risks** on pages 58 to 61

Geographical Footprint

We currently have our own sales and marketing organisations in 24 countries. We also market our products in over 50 countries worldwide through distributors and marketing partners.

Globally

Within Europe



Key

- European Pharmaceuticals
- North America Pharmaceuticals
- International
- Manufacturing

Non-Executive Chairman's and Chief Executive Officer's Statement

Tony Rice Non-Executive Chairman **Ian Page** Chief Executive Officer

> **As we complete our 20th year since the inception of the Company, we are pleased to report that the Group has delivered another strong financial performance.**
>
> **Ian Page**
> Chief Executive Officer

As we complete our 20th year since the inception of the Company, we are pleased to report that the Group has delivered another strong financial performance. This has been driven by growth from our existing portfolio, good market penetration from recent pipeline launches and the pleasing performance of the acquisitions made in the preceding financial year. This has resulted in strong cash generation and deleveraging of our balance sheet. Furthermore, we have completed two acquisitions within the 2017 financial year, the first of which extends our geographical footprint into Australia and New Zealand and the second is a minority stake together with the global marketing rights in a business that may transform our Food producing Animal Product (FAP) business in the long term through the development of a novel approach to farm animal pain relief.

Portfolio Focus

EU Pharmaceuticals Segment

During the 2017 financial year our EU Pharmaceuticals Segment increased its total reported revenues by 7.9% at constant exchange rates (CER). Our existing EU Pharmaceuticals business, excluding third party contract manufacturing and acquisitions, increased by 5.3%. Third party contract manufacturing revenues, which are reported under our EU Pharmaceuticals Segment, declined by 9.7% in the 2017 financial year. This was a conscious strategic move as we start to implement an efficiency improvement plan across our manufacturing sites (this is covered in more detail later in this Statement).

Our Companion Animal Product (CAP) sales were the predominant driver of revenue growth in our core EU business; FAP and Equine also delivered growth of 1.3% and 0.7% respectively. The UK, France and Germany, the three main contributors to EU revenues, performed well; we also delivered strong revenue growth in Italy and Poland. After a slow start to our recently formed subsidiary in Austria, performance is now reaching our expectations.

CAP revenue increased by 9.0% driven by a strong performance of *Zycortal*®, our novel endocrine product launched last year and also from established products such as *Cardisure*®, *Vetoryl* and our analgesia and anaesthesia range.

We are pleased to report our FAP portfolio has delivered its second successive year of growth, albeit modest. This performance is set against a historical decline in antibiotic sales due to concerns over antimicrobial resistance which is continuing in most markets. Despite this, we are beginning to see signs of a recovery in sales of our water soluble antibiotics. We believe that our *Solustab*® range is now well positioned to provide veterinarians with a robust portfolio of suitable options for prudent use of antibiotics in the treatment of the majority of infectious diseases in pigs and poultry. The first of the poultry vaccines developed for the EU, *Avishield*® ND, was launched in Germany, the Netherlands and Belgium. Although we do not yet have a full range to offer our customers, we were still able to gain a market share of approximately 15% due to the product's excellent efficacy and safety profile.

The Equine portfolio growth has predominantly been driven by *Osphos*®, although we believe that sales are a long way from reaching full potential and will continue to grow as veterinarians gain a better understanding of this unique treatment. Generic competition to *Equipalazone*®, a long standing product in our portfolio, partly offset the sales growth in this category.

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

The overall EU Pharmaceuticals Segment benefited from a full year's contribution from the acquisition of Genera, the Croatian business acquired in October 2015 and eight months' contribution from Apex, the Australian business acquisition completed in October 2016 (Dechra Veterinary Products International revenue, including Apex, are included in this Segment). Apex is performing well with the recently modernised factory achieving regulatory approval from the authorities in Australia in April 2017.

Glossary
Terms used within this section:

CAP: Companion Animal Products

FAP: Food producing Animal Products

CER: Constant Exchange Rate

EU Pharmaceuticals Segment: Dechra Veterinary Products EU, Dechra Veterinary Products International and Dechra Pharmaceuticals Manufacturing and Apex

North America Pharmaceuticals Segment: Dechra Veterinary Product US, and Canada, and Dechra Brovel

Non-Executive Chairman's and Chief Executive Officer's Statement
continued

7.9% revenue growth in the EU

93.7% revenue growth in NA

Sales to over 50 countries worldwide

Global registrations continue to be delivered

Excellent progress continues to be made on the integration of the Genera acquisition. Significant cost savings have been delivered from the workforce rationalisation and major improvements have been made in the solid dose and liquids manufacturing facilities, into which new products are being transferred to benefit from this low cost location. The primary reason for the acquisition was to access their range of poultry vaccines for broilers; the first of these has now been launched, the next five are in registration and progress is being made with a further four products.

North America Pharmaceuticals Segment
Total North American Segment revenues increased by 93.7%. Existing business sales increased by 16.5% with our US and Canadian businesses both performing well. The principal drivers of this growth are CAP and Equine products. All major products have delivered growth with excellent sales of *Zycortal*, *Vetivex* (a range of intravenous fluids for critical care) and *Osphos*.

A number of new products were launched during the 2017 financial year including Amoxi-Clav (the first major product approval from Putney since we acquired the business in April 2016), three new extensions to our *Vetivex* range, Carprovet flavoured tablets to increase our CAP pain management range and two topical dermatology products in a new mousse format.

Overall the Segment benefited from an exceptional performance by Putney. The integration has been implemented extremely well; significant cost savings have been delivered, new sales channels opened and sales synergies from the enlarged team have been delivered to both Putney and our existing product ranges.

The Mexican business, Brovel, acquired in January 2016 continues to focus on the registration of Dechra products; initial approvals have now been received. A new management team was appointed during the 2016 financial year and there has been a notable improvement in performance.

Product Pipeline

Integrated Team
We have invested in and commissioned a new development laboratory in Genera, Croatia. We have also implemented a new management structure to monitor and control all global pipeline activities, and have successfully integrated the pipeline activities and team members from all our recent acquisitions.

Pipeline Delivery
The most significant approval, as announced on 9 September 2016, was for a generic antibiotic tablet, Amoxi-Clav. There have been numerous other global registrations, the most significant of which are:

- *Revozyn*®, a cattle antibiotic for mastitis, in the Netherlands, UK and Germany with applications having been made for a further ten European markets;
- *Cyclospray*® aerosol and *Vetoryl* 5mg in Canada;
- *Cardisure*, *Zycortal*, *Osphos*, Doxy paste and Benazapril oral solution in Australia;
- *Osphos* in Mexico;
- *Isathal*® and *Canaural* in Korea;
- *Domidine*®, *Atipam*® and *Sedator*® in Thailand and South Africa; and
- *Altidox*®, a water soluble antibiotic, in 13 EU territories.

Filling the Pipeline
Our pipeline has been significantly enhanced by recent acquisitions and remains strong. As the Company increases in scale, we recognise that the pipeline needs to increase commensurately, and are therefore constantly reviewing new technologies and developing relationships to introduce new products into the programme. Within the year we have signed three agreements to conduct Proof of Concept studies on new, innovative and potentially material pharmaceuticals for the veterinary market. We also continue to look at opportunities to secure products from other companies and have, in the 2017 financial year, licensed in a range of CAP generic tablets from a key partner for Europe, a dental and a dermatological product from Kane Biotech Inc. for the US and Canada and a dermatological product from Premune for the EU.

Acquisitions

On 14 October 2016, we completed the acquisition of the trade and assets of Apex Laboratories Pty Ltd (Apex), based in Somersby near Sydney, Australia for AUD$55.0 million (£34.2 million). The acquisition, which is expected to be earnings enhancing in the first 12 months of ownership, manufactures, markets and sells branded non-proprietary prescription and other related CAP in Australia and New Zealand. Prior to the acquisition it had revenues for the year ended 30 June 2016 of AUD$14.8 million (£8.4 million) and operating profit of AUD$5.2 million (£3.0 million). The principal reason for the acquisition was to provide Dechra with direct access to the established and growing Australian CAP and Equine markets, in which Dechra currently operates through partners.

On 31 March 2017, we acquired a 33.0% stake in, Medical Ethics Pty Ltd, the parent company of Animal Ethics Pty Ltd (Animal Ethics) for a total consideration of AUD$18.0 million (£11.0 million). Separately, we also announced that we had entered into a long term Intellectual Property Licensing Agreement with Animal Ethics who are an Australian based company focused on developing ethical pain relief products for animal health. This agreement gives Dechra the rights to sell and market Animal Ethics' patented product Tri-Solfen for all animal species in all international markets, excluding Australia and New Zealand. Tri-Solfen is a topical product that is sprayed onto wounds which simultaneously anaesthetises, relieves pain, controls bleeding and protects against infection for routine treatments in farm animals such as castration, tail docking, de-budding and de-horning. There is increasing pressure from retailers, animal welfare and consumer groups to improve the ethical treatment of animals. We believe that Dechra's access to Tri-Solfen will provide us with a unique position to increase our presence in FAP markets globally.

Geographical Expansion

Sales in territories outside of Western Europe and our North American Pharmaceuticals Segment are categorised as International and these are reported under our EU Pharmaceuticals Segment; they currently represent 8.6% of total Group sales.

Towards the end of the financial year we established a new business unit, Dechra Veterinary Products International, led by Giles Coley, a long standing senior executive within Dechra, to focus on increasing our international presence. Historically, international sales have not been an area of strategic focus and we are therefore underweight relative to our competitors and the global market. By increasing focus and strategic priority, we believe we can deliver material growth in future years.

Currently, sales outside our core markets are predominantly FAP based. We believe our high quality products, mainly in pig and poultry, will provide us an entry opportunity into markets where quality meat consumption is increasing strongly. In the longer term we are targeting companion animal markets which are beginning to gain growth momentum in several developing countries; we are starting to register products to benefit from this global growth in pet ownership.

As part of the new business unit, we have created a regulatory team to focus on international registrations and are looking to appoint business development managers in key geographies to support our existing distributors and to establish new markets.

Strategic Enablers

Manufacturing

We have commenced the implementation of a strategic five year plan that will create centres of excellence for different dosage forms in our major manufacturing sites and which will lead to significant gains in efficiency throughout the period of the plan.

As part of this project we are reducing third party manufacturing contracts. This was historically important business to utilise capacity in our factories; however, the significantly increased scale of our own production is now being hindered by a number of these smaller, low margin contracts. We will therefore be exiting most of these contracts over the next five years, only retaining a few significant, high volume partnerships.

Following our recent acquisitions, in-sourced production accounts for approximately 50% of all product sales. Our Manufacturing and Supply Chain team have identified opportunities to reduce the complexity of our supplier network by working with preferred partners and bringing more of the currently outsourced production in-house.

Technology

We continue to focus on the implementation of the Oracle DVP EU ERP solution which we announced at the Half Yearly results had fallen behind schedule. We believe that excellent progress has now been made and we are confident that a go live can be implemented prior to the end of the 2018 financial year.

Several of other IT developments have been progressed in the year:

- Implementation of the Hyperion Financial Management Group consolidation solution is expected to be completed on plan by the end of the 2017 calendar year;
- A new intranet has been developed to enhance Group internal communications;
- A new platform is in place to host the Dechra Academy providing greater flexibility and functionality;
- The roll out of the Group HR Cloud system is continuing; and
- A new Customer Relationship Management tool has been implemented for our US operations.

People

As previously reported there have been three Board appointments in the year. We are delighted that the Board has been strengthened by the appointment of Tony Rice, who took over the role of Chairman, from Michael Redmond, at our Annual General Meeting on 21 October 2016, following a six month introduction to the Company as a Non-Executive Director. An additional Non-Executive Director, Lawson Macartney, joined the Board with effect from 1 December 2016 to strengthen veterinary, technical and pharmaceutical knowledge on the Board. Richard Cotton also joined the Board in January 2017 as Chief Financial Officer.

On behalf of the Board we would like to thank all employees for their hard work, dedication and innovation throughout the year. Our people are a key asset to the business; we consistently look to invest, to strengthen, educate and motivate our team.

Read more about **Manufacturing and Supply Chain case study** on page 40

Read more about **Board of Directors** on pages 64 and 65

Non-Executive Chairman's and Chief Executive Officer's Statement
continued

Approval in 13 European markets for Altidox

Progress made in our strategic growth drivers

Strong growth in key territories

Final dividend proposal of 15.33p

Dividend
The Board is proposing a final dividend of 15.33 pence per share (2016: 12.91 pence per share). Added to the interim dividend of 6.11 pence per share, this brings the total dividend for the financial year ended 30 June 2017 to 21.44 pence per share, representing 16.1% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 20 October 2017, the final dividend will be paid on 17 November 2017 to shareholders on the Register at 27 October 2017. The shares will become ex-dividend on 26 October 2017.

Outlook
As outlined in this statement the core business and acquisitions are performing well. The enlarged Group continues to outperform the majority of markets in which we trade and we continue to identify new growth opportunities and operational efficiencies.

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

Tony Rice
Non-Executive Chairman
4 September 2017

Ian Page
Chief Executive Officer
4 September 2017

Read the **Financial Review** on pages 21 to 27

Read **Delivering Our Strategy** on pages 13 to 15

Financial Review

Richard Cotton Chief Financial Officer

> **Dechra has delivered a strong set of financial results, with underlying EPS growth of 35.1% (at CER). This reflects excellent cash conversion performance of 115.9%, and a strengthening balance sheet, with leverage down from 2.0 to 1.4 times EBITDA, whilst continuing to invest.**
>
> **Richard Cotton**
> Chief Financial Officer

Overview of Reported Financial Results

To assist with understanding our reported financial results, the consolidated results below are split between existing business and acquisition; acquisition includes those businesses acquired in the current and prior year. Additionally, the table below shows the growth at reported actual exchange rates (AER), and constant exchange rates (CER) to identify the impact of foreign exchange movements. The acquisitions loss is stated after certain non-underlying items. Non-underlying items comprise amortisation of acquired intangibles and impairment of acquired intangibles, impairment of investments, acquisition expenses, fair value uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration.

Including non-underlying items, the Group's profit before tax increased by 66.2% at CER (97.2% at AER). Dechra's existing business grew by 29.0% at CER (57.2% at AER), with reported profit before tax of £43.4 million.

	2017	2017	2017		*Growth at AER*		***Growth at CER***	
As Reported	**Existing £m**	**Acquisition £m**	**Consolidated £m**	2016 £m	*Existing %*	*Consolidated %*	***Existing %***	***Consolidated %***
Revenue	**269.6**	**89.7**	**359.3**	247.6	*19.3%*	*45.1%*	***6.5%***	***28.3%***
Gross profit	**159.2**	**32.5**	**191.7**	132.4	*22.6%*	*44.8%*	***10.5%***	***29.8%***
Gross profit %	***59.1%***	***36.2%***	***53.4%***	*53.5%*	*160bps*	*(10bps)*	***220bps***	***60bps***
Operating profit/ (loss)	**43.3**	**(10.1)**	**33.2**	19.5	*47.3%*	*70.3%*	***21.4%***	***42.6%***
EBIT %	***16.1%***	***(11.3%)***	***9.2%***	*7.9%*	*310bps*	*130bps*	***180bps***	***90bps***
Profit/(loss) before tax	**43.4**	**(14.8)**	**28.6**	14.5	*57.2%*	*97.2%*	***29.0%***	***66.2%***
Diluted EPS (p)	**—**	**—**	**27.93**	13.90	*—*	*100.9%*	***—***	***69.1%***

Glossary
Terms used within this section:

IFRSs: International Financial Reporting Standards as adopted by the EU

CER: Constant Exchange Rates

AER: Actual Exchange Rates

CAP: Companion Animal Products

FAP: Food producing Animal Products

bps: basis points

Financial Review
continued

Overview of Underlying Financial Results

When presenting our financial results, we use a number of adjusted measures which are considered by the Board and management in reporting, planning and decision making. Underlying results reflect the Group's trading performance excluding non-underlying items, as defined above. A reconciliation of underlying results to reported results in the year to 30 June 2017 is provided in the table below. In the commentary which follows, all references will be to CER unless otherwise stated.

		Non-underlying Items				
	2017 Underlying Results £m	Non-cash uplift on acquired inventory £m	Amortisation and related costs of acquired intangibles £m	Acquisition, impairments and restructuring costs £m	Finance expenses £m	**2017 Reported Results £m**
Revenue	**359.3**	—	—	—	—	**359.3**
Gross profit	**195.9**	(4.2)	—	—	—	**191.7**
Selling, general and administrative expenses	**(99.6)**	—	(29.0)	(3.5)	—	**(132.1)**
R&D expenses	**(15.0)**	—	(11.4)	—	—	**(26.4)**
Operating profit	**81.3**	(4.2)	(40.4)	(3.5)	—	**33.2**
Net finance costs	**(4.2)**	—	—	—	(0.2)	**(4.4)**
Share of associate loss	**(0.1)**	—	—	(0.1)	—	**(0.2)**
Profit before tax	**77.0**	(4.2)	(40.4)	(3.6)	(0.2)	**28.6**
Taxation	**(16.9)**	1.5	12.6	0.2	0.1	**(2.5)**
Profit after tax	**60.1**	(2.7)	(27.8)	(3.4)	(0.1)	**26.1**
Diluted EPS (p)	**64.33**	—	—	—	—	**27.93**

In the year, Dechra delivered consolidated revenue of £359.3 million, representing an increase of 28.3% on the prior year. This included £269.6 million from its existing business, an increase of 6.5%, and a £89.7 million contribution from acquisition business.

Consolidated underlying operating profit of £81.3 million, represents a 36.9% increase on the prior year. This included £64.0 million from Dechra's existing business, an increase of 11.8%, and a £17.3 million contribution from acquisition business.

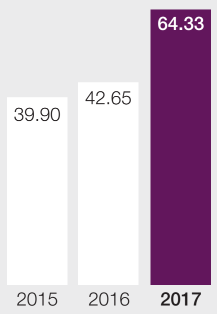
Underlying EBIT margin increased by 140bps to 22.6%, with the dilution from the lower gross margin revenues acquired being offset significantly by the operating leverage from revenue growth.

Underlying EPS grew by 35.1% to 64.33p reflecting the growth from the existing and acquired businesses, increased finance charges from the increase in debt to fund the acquisitions, and the change in mix of the applicable tax rates.

					Growth at AER		***Growth at CER***	
Underlying	**2017 Existing £m**	**2017 Acquisition £m**	**2017 Consolidated £m**	2016 £m	Existing %	Consolidated %	***Existing %***	***Consolidated %***
Revenue	**269.6**	**89.7**	**359.3**	247.6	19.3%	45.1%	***6.5%***	***28.3%***
Gross profit	**159.2**	**36.7**	**195.9**	138.5	22.6%	41.4%	***10.5%***	***26.4%***
Gross profit %	***59.1%***	***40.9%***	***54.5%***	*55.9%*	160bps	(140bps)	***220bps***	***(80bps)***
Underlying Operating profit	**64.0**	**17.3**	**81.3**	52.9	24.0%	53.7%	***11.8%***	***36.9%***
Underlying EBIT %	***23.7%***	***19.3%***	***22.6%***	21.4%	90bps	120bps	***120bps***	***140bps***
Underlying EBITDA	**69.3**	**18.9**	**88.2**	58.0	23.5%	52.1%	***11.6%***	***35.5%***
Underlying Diluted EPS (p)	**—**	**—**	**64.33**	42.65	—	50.8%	**—**	***35.1%***
Dividend per share	**—**	**—**	**21.44**	18.46	—	16.1%	**—**	***16.1%***

Underlying Diluted
Earnings per Share

64.33p



Reported Segmental Performance

Reported segmental performance is presented in note 2 on pages 128 and 129. The effect of acquisitions made in the year and prior year was significant, as was the effect of foreign exchange movements. The reported segmental performance is analysed between existing and acquisition businesses, and at AER and CER in the table below. The acquisition elements capture both the additional base business coming into the Group, the growth we generated in them in the year, as well as the synergies we have realised for the Group. This analysis becomes less definitive the further in time from the completion of the acquisition, as the acquisition business is integrated with the existing business.

					Growth at AER		***Growth at CER***	
Reported	**2017 Existing £m**	**2017 Acquisition £m**	**2017 Consolidated £m**	2016 £m	Existing %	Consolidated %	***Existing %***	***Consolidated %***
Revenue by segment								
EU Pharmaceuticals	**200.3**	**26.6**	**226.9**	188.9	14.4%	20.1%	***3.6%***	***7.9%***
NA Pharmaceuticals	**69.3**	**63.1**	**132.4**	58.7	36.4%	125.6%	***16.5%***	***93.7%***
Total	**269.6**	**89.7**	**359.3**	247.6	19.3%	45.1%	***6.5%***	***28.3%***
Operating profit/(loss) by segment								
EU Pharmaceuticals	**56.0**	**4.7**	**60.7**	51.7	11.1%	17.4%	***5.0%***	***9.9%***
NA Pharmaceuticals	**24.5**	**18.7**	**43.2**	17.5	54.1%	146.9%	***31.4%***	***110.9%***
Pharmaceuticals Research and Development	**(8.9)**	**(6.1)**	**(15.0)**	(10.4)	(1.1%)	(44.2%)	***3.4%***	***(31.7%)***
Segment operating profit	**71.6**	**17.3**	**88.9**	58.8	24.5%	51.2%	***13.6%***	***36.1%***
Corporate and unallocated costs	**(7.6)**	**—**	**(7.6)**	(5.9)	(28.8%)	(28.8%)	***(28.8%)***	***(28.8%)***
Underlying operating profit	**64.0**	**17.3**	**81.3**	52.9	24.0%	53.7%	***11.8%***	***36.9%***
Non-underlying operating items	**(20.7)**	**(27.4)**	**(48.1)**	(33.4)	—	—	***—***	***—***
Reported operating profit	**43.3**	**(10.1)**	**33.2**	19.5	47.3%	70.3%	***21.4%***	***42.6%***

Underlying Segmental Performance

European Pharmaceuticals

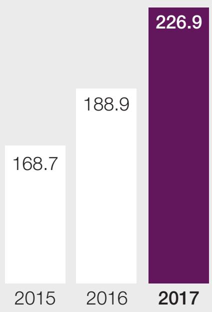
Revenue in European Pharmaceuticals grew by 7.9%. The existing business grew by 3.6%: excluding third party contract manufacturing, which is being reduced in line with our strategy and replaced with own product manufacturing, revenues increased by 5.3%. This growth was driven mainly by the strong contribution from market penetration and new product launches in the core CAP business, and the sustained growth of FAP despite the ongoing pressure to reduce antibiotic prescriptions. The acquisitions of Genera (acquired in October 2015) and Apex (Dechra Veterinary Products International business reported within European Pharmaceuticals, acquired in October 2016) contributed a combined £26.6 million to revenue.

EBIT from existing business grew 5.0%, with operating margin expanding to 28.0% and consolidated operating margin increasing slightly to 26.8% as a result of operating leverage.

					Growth at AER		***Growth at CER***	
Underlying	**2017 Existing £m**	**2017 Acquisition £m**	**2017 Consolidated £m**	2016 £m	Existing %	Consolidated %	***Existing %***	***Consolidated %***
Revenue	**200.3**	**26.6**	**226.9**	188.9	14.4%	20.1%	***3.6%***	***7.9%***
EBITDA	**59.0**	**6.0**	**65.0**	55.0	11.1%	18.2%	***4.9%***	***10.4%***
EBITDA %	***29.5%***	***22.6%***	**28.6%**	29.1%	(80bps)	(50bps)	***40bps***	***70bps***
EBIT	**56.0**	**4.7**	**60.7**	51.7	11.1%	17.4%	***5.0%***	***9.9%***
EBIT %	***28.0%***	***17.7%***	**26.8%**	27.4%	(80bps)	(60bps)	***40bps***	***50bps***

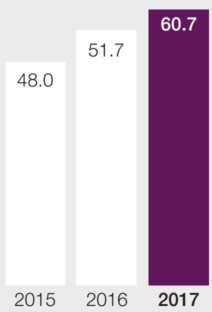
European Pharmaceuticals Revenue

£226.9m



European Pharmaceuticals Operating Profit

£60.7m



Financial Review
continued

North American Pharmaceuticals

Revenue from North American Pharmaceuticals grew by £55.0 million or 93.7%. The existing business grew by 16.5% to £69.3 million from market penetration from existing CAP and Equine products. The acquisitions of Brovel (acquired January 2016) and Putney (acquired April 2016) contributed £63.1 million, almost doubling the size of North American Pharmaceuticals. Putney delivered a particularly strong performance, benefiting from the sales and marketing efforts of the enlarged Dechra team. Brovel in Mexico also delivered good growth.

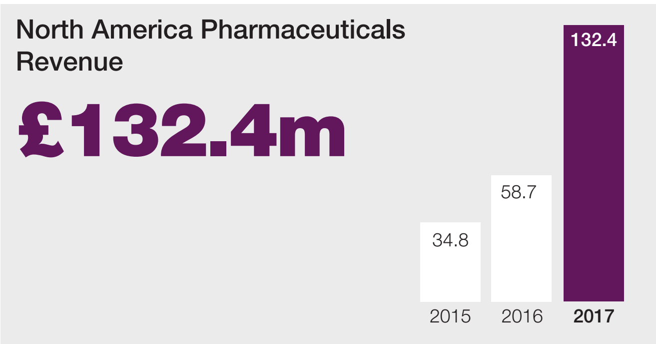
EBIT from the existing business grew by 31.4% with strong operating leverage from the additional volume, moving the EBIT margin on existing business to 35.4%. Including the acquisitions, EBIT increased from £17.5 million to £43.2 million, with EBIT margin expanding from 29.8% to 32.6%, with the operating leverage more than offsetting the dilutive gross margin from Putney sales.

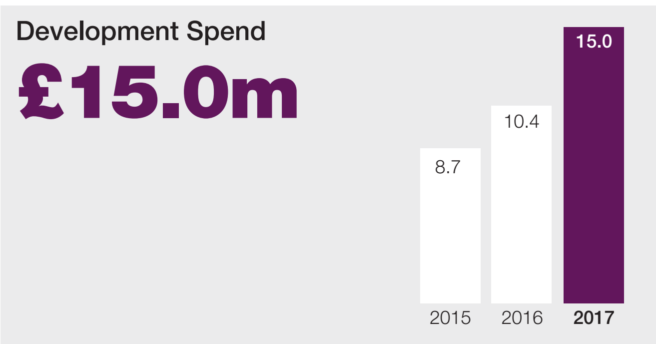
					Growth at AER		***Growth at CER***	
Underlying	**2017 Existing £m**	**2017 Acquisition £m**	**2017 Consolidated £m**	2016 £m	Existing %	Consolidated %	***Existing %***	***Consolidated %***
Revenue	**69.3**	**63.1**	**132.4**	58.7	36.4%	125.6%	***16.5%***	***93.7%***
EBITDA	**24.6**	**19.0**	**43.6**	17.6	53.8%	147.7%	***31.3%***	***111.4%***
EBITDA %	**35.5%**	**30.1%**	**32.9%**	30.0%	400bps	290bps	***400bps***	***270bps***
EBIT	**24.5**	**18.7**	**43.2**	17.5	54.1%	146.9%	***31.4%***	***110.9%***
EBIT %	**35.4%**	**29.6%**	**32.6%**	29.8%	410bps	280bps	***400bps***	***270bps***

Pharmaceuticals Research and Development

Pharmaceuticals Research and Development (R&D) expenses increased by 44.2% at AER from £10.4 million to £15.0 million, with existing business research and development decreased slightly by 3.4%. R&D activities of the Genera, Brovel, Putney and Apex businesses added £6.1 million. Overall R&D expenses as a percentage of sales were unchanged at 4.2%: it is the Group's strategy to grow its investment in R&D both organically and by acquisition; the Board expects R&D expenses as a percentage of sales to grow in the coming years as it expands the product pipeline.

					Growth at AER		***Growth at CER***	
	2017 Existing £m	**2017 Acquisition £m**	**2017 Consolidated £m**	2016 £m	Existing %	Consolidated %	***Existing %***	***Consolidated %***
R&D expenses	**(8.9)**	**(6.1)**	**(15.0)**	(10.4)	(1.1%)	(44.2%)	***3.4%***	***(31.7%)***
% of Sales	**3.3%**	**6.8%**	**4.2%**	4.2%				





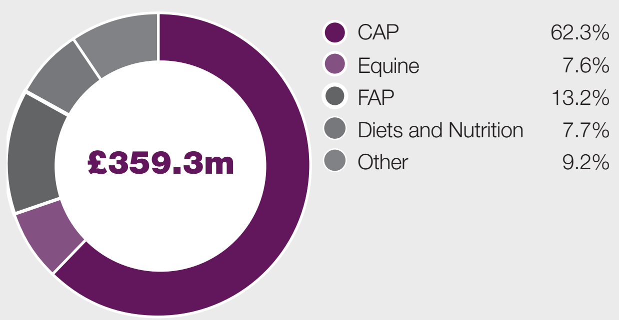
Revenue by Product Category

CAP revenue continues to be the largest proportion of Dechra's business at 62.3%, up from 55.6% in the prior year. CAP grew 42.8% in the year from market penetration, product launches and the addition of the Putney sales. Equine revenue grew 19.5% in the year, with very strong growth in the existing North American Pharmaceuticals business. FAP revenue grew for a second successive year, at 8.9% growth over the prior year, despite ongoing pressure on veterinarians to reduce antibiotic prescriptions.

Nutrition and Diets revenue was 1.2% down on the prior year, though progress has been made in the resolution of the supply and palatability issues. Other revenue grew 14.5% to £33.5 million, the growth all coming from non-core business from the acquisitions; Other revenue also includes a 9.7% reduction in third party contract manufacturing, which is being progressively exited in line with our manufacturing strategy, to improve the production efficiency of Dechra's own products.

	2017 £m	2016 £m	% Change at AER	***% Change at CER***
CAP	**223.8**	137.7	62.5%	***42.8%***
Equine	**27.2**	20.5	32.7%	***19.5%***
FAP	**47.3**	38.1	24.1%	***8.9%***
Subtotal Pharmaceuticals	**298.3**	196.3	52.0%	***33.8%***
Nutrition and Diets	**27.5**	24.4	12.7%	***(1.2%)***
Other	**33.5**	26.9	24.5%	***14.5%***
Total	**359.3**	247.6	45.1%	***28.3%***

Revenue by Product Category (at AER)



Underlying Gross Profit

Gross margin for the existing business increased by 220bps to 59.1%. This reflects changing product mix.

The acquisition business gross margin was 40.9%: this reflects the weighting of the acquired Putney business in particular, where margin is lower due to long term manufacturing partnerships.

Consolidated gross margin was 54.5%, down 80bps on the prior year reflecting the margin dilution from acquisitions.

Underlying Selling, General and Administrative Expenses (SG&A)

SG&A costs at AER grew from £75.3 million in the prior year to £99.6 million in the current year, a growth of 18.3%. This represents growth from both acquisitions and the existing business, and infrastructure cost added to manage the acquisitions. Within this Corporate and unallocated costs grew by 28.8% to £7.6 million.

A large proportion of this increase relates to system improvement projects, full year effect of central infrastructure changes and a significant increase in employment taxes on share based incentive schemes arising from the share price growth across the year from 1172p on 30 June 2016 to 1700p on 30 June 2017.

Most significantly, SG&A as a percentage of revenue declined in the year from 30.4% in 2016 to 27.7% in 2017, as the revenue growth in the business generated operating leverage from the cost base.

Non-underlying Items

Non-underlying items incurred in the year relate to the following:

- Non-cash inventory adjustment of £4.2 million – The non-cash inventory adjustment which increases the value of acquisition inventory sold by £4.2 million relates to the acquisition of Apex (October 2016) and Putney (April 2016). It is the result of the fair value exercise carried out in accordance with IFRS 3 'Business combinations' on acquisition.
- Amortisation and related costs of acquired intangibles of £40.4 million – This includes the amortisation of the acquired intangibles, and has grown significantly in the year from £20.1 million to £40.4 million following the four acquisitions in the current and prior year.
- Acquisitions, impairments and restructuring costs of £3.6 million – This includes the transaction costs associated with the acquisition of Apex, and of the minority share of Medical Ethics Pty Ltd (Medical Ethics) and the impairment of the investment in Jaguar Animal Health Inc.
- Finance Expenses of £0.2 million – This represents the unwinding of the present value discounts relating to deferred consideration due and associated foreign exchange.

Taxation

The reported effective tax rate (ETR) for the year is 8.6% (2016: 14.0%); this includes both the underlying and non-underlying business. On an underlying basis the ETR is 21.9% (2016: 22.7%): the main differences to the UK corporation tax rate applicable of 19.75% (2016: 20.0%) relate to patent box allowances, and differences in overseas tax rates, the latter impacted in particular by the extent of growth in North American Pharmaceuticals.

The underlying ETR is expected to increase towards 24% in the coming year as the proportion of overseas profits attributable to higher tax jurisdictions than the UK increases.

Earnings per Share and Dividend

Underlying diluted EPS for the year was 64.33 pence, a 35.1% growth on the prior year. The 36.9% increase in operating profit partially offset by the 7.7% increase in interest costs and 35.2% increase in the tax charge were the main drivers of the increase on a weighted average number of shares of 93.5 million (2016: 90.0 million).

The reported diluted EPS for the year was 27.93 pence (2016: 13.90 pence).

The Board is proposing a final dividend of 15.33 pence per share (2016: 12.91 pence), added to the interim dividend of 6.11 pence, the total dividend per share for the year ended 30 June 2017 to 21.44 pence. This represents 16.1% growth over the prior year. Dividend cover based on underlying diluted EPS is 3 times (2016: 2.3 times). The Board continues to operate a progressive dividend policy recognising investment opportunities as they arise.

Currency Exposure

Following the Brexit referendum in June 2016, the £/€ and £/$ exchange rates weakened materially. This exchange rate weakening was barely reflected in the average rate for the 2016 financial year, instead materialising in the 2017 financial year. The average rate for £/€ has declined by 13.0%, and the £/$ rate by 14.4% in the period. This has had a significant effect in the Consolidated Income Statement and Statement of Financial Position, which is analysed in the above paragraphs of this review between performance at AER and CER. CER analysis compares the performance of the business on a comparable basis.

		Average rates	
	2017	2016	% Change
£/€	**1.1681**	1.3432	(13.0%)
£/$	**1.2735**	1.4870	(14.4%)

Currency Sensitivity

Euro €: a 1% variation in the £/€ exchange rate affects underlying diluted EPS by approximately +/- 0.79%.

US Dollar $: a 1% variation in the £/$ exchange rate affects underlying diluted EPS by approximately +/- 0.54%.

Current exchange rates are £/€ 1.08 and £/$ 1.29 as at 30 August 2017. If these rates had applied throughout the period, the underlying diluted EPS would have been approximately 5.4% higher.

Currency Risk

During 2017, we have been exposed to transactional and translational currency risk. In addition to the one-off transactional gain of £0.6 million being recognised in the Consolidated Income Statement, £12.9 million foreign exchange gain translational impact was recognised in the Consolidated Statement of Comprehensive Income in 2017.

As part of our acquisition strategy, we seek to balance the foreign exchange debt and related interest payable risk associated with non-Sterling acquisitions with the underlying related income and assets in foreign currencies. As we move forward and our business continues to be more diversified, our exposure to currency volatility, in particular in terms of the Euro and the US Dollar, is expected to become more balanced.

Statement of Financial Position

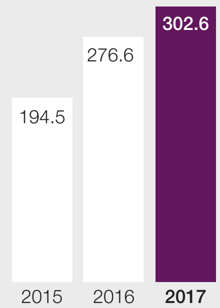
The Statement of Financial Position is summarised in the table below.

- Non-current assets increased to £452.3 million mainly due to the acquisition of Apex (£28.7 million), a 33.0% share of Medical Ethics (£11.0 million) and acquired intangibles for Animal Ethics (£30.1 million).
- Net Debt has increased in the year by £3.4 million to £120.0 million; this is after an increase in Net Debt of £25.0 million to fund the acquisition of Apex, and an increase in Net Debt of £11.0 million to fund the acquisition of the 33.0% share of Medical Ethics. Exchange rate variations adversely affected the Net Debt position by £6.0 million.
- Other liabilities increased to £41.9 million mainly due to contingent consideration of £27.9 million for Animal Ethics.

	2017 £m	2016 £m
Total non-current assets	**452.3**	393.0
Working capital	**63.2**	63.3
Net debt	**(120.0)**	(116.6)
Corporate and deferred tax	**(51.0)**	(52.4)
Other liabilities	**(41.9)**	(10.7)
Total net assets	**302.6**	276.6

Net Assets

£302.6m



Cash Flow, Financing and Liquidity

The Group enjoyed strong cash generation during the year. With the EBITDA margin strengthening from 23.4% to 24.5%, and working capital shrinking by £6.9 million, net cash generated from operations before non-underlying items increased to £98.0 million, representing cash conversion of 115.9%.

	2017 £m	2016 £m
Underlying operating profit	**81.3**	52.9
Depreciation and amortisation	**6.9**	5.1
EBITDA	**88.2**	58.0
EBITDA %	***24.5%***	*23.4%*
Working capital movement	**6.9**	(1.6)
Other	**2.9**	4.7
Net cash generated from operations before non-underlying items	**98.0**	61.1
Non-underlying items	**(3.7)**	(4.6)
Net cash generated from operations	**94.3**	56.5
Cash conversion (%)	**115.9%**	106.8%

Net Debt Bridge

Other notable cash items are listed below in the Net Debt reconciliation table:

- Capital expenditure on tangible and intangible assets increased to £10.7 million (2016: £7.5 million) due to the full year effect of the acquisitions and increased investments representing 1.5 times depreciation and amortisation.

- Foreign exchange rate differences generated an adverse movement in Net Debt of £6.0 million due to the 6.0% weakening of Sterling verses the Euro, and the 3.4% weakening of Sterling verses the US Dollar.

	£m
Net Debt 30 June 2016	**(116.6)**
Net cash generated from operations before non-underlying items	98.0
Non-underlying items	(3.7)
Capital expenditure	(10.7)
Acquisition of subsidiaries, associates and minority interests	(46.6)
Expenses on new borrowings	(0.1)
Interest and tax	(16.9)
Net equity issued	0.3
Dividend paid	(17.7)
Foreign exchange on cash and borrowings	(6.0)
Net Debt 30 June 2017	**(120.0)**
Net Debt: underlying EBITDA ratio	***1.4***

- With the strong cash generation from operations of £98.0 million resulting in a Net Debt / underlying EBITDA leverage ratio of 1.4 times (2016: 2.0 times).

Borrowing Facilities

On 25 July 2017, the Group signed a new Credit agreement, refinancing its previous £205.0 million Revolving Credit Facility (RCF). The new committed facilities are a new five year multi-currency RCF with two one year extension options for £235.0 million, through seven banks: Bank of Ireland, BNP Paribas, Fifth Third, HSBC, Lloyds, Raiffeisen and Santander. The RCF has an Accordion facility of a further £125.0 million.

There are two covenants governing the RCF:

- Leverage: Net Debt to underlying EBITDA not greater than 3:1 (30 June 2017: 1.4) compared to the previous covenant of 2.5:1; and
- Interest Cover: underlying EBITDA to Net Finance Charges not less than 4:1, unchanged from the previous facility (30 June 2017: 21.2).

There is a non-utilisation fee of 35.0% of the applicable margin. The margin over LIBOR (or equivalent) ranges from 1.3% for leverage below 1.0 times, up to 2.2% for leverage above 2.5 times.

The new facility provides the Group with flexible competitively priced facilities to finance its working capital, investment and future acquisition needs.

Return on Capital Employed (ROCE)

In 2016, ROCE declined to 16.1% (2015: 20.0%) mainly due to the increase in assets towards the end of the year following the acquisition of Putney. In 2017, ROCE grew to 17.7% (2016: 16.1%) as the returns from the 2016 acquisitions (in particular Putney) were manifest in the Group's results.

Acquisitions

The Group has made several acquisitions in recent years. Performance of the acquisitions made during the 2016 and 2017 financial years is separately summarised compared to the existing business in the sections above.

In October 2016, the Group acquired the trade and assets of Apex Laboratories Pty Ltd in Australia. The business has been successfully integrated into the Group, and is performing in line with management expectations. This, together with the other recent acquisitions of Genera, Brovel and Putney, has been accounted for on a consolidated basis.

The acquisition of Putney was funded using cash and equity raised from new share issuance: the performance of Putney has exceeded the financial performance thresholds expected by the Company in the period. The integration of Genera and Brovel has also been successful.

In addition the Group acquired 33.0% of the share capital of Medical Ethics. Medical Ethics is the owner of Animal Ethics Pty Ltd with whom the Group signed a product licensing agreement for Tri-Solfen in March 2017.

Brexit Risks

The decision by the UK to leave the European Union has created uncertainty and volatility in markets. Whilst many decisions will be needed to establish how the new trading environment will operate, we do not anticipate changes to our business model in the near to medium term.

We have established a cross-functional project team to assess and monitor the situation, and determine if and when actions are needed. Our current view on the possible changes is:

- in terms of manufacturing and product registration, Dechra is accustomed to trading with multiple countries and different rules and legislation;
- despite the possible additional administrative burden, our distribution model can adapt to changes in tariffs and duties;
- our business is naturally hedged and diversified, which helps in a period of exchange rate volatility;
- material contracts can be renegotiated over time as needed;
- we will monitor the impact on workforce and global mobility to ensure we maintain an effective system for planning people resources; and
- our geographical expansion over the last few years should help support our growth should the European economy slow down substantially.

Summary

We have delivered a strong set of financial results in the year with a good performance from both our existing and acquisition businesses. Our revenue growth has converted strongly to increased operating profit and EPS, up 36.9% and 35.1% respectively on an underlying basis.

Our strong financial disciplines have been maintained in a period of significant change both internally and in the wider economy, with a strong results orientation and focus on sales and margin development.

We have also continued our balance sheet discipline, delivering a reduction in our net debt leverage from 2.0 times to 1.4 times through our strong cash conversion of 115.9% and prudent approach to financing our investments and acquisitions.

Our investments in the existing business and in acquisitions position Dechra strongly for ongoing organic growth and expansion, and the continued creation of shareholder value.

Richard Cotton
Chief Financial Officer
4 September 2017

Q&A with Ian Page

Ian Page Chief Executive Officer

"We have many new ideas and we are working on lots of new product development opportunities that I believe will deliver growth in the future.

Ian Page
Chief Executive Officer

Q What do you consider to be the highlights of another strong year for Dechra?

A There have been many highlights in the year but I would have to mention the success of our acquisitions that we have made over the last two years and when you couple that with a solid performance in the EU, and a very strong performance in the US, it has resulted in a profit performance which is above our expectations. Looking at things from an operational perspective, we have introduced a new manufacturing strategy and we are now getting greater efficiency and looking to better utilise our sites. From a people perspective we have over the last few years recruited a really strong Senior Executive Team and they are now really beginning to function exceptionally well. It would be remiss of me not to mention cash generation. Cash generation has again been strong within the year which has resulted in net debt being below market expectations for the year. So, all in all, many highlights.

Q The US continues to outperform the EU; why is this?

A The main reason is the relative maturity of the two markets. We have been trading in Europe a lot longer and a lot of our older products are getting close to reaching maturity in terms of market share; although we still do get growth by educating veterinary surgeons in better utilisation of the products. Within the US it is not only about education but it is also about gaining market share. It is a very large market and is a very difficult market to access. We have always said that we are underweight in terms of sales team, i.e. we do not have enough people to get round all the practices on a regular cycle. Even with the acquisition of Putney, it was still not up to the scale we would like to be, but we are now seeing the benefits of cross-selling Putney products and Dechra products through the enlarged sales team and we are beginning to get very strong market penetration in the US. So, we will continue to see the US outperform the EU in the future; however, that is not to detract what is still a very solid performance within the EU markets.

Q What are your current thoughts on the likelihood of further acquisitions?

A I have always said that it is important that the business is structured to be not dependent on acquisitions. Although we have been very successful in the acquisitions that we have made, it is a very consolidated market with few opportunities, if you look at what we have done organically, we have really strengthened our pipeline, we have put a greater focus on the international markets and we have created a lot of new opportunities in the year and I think if we are going to acquire it is likely to be to extend our geographical coverage as a lot of the main markets that we trade in, predominantly Western Europe and the US, the opportunities are few and far between. So, just to repeat myself, we have built a business that is successfully grown organically; if we can acquire we would like to, but the business is not dependent upon it.

Q What is the rationale of investing in Animal Ethics?

A Well I first met the CEO of Animal Ethics probably four years ago now, he came up with this idea of improving the welfare, in terms of pain management, of farm animals. There are many treatments in pigs, cattle and sheep that are currently conducted with very little pain control and what has actually changed over the years is that Animal Ethics have progressed their idea very, very well; it is a multi-component product that contains pain management and restricts blood flow and also limits infection. With this product they have managed to get great support from consumer groups, from supermarkets, from governments as animal welfare becomes more and more important in social circles. We are very delighted to have bought a third of the business, but more importantly we have signed an international marketing agreement and what this brings to us is a range of niche farm animal products that will really help our presence within this sector.

Q Dechra has delivered sustained growth for 20 years; is it possible to maintain that momentum?

A Well, it is remarkable to think that Dechra is 20 years old, 17 of those years as a FTSE listed company, obviously we are delighted that we have delivered good growth throughout all those years. Whilst you can never predict the future, of course we have confidence in the future; our strategy serves us well. We have many new ideas and we are working on lots of new product development opportunities that I believe will deliver growth in the future. We are expanding our geographical scope further and we have a very strong management team that is extremely focused so I have the confidence that we can continue to drive this business again and again over future years.

Watch the full interview with Ian Page at
dechra.annualreport2017.com

Q&A with Richard Cotton

Richard Cotton Chief Financial Officer

"Underlying EBIT margin increased by 140 bps to 22.6%, as revenue growth generated operating leverage across the Group as a whole, outweighing the expected margin dilution from the acquired products.

Richard Cotton
Chief Financial Officer

Q What were the key drivers behind the EBIT margin percentage improvement?

A Gross margin at 54.5% was slightly lower than prior year (2016: 55.9%). The dilution in Group gross margin came as expected from the acquisitions, in particular from Putney, where margins are lower due to long term contract manufacturing partnerships.

Sales, General and Administrative costs (SG&A) were greater than in 2016, though lower as a percentage of sales at 27.7% (2016: 30.4%), as additional volume leveraged the cost base.

Underlying EBIT margin increased by 140bps to 22.6%, as revenue growth generated operating leverage across the Group as a whole, outweighing the margin dilution from the acquired products.

Q How did the Board decide on the level of dividend, and what is it likely to do in the future?

A The Board reviews the dividend twice a year, and in particular considers EPS growth, dividend cover, and the Group's balance sheet and cash flow forecasts in setting the dividend.

Underlying diluted EPS, including acquisitions, has grown strongly by 35.1% in the year, and during the year the Group has generated significant cash flow, reducing the leverage of the Group to 1.4 times EBITDA.

Reflecting the strong performance of both the existing and acquisition businesses and the improved net debt leverage, the Board has proposed an increase to the final dividend of 18.7%, which when added to the interim dividend of 6.11p, gives a total dividend for the year of 21.44p, a 16.11% increase on the prior year (2016: 18.46p). Dividend cover based on underlying diluted EPS is 3 times (2016: 2.3 times). The Board continues to operate a progressive dividend policy recognising investment opportunities as they arise.

Q Net debt now represents only 1.4 times underlying EBITDA compared to 2.0 times a year ago. What has caused this improvement and does the Board have a target?

A Cash conversion, measured as net cash generated from operations after non-underlying items as a percentage of underlying operating profit is an important KPI and core discipline for the Group. In 2017 it was 115.9% consistent with the prior year (2016: 106.8%).

The strength of the cash conversion is behind the strength of the Statement of Financial Position. In a year of increased capital expenditure, the acquisition of Apex, the investment in Medical Ethics, and adverse foreign exchange effects, Dechra's net debt grew by only £3.4 million to £120.0 million. With the benefit of the greater underlying EBITDA from both the existing and acquisition businesses of £88.2 million (2016: £58.0 million), the net debt leverage of the Group has reduced to 1.4 times the enlarged underlying EBITDA (2016: 2.0 times).

Since the end of the financial year the Group has refinanced its Revolving Credit Facility to provide longer dated, larger and more flexible borrowing facilities to finance its working capital, investment and future acquisition needs.

The Board takes a prudent view of balance sheet leverage. It would typically target maximum Net Debt: underlying EBITDA of 2.0 times, though in the right circumstances may go to a level above this.

Q Third party contract manufacturing sales have declined again, and you link this to your manufacturing strategy. Can you describe your manufacturing strategy?

A As Dechra has grown organically and through acquisition, the number of manufacturing sites and complexity of its contract manufacturing network has grown significantly. During the year the Group has evaluated this in detail, considering its current and future needs, and has developed a Manufacturing remodelling strategy.

- The strategy anticipates the remodelling of certain parts of the network to focus on the manufacture of specific dosage forms, and matching our product margins in line with our input cost base.
- As a result of this, we will transfer some products around the Dechra network over the next five years, at the end of which period we expect to have terminated most third party contract manufacturing sales.
- Over the five years we expect to invest an additional c.£18.0 million between capex and non-underlying costs which will pay back in two to three years in manufacturing cost efficiencies.

Watch the full interview with Richard Cotton at **dechra.annualreport2017.com**

Key Performance Indicators

KPI and Definition	Performance	Commentary	Relevance to Strategy
Sales Growth Year-on-year sales growth including new products and excluding revenue from acquired businesses.	**↑6.5%** 2017 £269.6m 2016 £225.9m 2015 £203.5m	Dechra delivered £269.6 million from its existing business, an increase of 6.5% from market penetration and new product launches.	A key driver of our strategy is to deliver sustainable sales growth through delivering our pipeline, maximising our existing portfolio and expanding geographically.
Underlying Diluted EPS Growth Underlying profit after tax divided by the diluted average number of shares, calculated on the same basis as note 11 to the Accounts.	**↑35.1%** 2017 64.33p 2016 42.65p 2015 39.90p	The increase reflects growth from the existing and acquired businesses, increased finance charges from the increased debt to fund acquisitions, and the change in mix to the applicable tax rates.	Underlying EPS is a key indicator of our performance and the return we generate for our stakeholders. It is one of the performance conditions of the LTIP's.
Return on Capital Employed Underlying operating profit expressed as a percentage of the average of the opening and closing operating assets (excluding cash/debt and net tax liabilities).	**↑160bps** 2017 17.7% 2016 16.1% 2015 20.0%	ROCE grew as the returns from the 2016 acquisitions (in particular Putney, acquired in April 2016) were manifest in the Group's results.	As we look to grow the business, it is important that we use our capital efficiently to generate returns superior to our cost of capital in the medium to long term. It underpins the performance conditions of the LTIP's.

Key to Strategic Growth Drivers:

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition

Key to Strategic Enablers:

- Manufacturing and Supply Chain
- Technology
- People

Key:

- LTIP performance condition

Read **Delivering Our Strategy** on pages 13 to 15

Read **How the Business Manages Risk** on pages 56 and 57

Read the **Directors' Remuneration Report** on pages 81 to 101

KPI and Definition	Performance	Commentary	Relevance to Strategy
Underlying Cash Conversion Cash generated from underlying operations before tax and interest payments as a percentage of underlying operating profit.	↑910bps 2017 115.9% 2016 106.8% 2015 105.9%	The Group enjoyed strong underlying cash conversion during the year. With the EBITDA margin strengthening from 23.4% to 24.5%, and working capital shrinking by £6.9 million.	Our stated aim is to be a cash generative business.
New Product Revenue Revenue from new products as a percentage of total Group revenue. A new product is defined as any molecule launched in the last five financial years.	↓620bps 2017 8.2% 2016 14.4% 2015 13.8%	The decline arose from the increase in new product revenue from acquisitions. We continue to invest in our pipeline to develop new products and plan to increase this investment.	This measure shows the delivery of revenue in each year from new products launched in the prior five years, on a rolling basis. It shows the performance of our R&D and sales and marketing organisations when launching newly developed or in-licensed products.
Lost Time Accident Frequency Rate (LTAFR) All accidents resulting in the absence or inability of employees to conduct the full range of their normal working activities for a period of more than three working days after the day when the incident occurred, normalised per 100,000 hours worked.	↓25.7% 2017 0.26 2016 0.35 2015 0.7	The LTAFR decreased from 0.35 to 0.26. None of these incidents related in a work-related fatality or disability.	The safety of our employees is core to everything we do. We are committed to a strong culture of safety in all our workplaces. Read about **Corporate Social Responsibility** on pages 48 to 55
Employee Turnover Number of leavers during the period as a percentage of the average total number of employees in the period.	↑260bps 2017 15.7% 2016 13.1%* 2015 12.2%* *excludes Apex, Brovel, Genera and Putney	The figure for the 2017 financial year includes the employees from Genera, Brovel and Putney, whereas the previous year excludes them. The increase relates to streamlining of operations within the acquired businesses and the restructuring of our manufacturing team.	Attracting and retaining the best employees is critical to the successful execution of our strategy.

Strategy in Action:
Pipeline Delivery

Amoxi-Clav

The development of a product from our pipeline

Amoxicillin/Clavulanate Potassium

Dechra acquired Putney in order to add new products and critical mass to its US business and a highly performing product development management system and process. One of the key projects in the Putney development process was a generic to an antibiotic consisting of amoxicillin and clavulanate potassium, which is one of the most commonly used antibiotics in small animal medicine. Clavamox tablets for dogs and cats were originally approved in the USA in 1984 and, despite patent protection and regulatory marketing exclusivity having lapsed several years previously, the high scientific and regulatory approval hurdles for a generic of this product in the USA had prevented any alternatives from being approved. This meant that the original product continued to be sold at high prices, however, it still commanded a significant market due to its high efficacy.

Bringing a generic product to market requires formulation and manufacturing to the highest quality copy of the original product and demonstrating that the new product will work in the patient in exactly the same way as the original by showing bioequivalence. The development of this particular generic product required the need to overcome several significant technical challenges. Amoxicillin is a penicillin antibiotic which can only be manufactured in dedicated facilities to avoid cross-contamination with non-penicillin products due to widespread penicillin allergy in people. In addition, clavulanate potassium is extremely sensitive to moisture so even the slightest exposure of the product to moisture will result in the loss of clavulanate potassium activity. There are very few manufacturing facilities that can both handle penicillins and the low humidity manufacturing environment required for this product.

Once a suitable manufacturing partner was identified extreme care had to be taken with the supply of every component that went into the product to ensure that moisture was prevented from coming in contact with the individual ingredients or final product. In addition, a novel manufacturing step was developed to keep the product stable throughout the shelf life.

Another hurdle that the team faced was achieving bioequivalence to the innovator drug. The tight criteria set by FDA are hard to meet even with one molecule in one species but achieving bioequivalence for a combination product in two species was much more difficult and added a lot of complexity and risk to the development program. To make things even harder, the absorption of clavulanate potassium turned out to be extremely variable making it very difficult to achieve bioequivalence.

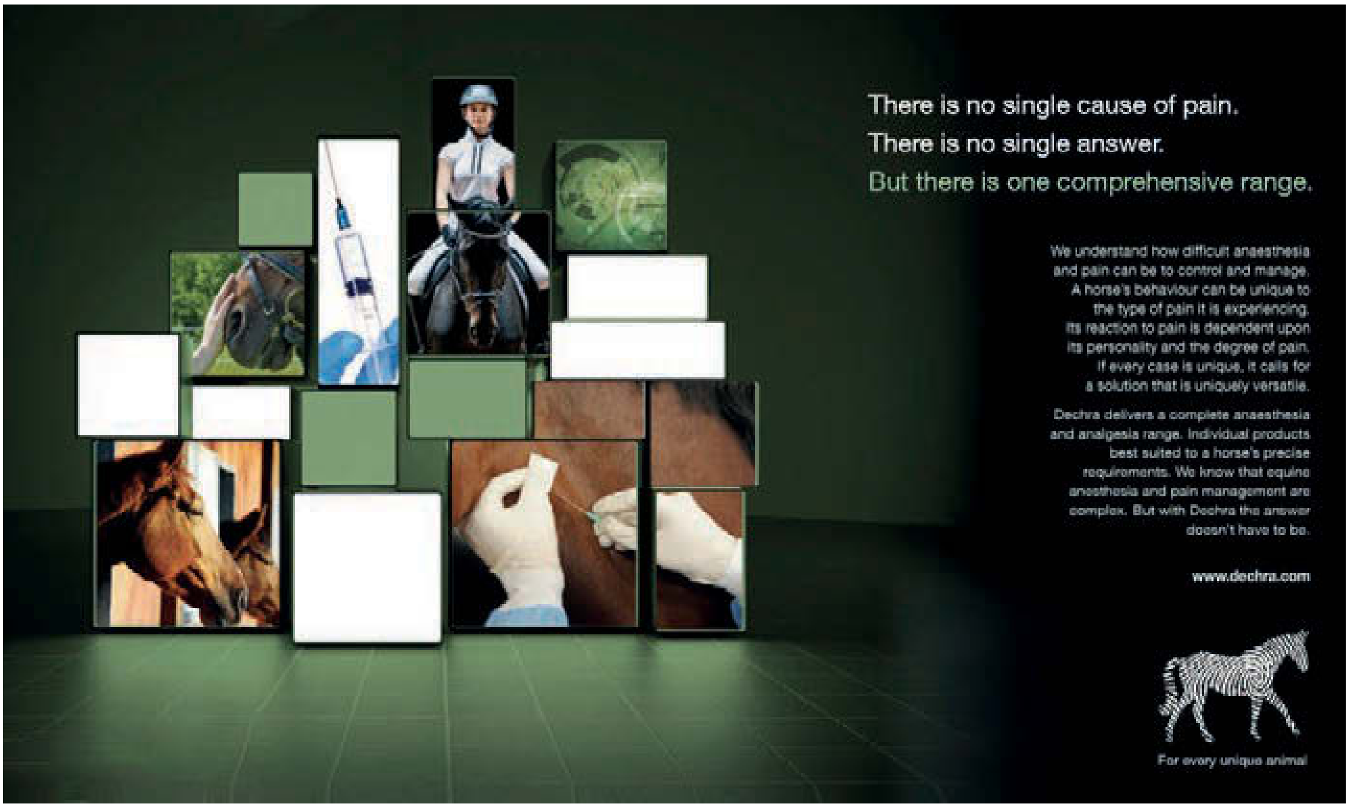
Following collection of blood samples to measure the absorption of the amoxicillin and clavulanate potassium in bioequivalence studies, the clavulanate potassium continued to be a problem as it was not stable in the samples. Special sample handling and stabilisation methods had to be developed to reliably and consistently measure the amount of the clavulanate potassium in the samples and ensure that degradation did not compromise the study results.

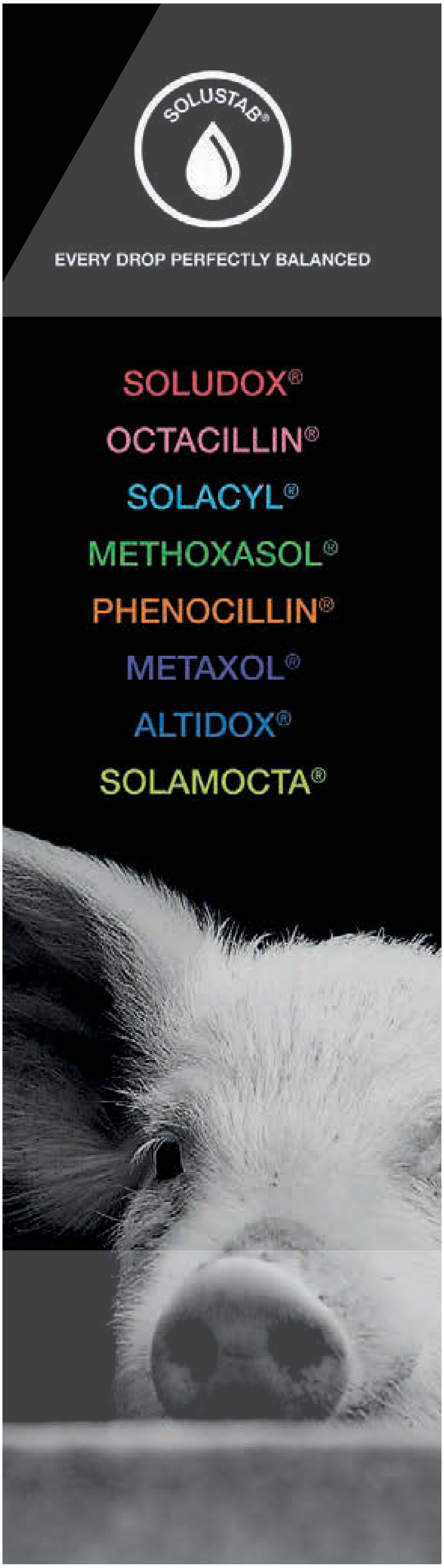
Despite all of this complexity, the Product Development team was successful in overcoming these hurdles to manufacture a high quality product that was successful in bioequivalence studies in both dogs and cats and Dechra was the first company to achieve a generic amoxicillin/clavulanate potassium product approval in the US.

In only nine months since launch, the product has become a phenomenal success capturing significantly more market share than expected. This is a momentous achievement for Dechra.

Strategy in Action:
Portfolio Focus

Our Key Therapeutic Areas





Portfolio Focus

One of Dechra's four principal strategic objectives is Portfolio Focus, which is a major driver of our international growth. Portfolio Focus can simply be defined as maximising market penetration and market share, and therefore sales of our existing product range.

With over 400 product lines and more than 4,000 Stock Keeping Units (SKUs) it is important that we focus our sales and marketing efforts on key strategic therapy areas. This focus orientates around:

Companion Animals	Food Producing Animals	Equine
Endocrinology	Water Soluble Powders	Anaesthetics and Analgesia
Dermatology	Poultry Vaccines	Locomotion
Anaesthetics and Analgesia	Locomotion (Lameness)	
Cardiology		
Ophthalmology		
Nutrition and Diets		

Dechra's ambition is to maintain our technical leadership positioning for the individual diseases and conditions we treat within the therapy areas that we cover. Although Dechra's overall share of the animal health market is small, we have become market leaders in many of these therapeutic areas. This is achieved through a number of routes:

- In-field representative focus and technical excellence;
- Educational programmes and seminars to practice groups;
- Highly skilled technical, telephone based support teams who provide advice on difficult cases;
- Online learning courses for both veterinarians and veterinary nurses;
- Providing a comprehensive product range in each sector;
- Networking and supporting the Key Opinion Leaders in these therapeutic areas;
- Focused marketing campaigns; and
- Strong advertising campaigns, examples of which can be seen on this page.

Approximately 90% of Dechra's revenues are generated from these key strategic therapy areas. It is important that we continue to maintain our market leading position and support the veterinary profession by continuing to deliver enhancements to our services and by continuing to invest and expand our product portfolio.

Strategy in Action:
Geographical Expansion

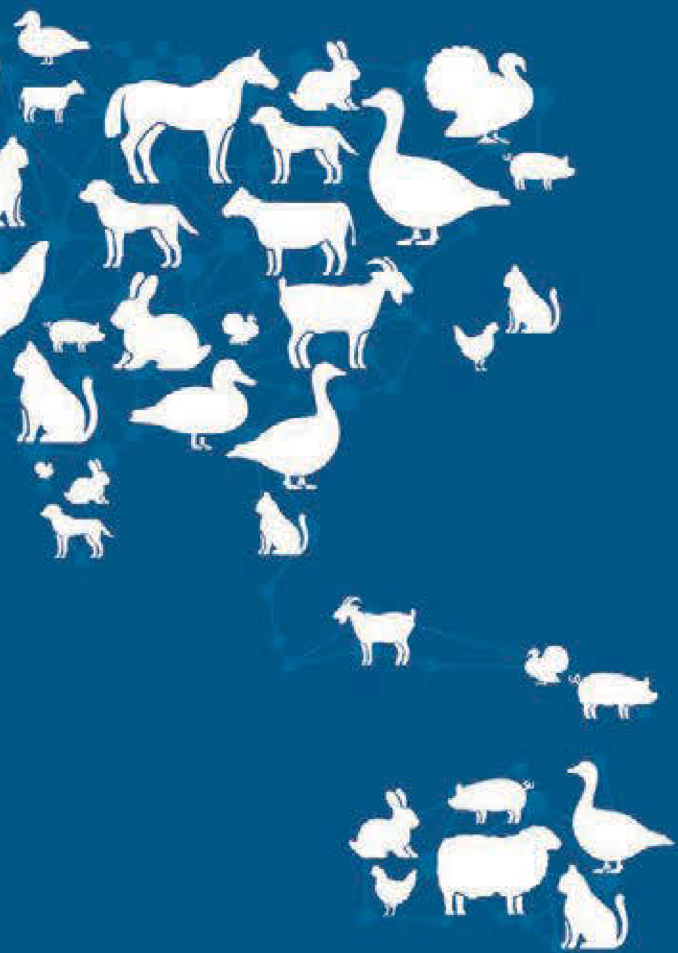
Dechra Veterinary Products International

The establishment of Dechra Veterinary Products International

Dechra Veterinary Products International

During the current financial year we have reorganised our export business, appointing an experienced dedicated director, who has been tasked with creating critical mass in countries outside Europe and North America, with the long term aim to establish subsidiaries in these countries. The business has been renamed from Rest of World to Dechra Veterinary Products International (DVP International), and currently exports to over 50 countries worldwide accessed through a network of distribution partners.

In October 2016 Dechra acquired the trade and assets of Apex Laboratories Pty Ltd (Apex), a privately owned veterinary pharmaceutical company which manufactures, markets and sells branded non-proprietary prescription and other related companion animal products in Australia and New Zealand. This acquisition provides Dechra with direct access to the established and growing Australian companion animal product market which accounts for approximately 4.2 million dogs and approximately 3.3 million cats, a market in which Dechra operated through partners. Apex offers a base from which to support and build Dechra's expansion in the Australasian and Asian regions and provides a springboard for the expansion of DVP International.



To facilitate this growth:

- We strongly believe that by respecting the cultural and environmental differences in our international markets we are able to engage better and understand our customers' needs. Therefore our initial activities have been to work with local government funded bodies to support access to the right people and places in specific markets. Once we have concluded our research, the execution of the findings will be critical with the appointment of key business development personnel, for example we have recruited an experienced animal health consultant in Latin America.
- To support our international partners, the first and most important priority is to be able to supply them with high quality products when they are needed. The whole experience of placing an order through to receipt of the delivery is an opportunity to engage with our partners to ensure that we meet expectations. To get this right every time requires drive, energy and focus from our customer service team.
- Our markets, wherever you are in the world, are dictated by a technical need for a medicinal product for which there could be several choices. To assist our partners in maintaining up to date technical knowledge about specific product benefits which meet their customers' needs best, we will provide technical personnel to support our commercial team.
- We will also work closely with our global marketing team to enable our customers have access to the latest product information and communication tools. This includes giving our partners access to our training modules and their customers access to our valued online Academy modules.
- One measure of success is that Dechra is recognised as an integral partner within our customers' business. Our economic engine, however, is to ensure we sell the right products to the right markets. Several of our food producing animal products are in highly competitive environments and therefore price is a major factor when it comes to convincing a customer to sell your range. To support this challenge, we are linking up our customer services and supply chain to achieve better forecasting and manufacturing efficiencies.
- The life blood for our partners is to have new products and new stories to communicate and with our broad range of registered EU, US and Australian products it is imperative that we register more products to build a critical mass in a territory. We are therefore setting up a dedicated team of regulatory people who can accelerate our international development programme.

Summary:

We are working on developing our market knowledge and business partnerships; the service we provide will attract new and motivate existing partners to drive business resulting in growth across major global markets.

Strategy in Action:
Acquisition

Integration of Acquisitions

Enhancing our product portfolio

Integration of Putney

On 22 April 2016, Dechra acquired the share capital of Putney Inc., a leading developer of FDA approved CAP in the US located in Portland, Maine. The acquisition of Putney provided Dechra with a highly performing product development management system and processes, as well as an enhanced product portfolio and pipeline of high quality, bioequivalent, FDA approved, specialty drugs supporting the US veterinary community and strengthening our presence in the world's largest companion animal market.

Integration Priorities

The first year integration efforts focused on:

- retaining key Product Development and Regulatory expertise, to enable continued product pipeline progress; and
- the integration of Putney's Commercial and Inside Sales functions into a combined US Commercial Operations to leverage existing distribution relationships and strengthen the commercial presence with US veterinary clinics.

Delivering Value

The Putney portfolio is exceeding expectations of value from the acquisition in the first year and delivering a year-on-year growth rate of 39% for the acquired Putney portfolio. The combined product portfolio provided our commercial team with improved access to distribution and veterinary clinics in the US, helping to drive year-on-year growth at above our expectations across the full US Dechra portfolio.

In September of 2016, Putney Amoxicillin Trihydrate and Clavulanate Potassium Tablets, an antibiotic for dogs and cats, was approved by the FDA. This first approval from the Putney pipeline was our most successful launch to date in the US with initial market penetration well above expectations (see Strategy in Action: Pipeline Delivery).

Investments in Growth

The Customer Relationship Management (CRM) system previously used by Putney has been redesigned and implemented across the US and Canada providing Dechra with an enhanced ability to penetrate the market. The CRM system supports daily collaboration and performance tracking for partnered inside and outside sales representatives and provides real time data for commercial analysis and the development of targeted marketing promotions.

Improvements in supply chain and logistics processes are underway to support continued growth and reduced supply risks and reliance on third party manufacturing of the expanded Dechra portfolio in the US market (for further information see Strategy in Action: Manufacturing and Supply Chain).

Key Putney Product Development and Regulatory expertise has been retained in Portland while the global Product Development team was reorganised this year to support our portfolio strategy and enable the robust pipeline developed at Putney to continue its successful history of gaining approval by the FDA. Anthony Lucas, who joined Dechra as part of the Putney acquisition, has implemented Product Development best practices at Dechra and leads Global Product Development.

Strategy in Action: Strategic Enablers
Manufacturing and Supply Chain

Our Objective: To deliver consistently outstanding value, quality and service to every customer via a safe, efficient, integrated supply chain.

Key Facts:
- In excess of 36 million packs produced in the 2017 financial year;
- 27,000 order lines delivered per month from our warehouse hub in Denmark for the European and International Supply Chains;
- Delivery to customers speaking 40 different languages;
- Over 4,157 Stock Keeping Units (SKUs);
- We spend more than £35.0 million on raw materials across the Group.

Dechra's Internal Manufacturing Network:
Dechra currently operates six manufacturing sites:

- Sydney, Australia: 25 employees, produces tablets and liquids.
- Zagreb, Croatia: 152 employees, primary focus on vaccines development and produces oral liquids, solid forms, care products and nutrition supplements for long standing third party customer.
- Bladel, Netherlands: 122 employees, centre for new product introductions and aseptic filling. Additionally capability for pre-mixed powder production and terminal sterilisation.
- Brovel, Mexico: 41 employees, produces tablets, liquids, sterile products all for local markets.
- Skipton, UK: 233 employees, centre of excellence in solid forms for tablets and capsules, liquids, creams, ointment products and terminal sterilisation.
- Florida, USA: 15 employees, centre of excellence in manufacturing chewable tablets.

Manufacturing facility at Zagreb, Croatia

External Manufacturing Network:
We also manage an external network of 42 contract manufacturing organisations (CMOs). Together, the internal and external network produce in excess of 36 million packs of products per year. The volume is currently split approximately 50% from the internal network and 50% from the external network. Our CMO footprint is predominately balanced across North America and Europe, where the majority of the Group revenue is generated. This is complemented with additional CMOs in Australasia and Asia.

Our Supply Chain:
Our internal and external manufacturing sites deliver a range of different finished product dose forms including solid doses, liquids and sterile injectables. These finished goods are stored and delivered to customers via modern warehouses located in Denmark for DVP EU and Dechra Veterinary Products International supply chains and Kansas City for the DVP NA supply chain. There are multiple transport solutions available to move products around the globe efficiently.

Following on from the successful implementation of a global Sales and Operations Planning process in DVP EU our priority now is to roll out the plan across the organisation to integrate fully with the DVP NA business.

Our Strategy:
Manufacturing and Supply Chain has created a new and detailed five year strategic plan.

To implement the strategy we have accelerated growth in our talent pipeline, utilising both internal and external people and have created a team able to challenge the status quo to support all the Dechra strategic aims. This has included the following key appointments: four Site Directors, a CMO Relationship Manager, a Global Procurement Manager, and a Head of HR for Manufacturing and Supply.

Our objectives include:

- Simplify the Dechra internal and external network by creating dose form centres of excellence in each manufacturing site and consolidate the CMO network.
- Reduce risk and establish a robust security of supply by protecting our largest revenue streams via second sourcing and CMO strategic relationships to reduce complications in the supply chain.
- Leverage procurement opportunities across the Group and focus on a culture of constant improvements to realise efficiencies and enhance ways of working.
- Make full use of our low cost geographical locations and maximise opportunities in all locations.

Our Group Manufacturing and Supply Chain strategy will simplify our network and by creating centres of excellence the sites will improve efficiency and technical expertise in their specific dose forms. Additionally, by working with fewer CMOs, and creating true partnerships, we can strengthen the supply chain and deliver a sustainable service over the long term.

Strategy in Action: Strategic Enablers
People – 20th Anniversary

Dechra's people are a core asset, and behind much of the Group's success in its 20 year history of growth and development. Below a group of employees, whose service longevity matches that of the Group, share their experiences of working at Dechra.

Q. What is your current role?

- HR & Operations Manager, Dechra Veterinary Products UK & Ireland, UK.
- Supply Planner, Denmark.
- Supply Chain Sales and Operations Planning (EU & International), UK.
- Executive Assistant to Chief Executive Officer & Chief Financial Officer, UK.
- Quality Assurance Officer, UK.
- PDRA Assistant, the Netherlands.
- Finance Manager, Croatia.

Q. Would you recommend working at Dechra to other people?

- Absolutely I would, the business is always offering new challenges and expanding; therefore, the opportunity to grow individually and learn new skills is extremely motivational.
- Yes, it is an exciting working place. You are allowed to work in different areas and you are being listened to.
- Yes, I would certainly recommend working in Dechra because all people with whom I am in contact are very collegiate, accessible, ready to help. It is a very pleasant working atmosphere.

Q. What is the best thing about working at Dechra?

- Without doubt the culture, the team spirit and enjoyment.
- The great colleagues and good relaxed atmosphere.
- Being part of an ambitious company that is always evolving, never resting on its laurels.
- The people and the culture are great.
- For me, the people I work with every day make coming to work a pleasure. The work I have done over the past 20 years has been so varied, there is never any time to get bored in the job.
- My colleagues and the good atmosphere in the department I currently work for (Product Development).

Q. Why have you continued to work at Dechra for the length of time you have?

- Due to the fact that the work has not been the same for over 20 years, the Company is developing.
- It's good to feel trusted and appreciated. I like the flexibility to balance work and home life, and it's a pleasure to work for an organisation that's going in the right direction and takes care of employees. I like what I do and enjoy my role immensely.

Q. How has Dechra changed over the past 20 years?

- I think the first big acquisition had the biggest impact as this gave us such a great European footprint and allowed us to embrace new cultural experiences and this brought enormous growth for all.
- Dechra has changed tremendously over the past 20 years from being quite UK centric in the early days to the truly international business it is today. The biggest change is coming from the establishment of a global network of Dechra offices with the local knowledge and skills to engage closely with our customers, supported by a robust Manufacturing & Supply Chain delivering the goods.
- Bit of a cliché, but it really has been an incredible journey! From a UK veterinary wholesaler employing approximately 50 people in 1989 to a successful and respected international veterinary pharmaceutical business employing approximately 1,300 today; a real testament to the hard work of the whole Dechra team.
- When I first started at Dechra 20 years ago there were only 45 people on the site, in one building and it felt like a family run business. Now there are over 200 people on the site spread across three buildings and it has a more corporate business feeling about it. We have also made several business acquisitions over the years and become a global company, which feels great to be a part of.
- Dechra is becoming more and more a professional player in the veterinary market of the bigger companies. The biggest change in the past 20 years as far as I am concerned was the takeover of Eurovet.

Strategy in Action: Strategic Enablers
People – The Senior Executive Team

The Senior Executive Team (SET) was established in 2013 to lead the development and implementation of the business strategy. Over the last couple of years there have been a number of changes due to retirement and acquisitions.

The SET comprises

Ian Page
Chief Executive Officer

Richard Cotton
Chief Financial Officer

Tony Griffin
Managing Director Dechra Veterinary Products EU

(Ian, Richard and Tony are also part of the main Board)

Dr Susan Longhofer
Regulatory Affairs and Business Development Group Director

Dr Anthony Lucas
Group Product Development Director

Mike Eldred
President North America

Greig Rooney
Group Manufacturing and Supply Director

Allen Mellor
Group IT Director

Katy Clough
Group HR Director

Giles Coley
Dechra Veterinary Products International Group Director

The Company Secretary attends the meetings of the SET and acts as its secretary.

Dr Susan Longhofer Business Development and Regulatory Affairs Group Director

Susan joined the Group in June 2005. A veterinarian with over 26 years' experience in the industry, she leads a team of approximately 50 staff around the globe responsible for registering new products and maintaining the registrations of our existing products. She has recently assumed a Business Development role searching out new products and opportunities to continue to fill our product development pipeline. Prior to joining Dechra, Susan worked for Virbac Corporation, Heska Corporation and Merck Research Laboratories. Susan holds an MS and a DVM in Veterinary Science and is a Diplomate, American College of Veterinary Internal Medicine. She is located in Kansas, US.

Giles Coley Dechra Veterinary Products International Group Director

Giles joined Dechra in January 1999 as sales and marketing manager for Arnolds Veterinary Products having previously spent 14 years primarily involved in dairy farming business consultancy. During his time at Dechra he has been responsible for the launch and market development of our leading brand *Vetoryl*, as well as a number of our other key brands. Giles has also been an integral member of the teams that ensured fast and smooth integrations of several of our acquisitions and in particular as lead in the integration of Apex in 2016. In his role of Dechra Veterinary Products International Group Director, his responsibilities are extremely varied and involve managing and growing our existing business through Apex and distribution partners, as well as further developing our Dechra International strategy through product registrations and market development. Giles has a BSc degree in Agricultural Technology. He is located in Shrewsbury, UK.

Mike Eldred President North America

Mike joined Dechra in 2004 and is responsible for Dechra Veterinary Products' North American business. Mike has more than 20 years' experience in the animal health sector, having held senior positions in business development, sales and operations at Virbac Corporation, Fort Dodge Animal Health and Sanofi Animal Health. As our first employee in the US, he has built the significant and growing US and Canadian team to162 people and with a strong Dechra culture has grown sales revenue to £132.4 million. Mike has also been involved in several commercial agreements and acquisitions for the Group including Pharmaderm, DermaPet, Phycox Animal Health and Putney. Mike has a BA in Business, and an MBA. He is located in Kansas, US.

Allen Mellor Group IT Director

Allen joined Dechra in April 2012 and has developed and implemented the Group IT strategy during this time. During the last 20 years, Allen has gained a breadth of experience from the implementation of diverse business solutions across multiple industry sectors including Justice, Education, Energy, Distribution and Retail. Having held several senior management positions encompassing software development, IT service provision and IT departmental management, his last role was as Head of IT for the BSS Group PLC, a leading plumbing and heating distribution company. Allen is currently responsible for all Group IT support to a multitude of internal customers. He is located at Head Office, Northwich, UK.

Katy Clough Group HR Director

Katy joined in April 2014 from AppSense Ltd where she was the Vice President of HR Europe and Rest of the World. With over 15 years operating at Director level within the Technology, Health, Travel and Finance industries, Katy brings with her a wealth of HR expertise gained in both blue chip corporates and smaller entrepreneurial companies. She has strong international, leadership and M&A experience and has taken responsibility for driving the global people agenda for the Dechra Group. She is located at Head Office, Northwich, UK.

Dr Anthony Lucas Group Product Development Director

Anthony joined Dechra in 2016 following the acquisition of Putney Inc. where he was Senior Vice President of R&D. Anthony is originally a veterinarian from Australia with five years in clinical practice including a residency in emergency and critical care. Following a Masters in veterinary pharmacology, PhD in human pharmacology and post-doc at the University of Kansas, he spent six years at Elanco in early drug development, technology acquisition and as a Six Sigma black belt. In his six years at Putney, Anthony built the R&D team, which delivered ten FDA product approvals.

As the Group Product Development Director, Anthony leads a team of 50 scientists across five global research centres, to efficiently deliver the pipeline of products to meet Dechra's growth needs. He is located in Maine, US.

Greig Rooney Group Manufacturing and Supply Director

Greig joined Dechra in 2016. He has 20 years of experience working in a variety of roles within the Pharmaceutical and Fast Moving Consumer Good industries.

Greig started his career with GSK in 1998 on their Graduate Management Training scheme. He worked in various Supply Chain roles and spent six years outside of GSK working as a lean consultant in the motor industry supply chain and also ran the Bakery Operations for Greggs PLC in Birmingham.

Prior to joining Dechra, Greig worked as the Active Pharmaceutical Ingredient Lifecycle Transformation Director, responsible for the execution of GSK's Strategy within the Pharmaceutical Business.

As the Group Manufacturing and Supply Director, Greig is responsible for approximately 33% of Dechra's workforce across six manufacturing sites namely Bladel, the Netherlands; Zagreb, Croatia; Florida, USA; Skipton, UK; Sydney, Australia; Brovel, Mexico; and the main distribution centre in Europe at Uldum, Denmark.

Greig holds a BSc (Hons) in Science and Management Studies. He is located in Northwich, UK.

Product Development

Although some products may have a slightly different path, most novel and generic products follow a fairly standard process containing five phases, defined as: Evaluation, Feasibility, Development, Registration and Launch.

Dechra employs a structured process in its development pipeline while retaining an opportunistic and entrepreneurial approach. Focus is given to the Group's therapeutic sectors. New development opportunities and in-license opportunities are evaluated for strategic fit within these sectors; therapies outside of the key areas are considered for inclusion in the pipeline if they are novel and address medical needs in the veterinary market.

A product's return on investment can vary: novel developments tend to have a medium to long term realisation with attractive high value returns; generic developments generally have shorter time scales with returns dependent upon the number of other entrants and our speed to market relative to the competition. Dechra's current development pipeline is a mix of short, medium and long term opportunities.

Generating Ideas

The **Evaluation** phase begins with identifying a novel molecule, an opportunity to develop a new formulation for an existing molecule, or an in-license opportunity. Before initiating a development programme, each opportunity is assessed by market need, market value, therapeutic indications, strategic fit and the likely complexity of the regulatory pathway.

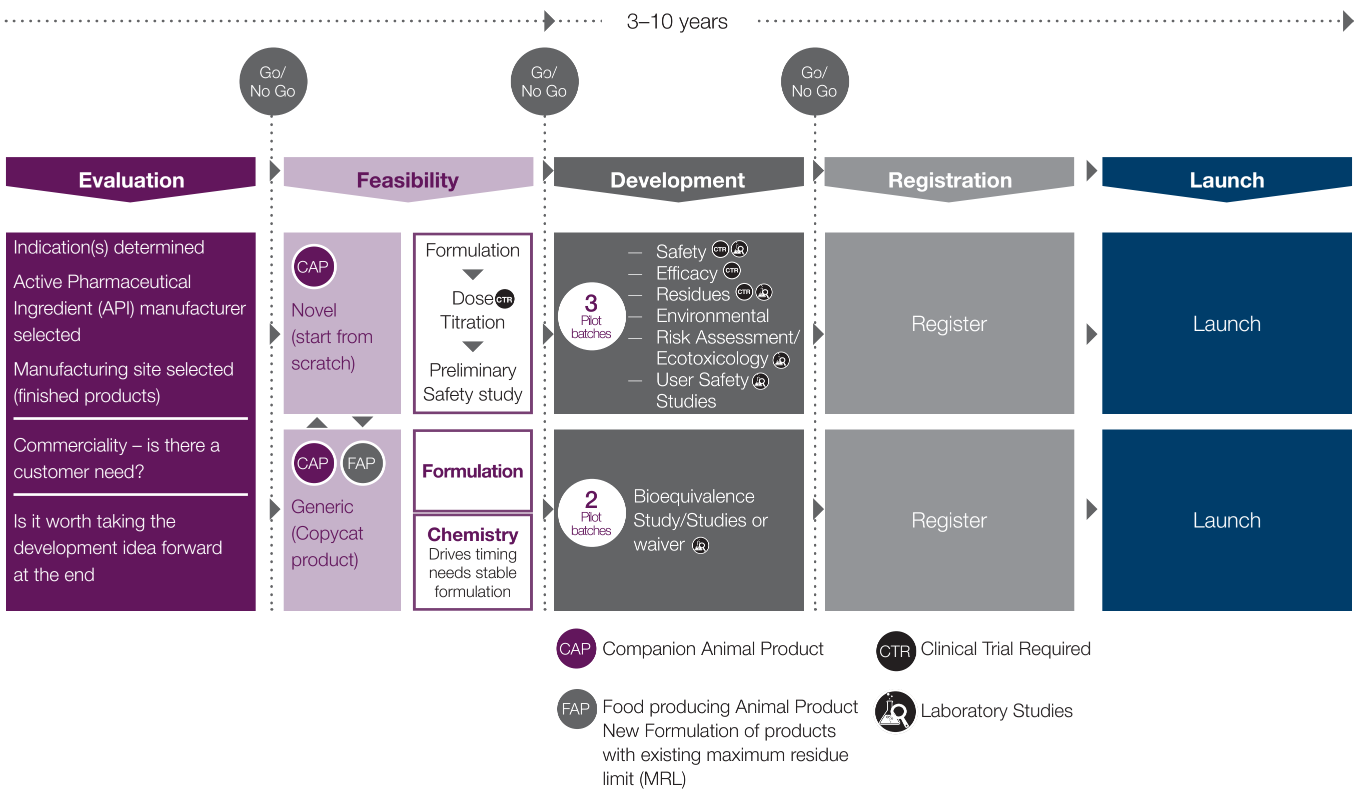
Making the Chemistry Work

The second phase of the process is **Feasibility**, which involves the collection of a range of preliminary data. When initiating development of a novel product, the correct dose has to be titrated and a stable formulation, that can be reliably and consistently manufactured, must be developed. For a generic product, the pioneer formulation may not meet the current regulatory requirements and may need to be reformulated. This phase is vital prior to initiating the development phase which involves expensive clinical trials or bioequivalence studies.

Entering the Development Phase

The **Development** phase is the longest part of the process, potentially taking two or three years. After the formulation has been demonstrated to be stable, two to three pilot batches are manufactured for use in safety studies, efficacy studies and stability testing. For generic products, the batches are used in one or more bioequivalence studies to demonstrate that activity will replicate the pioneer product. If the studies conducted during the Development phase demonstrate the required safety, efficacy and chemical stability of the product, regulatory dossiers are prepared for **Registration/Filing**.

From beginning to end, the development process can take between three and ten years before **Launch** depending on complexity and nature of the product.



Product Pipeline

A key strategic priority for the Group is the delivery and strength of the pipeline. The following chart outlines the status of the major projects. Owing to the nature of product development, the content of our pipeline will change over time as new projects progress from Evaluation to Development to market or as projects are terminated. For competitive reasons, exact project details are not disclosed.

Evaluation		Feasibility		Development		Registration	
CAP/Equine	FAP	CAP/Equine	FAP	CAP/Equine	FAP	CAP/Equine	FAP
Projects are not shown for the Evaluation phase as new opportunities are constantly being evaluated and will move into the Feasibility phase quickly if of interest.		Analgesic therapy for dogs	Anti-inflammatory therapy for poultry	Analgesic therapy for horses	Fluid therapy for cattle	Antibiotic for dogs and cats	Antibiotic for cattle
		Gastrointestinal therapy for horses	Antibiotic for pigs and poultry	Parasiticides for cats	Antibiotic for pigs	Dermatological therapy for dogs	Anti-inflammatory for poultry
		Dermatology treatment for dogs	Antibiotic for pigs	Parasiticides for dogs	Parasiticides for poultry	Antibiotic for dogs and cats	Antibiotic for pigs and poultry
		Dermatological therapy for dogs	Antibiotic for cattle	Parasiticides for dogs	Poultry vaccines	Analgesic therapy for dogs	Poultry vaccines
		Endocrine therapy for horses	Poultry vaccines	Endocrine diagnostic	Poultry vaccines		Poultry vaccines
		Anaesthetic for dogs	Poultry vaccines	Dermatological therapy for dogs			Poultry vaccines
		Analgesic therapy for cats					Poultry vaccines
		Cardiological therapy for dogs					Poultry vaccines
		Dermatological therapy for dogs					
		Dermatological therapy for dogs					
		Anti-inflammatory for horses					

Key

- Analgesic, Anaesthesia, Anti-inflammatory
- Antimicrobial
- Antiparasitic
- Cardiology
- Dermatology
- Endocrinology
- Fluid therapy
- Gastrointestinal
- Vaccines

International Product Offering

The tables below show the key products in our focus therapeutic areas in territories where we have sales and marketing organisations.

Endocrinology

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Felimazole		●	●	●	●	●	●	●	●	●	●		●	●		●	●	●	●	●
Forthyron/Thyforon			●	●		●	●	●	●	●	●		●	●	●	●	●	●	●	
Vetoryl		●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●
Zycortal		●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●

Dermatology and Care

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Animax																				●
Canaural		●	●	●	●	●	●	●		●	●			●	●	●	●	●	●	
CleanAural						●	●	●		●			●	●		●	●	●	●	
DermaPet Products			●	●	●	●	●	●	●	●		●	●	●	●	●		●	●	●
Isaderm		●	●	●	●	●	●		●	●	●		●	●	●	●	●	●	●	
Malaseb			●	●		●	●	●	●	●	●		●	●	●	●	●	●	●	

Anaesthesia and Analgesia

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Alvegesic				●		●	●	●			●		●	●		●	●	●	●	
Atipam			●	●			●	●	●	●	●		●	●	●	●	●	●	●	
Buprenodale			●	●		●		●	●	●	●		●			●	●		●	
Comfortan			●	●		●		●	●		●	●	●	●	●	●	●	●	●	
Phycox																				●
Sedator			●	●			●	●	●	●	●		●	●	●	●	●	●	●	
Vetivex				●		●		●		●								●	●	●

Cardiovascular

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Cardisure			●	●		●	●	●	●	●	●		●	●	●	●	●	●	●	

Opthalmology

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Isathal		●	●		●	●	●	●	●	●	●		●	●		●		●	●	
Lubrithal					●	●	●	●		●			●	●	●	●	●	●	●	
Vetropolycin & Vetropolycin HC																				●

Equine Medicine

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Domidine			●	●			●	●	●	●	●		●		●	●	●	●	●	
Equipalazone						●		●	●	●			●					●	●	
HY-50		●		●	●	●	●		●		●		●	●			●	●	●	
Osphos		●	●	●	●		●	●	●	●	●	●	●		●	●	●	●	●	●
Somulose										●								●	●	

Food producing Animal Products

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Cyclospray	●		●	●	●	●		●	●		●		●		●		●		●	
Methoxasol			●	●		●		●	●		●		●		●		●		●	
Octacillin			●	●		●		●	●	●	●		●		●	●	●		●	
Rapidexon			●	●		●	●	●	●		●		●		●	●	●		●	
Soludox			●	●		●	●	●	●		●		●		●		●		●	

Pet Diets

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Specific				●		●	●	●		●			●	●	●	●	●	●	●	

Vaccines

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Avishield ND				●					●				●		●					

CAP Generics

Key Product	Adriatic	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
CAP Generics	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

Corporate Social Responsibility

Tony Griffin Managing Director, Dechra Veterinary Products EU

Katy Clough Group HR Director

Glossary
Terms used within this section:

DPM: Dechra Pharmaceuticals Manufacturing

LTAFR: Lost Time Accident Frequency Rate

MAT: Moving Annual Turnover

A responsible approach to our stakeholders and the wider community is considered by the Board to be important to the business. Our Corporate Social Responsibility strategy has three pillars:

Pillar	Policy	Objectives
Our People	A great and safe place to work	Leverage the Dechra Values and culture Maintain high levels of employee engagement Maintain a reputation for acting responsibly and with integrity Culture of safe working practices
Our Community	To contribute to the social and economic welfare of the local communities in which we operate	Maintain and improve the knowledge and skills of veterinarians who prescribe and use our products Contribute towards charitable causes through the donation of time, products and skills
Our Environment	To adopt responsible environmental practices and to give consideration to minimising the impact of our operations on the environment	Eliminating waste sent to landfill Use energy more efficiently Contribute towards causes and projects which support our environment

The progress in relation to the above objectives is described further in this report.

The conduct of the business towards social, environmental, ethical and health and safety issues is recognised to have an impact on our reputation and therefore the implementation and improvement of policies and systems are an ongoing priority within the business.

Tony Griffin is the nominated Director responsible for health, safety and environmental matters. However, the Board takes ultimate responsibility for Corporate Social Responsibility and is committed to developing and implementing appropriate policies that create and maintain long term value for all stakeholders. Sound business ethics help to minimise risk, ensure legal compliance and enhance Company efficiency.

Our People

Our original people plan was developed three years ago to support the delivery of the Group's five year plan. Significant progress has been made with the formation and development of a strong Senior Executive Team (SET); embedding of a performance culture; putting in place the building blocks for talent management; aligning compensation and benefits; carrying out leadership development and building a scalable HR Operation.

Earlier this year working closely with the SET and the Human Resources leaders, the people plan was adapted to support the delivery of the evolving business goals.

Accelerate Performance:
Align employee efforts and drive productivity through effective goal setting, feedback and focus on development

Grow Our Own Talent:
Attract retain and develop the right talent in the right place at the right time

Strong Culture and Values:
How we do things round here

Engaged and Committed Workforce:
A great place to work

Healthy Workplace:
Improving the working lives of our people

Creation of Shared Services:
Efficient infrastructure supporting commercial operations

During this year we have focused on the ongoing integration of the three acquisitions that we made during the 2016 financial year. The growth of the Group has driven a need to simplify the commercial organisation structure to allow a strong focus on core sales and marketing activities delivering revenue goals. This has led to the commencement of the development of a shared infrastructure with the aims of controlling costs, avoiding duplication of effort and ensuring all parts of the Group are supported equally.

During the year, we have focused our efforts on:

- reorganising the Group following the acquisitions and recruiting key roles where we identified gaps in our talent pipeline;
- strengthening our succession plans across the Group identifying both high performers and those with high potential, putting in place structured development plans. We have reduced the reliance on individual contributors in many parts of the Group, and will continue to develop a consistent approach to the development of our key talent;
- strengthening the Human Resources team in North America and in Group Manufacturing and Supply to support the business; and
- working on the Group Manufacturing and Supply transformation programme, restructuring and retraining our manufacturing teams to prepare for the technical transfers across our sites.

We have continued to roll out our Human Resources system, Dechra Diamond, across the Group and have enabled the second phase of the project which supports the automation of some of the Personal Development Review process including goal setting and the annual review cycle. Our e-learning management system, Delta, has now been introduced in North America, supporting the online training and development of knowledge and skills of our staff.

In the year ahead we are planning to undertake our first Group-wide employee engagement survey to provide us with a baseline understanding of engagement levels and to identify any areas for improvement.

Our culture and Values are important to us and have helped to drive the Group's success. During the coming year we will be working with the leadership teams around the Group to define the core leadership competencies which we will use to recruit and develop our new and existing leaders.

For a number of years the Group has reported labour turnover as a non-financial KPI using a standard formula as follows:

$$\frac{\text{Total number of leavers over the period}}{\text{Average total number employed over the period}} \times 100$$

The Group's target is to maintain employee turnover (Moving Annual Turnover (MAT)) at or below 15%. During the 2017 financial year this was 15.7% (2016: 13.1%), which represents an increase of 2.6%. The 2016 figure excludes the employees from Genera, Brovel and Putney. The increase has been driven by the organisational restructures as we integrate the acquisitions.

It is the Group's policy to provide equal recruitment and other opportunities for all employees, regardless of age, sex, sexual orientation, religion, race or disability. The Group gives full consideration to applications from disabled people, where they adequately fulfil the requirements of the role. Where existing employees become disabled, it is the Group's policy, whenever practicable, to provide continuing employment under the Group's terms and conditions and to provide training and career development whenever appropriate. In summary, we recognise that the success of the Group is dependent on our ability to attract, develop, motivate and retain skilled employees.

Read **Strategic Enablers – People**
on pages 41 to 43

Corporate Social Responsibility
continued

Informing and engaging our employees through internal channels of communication is of utmost importance to the Group. We have multiple channels of communication to provide both formal and informal updates including a Group newsletter that is issued twice a year (following the half-yearly and year end results), intranets, management and team meetings at the respective business units. These ensure that our employees are informed of the financial performance of the Group, as well as the sharing of updates which are relevant to all Group employees such as the introduction of new technology, any management changes or restructuring, updates on corporate social responsibility activities, and progress in relation to our strategic objectives.

Apprenticeships and Work Experience
Our Dechra Pharmaceuticals Manufacturing (DPM) facilities continue with the commitment to people development through a number of apprenticeships; at its Skipton facility there are six apprentices and at the Bladel facility there is one. The employees at Skipton are taking National Vocational Qualifications or university degrees as part of their apprenticeships. DPM also participates in work experience and currently has two people on internship, in Zagreb, who are working for one month in Quality Control and Pharmaceutical Development.

DVP EU offers internships at its UK operations, one in sales and marketing and one in corporate marketing. Both internships are for one year and are usually higher education students on their placement years.

Business Ethics
The Board expects all of the Group's business activities to be conducted in accordance with the highest ethical standards and in full compliance with all applicable national and international legislation. In doing so we aim to maintain a reputation for acting responsibly and with integrity. The Board has formalised these expectations into a policy known as the Code of Business Conduct (the Code) which applies throughout the Group. This Code is circulated around the business together with the Anti-Bribery and Anti-Corruption Policy.

The Anti-Bribery and Anti-Corruption Policy was launched in the 2014 financial year (previously included in the Code of Business Conduct). The policy, training documents and guidance have been translated and rolled out across all of the Dechra territories. During this financial year the Anti-Bribery and Anti-Corruption course has been launched on our e-learning platform (Delta), in nine languages, with 929 employees having access to the course. All new relevant employees will be required to complete this course and existing relevant employees will be required to undertake regular refresher training.

A Whistleblowing Policy is also in place whereby employees can report, in confidence, any suspected wrongdoings within the business which they feel unable to discuss directly with local management.

Human Rights
Dechra is committed to upholding and respecting human rights both within our business and from our suppliers. However, Dechra does not currently have a separate human rights policy.

Modern Slavery
The Dechra Annual Report, the Code and the Values set out the Group's commitment to acting ethically and with integrity towards our employees and in all our business relationships. Under the Code and Dechra's Third Party Principles Policy we have specific principles and statements that cover ethical and human rights risks related to anti-bribery and corruption, human resources, modern slavery, child labour, non-discrimination and fair treatment.

Health and Safety
The Group attaches great importance to the health and safety of its employees and the public. The safety of our employees is paramount and that means continuing to reinforce good safety management practices as well as raising awareness of improved ways of working. Management are responsible for, and committed to, the maintenance, monitoring and promotion of a policy of health and safety at work to ensure the care and well-being of our employees and onsite visitors.

Any material health and safety issues or incidents that occur are discussed in detail at both business unit senior management meetings and PLC Board meetings. Discussions include details of incidents and any remedial action taken to mitigate or prevent recurrence. Twice a year a comprehensive health and safety report is presented at each of the business unit senior management meetings and subsequently reported to the PLC Board meeting the following month for discussion and review by the Directors.

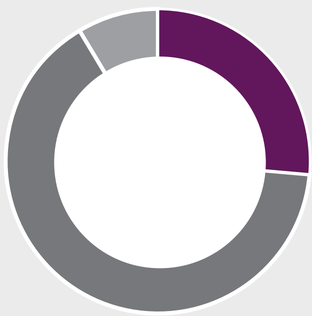
The main sites within the Group have an active Health and Safety Committee comprising representatives from both management and employees. The workforce nominates employee representatives. These committees meet on a regular basis to carry out a review of risk assessments and standard operating procedures as well as investigating any concerns raised by individual employees. Each site has the requisite number of employees trained in health and safety legislation.

For a number of years the Group has reported Lost Time Accident Frequency Rate (LTAFR) as a non-financial key performance indicator (see page 31).

The LTAFR is a calculation of all injuries that are statutorily reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR), normalised per 100,000 hours worked. This measure provides information to help monitor and control accidents and injuries to the workforce and is widely used as a key performance indicator throughout industry. The Group reports LTAFR on the same basis as in previous years, that is absence or the inability of workers to conduct their full range of their normal working activities for a period of more than three working days after the day when the incident occurred. The acquired business, Apex, was included from the first full month that it become part of the Dechra Group. Over the course of the last 12 months the number of incidents has decreased from seven to six. None of these incidents resulted in a work-related fatality or disability.

To continue to improve the safety performance across both existing and newly acquired facilities and to reflect the priority that is given across the business to safety, a proactive hazard awareness reporting initiative has been introduced and rolled out across DPM. In the first year 1,769 preventative safety items have been raised and discussed across the year with 1,476 being actioned and closed out.

LTAFR



DPM Zagreb & PDRA	0.38
DPM Bladel	0.00
DPM Florida	0.00
DPM Skipton	0.93
Apex (DPM & Dechra International)	0.00
DVP EU	0.12
DVP US & Canada (including Putney)	0.00
Mexico	0.00
PLC	0.00

Our Community

The Board encourages the business units to contribute to the social and economic welfare of the local communities in which they operate. It recognises that by taking voluntary action in this area it is helping to protect and develop its own business.

This is the sixth year in which the Group has operated a Donations Policy. All employees within the Group are entitled to nominate a charity or a non-commercial organisation. This year the number of nominations received exceeded our expectations and it was therefore decided to increase the overall donation spend from £20,000 to £30,000, which was split equally between the following 15 charities:

Type of Charity	Charity	Country	Description
Animal	The Rehabilitation Centre Silver	Croatia	The Rehabilitation Centre Silver trains assistance dogs to be used in the rehabilitation of disabled persons and children with developmental difficulties.
	Vida Silvestre Jesus Estudillo Lopez A.C. (El Nido)	Mexico	El Nido is the largest aviary in Latin America which is dedicated to saving hundreds of animal species, most of which are endangered birds. The donation will be used to support a project for the preservation of the great curassow which is a large pheasant-like bird from the Neotropical rainforests in danger of extinction.
	The Trusty Paws Clinic	UK	Provides free preventative care to dogs belonging to the homeless or vulnerably housed of Glasgow and London.
	The Underhound Railroad	USA	Rescues dogs from various parts of the country and transports them to the Northeast (primarily Maine) where they are fostered until matched with an adopter
	Frankie's Friends	USA	A non-profit foundation dedicated to finding cures and saving pets with cancer and other life-threatening conditions. The donation will provide lifesaving dialysis technology.
People	Children's House, Zagreb	Croatia	This charity provides children and young adults with accommodation, technical support and security, and training necessary for their development.
	Gornja Bistra Hospital	Croatia	A special hospital in Gornja Bistra which cares for children with chronic diseases, through specialist activities and hospitalisation in cases when adequate treatment cannot be provided at home.
	Jedni za druge	Croatia	Jedni za druge aims to prevent addiction and impulse control disorders, and to develop social and psychological rehabilitation and resocialisation.
	BROEN	Denmark	BROEN has as objective to support socially disadvantaged children and young people with membership fees and equipment for sports or other leisure activities. BROEN encourages children to socialise and be part of a positive community.
	Nederlandse Cystic Fibrosis Stichting	The Netherlands	The Nederlandse Cystic Fibrosis Stichting fights for a better quality of life for people who suffer from cystic fibrosis.
	Tell me your dreams	Mexico	This charity is focused on fulfilling the dreams of children who suffer from serious terminal illnesses.
	Soncek Murska Sobota,	Slovenia	Soncek is an association that brings together children suffering from cerebral palsy. Their aim is to provide as much as possible a normal life for these children, and includes many different therapies such as physiotherapy, therapeutic riding and swimming.
	Lotus Home	Sri Lanka	Lotus Home is an orphanage for disabled girls in Sri Lanka.
	Be Their Difference, Inc	USA	This foundation raises money to purchase toys to donate to the children's hospitals in Kentucky. The two major hospitals include Nortons Children's Hospital in Louisville and Kentucky Children's Hospital in Lexington.
	Twin To Twin Transfusion Syndrome (TTTS)	USA	This foundation is dedicated to helping families affected by TTTS. They provide information for medical decisions, as well as emotional and financial support. There is also a huge resource for bereavement support for infant loss.

Head Office team volunteered their time on the Northwich section of the Trent and Mersey canal

The DPM team participated in a team building event in Den Bosch, the Netherlands which included a donation to a local charity

Corporate Social Responsibility
continued

Donations in Kind

In addition to the annual Group donation, each business unit has discretion to allocate funds to local community groups, employee nominated charities and/or animal welfare charities. Below is a selection of what has taken place during the 2017 financial year.

Type of Charity	Charity	Jurisdiction	Description
Animal	Help Street Animals of Morocco (HSAM)	Morocco	DVP UK continued to provide assistance to HSAM by providing supplies in 2017 of Alvegesic, *Atipam* and *Sedator*
Animal	El Nido	Mexico	Supply of veterinary products
People	Udruzenje Dijaliznih I Transplantiranih Pacijenata	Bosnia/Hertz	Disinfectants to patients with kidney transplantation

Financial Donations

Business Unit	Jurisdiction	Amount	Description
DPM Skipton	UK	£750	Donations to Children in Need and The Christie Charitable Fund, Manchester (specialised cancer hospital)
DVP EU	Germany	£659	Donations to Veterinarians without borders, Aulendorf carnival and Society for Cynological Research
DVP EU	International	£44,502	Circle of Good: Donations to World Wide Fund for Nature (WWF), Marine Conversation Society, Sea Life Centre Blankengerbe and The Ocean Clean Up (refer to case study)
DVP UK	UK	£300	Donation to Jade the Street Vet, who provides free veterinary care in London for the pets of the homeless
Genera	Croatia	£572	Donation to the local fire service

Case Study:
Our Community – Dechra Academy for Veterinarians

Maintaining and improving knowledge and skills in an ever changing industry is a major driver behind the ongoing demand from the veterinary profession for high quality education. In a number of countries the number of hours that each veterinarian spends on Continuous Professional Development (CPD) each year is mandated by their professional organisation.

From Dechra's perspective, we are keen to ensure that the diseases our products treat are diagnosed, monitored and treated, and so education forms an intrinsic part of our marketing mix.

Our educational programmes have traditionally involved speakers, often eminent Key Opinion Leaders, presenting to groups of veterinarians face to face. We recognise that it is not always convenient for our customers to give up their evenings and travel to hear a speaker, so we have looked into ways to make education available at a time and place to suit them.

The Dechra Academy was first launched in 2010 to provide an e-learning environment for veterinarians, initially in the UK. The attraction of anytime, any place learning was huge and the launch was very successful with thousands of veterinary professionals registering to complete the courses within the first few weeks of launch.

Now there are over 35 courses in the Academy in a wide range of different formats from e-learning modules to webcasts and podcasts and the Academy is available globally. The attraction of this form of learning has not waned and we continue to receive a significant number of new registrations worldwide every year.

We do still run Dechra Academy Live events, our face to face meetings and webinars, but now we record these and offer them to other customers as webcasts accessed via the Academy.

Our contribution to education has been recognised by our customers. In a recent survey*, Dechra's educational programme was highly rated by our UK customers for its quality and for our commitment to the industry. This ranking, along with the feedback from recent customer research, has given us a clear indication of what our customers need,

when they need it and how we can increase awareness and usage of our products. As a result, we are updating and improving the Dechra Academy ready for launch in the next financial year.

The new Dechra Academy will include:

- a new look and feel;
- improved navigation, simplifying the user journey; and
- increased integration with the Dechra website.

We are also investing in a number of new e-learning modules to ensure that we continue to meet our customers' demands for meaningful and relevant educational content.

* CPD Habits of Vets Across Europe, February 2017, CM Research Ltd.

Our Environment

Energy and Waste Management

The Group recognises the importance of good environmental controls. It is the Group's policy to comply with environmental legislation currently in place, to adopt responsible environmental practices and to give consideration to minimising the impact of its operations on the environment.

Annual Waste Disposal Performance

	Bladel	Florida	Skipton	Zagreb
Recovered, recycled and reused	100.0%	43.0%	56.1%	86.6%
Landfill	—	57.0%	20.4%	—
Waste & Controlled Drugs	—*	—	23.5%	13.4%

*Recycled.

Our central logistics hub for Europe (the Dechra Service Center (DSC)) has continued with its annual contribution of DKK15,000 to Energreen ApS for the construction of new green energy production facilities within Denmark.

Greenhouse Gas Emissions

In order to determine our carbon emissions, we have used the GHG Protocol Corporate Accounting and Reporting Standard and have reported on emissions arising from those sources over which we have operational control (the exception being the inclusion of a third party manufacturer who leases part of our facility in Uldum, Denmark). Any acquisitions during the year are included from the first full month that they become part of the Dechra Group. The disclosures below encompass:

- **Scope 1:** includes emission from combustion of fuel and operation of facilities (excluding combustion of fuel from Company cars);
- **Scope 2:** includes emissions from purchased electricity, heat, steam and cooling; and
- **Vehicle emissions.**

Dechra has selected 'Tonnes of CO_2e per total £ million sales revenue' as the intensity ratio as this is a relevant indicator of the Group's growth.

	1 July 2016 to 30 June 2017	1 July 2015 to 30 June 2016	1 July 2014 to 30 June 2015
Scope 1	**4,018**	3,434	636
Scope 2	**3,890**	3,130	1,740
Vehicle emissions	**1,618**	1,511	1,241
Total Carbon Footprint (tonnes of CO_2e)	**9,526**	8,075	3,617
Intensity ratio (tonnes of CO_2e per £m)	**26.5**	32.6	17.8

As reported in last year's report the increase in the 2016 financial year was mainly attributable to the production of the nutrition supplement that is manufactured at Genera. This was explained in a case study in the 2016 Annual Report.

The intensity ratio has decreased by 6.1 tonnes of CO_2e per total £ million sales revenue. The decrease is partially due to the continued monitoring and optimising of the energy resources used at our manufacturing facilities and at the DSC. In January 2017 DSC installed light emitting diode type (LED) lighting in their warehouse and administration. On a yearly basis this change is expected to save DKK133,370 (approximately £15,640) with a return on investment of 1.4 years and annual kWh saving of 112,464 kWh.

At the beginning of 2017 the Melbourne facility in Florida, US upgraded its site with a retrofitting of the current lighting fixtures from conventional lighting to LED. On a yearly basis Melbourne expect to save a total of US$10,043 and with a return on investment of 1.7 years and an annual return on investment of 55%. The Melbourne site has experienced a 32 tonnes reduction in CO_2 emissions per year.

The change at both sites will result in an expected 50,000 hours lamp lifetime saving and a 100% reduction in mercury levels in lighting. We are now working with a third party to make similar changes at the Bladel facility.

Case Study:

Our Environment – Reduce Waste

The Active Pharmaceutical Ingredient (API) Amoxicillin is used in the production of Octacilline and Solamocta. Traditionally, this API is produced by a chemical method, which uses large amounts of organic solvents, and produces a large amount of waste. To minimise the environmental impact of this chemical production, Dechra tested and validated an alternative source who utilises an enzymatic process to produce Amoxicillin. The benefits from using the enzymatic Amoxicillin include using fewer solvents in the synthesis, less environment pollution and a reduction of energy consumption greater than 50%. This is a step to reduce the environmental impact from the production of antibiotics.

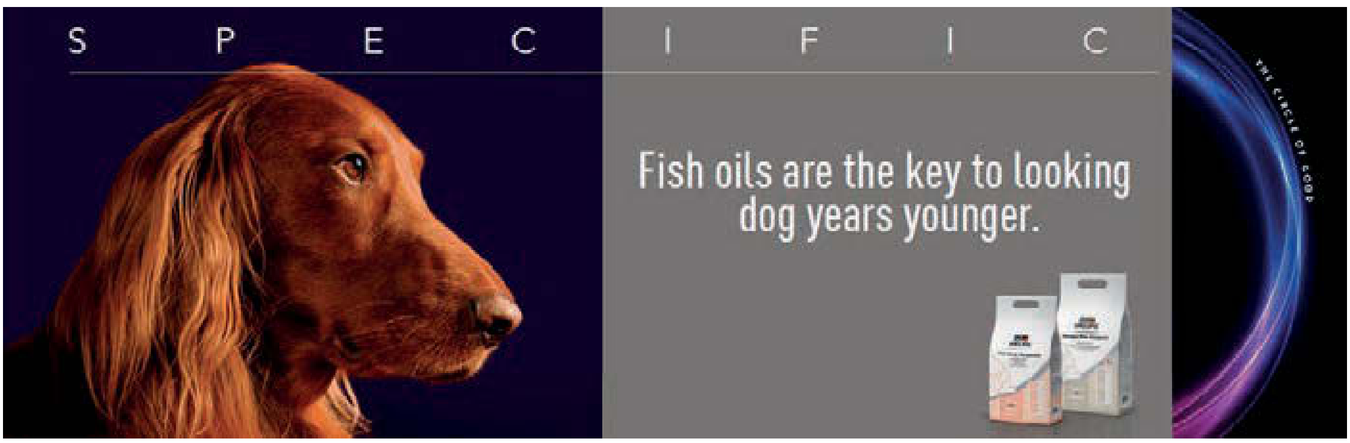
Case Study:
Our Environment – Ocean Cleanup

In 2015 the Circle of Good was developed as a positioning for our *Specific* brand of pet food. The Circle of Good includes a commitment to contribute up to 5% of its profits to environmental causes, in particular marine sustainability. The underlying principle of the Circle of Good is that *Specific* uses the finest ingredients, foremost amongst these being fish, to create products that deliver genuine health benefits for pets. This creates products that veterinarians are proud to recommend and from which owners see the benefits in their healthy pets. Reinvesting a proportion of the profits into the environment that provides these ingredients supports the process and completes a Circle of Good.

A range of activities have been supported by the Circle of Good initiative including WWF – Baltic Sea in Scandinavia; North Sea Foundation in the Netherlands and Belgium with a beach clean-up tour; The Finnish Association for Nature Conservation; WWF Club PME in France; The Sustainable Seas Foundation in Sweden and Keep Sweden Tidy Foundation; and beach clean-ups with the Marine Conservation Society in the UK.

In 2017 The Ocean Cleanup (TOC) was added to the initiatives supported by *Specific*. TOC is an imaginative, international and ambitious scheme offering a potential solution to what was previously seen as an intractable problem, that is the removal of millions of tons of plastic from the world's oceans, which damage ecosystems and enter food chains. To clean this up using vessels and nets will cost billions of dollars and take thousands of years to complete. TOC aims to use the natural ocean currents and winds, developing a network of floating U-shaped screens that catch and channel the plastic to a central point where it can be removed from the ocean and shipped to shore for recycling. Computer models predict that TOC will be able to remove 50% of the plastic waste in the Pacific in just five years.

Going forward, *Specific* is looking to source all of its fish from accredited sustainable sources; it already has this for the majority of its fish oil and packaging is also under review to reduce material weight.



Case Study:
Our Environment – Cleanaural

Historically production of Cleanaural, one of the care products, was undertaken at our small manufacturing facility located alongside the logistics hub in Uldum, Denmark. In 2013 following the closure of this manufacturing facility, production was moved to a lower cost Contract Manufacturing Organisation (CMO) located in Florida, US. Although manufacturing was carried out in Florida, the bottles and nozzles were still supplied from Denmark, as they had been specially designed and manufactured in Denmark. This meant a journey of over 4,600 miles one way moving empty bottles from Europe to US, the bottles being filled in the US, then transported over 4,600 miles back to the logistics hub before onward distribution into Europe. Therefore, a single bottle would have travelled more than 9,200 miles before it was distributed to the final customer.

Following the five year Dechra Manufacturing and Supply Chain strategic plan it was decided to make use of the geographical location and skilled workforce of our Zagreb manufacturing facility in Croatia. We wanted to ensure security of supply chain and the quality and cost improvements for the product. The plan was to source and produce the product in Croatia and then send to the logistics hub in Denmark, resulting in a total journey of around 1,000 miles compared to the 9,200 previously.

This transfer process has resulted in significant investment in staff training and upskilling in Croatia. In addition, the technical teams have looked at the manufacturing process and have made improvements to the production methods. The site had to seek regulatory approval for the manufacturing facility, and in December 2016 it received the GMP licence to operate from the Agency for Medicinal Products and Medicinal Devices of Croatia (HALMED).

In March 2017, we successfully achieved the technology transfer from the CMO facility in USA with the first production arriving in our Danish logistics hub in April 2017, months ahead of the original plan. The team have also undertaken a project to source bottles and caps locally in Croatia to have a tighter supply chain in place. We have been working closely with the CMO to ensure they maintain our USA supply chain and provide a dual supply source.

The result of this transfer means we can support the commercial ambition of the Group by reducing our cost of goods.

Furthermore, the 90% reduction in unnecessary movement of goods means a dramatic CO_2 emission reduction.

How the Business Manages Risk

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

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

Our Senior Executive Team (SET) owns the risk management process and is responsible for managing specific Group risks.

The SET is also responsible for embedding sound risk management in strategy, planning, budgeting, performance management, and operational processes within their respective Operating Segments and business units.

The Board and the SET together set the tone and decide the level of risk and control to be taken in achieving the Group's objectives.

Top Down

Board
Overseeing of the Group's risk management and internal controls

Audit Committee
Annual validation of the risk reporting process

Senior Executive Team
Owners of the risk management process and responsible for embedding risk management into business units

Business Units
Identification, mitigation and monitoring of risks

Bottom Up

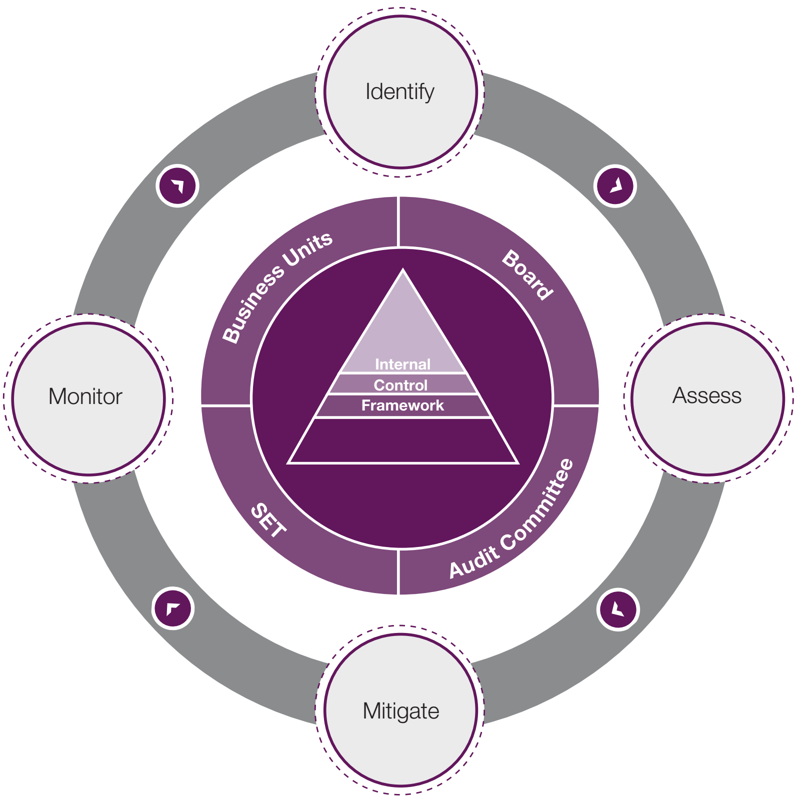
Risk Management Process

Our strategy informs the setting of the objectives across the business and is widely communicated. Strategic risks and opportunities are identified as an integral part of the strategy setting process.

The SET is responsible for evaluating and managing risk from both a bottom up and top down level and acts as a link between the Board and the business units to ensure management of operational risks is embedded in the business.

Each SET member owns one or more Group risks and is responsible for identifying how the risks are currently controlled, what additional mitigating actions are required, what monitoring and assurance mechanisms are in place, assessing the effectiveness of key control processes, and addressing any weaknesses identified.

The Board conducts a review of the risk management and internal control framework and SET members present their risks, controls and mitigation plans to the Board for review on a rolling programme throughout the year. The Audit Committee reviews the effectiveness of internal financial controls annually.

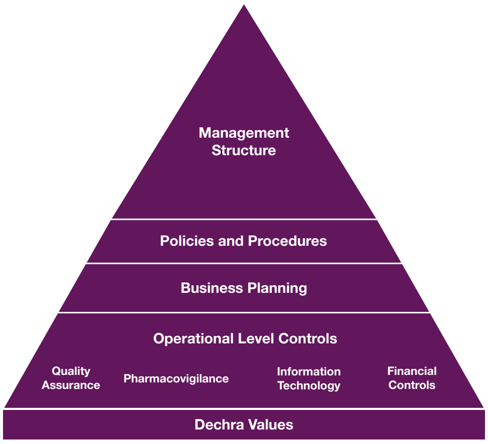


Internal Control Framework

Our internal control framework is designed to ensure:

- proper financial records are maintained;
- the Group's assets are safeguarded;
- compliance with laws and regulations; and
- effective and efficient operation of business processes.

The Dechra Values are the foundation of the control framework and it is the Board's aim that these values should drive the behaviours and actions of all employees. The key elements of the control framework are described below:



- **Management Structure**
  Our management structure has clearly defined reporting lines, accountabilities and authority levels.

  The Group is organised as business units. Each business unit is led by a SET member and has its own management team.

- **Policies and Procedures**
  Our key financial, legal and compliance policies that apply across the Group are:
  - Code of Business Conduct;
  - Delegation of Authorities;
  - Anti-Bribery and Anti-Corruption;
  - Whistleblowing;
  - Sanctions; and
  - Charitable Donations.

- **Strategy and Business Planning**
  We have a five year strategic plan which is updated and reviewed by the Board annually. Business objectives and performance measures are defined annually together with budgets and forecasts. Monthly business performance reviews are conducted at both Group and business unit levels.

  The product pipeline is reviewed regularly to:
  - assess whether products in development are progressing according to schedule;
  - identify new product ideas and assess fit with our product portfolio; and
  - assess the expected commercial return on new products.

- **Operational Controls**
  Our key operational control processes are as follows:
  - Quality Assurance: All our manufacturing sites have an established Quality Management System. These systems are designed to ensure that our products are manufactured to a high standard and in compliance with the relevant regulatory requirements.
  - Pharmacovigilance: Our regulatory team operates a robust system with a view to ensuring that any adverse reactions related to the use of our products are reported and dealt with promptly.
  - Information Technology: Our business units currently use a number of different local financial, manufacturing and warehouse management systems to support their operations. We are in the process of implementing Oracle across the Group.
  - Financial Controls: Our controls are designed to prevent and detect financial misstatement or fraud and operate at three levels:
    - Entity Level Controls performed by senior managers at Group and business unit level;
    - Month-end and Year-end procedures performed as part of our regular financial reporting and management processes; and
    - Transactional Level Controls operated on a day-to-day basis.

Internal Audit provides independent and objective assurance and advice on the design and operation of the Group's internal control framework. The internal audit plan seeks to provide balanced coverage of the Group's material financial, operational and compliance control processes

Improvements in 2017

We have continued to strengthen and improve a number of key control processes and the following changes have been implemented:

- a number of portfolio and project management improvements have been implemented in our product development processes;
- the manufacturing Quality Management Systems in all our recent acquisitions have been assessed and improvements implemented to ensure they meet relevant regulatory standards;
- a risk assessment of the key contract manufacturing organisations (CMOs) that our supply chain is dependent upon has been completed and quality audits have also been conducted on the top 35 CMOs; and
- our standard financial control framework has been updated and rolled out across the Group, including all recent acquisitions, in response to a number of improvement opportunities identified from internal audit reviews.

Plans for 2018

We will continue to refine and strengthen our internal control framework where required in response to changes in our risk profile and improvement opportunities identified by business management, quality assurance and internal audit.

We are planning to review our key corporate compliance processes and training activities including our Group Code of Conduct, key Group Policies and our Third Party Principles Policy in order to improve our ability to comply with existing and emerging legislation.

Understanding Our Key Risks

Dechra is one of only a handful of listed veterinary pharmaceuticals companies in the FTSE. We therefore believe it is important to summarise the key distinctions between the animal and human pharmaceutical industries in order to provide a better understanding of our risk profile.

The business of developing and marketing animal pharmaceuticals shares a number of characteristics with human pharmaceutical businesses. These similarities include the need to conduct clinical trials to prove product safety and efficacy, obtain regulatory approval for new products, complex and highly regulated product manufacturing, and to market products based on approved clinical claims. However, there are also significant differences between animal and human pharmaceutical businesses, including:

- **Product development is generally faster, cheaper and more predictable and sustainable:** Development of animal medicines typically requires fewer clinical studies with fewer subjects and is conducted directly in the target species. Decisions on product safety, efficacy and likelihood of success can therefore be made more quickly.
- **Diversified product portfolios:** Animal pharmaceuticals businesses are generally less reliant on a small number of 'blockbuster' products. Animal health products are sold across different regions which may have distinct product requirements. As a result, animal health products often have a smaller market size and the performance of any single product typically has less impact on overall business performance.
- **Stronger customer relationships and brand loyalty:** Companion Animal Products are directly prescribed and often dispensed and sold by veterinarians which contributes to building brand loyalty, which continues after the loss of patent protection or regulatory exclusivity.
- **Lower pricing pressure:** Livestock producers and pet owners generally pay for animal healthcare themselves. Pricing decisions are not influenced by government payors that are involved in product and pricing decisions for human medicines.
- **Less price erosion by generic competition:** Generic competition in animal healthcare, whilst playing an important role, has a lower impact on prices compared to human pharmaceuticals because of the smaller average market size of each product opportunity, stronger customer relationships and brand loyalty.

The SET has identified and agreed key risks with the Board. Of these, a number are deemed to be generic risks facing every business including failure to comply with financial reporting regulation, foreign exchange, IT systems failure and non-compliance with legislation. The table below therefore details the ten principal risks that are specific to our business and provides information on:

- how they link to Group strategy;
- their potential impact on the business; and
- what controls are in place to mitigate them.

Link to Strategic Growth Driver and Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	Competitor Risk: Competitor products launched against one of our leading brands (e.g. generics or a superior product profile). We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products. Although we maintain a broad portfolio of products, our unique products like *Vetoryl* and *Felimazole* have built a market which may be attractive to competitors.	Revenues and margins may be adversely affected should competitors launch a novel or generic product that competes with one of our unique products upon the expiry or early loss of patents. Costs may increase due to defensive marketing activity.	We focus on lifecycle management strategies for our key products to ensure they fulfil evolving customer requirements. Product patents are monitored and defensive strategies are developed towards the end of the patent life or the data exclusivity period. We monitor market activity prior to competitor products being launched, and develop a marketing response strategy to mitigate competitor impact.	Competitor product launches against some of our key products

Link to Strategic Growth Driver and Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	Market Risk: The emergence of veterinary buying groups and corporate customers. We sell and promote primarily to veterinary practices and distribute our products through wholesaler and distributor networks in most markets. In a number of mature markets, veterinarians are establishing buying groups to consolidate their purchasing, and corporate customers are also emerging.	The emergence of corporate customers and buying groups represents an opportunity to increase sales volumes and revenue but may result in reduced margins. Our reputation and relationships with veterinary practices could also be adversely affected.	We manage and monitor our national and European pricing policies to ensure equitable pricing for each customer group. Our relationships with larger customers are managed by key account managers. Our marketing strategy is designed to support veterinarians in retaining customers by promoting the benefits of our product portfolio in our major therapeutic areas.	
	Acquisition Risk: Identification of acquisition candidates and their potential integration. Identification of suitable candidates and securing a successful approach involves a high degree of uncertainty. Acquired products or businesses may fail to deliver expected returns due to over-valuation or integration challenges.	Failure to identify or secure suitable targets could slow the pace at which we can expand into new markets or grow our portfolio. Acquisitions could deliver lower profits than expected or result in intangible assets impairment.	We have defined criteria for screening acquisition targets and we conduct commercial, clinical, financial and legal due diligence. The Board reviews acquisition plans and progress regularly and approves all potential transactions. The SET manages post-acquisition integration and monitors the delivery of benefits and returns.	Successful integration of recent acquisitions
	Product Development Risk: Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations. The development of pharmaceutical products is a complex, risky and lengthy process involving significant financial, R&D and other resources. Products that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval. It can also be difficult to predict whether newly launched products will meet commercial expectations.	A succession of clinical trial failures could adversely affect our ability to deliver shareholder expectations and could also damage our reputation and relationship with veterinarians. Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits. Where we are unable to recoup the costs incurred in developing and launching a product this would result in impairment of intangible assets.	Potential new development candidates are assessed from a commercial, financial and scientific perspective by a multi-functional team to allow senior management to make decisions on which ones to progress. The pipeline is discussed regularly by senior management, including the Chief Executive Officer and Chief Financial Officer. Regular updates are also provided to the Board. Each development project is managed by co-project leaders who chair project team meetings. Before costly pivotal studies are initiated, smaller proof of concept pilot studies are conducted to assess the effects of the drug on target species and for the target indication. In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored. The Group ensures that it has a detailed market knowledge and retains close contact with customers through its management and sales teams which are trained to a high standard.	

Understanding Our Key Risks
continued

Link to Strategic Growth Driver and Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	Regulatory Risk: Failure to meet regulatory requirements. We conduct our business in a highly regulated environment, which is designed to ensure the safety, efficacy, quality, and ethical promotion of pharmaceutical products. Failure to adhere to regulatory standards or to implement changes in those standards could affect our ability to register, manufacture or promote our products.	Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins. Any changes made to the manufacturing, distribution, marketing and safety surveillance processes of our products may require additional regulatory approvals, resulting in additional costs and/or delays. Non-compliance with regulatory requirements may result in delays to production or lost sales.	The Group strives to exceed regulatory requirements and ensure that its employees have detailed experience and knowledge of the regulations. Manufacturing and Regulatory have established quality systems and standard operating procedures in place. Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and facilitate good communication lines. The regulatory and legal teams keep updated in respect of changes with a view to ensuring that the business is equipped to deal with, and adhere to, such changes. Where changes are identified which could affect our ability to market and sell any of our products, a response team is created in order to mitigate the risk. External consultants are used to audit our manufacturing quality systems.	
	Regulatory Risk: Continuing pressure on reducing antibiotic use. The issue of the potential transfer of antibacterial resistance from food producing animals to humans is subject to regulatory discussions. In some countries this has led to government recommendations on reducing the use of antibiotics in food producing animals.	Reduction in sales of our antimicrobial product range. Our reputation could be adversely impacted if we do not respond appropriately to government recommendations.	Regular contact is maintained with relevant veterinary authorities to ensure that we have a comprehensive understanding of regulatory changes. We strive to develop new products and minimise antimicrobial resistance concerns.	Antibiotic decline has increased in the UK and Denmark
	Reliance on Third Parties Risk: A supply failure on a key product may affect our ability to develop, make, or sell our products. We rely on third parties for the supply of all raw materials for products that we manufacture in-house. We also purchase many of our finished products from third party manufacturers.	Raw material supply failures may cause: • Increased product costs due to difficulties in obtaining scarce materials on commercially acceptable terms; • product shortages due to manufacturing delays; or • delays in clinical trials due to shortage of trial products. Shortages in manufactured products and third party supply failures on finished products may result in lost sales.	We monitor the performance of our key suppliers and act promptly to source from alternative suppliers where potential issues are identified. The top ten Group products are regularly reviewed in order to identify the key suppliers of materials or finished products. We maintain buffer stocks and dual sourcing arrangements of key products. All contracts with suppliers are reviewed from both a commercial and legal perspective to try to ensure that assignment of the contract is allowed should there be a change of control of either of the contracting parties. We have recruited a dedicated CMO Director to manage our third party supplier network.	

Link to Strategic Growth Driver and Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
Portfolio Focus; Manufacturing and Supply Chain	**Reliance on Third Parties Risk:** Loss of key third party manufacturing customers from DPM. Other sales, relating to third party manufacturing and other non-core activities, represents approximately 9.2% of Group revenues.	Loss of a key customer can impact manufacturing revenues and lead to an increase in the cost of goods of the remaining portfolio.	The DPM sales team maintains relationships with key customers. Robust supply agreements are in place with each of our key customers and are regularly reviewed. Monthly customer service level monitoring and reporting is in place.	Decreased risk. Strategy to reduce third party manufacturing contracts
Pipeline Delivery; Portfolio Focus; People	**People Risk:** Failure to retain high calibre, talented senior managers and other key roles in the business. Our growth plans and future success are dependent on retaining knowledgeable and experienced senior managers and key staff.	Loss of key skills and experience could erode our competitive advantage and could have an adverse impact on results. Inability to attract and retain key personnel may weaken succession planning.	The Nomination Committee oversees succession planning for the Board and the SET. Succession plans are in place for the SET together with development plans for key senior managers. Key person insurance is in place where appropriate. Remuneration packages are reviewed on an annual basis in order to help ensure that the Group can continue to retain, incentivise and motivate its employees.	Decreased risk. Board and SET succession planning managed successfully
Geographical Expansion; Acquisition; People	**People Risk:** Failure to resource the business to achieve our strategic ambitions, particularly on geographical expansion and acquisition. As Dechra expands into new markets and acquires new businesses or science we recognise that we may need new people with different skills, experience and cultural knowledge to execute our strategy successfully in those markets and business areas.	Failure to recruit or develop good quality people could result in: • capability gaps in new markets; • challenges in integrating new acquisitions; or • overstretched resources. This could delay implementation of our strategy and we may not meet shareholders' expectations.	The Group HR Director reviews the organisational structure with the SET twice a year to aim to ensure that the organisation is fit for purpose and to assess the resourcing implications of planned changes or strategic imperatives. A development programme is in place to identify opportunities to recruit new talent and develop existing potential.	Decreased risk. Successful recruitment of DPM management team

Key to Strategic Growth Drivers:

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition

Key to Strategic Enablers:

- Manufacturing and Supply Chain
- Technology
- People

Key to Risk Trend:

- ▲ Increased risk
- ▼ Decreased risk
- ◀▶ No change

Read **Delivering Our Strategy** on pages 13 to 15

Governance

Board of Directors

Tony Rice Non-Executive Chairman

Tony Rice: Non-Executive Chairman

Committee Membership: Nomination (Chairman), Remuneration.

Skills and Experience: Tony has extensive board level experience across a range of sectors, including aerospace, healthcare, telecommunications and retail in both UK and international markets.

Background: Tony joined the Board in May 2016 and was appointed Chairman in October 2016. He served as Chief Executive Officer at Cable & Wireless and Tunstall Holdings, and prior to that held various roles at BAE Systems including Managing Director of Commercial Aircraft and Group MD of Business Development. He has also served as a Non-Executive Director at Punch Taverns, Spirit Pub Company, Cable & Wireless, Telewest Communications and Saab Technologies, and Chairman of Alexander Mann Solutions.

External Appointments: Tony is currently the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee at Halma plc.

Ian Page Chief Executive Officer

Ian Page: Chief Executive Officer

Committee Membership: Not applicable.

Skills and Experience: Ian has gained detailed knowledge and experience through various positions he has held within the pharmaceutical and veterinary arena. He has a solid understanding of business development both in the UK and globally. In particular he has extensive experience in M&A and in the successful delivery of strategic plans.

Background: Ian joined NVS, Dechra's former services business, at its formation in 1989 and was an integral part of the MBO in 1997, becoming its Managing Director in 1998. He joined the Board in 1997 and became Chief Executive Officer in 2001. Ian has played a key role in the development of the Group's growth strategy.

External Appointments: In October 2010 Ian was appointed as Non-Executive Chairman of Sanford DeLand Asset Management Limited.

Richard Cotton Chief Financial Officer

Richard Cotton: Chief Financial Officer

Committee Membership: Not applicable.

Skills and Experience: Richard has a wealth of experience in senior financial roles in life sciences and other sectors, including broadcast and photographic, automotive, filtration and metals. His experience covers all finance management and value creation activities from R&D, to manufacturing and commerce in international organisations. He has significant experience in the development and successful execution of strategy, corporate finance and M&A, capital markets and governance.

Background: Richard was appointed Chief Financial Officer in January 2017. Prior to joining Dechra he was Chief Financial Officer of Consort Medical plc from 2012 to 2016. He has also been Finance Director of Vitec Group plc from 2008 to 2011, Group Finance Director at Wagon plc from 2005 to 2008, and Group Finance Director of McLeod Russel plc from 2001 to 2005. Prior to this he held senior finance roles in Alcoa Inc.

External Appointments: None.

Tony Griffin Managing Director DVP EU

Tony Griffin: Managing Director, Dechra Veterinary Products EU

Committee Membership: Not applicable.

Skills and Experience: Tony has over 25 years' experience in the animal health business and has substantial international experience as a result of living and working outside the UK since 1993. He gained broad experience of running an international animal health business with teams in different European countries as Chief Executive Officer of the AUV Group. Tony is the Board nominated Director responsible for health, safety and environmental matters.

Background: Tony was appointed Managing Director of DVP EU in May 2012 following the acquisition of Eurovet Animal Health BV from AUV Holding B.V. He joined the AUV Group in 1993 as Director of Exports, having previously worked at Norbrook Laboratories and Moy Park. Tony was promoted to Managing Director of Eurovet in 1996, becoming the Chief Executive Officer of the AUV Group in 2006.

External Appointments: None.

Ishbel Macpherson Senior Independent Non-Executive Director

Ishbel Macpherson: Senior Independent Non-Executive Director

Committee Membership: Audit, Nomination, Remuneration (Chairman).

Skills and Experience: Ishbel has a broad range of PLC Board experience in a variety of roles, including Chairman, Audit Committee and Remuneration Committee Chairman. She has knowledge and understanding of City matters gained over 20 years' experience as an investment banker, specialising in UK mid-market corporate finance.

Background: Ishbel joined the Group as a Non-Executive Director in February 2013. Prior to this she was Head of UK Emerging Companies Corporate Finance at Dresdner Kleinwort Benson from 1999 to 2005, having previously worked at Hoare Govett and Barclays de Zoete Wedd.

External Appointments: Ishbel is a Non-Executive Director at Galliford Try plc (appointed February 2014), Senior Independent Director at Bonmarche Holdings plc (appointed October 2013) and Non-Executive Director of Fidessa plc (appointed May 2017).

Julian Heslop Non-Executive Director

Julian Heslop: Non-Executive Director

Committee Membership: Audit (Chairman), Nomination, Remuneration.

Skills and Experience: Julian has considerable financial experience as a result of the senior finance roles he has held in the pharmaceutical, food, property and brewing sectors over the last 30 years.

Background: Julian joined the Board in January 2013. He served as Chief Financial Officer of GlaxoSmithKline PLC between 2005 and 2011, having previously been appointed its Senior Vice President, Operations Controller between 2001 and 2005 and as Financial Controller of Glaxo Wellcome PLC between 1998 and 2000. Prior to this, Julian held senior finance roles at Grand Metropolitan PLC and Imperial Brewing and Leisure. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

External Appointments: Julian is a Non-Executive Director at Itaconix PLC (appointed July 2012) and is their Audit Committee Chairman. He is also a Director and Chairman of the Audit Committee of the Royal Academy of Arts (appointed October 2012).

Dr Lawson Macartney Non-Executive Director

Dr Lawson Macartney: Non-Executive Director

Committee Membership: Audit, Nomination and Remuneration.

Skills and Experience: Lawson is a veterinarian and, in addition to spending several years in veterinary practice, has held a range of senior roles in pharmaceutical R&D, sales and marketing over the past 30 years.

Background: Lawson joined the Board in December 2016. He served as Chief Executive Officer of Ambrx Inc. between 2013 and 2015, and prior to that led emerging business for Shire PLC. Before joining Shire in 2011, he was with GlaxoSmithKline PLC (GSK) from 1999 to 2011 in positions of increasing seniority. His final role at GSK was to lead the strategic marketing, outcomes and reimbursement, project management and portfolio teams. In addition to his veterinary degree, Lawson has a PhD in viral pathobiology and is a pathologist, holding Fellowship of the Royal College of Pathologists as well as Membership of the Royal College of Veterinary Surgeons.

External Appointments: Lawson has been the Chairman of Viking Therapeutics Inc. since 2015, as well as the Chairman of the Nomination and Corporate Governance and a member of the Audit Committee. He is also a strategic adviser to several investment and private equity groups in both Europe and USA.

Letter from the Chairman on Governance

Tony Rice Non-Executive Chairman

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Corporate Governance Report for the year ended 30 June 2017.

Managing Governance

The Board recognises that excellence in corporate governance is essential in order to generate and protect value for our investors. Our governance structure is designed to maintain effective control and oversight of our business whilst at the same time promoting the entrepreneurial spirit that has underpinned Dechra's success to date.

In our Corporate Governance Report we aim to provide a clear and meaningful explanation of how the Board leads the Group and discharges its governance duties, including how we apply the provisions of the UK Corporate Governance Code (the Code).

Leadership

We have a strong and balanced Board with a range of complementary skills to support the strategic and operational direction of the Group. There were several changes to the composition of the Board during the past year. As disclosed in last year's Annual Report, Richard Cotton was appointed as Chief Financial Officer, replacing Anne-Francoise Nesmes who resigned in July 2016. Richard joined the Company in January 2017. We also welcomed Lawson Macartney to the Board as an independent Non-Executive Director. Lawson brings a depth of knowledge and expertise of product development to the Board. His biographical details can be found on page 65.

Michael Redmond retired at the Annual General Meeting in October 2016, following which I was appointed as Chairman of the Company and the Nomination Committee. Michael played an instrumental part in the evolution and growth of Dechra and on behalf of the Board I would like to thank him for the huge contribution and guidance he has provided to the business throughout his tenure.

Board Effectiveness

As Chairman, I am responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. During the 2017 financial year we undertook an internal evaluation of the Board, its committees and individual Directors. I am delighted to report that the overall outcome from the evaluation was that the Board and its individual Directors are performing effectively, and that the Board is well supported and presents an open forum for debate. The findings from this evaluation can be found on page 72.

Accountability

We are required by the Code to include an assessment of the viability of the Company. This is covered on page 73.

Relations with Shareholders

The Annual General Meeting will be held in Knutsford on 20 October 2017 and I would like to invite our shareholders to attend. It will provide you with an opportunity to meet the Board and ask any questions that you may have in respect of the Group's activities.

Finally, should you have any questions in relation to the report, please feel free to contact me or the Company Secretary.

Tony Rice
Non-Executive Chairman
4 September 2017

Corporate Governance

Compliance with the Code

The UK Corporate Governance Code (the Code) establishes the principles of good governance for companies; the following report describes how the Company has applied these principles to its activities. The Board remains committed to maintaining high standards of corporate governance. In the opinion of the Directors, the Company has complied with the Code throughout the period. The Code can be found at www.frc.org.uk.

Leadership

The Role of the Board

The Board's primary responsibility is to promote the long term success of the Company by the creation and delivery of sustainable shareholder value. The Board's strategy has four drivers to promote growth:

- Pipeline Delivery;
- Portfolio Focus;
- Geographical Expansion; and
- Acquisition.

KPIs have been designed to measure progress and delivery of the strategic plan and our four growth drivers. Further details are provided on pages 30 and 31.

Board Membership and Responsibilities

Details of the Directors together with their biographical details can be found on pages 64 and 65.

Non-Executive Directors

It is considered that each of the Non-Executive Directors is independent and is free of any business or other relationship which could materially interfere with, or compromise, their ability to exercise independent judgement. Each brings with them a breadth of experience which adds value to the decision making of the Board as well as the formulation and progression of the Dechra strategy.

In line with the Code, at least half the Board, excluding the Chairman, is determined by the Company to be independent.

Senior Independent Director

Ishbel Macpherson has held the position of Senior Independent Director since October 2013. She provides a sounding board for the Chairman and is available to shareholders if they have concerns that have failed to be resolved through the normal channels. The Senior Independent Director also carries out the annual evaluation of the performance of the Chairman and chairs the Nomination Committee when it is considering the succession of that role.

Role	Responsibilities
Chairman	• Lead the Board in the determination of its strategy and achievement of its objectives. • Ensure the effectiveness of the Board in all aspects of its role. • Facilitate the effective contribution of the Non-Executive Directors, ensuring that all decisions are subject to constructive debate and supported by sound decision making processes. • Ensure shareholder views are brought to the attention of the Board.
Chief Executive Officer	• Day-to-day management of the Group operations and leading the Senior Executive Team (SET). • Performance and results of the Group. • Propose strategy. • Execute strategy agreed by the Board.
Chief Financial Officer	• Responsible for financial planning and reporting for the Group. • Management of financial risk. • Develop and execute the strategic plan in conjunction with the Chief Executive Officer. • Secure funding as required.
Managing Director DVP EU	• Management of the segment which contributes the majority of Group revenue. • Nominated Director for health, safety and environmental matters. • Development and execution of strategy in the EU.
Non-Executive Directors	• Provide independent and constructive challenge. • Represent a broad range of commercial and industry experience and independent judgement. • Evaluate strategy and risks.

Corpora Governance
continued

Board Responsibilities

The Board is responsible for the long term success of the Company. The main responsibilities and key actions carried out are set out below:

Responsibilities	Actions
Strategy and performance	Annual strategy review. Strategic decisions are made after reports and recommendations are received from management on markets, potential growth areas including acquisitions, product development and risk analysis, including execution risks.
Risk management and internal controls	Ongoing review of key risks and material internal control processes. Review of stress tests on the Group's forecasts to support the viability statement. Receipt of Audit Committee reports on risk management process and internal controls.
Oversight of the Group's operations	Approval of the annual budget and capital expenditure projects. Site visits to factories and offices in the UK and abroad. Review progress through business unit reports and detailed financial result reports.
Governance	Receive governance reviews from external advisers, the Company Secretary and internal audit. Review of Board skills, performance, composition and succession planning.

Matters Reserved for the Board

There is a formal schedule of matters reserved for the Board. The schedule of matters covers a number of areas, including the following:

Strategy and Management	Approval and monitoring of long term objectives and strategy. Approval of the Group's operating and capital expenditure budgets. Major organisational changes. Regular reviews of business performance. Approval of acquisitions and business development proposals.
Financial Reporting	Approval of the Annual and Half-Yearly Reports and dividend policy. Review of portfolio. Approval of budget. Approval of treasury policy, and tax strategy and policy. Interaction with the external auditor.
Internal Controls	Maintain a sound system of internal control and risk management.
Corporate Governance	Board and Committee composition. Corporate Governance matters. Approval of Group policies including Health and Safety, Sanctions and the Anti-Bribery and Anti-Corruption.

Board Meetings

The Board is scheduled to meet nine times per year. During the year two additional meetings were held: one in relation to the acquisition of the trade and assets of Apex Laboratories Pty Ltd and one in relation to the appointment of Lawson Macartney as a Non-Executive Director. Attendance at the Board and Committee meetings during the year to 30 June 2017 is set out in the table below:

	Mike Redmond†	Tony Rice#	Ian Page	Richard Cotton‡	Tony Griffin	Julian Heslop	Lawson Macartney*	Ishbel Macpherson	Anne-Francoise Nesmes§
Appointment Date	19 April 2001	5 May 2016	13 June 1997	3 January 2017	1 November 2012	1 January 2013	1 December 2016	1 February 2013	22 April 2013
Board Met 11 times	4	11	11	5	11	11	6	11	1
Audit Committee Met 5 times	n/a	1	n/a	n/a	n/a	5	4	5	n/a
Nomination Committee Met 5 times	4	4	n/a	n/a	n/a	5	1	5	n/a
Remuneration Committee Met 8 times	6	6	n/a	n/a	n/a	8	2	8	n/a

Meetings attended

† Mike Redmond retired on 21 October 2016. He attended all meetings prior to his retirement.
‡ Richard Cotton has attended all meetings since his appointment.
* Lawson Macartney has attended all meetings since his appointment.
§ Anne-Francoise Nesmes resigned on 31 July 2016. She attended all meetings prior to her resignation.
# Tony Rice did not attend one ad hoc Nomination Committee meeting and two ad hoc Remuneration Committee meetings since his appointment.

Where Directors cannot attend a meeting, the Board papers are still provided allowing the Director to raise any queries or discussion points through the Chairman. Should Directors have concerns of any nature which cannot be resolved within the Board meeting, they have the right to ensure their view is recorded in the minutes.

During the year, in addition to its routine business, presentations by senior management, and strategic development, some of the other matters considered by the Board included:

- Acquisition of the trade and assets of Apex Laboratories Pty Ltd;
- Licensing Agreement with Animal Ethics Pty Ltd and Share Acquisition of Medical Ethics Pty Ltd;
- Debt Strategy and Narrative;
- Vaccines Strategy;
- Implementation of Oracle;
- Impact of Brexit; and
- Appointment of the Chief Financial Officer.

Board Committees
The Board has formally delegated specific responsibilities to Committees, namely the Audit, Remuneration and Nomination Committees. The full terms of reference for each of these Committees are available on the Company's website (www.dechra.com) or on request from the Company Secretary.

Committee	Role and Terms of Reference	Committee Report on Pages
Audit	The main responsibilities are: • to monitor the integrity of the financial statements of the Group, and assist the Board in ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable; • to review the effectiveness of the Group's internal financial control systems as described on page 77; • to oversee the relationship with and review the effectiveness of the external auditor, monitor their independence and objectivity, and set the policy for non-audit work; and • to review and approve the significant accounting policies.	74 to 78
Remuneration	The main responsibilities are: • to determine the remuneration, bonuses, long term incentive arrangements, contract terms and other benefits in respect of the Executive Directors and the Chairman; • to oversee any major changes in employee benefit structures; and • to approve the design of any employee share schemes.	81 to 101
Nomination	The main responsibilities are: • to oversee the plans for management succession; • to recommend appointments to the Board; • to evaluate the effectiveness of the Non-Executive Directors; and • to consider the structure, size and composition of the Board.	79 and 80

The Board also appoints Committees on an ad hoc basis to approve specific projects or delegated Board matters as deemed necessary.

Director Insurance and Indemnities
The Company maintains an appropriate level of Directors' and Officers' insurance in respect of legal action against Directors as permitted under the Company's Articles of Association and the Companies Act 2006. The Company also indemnifies the Directors under an indemnity deed with each Director in respect of legal action to the extent allowed under the Company's Articles of Association and the Companies Act 2006. As at the date of this report, qualifying third party indemnity provisions are in force. A copy of the indemnity provisions will be available for inspection at the forthcoming Annual General Meeting.

Effectiveness

The Board and its Committees are annually assessed to help ensure their effectiveness is maintained and that they remain fit for purpose. The Chairman manages the Board and oversees the operation of its Committees with the aim of ensuring that they operate effectively by utilising the diverse range of skills and experience of the various Board members.

Board Balance and Independence

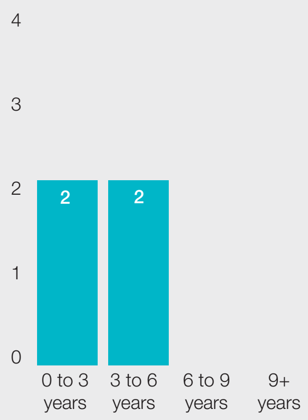
The Board understands the importance of balance and refreshment in terms of its composition and keeps these matters under review. There have been the following changes at Board level over the past 12 months:

- Anne-Francoise Nesmes (Executive Director) resigned on 31 July 2016;
- Michael Redmond (Non-Executive Chairman) retired at the 2016 Annual General Meeting;
- Tony Rice (Non-Executive Director) was appointed as Chairman after the 2016 Annual General Meeting;
- Lawson Macartney (Non-Executive Director) joined the Board on 1 December 2016; and
- Richard Cotton (Executive Director) joined the Board on 3 January 2017.

As disclosed in the 2016 Annual Report, the Nomination Committee retained an independent recruitment consultancy, Odgers Berndtson, to assist in the appointment of Lawson Macartney. Further detail relating to the recruitment process and appointment can be found in the Nomination Committee Report on page 79.

The Nomination Committee Report on pages 79 and 80 provides further information on succession planning measures taken by the Company together with how we are developing the talent pool internally.

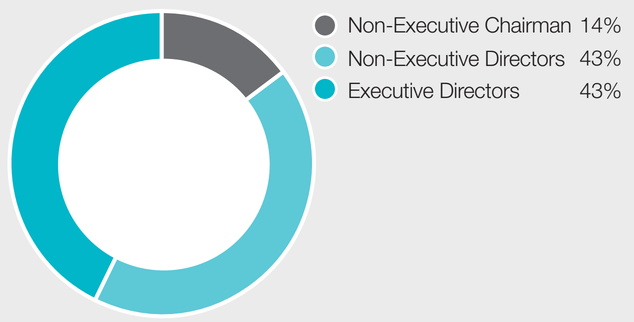
Length of Tenure of Chairman and Non-Executive Directors



Board Composition and Gender Diversity

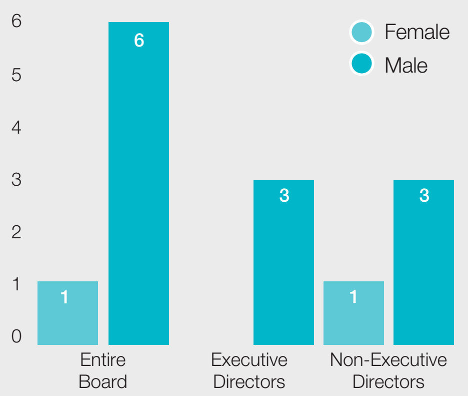
The Board seeks to ensure that the Board and the Committees have an appropriate composition to manage their duties effectively and to manage succession issues. The Board supports diversity in its broadest sense and considers it an essential driver of Board effectiveness. The Board recognises it is important that its composition is sufficiently diverse and reflects a wide range of knowledge, skills and experience.

Board Composition

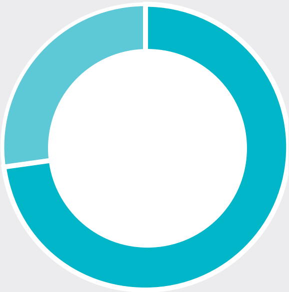


The Board does not have a formal diversity policy and is generally opposed to the idea of stated gender quotas. The Board believes that appointments should be made solely on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board. The Board has 14% female representation. Female representation below Board level was 27% of the SET and 53% of the overall workforce.

Gender Diversity



Senior Executive Team as at 30 June 2017



Female 27%
Male 73%

Overall Workforce as at 30 June 2017

Female 53%
Male 47%

Conflicts of Interest and External Board Appointments

Pursuant to the Companies Act 2006, all Directors have a duty to avoid a situation in which they have, or could have, a direct or indirect conflict of interest with the Company. The Articles of Association of the Company enable the Directors to consider and, if appropriate, authorise any actual or potential conflict of interest which could arise. There are safeguards which will apply when Directors decide whether to authorise a conflict or potential conflict. Firstly, only independent Directors (i.e. those who have no interest in the matter being considered) will be able to take the relevant decision; secondly, in taking the decision the Directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The Directors will also be able to impose limits or conditions when giving authorisation if they deem this to be appropriate. During the financial year under review no actual or potential conflicts have arisen.

Ian Page is the Non-Executive Chairman of Sanford DeLand Asset Management Limited (Sanford). The Board fully considered, at the time of his appointment, whether this would materially impact on his current time commitment as Chief Executive Officer and whether it could give rise to any conflict. As he is not involved in any investment decision made by Sanford it was not considered that any conflict would arise, nor that there would be any material impact on his time commitment.

Induction and Training

In order to ensure that the Board maintains its knowledge and familiarity with the Group's operations, at least one Board meeting per year is held at one of the Group's operational sites. This year, Board meetings were held at Dechra Pharmaceuticals Manufacturing in Croatia, and at Dechra Veterinary Products EU in Den Bosch, the Netherlands. These meetings provided the Board with an informal opportunity to meet with senior management based at these sites.

Any newly appointed Directors are provided with comprehensive documentation in relation to the remit and obligations of the role, current areas under consideration for the Board and the latest equity research reports. New Directors visit the various business units in order to allow them to meet with the management teams and to be shown around the operations. Lawson Macartney has visited the Company's facilities and had meetings with the management teams at Kansas, USA, which included the Business Development and Regulatory Affairs Director and the Product Development Director. In addition, meetings were arranged with the Group HR Director, Company Secretary, and Head of Internal Audit and Risk Assurance. Richard Cotton completed a rigorous induction of the Company and has visited sites in Australia, Croatia, Denmark, the Netherlands, US and the UK.

Regular briefings are provided to the Directors, which cover a number of legal and regulatory changes and developments relevant to each Director's areas of responsibility. In addition, the Company Secretary informs the Directors of any external training courses which may be of relevance.

Each Director is entitled, on request, to receive information to enable him or her to make informed judgements in order to discharge their duties adequately. In addition, all Directors have access to the advice and services of the Company Secretary and senior managers, and may take independent professional advice at the Company's expense in connection with their duties.

Board Evaluation and Effectiveness

The effectiveness of the Board is important to the success of the Group and the Board undertakes an annual evaluation of its performance and that of its Committees, focusing on the following areas:
(i) Board composition; (ii) strategy review and delivery process; (iii) the format of Board meetings and the decision process; (iv) training and development; (v) the performance of the Board and the individual Directors; (vi) Corporate Governance; (vii) leadership and culture; and (viii) risk assessment.

- The 2016 Internal Board Evaluation
  The findings of the internal evaluation were discussed at the July 2016 Board meeting. Overall, the review indicated that the Board operated effectively but noted some areas for improvement. The actions which were taken are shown in the table below:

Action	Progress
Acquisition integration	An update on the integration of Apex was provided and discussed in December 2016
Bi-annual strategy review	The strategy review occurred in May 2017; this was deferred due to the appointment of Chief Financial Officer in January 2017. The interim strategy review will be held prior to the end of the 2017 calendar year
Succession planning	Succession planning is discussed at least annually with the Nomination Committee. Emergency succession planning has also been discussed during this financial year

- The 2017 Internal Board Evaluation
  The last external evaluation was done in 2014. A discussion took place at the April 2017 Board meeting as to whether or not an external evaluation should be commenced during the 2017 financial year given the recent changes in the Board as detailed above. It was agreed that given these changes an internal evaluation would again be carried out.

  The internal evaluation took the format of a questionnaire which was distributed to all of the Board, with the survey results presented on an anonymous basis. Following an initial review of the responses, the Chairman discussed with the Executive and Non-Executive Directors at the July 2017 Board meeting the general themes raised by the survey and any other survey-related points they wished to discuss. In addition the Senior Independent Director discussed the performance of the Chairman with the Directors and the Chairman.

  Overall, the review once again indicated that the Board operates effectively but noted the following focus areas:

  - Executive Director succession planning;
  - Non-Executive Director Induction; and
  - Concise Board papers.

The Board has agreed that an external evaluation will be undertaken during the 2018 financial year. The results of the 2018 evaluation will be reported in next year's Annual Report.

Appointment and Re-election of Directors
On appointment, Directors are required to seek election at their first Annual General Meeting following appointment. At the forthcoming Annual General Meeting, Lawson Macartney and Richard Cotton, who were appointed to the Board on 1 December 2016 and 3 January 2017 respectively, will offer themselves for election. All of the remaining Directors will retire and offer themselves for re-election. Each of the Directors has been subject to a formal evaluation by the Nomination Committee and it is considered that each Director continues to perform effectively and demonstrate commitment, not only in respect of their roles and responsibilities, but also in relation to the Group and its shareholders. The Board therefore recommends that shareholders vote in favour of their respective re-elections and the election of Lawson Macartney and Richard Cotton.

Accountability

Financial Reporting
The Board seeks to present a fair, balanced and understandable assessment of the Group's position and prospects.

The responsibilities of the Directors and the external auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Independent Auditor's Report on pages 105 and 108 to 114 respectively.

Preservation of Value
The basis on which the Group generates and preserves value over the longer term and the strategy for delivering the objectives of the Group are to be found in the Strategic Report.

Going Concern
The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing these annual financial statements.

In reaching this conclusion the Directors have given due regard to the following:

- the Group's business activities together with factors likely to impact the future growth and operating performance;
- the financial position of the Group, its cash flows, available debt facilities and compliance with the financial covenants associated with the Group's borrowings, which are described in the financial statements; and
- the cash generated from operations, available cash resources and committed bank facilities and their maturities, which taken together provide confidence that the Group will be able to meet its obligations as they fall due.

As at 30 June 2017 the Group had cash balances of £61.2 million and net borrowings of £120.0 million (2016: cash balances of £39.1 million and net borrowings of £116.6 million). Further information on available resources and committed bank facilities is provided in notes 18 and 21 to the financial statements.

In order to ensure that the ongoing funding requirements of the Group are aligned to its strategic objectives, the Group has completed a refinancing and entered into a facilities agreement in July 2017 (the Facility Agreement) with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc, Raiffeisen Bank International AG and Santander UK plc (the Banks) under which a facility of £360.0 million was made available. The Facility Agreement includes a committed revolving credit facility of £235.0 million, together with an 'Accordion' facility of £125.0 million. The facility is committed for five years until July 2022 with two optional one year extensions.

Viability Statement

In accordance with the Code, the Board has determined that a three year period to 30 June 2020 is an appropriate period over which to provide its viability statement. This is supported by the Group's budget process which includes detailed projections for the next two financial years and broader projections from the third year of the five year strategic planning process. The Board believes this provides a sound framework for providing reasonable assurance on the Group's viability given the inherent uncertainty associated with longer term forecasts.

The Board's assessment has been made with due regard to the Group's current position, its future prospects, the strategic plan and the management of the Group's principal risks as detailed on pages 58 to 61 of the Strategic Report.

The Board reviews the budget and strategic plan annually and the Group's principal risks on a rolling basis throughout the year. The planning process considers risks to sales and cost forecasts for each part of the Group and the Group's consolidated income and cash flow forecasts.

Stress testing of the Group's projected cash flows has been carried out by considering those principal risks that could have a material impact on viability. The impact of these principal risks can be summarised into three categories, namely loss of profits on key products, pipeline delays, and loss of third party manufacturing customers. A number of severe but plausible stress tests have been conducted on these areas, both individually and in combination, together with an overall reverse stress test on the Group's borrowing facilities and covenant commitments.

The Board believes that the Group has adequate resilience due to its diversified product portfolio, its geographic footprint, a strong balance sheet, healthy cash generation and access to external financing, which includes committed facilities.

Based on the results of this analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from 30 June 2017.

Internal Control and Risk Management

The Board retains overall responsibility for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives.

In accordance with the Code, the Board is responsible for reviewing the effectiveness of the Group's risk management and internal control systems, and confirms that:

- there is an ongoing process for identifying, assessing, managing and monitoring the Group's principal risks;
- the SET's assessment of the principal risks is considered to be robust and those risks that have the potential to impact liquidity have been considered in the assessment of the Group's viability;
- the principal risks and internal control processes have been monitored by the SET throughout the year and reviewed by the Board on a rolling programme throughout the year; and
- no significant failings or weaknesses in internal control processes have been identified.

Based on its review throughout the year, the Board is satisfied that the risk management and internal control systems in place remain effective and provide reasonable but not absolute assurance that the Group will be successful in delivering its objectives.

Further information on how the business manages risk can be found in the Strategic Report on pages 56 and 57.

Relations with Shareholders

Dialogue with Institutional Shareholders

Relationships with shareholders receive high priority and a rolling programme of meetings between institutional shareholders and Executive Directors is held throughout the year. The Chief Executive Officer and Chief Financial Officer give annual and half-yearly results presentations to institutional shareholders, analysts and the media in the UK. These meetings are in addition to the Annual General Meeting and seek to foster a mutual understanding of the Company's and shareholders' objectives. Such meetings are conducted in a format to protect price sensitive information that has not already been made generally available to all the Company's shareholders. Similar guidelines also apply to other communications between the Company and other parties such as financial analysts, brokers and the media.

Richard Cotton attended the 2016 Annual General Meeting in London. This provided a number of Dechra's shareholders with the chance to meet Richard prior to his appointment as an Executive Director.

In May and December, the Company hosted an investor site day at the Skipton manufacturing facility and will continue to offer site visits on a periodic basis. The Chief Executive Officer also met US investors in August 2016. Feedback is collated by the Company's brokers after such presentations. The feedback is circulated to the Board for review and consideration. In addition, the Board is provided with market summary reports which detail share price and share register movements. Where material changes in respect of remuneration or governance are proposed, the Board seeks to consult with its major shareholders before implementing such changes.

The Chairman and Senior Independent Director are available to meet shareholders upon request.

Constructive use of the Annual General Meeting

All members of the Board are scheduled to attend the Annual General Meeting (the Meeting) and the Chairmen of the Audit, Remuneration and Nomination Committees will be available to answer shareholders' questions at the Meeting. Notice of the Meeting is dispatched to shareholders at least 20 working days before the Meeting. The information sent to shareholders includes a summary of the business to be covered, with a separate resolution prepared for each substantive matter. When a vote is taken on a show of hands, the level of proxies received for and against the resolution and any abstentions are disclosed at the Meeting. The results of votes lodged for and against each resolution are announced to the London Stock Exchange and displayed on the Company's website. At the Meeting there will be an opportunity, following the formal business, for informal communications between shareholders and Directors.

Tony Rice
Non-Executive Chairman
4 September 2017

Letter from the Audit Committee Chairman

Julian Heslop Audit Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present this year's Audit Committee Report. During the year we focused on the major issues in relation to the Group's financial reporting, including key accounting judgements and the ongoing quality of related disclosures. We also reviewed the effectiveness of the Group's risk management and internal controls and processes.

Richard Cotton was appointed as Chief Financial Officer in January 2017, replacing Anne-Francoise Nesmes who resigned in July 2016. He has a wealth of experience in senior financial roles in life sciences and other sectors and I look forward to working with him over the forthcoming years. I would like to take this opportunity to thank Septima Maguire, our Group Financial Controller, for her excellent work as acting Chief Financial Officer in the intervening period.

Committee Membership

We welcomed Lawson Macartney to the Committee and look forward to the fresh perspective he will bring given his strong product development, veterinary and business experience. As disclosed in the 2016 Annual Report, Tony Rice resigned as a Committee member on his appointment as Chairman of the Company.

Financial Reporting Council

During the year the Company received a letter from the Financial Reporting Council (FRC) in relation to its review of the Company's Financial Statements for the year ended 30 June 2016. The Committee reviewed the responses from the Company and discussed this matter with the external auditor, further details of which can be found on page 76. The FRC was satisfied with the Company's responses and our agreement to enhance certain disclosures.

Annual Report 2017

The judgements and factors that the Committee considered in reviewing the Annual Report for 2017 are set out in its report on page 76.

The report also outlines significant accounting matters which received particular focus during the period. It explains why the issues were considered significant and explains how the Committee satisfied itself on the validity of the judgements made.

Finally, we specifically reviewed, at the request of the Board, whether the 2017 Annual Report was fair, balanced and understandable and concluded that it was. The basis supporting our conclusion is set out on page 77.

I will be available at the Annual General Meeting to answer any questions about our work.

Julian Heslop
Audit Committee Chairman
4 September 2017

Audit Committee Report

The Purpose and Function of the Audit Committee (the Committee)

Purpose

The Committee's key role is to review and report to the Board on financial reporting, internal financial control effectiveness and to oversee the relationship with the external auditor. The main responsibilities are summarised on page 69 of the Corporate Governance Report.

Membership, Meetings and Attendance

The membership of the Committee, together with appointment dates and attendance at meetings, are detailed on page 68 of the Corporate Governance Report. The Committee is pleased to welcome Lawson Macartney as its most recent member. Tony Rice resigned from the Committee on his appointment as Chairman of the Company at the 2016 Annual General Meeting.

The Board considers that all members of the Committee are independent. Julian Heslop has recent and relevant financial experience as a result of his financial background and qualification. Ishbel Macpherson and Lawson Macartney provide different but relevant skills and experience which support the Committee in meeting its objectives. The biographies of all Committee members are detailed on pages 64 and 65.

The Company Secretary attends each meeting and acts as its secretary assisting the Chairman in ensuring that all Committee papers are provided prior to each meeting in a timely manner and providing advice to the Committee on all governance related matters.

Other members of the Board normally attend each meeting together with the PricewaterhouseCoopers LLP (PwC) Lead Audit Partner, the Group Financial Controller and the Head of Internal Audit and Risk Assurance.

The Committee has discussions at least twice a year with the external auditor without management being present, including the meetings where the annual and interim results are reviewed and endorsed.

Neither the Company nor its Directors have any relationships that impair the external auditor's independence.

Role and Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference which are available on the Company website at www.dechra.com. The Board reviewed the Committee's terms of reference at the December 2016 meeting and amended them following recent legislative changes in relation to its membership and the qualifications required.

Major Activities of the Committee during the Year

The Committee met five times since the last Annual Report was issued. The meetings are generally timed to coincide with the financial reporting timetable of the Company. The Committee Chairman and the Company Secretary have developed an annual programme of business. This allows the Committee to ensure that standing items of business are appropriately considered alongside any exceptional matters that may arise during the course of the year.

The table below provides an overview of the main matters discussed at the meetings:

Meeting Date	Main Activities
1 December 2016	• Review and approval of the annual internal audit plan • Review of the internal audit progress and assurance report • Review and approval of PwC Half-Yearly review plan • Review of the Committee's terms of reference • Review of Anti-Bribery and Anti-Corruption and Whistleblowing Policies • Review of status of statutory audits, global tax management and compliance support • Review of non-audit fees (including actual and projected spend)
19 December 2016	• Review and approval of FRC response letter
22 February 2017	• Review of the Group's Half-Yearly Report and supporting papers • Consideration of the Half-Year Review Memorandum prepared by the external auditor • Half year review of internal financial controls • Half-Yearly Accounts and Report disclosure enhancement following FRC feedback • Review of the internal audit progress and assurance report • Review of the dividend policy and interim dividend proposal • Meeting with the external auditor without management present • Anti-Bribery and Anti-Corruption and Sanctions progress update
11 May 2017	• Review and approval of the year end external audit strategy (including timetable, scope and fees) • Discussion in relation to the Company's expectations of the external auditor and audit process • Review of year end accounting treatment for acquisitions, accounting for associates and segmental analysis • Review of the internal audit progress and assurance report • Review of non-audit fees (including actual and projected spend) • Review of tax strategy and policy framework • Meeting with the external auditor without management present

29 August 2017	• Review of the Group's preliminary statement,draft Annual Report (including the Audit Committee Report) for the year ended 30 June 2017 and supporting papers, and the proposed final dividend
	• Consideration of the Audit Memorandum prepared by the external auditor, including:
	  • review of accounting treatment of non-underlying items
	  • assessment of acquired intangible assets and goodwill
	  • commentary on the general control environment across the Group
	• Review and approval of the going concern and viability statements
	• Review and approval of the internal control and risk management statements
	• Review of the internal audit progress and assurance report
	• Full year review of internal financial controls for the period ended 30 June 2017
	• Review of the external audit effectiveness, external auditor's independence and level of non-audit fees
	• Meeting with the external auditor without management present
	• Fair, balanced and understandable recommendation of the Annual Report

Audit Committee Report
continued

During the year the Financial Reporting Council's (FRC) Corporate Reporting Review Team carried out a review of the Company's Annual Report for the year ended 30 June 2016. The Committee discussed the Company's response with the full involvement of the external auditors, PwC, and Tony Rice, Chairman, prior to responding to the FRC. The FRC have closed their enquiries with no requirement to restate any disclosures. However, undertakings were given to enhance certain disclosures in the future in response to the FRC review. The Committee is satisfied that the enhancements proposed to, and agreed with, the FRC have been appropriately incorporated in the 2017 Annual Report.

All significant matters under consideration by the Committee during the year were supported by relevant justification papers and fully discussed in order to ensure that due and appropriate consideration was given before any decision was approved. Further detail in relation to a number of the matters is provided below:

- **Financial Judgements**
  The Committee reviewed both the half-year and the annual financial statements. This process included an analysis by management of key judgements made in determining the results. The Committee reviewed this in detail and endorsed management's judgements.

The Committee gave particular attention to significant matters where judgement was involved, which were complex in nature, or where additional performance measures (APMs) were provided to enhance investors' understanding of the underlying performance. The Group uses various non-GAAP APMs within internal management reporting, the Half-Yearly Report and the Annual Report. The objective of these APMs is to isolate the impact of exceptional, one-off or non-trading related items to allow the Board and investors to understand better the underlying performance of the business. The Group also uses constant exchange rate growth percentages to eliminate the impact of exchange rate fluctuations and show the underlying business growth.

These matters were well supported by briefing papers provided by management and were specifically reviewed and agreed by the external auditor in their reports to the Committee and in related discussions.

The key matters reviewed are shown in the table below:

Significant risks considered by the Committee in relation to the financial statements	**Corresponding actions taken by the Committee to address the issues**
Review of the carrying value of acquired intangible assets and goodwill of £377.8 million, which represents 125.0% of Group net assets.	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment.
Valuation of the acquired intangible assets and goodwill acquired during business combinations in the year, which total £31.3 million. Valuation and accounting for the acquired commercial licensing agreement intangible with Animal Ethics Pty Ltd of £30.1 million together with the related deferred consideration	The Committee reviewed the calculations and assumptions provided by management and third party experts which support the valuation of these acquired assets and these valuations were assessed for completeness. The Committee reviewed the useful economic lives of the identifiable intangible assets and the future growth rate assumptions applied in the valuations.
Significant judgements considered by the Committee in relation to the financial statements	**Corresponding actions taken by the Committee to address the issues**
Review of the corporate tax rate for the year of 8.6% (21.9% on underlying operations).	The Committee discussed the key risks in respect of corporate tax and reviewed that appropriate controls were in place to ensure that taxation calculations are not materially misstated. Areas where significant judgements such as uncertain tax positions have been applied are reviewed and challenged and external audit work and conclusions are considered.
Review the accounting treatment of related disclosures for associates acquired in the period of £10.9 million.	The Committee reviewed the basis for accounting for the associate company and the related disclosures.
In order to assist investors with a better understanding of the underlying performance of the business, management present within the financial statements figures for underlying profit and earnings. This is reconciled to the figures provided in the financial statements and excludes matters such as impairment and amortisation of acquired intangible assets and related deferred consideration, acquisition cost, restructuring costs, and the fair value uplift on inventory acquired through business combinations.	The Committee reviewed the basis for calculating the underlying figures and its consistency with previous year's figures. It also sought confirmation from the external auditor, PwC, that they were satisfied that the application of the accounting policy was appropriate. The Committee also reviewed material one-off income and costs within the underlying results, if any, and ensured these were clearly disclosed within the financial statements and notes.

- **Going Concern and Viability Statements**
  The Committee reviewed the Group's going concern and viability statements set out on pages 72 and 73 of the Corporate Governance Report. In considering the viability statement the Committee paid particular attention to the robustness of the stress testing scenarios. The external auditor reviewed management's assessment and discussed this review with the Committee.

- **Fair, Balanced and Understandable Assessment of the Annual Report**
  At the request of the Board, the Committee considered whether the 2017 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's performance (pages 21 to 27), business model (page 8) and strategy (pages 13 to 15).

  The Committee based its assessment on a review of the processes and controls put in place by management. This included the relevant senior management providing information on their own business units and their confirmation that it was fair, balanced and understandable. In addition, the final draft document was reviewed by all members of the Senior Executive Team (SET) who also concluded that it met the fair, balanced and understandable test.

  An integral part of the process was the Committee's final review; other Board members and the external auditor were invited to comment so that issues could be debated and a final assessment made.

  The external auditor confirmed that in their opinion the Annual Report 2017 was fair, balanced and understandable, which can be found on pages 108 to 114.

  This assessment was carried out by the Committee on 29 August 2017, following which the Committee reported to the Board that it was satisfied that, taken as a whole, the Annual Report 2017 is fair, balanced and understandable.

- **Review of Policies and Procedures**
  During the year the Committee reviewed the following policies:

  - Accounting Policies
    The Committee undertook the annual review of the tax policy.

  - Anti-Bribery and Anti-Corruption and Whistleblowing Policies
    The Head of Internal Audit and Risk Assurance provides regular updates on the third party due diligence procedures and their implementation throughout the organisation.

  - Dividend
    The dividend policy was reviewed by the Committee and amended to take account of the underlying financial position of the organisation. The amended dividend policy was recommended to the Board for approval.

Internal Controls and Risk Management

The Board retains overall responsibility for the management of the Group's risk management and internal control framework. The Committee monitors and reviews the effectiveness of the Group's internal financial controls.

The Committee has also reviewed the effectiveness of the Group's risk management and internal control processes. This includes:

- confirmation that the rolling programme of risk and control reviews by the Board has been completed;
- a review of the SET's assessment of material internal control effectiveness; and
- a review of the going concern and viability statements together with the financial stress testing conducted to support these statements.

Further details in respect of the Group's risk management and internal control processes are provided on pages 56 and 57 of the Strategic Report and the Board's statements on the effectiveness of these processes are provided on page 73 of the Corporate Governance Report.

Internal Audit

The Head of Internal Audit and Risk Assurance provides objective assurance and advice on the management of the Group's risks and its systems of internal control. Internal Audit is supported by a co-sourcing arrangement with KPMG LLP (KPMG) to provide a flexible resource model and access to specialist expertise and language skills in geographies.

Internal Audit has a three year plan which seeks to provide balanced assurance coverage of the Group's material financial, operational and compliance control processes. It sets out a rolling programme of core assurance activities together with a significant focus on the implementation of the Oracle ERP system. The annual delivery plan, which defines the specific assurance projects to be delivered each calendar year, is developed from the three year plan. The annual plan for the year to December 2017 was approved by the Committee in December 2016.

Internal Audit recommendations are communicated to relevant business leaders and appropriate control improvements are agreed with them. Audit reports are provided to the Audit Committee together with regular progress reports on management's implementation of control improvements.

Audit Committee Report
continued

External Auditor
Following a competitive tender in 2015, PwC were appointed as the Company's external auditor for the 2016 audit.

The Company complies with the Competition and Market Authority Order 2014 relating to audit tendering and the provision of non-audit services.

Audit Plan
PwC agreed their audit plan with the Committee, which included their audit scope, key audit risk areas and materiality. The Committee discussed the audit plan with PwC and approved it, together with the fees proposed.

Independence, Effectiveness and Objectivity of the Audit Process
The Committee conducted a review of the external auditor's independence, effectiveness and objectivity based on:

- the Committee's own assessment of the quality of the audit plan, the rigour of the audit findings and conclusions, the extent to which the Lead Audit Partner understands the business and constructively challenges management and the quality and clarity of the technical and governance advice provided;
- the results of a questionnaire on external auditor effectiveness and efficiency (further detail on which is provided below);
- a report prepared by PwC setting out its processes to ensure independence and its confirmation of compliance with them; and
- the level of non-audit fees as a percentage of the audit and half-yearly review fees paid to the external auditor, which were 8.5% (2016: 3.9% in relation to services rendered by PwC).

Responses to the questionnaire have been received from all finance directors across the Group who provided information and assistance to the external auditor. The questionnaire covered a number of areas, including:

- quality of the audit team;
- knowledge and understanding of the Group;
- appropriateness of the areas of audit focus;
- interaction with audit specialists; and
- timeliness and adequacy of communication by the external auditor.

The results of the questionnaire were reported to the Committee at the meeting on 29 August 2017.

Based on the review set out above, the Committee is satisfied with the external auditor's independence, effectiveness and objectivity.

Re-Appointment of External Auditor
At the forthcoming Annual General Meeting, a resolution to re-appoint PwC as the external auditor and to authorise the Audit Committee to set their remuneration will be proposed.

There are no contractual obligations that restrict the Committee's capacity to recommend a particular firm as external auditor and the Company does not provide an indemnity to the external auditor.

External Audit Engagement Partner Rotation
In line with the ethical standards of the Audit Practices Board, the Lead Audit Partner will be rotated every five years. The current Lead Audit partner was appointed during the 2016 financial year and consequently will stand down at the latest after the completion of the audit of the 2020 financial year.

Non-Audit Assignments
With respect to non-audit assignments undertaken by the external auditor, the Company has a policy of ensuring that the provision of such services does not impair their independence or objectivity.

Prior approval of the Committee, or the Committee Chairman for smaller pieces of work, is required before the external auditor is appointed to carry out non-audit work and the rationale for doing so is provided to the Committee, who assess the qualification, expertise, independence and objectivity of the external auditor prior to granting approval. As such, non-audit fee spend is a standing item on the agenda for every Committee meeting.

The Committee firmly believes that there are certain non-audit services where it is appropriate for the Group to engage the external auditor. In such cases safeguards are in place to ensure continued external auditor independence, including the use of separate teams to undertake the non-audit work separately from the audit work. The external auditor assisted with the preparation of the FRC letter. The Committee did not consider that the performance of this non-audit work affected or impaired the external auditor's integrity. This is consistent with the ethical standard published by the Accounting Practices Board.

The results of this policy are that:

- Deloitte undertake global tax compliance work;
- KPMG support internal audit; and
- during the course of the year Deloitte, Ernst & Young LLP, KPMG, Smith & Williamson LLP and Grant Thornton UK LLP have provided advice on global mobility matters, related tax advice, company reorganisation, acquisition valuation support and due diligence.

A summary of audit and non-audit fees in relation to the year is provided in note 7 to the Group's financial statements. This shows that non-audit work carried out by the external auditor represented 8.5% (2016: 3.9%) of the annual audit fee and half-yearly review fee, and reflects the policy set out above.

Julian Heslop
Audit Committee Chairman
4 September 2017

Nomination Committee Report

Tony Rice Nomination Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present my first report of the Nomination Committee (the Committee) having succeeded Michael Redmond as Chairman in October 2016.

During the year the Committee focused on the recruitment of a Non-Executive Director, Senior Executive Team (SET) succession planning and the leadership needs of the Group. As a result of this the Committee believes that the Company has a stable and experienced SET to lead the development and implementation of this strategy and that the Board continues to have the appropriate skills, knowledge and experience to oversee the effective delivery of our strategy.

The following report provides an overview of the work carried out during the year under review.

Dechra's stance in relation to diversity is detailed in the Corporate Governance Report on page 70.

Should you have any questions in relation to this report or the Committee, please contact me or the Company Secretary.

Tony Rice
Nomination Committee Chairman
4 September 2017

Committee Membership and Attendance

The membership of the Committee, together with appointment dates and attendance at meetings during the year, is set out on page 68 of the Corporate Governance Report. Other attendees at the meetings include the Chief Executive Officer, the Group HR Director and the Company Secretary (who acts as secretary to the Committee).

The Chairman does not chair the Committee meeting if it is dealing with the appointment of his successor. The Senior Independent Director, Ishbel Macpherson, takes the chair when required.

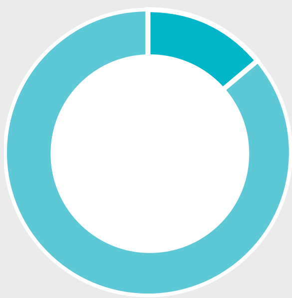
Role and Responsibilities

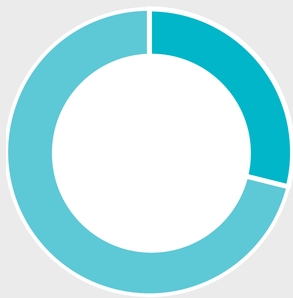
The main role and responsibilities of the Committee are set out in the written terms of reference, which are available on the Company website at www.dechra.com. The Committee's terms of reference are reviewed on an annual basis and during the 2017 financial year this took place at the February meeting. An overview of the terms of reference is detailed on page 69 of the Corporate Governance Report.

Principal activities of the Committee during the year included:

- **Recruitment of Non-Executive Director**
  The Committee had a number of unscheduled meetings during the 2017 financial year due to the recruitment process for a Non-Executive Director, which commenced in the 2016 financial year. An independent recruitment consultancy, Odgers Berndtson (Odgers), was retained to assist and was provided with a role description detailing the skills and experience required for the position of a Non-Executive Director. To assist Odgers with the understanding of the requirements of the role, they met with the Chief Executive Officer, the Managing Director of DVP EU and the Chairman during the previous financial year resulting in a long list of candidates being identified for interview. One of the criteria was that the candidates should have life-science or pharmaceutical experience to fill the experience gap left on the Board by Michael Redmond's retirement. All of the candidates had a broad range of experience across the life-science and pharmaceutical sectors, with 50% of them being non-UK residents. Following a rigorous recruitment process, which was led by Michael Redmond, our previous Chairman, Lawson Macartney was appointed to the Board on 1 December 2016. Lawson is a qualified veterinarian and has over 30 years' of experience gained in the global pharmaceutical industry which has brought a depth of knowledge, and expertise of product development to the Board. Further details relating to his background and experience can be found on page 65.

Board Experience





Nomination Committee Report

- **SET Succession Planning and Leadership Needs of the Group**
  The Group HR Director regularly presents to the Committee on the Company's succession planning and talent development programme. A regular review of succession planning takes place across the Company, with a particular focus given to the SET succession. The process of documenting the performance/potential axis across each function's top tier supports the decisions about the organisation design and structure. The results of this review are presented to the Committee, who discuss the succession plan for the SET at least annually.

  For Executive Directors and the SET, plans are in place for sudden, unforeseen absences, for medium term orderly succession and for longer term succession as well as supporting significant acquisitions that require full time Dechra leadership during the integration phase. These plans are then used as the basis for personal development plans for the identified employees and to ensure, looking forward, that we have the right people to deliver our strategy.

  The Committee has also discussed emergency succession planning, and is developing a framework to clearly identify individuals capable of covering key management roles on an interim basis. All these individuals will receive, or have received, the necessary coaching to ensure they have the required skills to provide any critical support when needed.

  Over the last three years, one of the elements of our People Plan has focused on the continual development of the SET to provide world class leadership to the Group (as detailed on page 49). We encourage regular contact between members of the SET and the Board, with all SET members presenting to the Board at least once a year, leading site visits of their respective businesses and attending one-to-one sessions with Non-Executive Directors to discuss specific issues when applicable.

  We have a coherent Leadership Development strategy which ensures that our SET has the capabilities required to manage the business effectively, and our organisation has a strong breadth of candidates for key leadership positions.

  In considering the Leadership needs of the Group, we have chosen to focus on two key areas:

  - Defining the current talent map of the organisation enabling us to share knowledge about our talent base, identify risks, gaps and to plan development of our future talent.
  - Understanding the organisation's current capability versus the needs of the future strategic direction of the Group.

  Through acquisitions, recruitment and internal promotion we now have a stable and experienced SET, with clearly defined roles. Dechra has increasingly focused on the centralisation of support services, to allow the Business Unit leaders to focus their efforts on their core businesses. This has identified a gap in the SET and we are currently recruiting for a Group Marketing Director to complete the team.

- **Governance**
  Following an internal evaluation, further details of which are provided on page 72 of the Corporate Governance Report, the Committee has concluded that each of the Directors seeking re-election continues to be an effective member of the Board. At the forthcoming Annual General Meeting, Lawson Macartney and Richard Cotton, who were appointed to the Board on 1 December 2016 and 3 January 2017 respectively, will offer themselves for election, and all of the remaining Directors will retire and offer themselves for re-election.

Tony Rice
Nomination Committee Chairman
4 September 2017

Case Study:
Tony Rice Induction

Before I was appointed as Chairman of the Board in October 2016, I served as a Non-Executive Director for six months. This period of time gave me an excellent opportunity to get to know the Company and understand the business. Michael Redmond, as the retiring Chairman, spent invaluable time with me sharing his long standing experience of the Company's history and established strategy, ensuring a smooth handover of responsibilities.

In my initial months, I had a series of conversations with Ian Page to help me understand his approach, priorities and how he allocates his time, as well as the major milestones that led to the success of Dechra and the evolution of the strategic drivers.

In addition, I have had many opportunities to meet with the SET, both on a one-to-one basis as well as a collective. This has enabled me to understand their areas of responsibility and the various elements of the business. This has included:

- the process of identifying and filtering new product opportunities and the overall development of the product pipeline; and
- the key financial dynamics and priorities for the Company.

My first Board meeting was held at the Sansaw site, where I had the opportunity to meet with key members of the DVP EU sales and marketing team and European regulatory team seeing first hand the technical capability required to support the wide range of products. This gave me an opportunity to understand better the market dynamics and marketing approach. I was also able to learn about the various European regulatory processes and the significant work required to take our products to market.

I have also visited the manufacturing facility in Skipton, which provided me a better understanding of the approach to quality and integrity of batch production processes, and an appreciation of the regulatory systems required to maintain FDA standards. I have subsequently visited the manufacturing facilities at Bladel and Croatia.

I have enjoyed my first year at Dechra and the induction provided has given me a better understanding of Dechra, its product development, registration and manufacturing process, and its routes to market utilising its experienced sales and marketing teams.

Letter from the Remuneration Committee Chairman

Ishbel Macpherson Remuneration Committee Chairman

Dear Shareholder

I am pleased to present the Directors' Remuneration Report for the year ended 30 June 2017.

The report is divided into two sections: the Directors' Remuneration Policy, followed by the Annual Report on Remuneration. The Policy sets out our forward looking policy for Directors' remuneration and is a replacement for the Policy approved in 2014, which had 98.32% of votes cast in favour of it. The Annual Report on Remuneration provides details of the amounts earned in respect of the 2017 financial year and how the Policy will be implemented in the 2018 financial year.

Our existing Long Term Incentive Plan (LTIP) expires in 2018 and shareholders will be asked to approve a new Long Term Incentive Plan at the Annual General Meeting. Further information in relation to the new LTIP is included in the Notice of Annual General Meeting; there is no increase in quantum under the new LTIP and we have introduced a two year post vesting holding period.

Our Directors' Remuneration Policy

The new Policy is proposed in the context of a significant change in the scale of the business, with Dechra's market capitalisation increasing from approximately £600.0 million in 2014 to approximately £1.7 billion. This increase has taken place over a period when Dechra has become increasingly international, and a more complex organisation as its scale and geographical spread has significantly increased.

The Committee considers that the current remuneration framework continues to support effectively the delivery of our business strategy and the creation of shareholder value, as shown in the table on page 83. Our new Policy is not a radical overhaul of the Policy approved in 2014. The changes refine that Policy and take account of developments in best practice. The changes are summarised in the introduction to the new Policy on page 84 and include the adoption of a post vesting holding period for LTIP awards and enhanced shareholding guidelines.

Our approach to the implementation of the Policy in the 2018 financial year, including our approach to performance measures for LTIP awards is described overleaf.

Incentive Outturns in 2017

As a result of the progress in our strategy, we have delivered underlying profit before tax during the year of £77.0 million, an improvement of 38.4% at constant exchange rates (54.9% at actual exchange rates) on the prior year. Reflecting the performance of the Group in relation to profit targets and the performance of Executive Directors against personal objectives as described on page 94, bonuses for the year equal to 92% of salary have been earned by Ian Page and Richard Cotton, and 90% earned by Tony Griffin.

LTIP awards were granted to Ian Page and Tony Griffin in September 2014 and are due to vest on 15 September 2017, subject to the achievement of earnings per share (EPS) and total shareholder return (TSR) performance conditions (each applying to 50% of the awards) and an underpin based on return on capital employed (ROCE). The awards are scheduled to vest:

- as to 100% of the TSR element (50% of the total award) by reference to TSR performance (reflecting upper quartile performance); and
- as to 100% of the underlying diluted EPS element (50% of the total award) by reference to EPS performance (reflecting that the compound annual growth in the underlying diluted EPS at 21.0% was above the maximum threshold of 13.0%).

In aggregate, taking into account the ROCE underpin (reflecting that the ROCE at 17.7% had not fallen below 15.0%), the LTIP awards vested as to 100%.

Letter from the Remuneration Committee Chairman
continued

Executive Director Remuneration Decisions in 2017

In accordance with our Policy, our normal approach to Executive Director salary increases is that they will not exceed the range of increases awarded to the wider workforce. We explained last year that Ian Page's salary has not changed since January 2014 and that we would review it during the 2017 financial year in light of the exceptional change in the scale and complexity of the Group since that last review, taking into account the Group's significant acquisitions and international expansion in the period. In the last six years, revenue derived from the UK has fallen from 76% of total revenue in the 2012 financial year to 15.7% in the 2017 financial year, whilst the average number of employees has increased by 31.8% over the same period. Since 30 June 2014 our international sales operations (excluding our export business) have expanded from 14 countries (13 EU, 1 North America) to 24 (19 EU, 3 North America, 2 Australasia) as at 30 June 2017. Ian has been instrumental in guiding the Group through this period, having driven its growth and exceptional performance since it listed. Under Ian's leadership, shareholders have been provided with a stable investment that has delivered sustained and substantial returns. Taking into account the fundamental contribution that Ian has made to this transformation and recognising the increase in the scope and responsibilities of his role since his salary was last reviewed, we increased Ian's salary with effect from September 2016 by 13.6% (which is equivalent to the cumulative annual pay increases for a higher performer within the Group over the same period) to £500,000. This increase positions his salary slightly below the mid-point of the market competitive range compared to companies of a similar size and complexity. Ian has notified the Committee that he does not wish to be considered for a salary increase in respect of the 2018 financial year.

During the annual salary review cycle, Tony Griffin's salary was increased by 3% in respect of the 2017 financial year, broadly in line with the average range of increases awarded to employees throughout the Group.

We granted LTIP awards in September 2016 subject to TSR and EPS performance conditions (each applying to 50% of the awards) with the EPS target for maximum vesting increased for these awards to 20% CAGR, following shareholder consultation. A ROCE underpin continues to apply to each element. Details of the awards are set out on page 98.

Directorate Changes

Richard Cotton joined Dechra on 3 January 2017 and his remuneration arrangements were implemented as set out in last year's Directors' Remuneration Report. As noted last year, Richard was granted two 'buyout' awards in respect of incentives forfeited as a result of joining Dechra; details of those awards are set out on page 98.

Performance Conditions for LTIP Awards in 2018 Financial Year

Current performance conditions are based on relative TSR and EPS. The use of a relative TSR measure for Dechra presents challenges as it is difficult to determine an appropriate comparator group, and it can reward volatility which does not reflect Dechra's track record of consistent growth over the previous five years. We recognise, however, that some shareholders have a preference for a relative measure. Therefore, for the 2018 financial year LTIP awards we propose to retain relative TSR but to recalibrate the weightings so that relative TSR will account for one third of each award, and EPS growth will account for two thirds of each award. This recalibration provides a better line of sight for management and provides the best link to our strategy.

The use of a ROCE underpin ensures that the EPS measure will require the delivery of quality earnings, while the introduction of a two year holding period, along with our shareholding guidelines of 200% of salary, ensures that management are aligned with the long term interests of shareholders and the delivery of sustained performance.

The targets applying to the performance conditions are set to drive the right behaviours and, in appropriate circumstances such as following the acquisitions we undertook in the 2016 financial year, we adjust targets upwards to ensure that they remain stretching but achievable. As noted in the Directors' Remuneration Report for the 2016 financial year, the high level of growth for the three year performance period to June 2019 reflected the impact of earnings from acquisitions that were not included in the 2016 base year, we recognise that for future LTIP awards the EPS targets would need to be reduced to reflect a lower level of sustainable growth. Accordingly, we have decided to decrease the EPS performance requirement for maximum vesting from 20% to 15.5% to reflect the fact that the acquisitions are now included in the base year and the lower 2020 financial year broker forecasts. Full details of the performance measures and the targets for the 2018 financial year are set out on page 100. This level of growth is higher than the original 13% CAGR required for maximum vesting for the 2016 financial year LTIP awards. We consider that 15.5% EPS growth per annum is a stretching target which should act as an appropriate incentive for executives to deliver sustained business performance without encouraging excessive risk. Taking into account comments received from shareholders, the underpin continues to operate on the basis of a ROCE floor of 10%. However, to ensure that management are not disincentivised from making shareholder value enhancing acquisitions even if they have a short term impact on ROCE, the underpin will now operate solely by reference to this floor; the details of the underpin are set out on page 100.

The Link between our Directors' Remuneration Policy and our Strategy

Dechra's Policy is designed to promote the long term success of the Group and to reward the creation of long term value for shareholders. The performance targets for all incentive elements are designed to reward high performance whilst not encouraging inappropriate business risks.

The table on the next page describes how certain remuneration elements are linked to our strategy.

Remuneration Element	Strategic Growth Driver and Enabler	Link to our Key Performance Indicators
Annual Bonus Our annual bonus incentivises the delivery of the long term strategy through the achievement of short term objectives. 90% of the opportunity is based on a stretching profit target which requires performance above budget and market expectations to trigger the payment of a maximum bonus. The balance of the bonus is based on the achievement of personal objectives which reflect the priorities of the business, achievement of which is necessary to deliver the longer term strategy.		• **Sales Growth** Strong sales performance is required to maximise profit • **Cash Conversion** Strong cash conversion reduces liquidity risk
Long Term Incentive Plan The LTIP is designed to reward the generation of long term value for shareholders. Performance measures reflect our long term objectives including sustainable profit growth and the enhancement of shareholder value. Awards are based two thirds on growth in EPS and one third on the delivery of shareholder returns. The application of a ROCE underpin ensures executives are focused on using capital efficiently and appropriately to allow the business to capitalise on growth opportunities in new territories and markets whilst maintaining returns. The introduction of a post vesting holding period aligns management with the long term interests of shareholders and the delivery of sustained performance.		• **Underlying Diluted EPS Growth** • **Return on Capital Employed** • **New Product Sales** This measure encourages innovation, growth and sustainability

Generation of Long Term Value for Shareholders/Alignment of Interests

The Policy is designed to promote long term Group success and to reward the generation of shareholder value. A significant proportion of the remuneration opportunity is linked to the achievement of stretching performance targets.

The interests of shareholders and executives are aligned by formal shareholding guidelines. Executive Directors are required to retain half of any shares acquired under the LTIP and, if relevant, any recruitment award (after sales to cover tax) until such time as their holding has a value equal to 200% of their base salary.

Forward Looking

Subject to shareholder approval of the Policy at the Annual General Meeting, we will apply it in the 2018 financial year. More information is given on page 100, and we have summarised key aspects below.

- Salary: Executive Directors' salaries for the 2018 financial year will be considered in September at the same time as the salary review for the wider workforce. In line with our normal policy, any increase to Executive Directors' salaries will be in line with the increases awarded to the wider workforce, although as noted above Ian Page has already notified the Committee that he does not wish to receive any increase.
- Bonus: The Executive Directors' bonus opportunity for the 2018 financial year under the new Policy will remain at 100% of salary, consistent with the existing Policy. The bonus will be based on a mix of stretching profit before tax targets (90% of the opportunity) and personal objectives (10% of the opportunity).
- LTIP: Awards for the 2018 financial year will be granted under the new LTIP for which shareholder approval will be sought at the 2017 Annual General Meeting. In line with the new Policy, those awards will be subject to a two year post vesting holding period.

Shareholder Views

We consulted with shareholders on the new Policy and LTIP and took account of feedback received before finalising our proposals. The Committee and I believe that ongoing dialogue with our major shareholders is of key importance. Should you have any queries in relation to this report, please contact me or the Company Secretary.

Ishbel Macpherson
Remuneration Committee Chairman
4 September 2017

Directors' Remuneration Policy

This part of the Directors' Remuneration Report sets out Dechra's Directors' Remuneration Policy which, subject to shareholder approval at the 2017 Annual General Meeting, shall take binding effect from the close of that meeting.

The Company's first Directors' Remuneration Policy was approved at the 2014 Annual General Meeting with 98.32% of votes in favour of it, and took effect following the close of that meeting.

In accordance with the applicable regulations, Dechra is required to seek approval for a new Directors' Remuneration Policy at the 2017 Annual General Meeting. During the course of the 2017 financial year, the Remuneration Committee has reviewed the Policy approved in 2014 in the context of Dechra's strategy, developments in best practice and the forthcoming expiration of the Dechra Long Term Incentive Plan 2008. A radical overhaul of the Policy is not proposed; however, we are proposing minor changes to the Policy as follows:

- To reflect typical practice, we have formalised the malus and clawback arrangements (which apply to both the annual bonus and Long Term Incentive Plan (LTIP)) within the Policy.
- The shareholding requirement under our shareholding guidelines is now set at 200% of salary for all Executive Directors (consistent with the level which applied previously for the Chief Executive Officer). We have updated the guidelines and, in order to reflect typical practice, we have formally incorporated them within the Policy, as shown on page 87.
- We have introduced a two year holding period after the vesting of LTIP awards for awards granted in respect of the Group's 2018 financial year and future years.
- No significant changes are proposed to the Policy as it relates to salary, benefits (although an allowance may now be provided in lieu of a company car), retirement benefits or annual bonus.
- LTIP awards for the Group's 2018 financial year and future years will be made under the new LTIP for which shareholder approval is sought at the 2017 Annual General Meeting. The Policy has been updated to reflect the terms of the new LTIP and that the 2008 LTIP is now a legacy arrangement.

Other minor amendments have been made to the Policy to aid its administration, to reflect the changes referred to above and to reflect changes in practice since the Policy was first approved in 2014.

Policy Table for Executive Directors:

<table>
<tr><th colspan="2">Element: Base Salary</th></tr>
<tr><td colspan="2">Purpose and link to strategy
Core element of fixed remuneration reflecting the individual's role and experience.</td></tr>
<tr><td>Operation
The Committee ordinarily reviews base salaries annually taking into account a number of factors including (but not limited to) the value of the individual, their skills and experience and performance.
The Committee also takes into consideration:
• pay increases within the Group more generally; and
• Group organisation, profitability and prevailing market conditions.</td><td rowspan="2">Performance measure
While no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase.</td></tr>
<tr><td>Maximum opportunity
Whilst there is no maximum salary, increases will normally be within the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. However, higher increases may be awarded in certain circumstances, such as:
• on promotion or in the event of an increase in scope of the role or the individual's responsibilities;
• where an individual has been appointed to the Board at a lower than typical market salary to allow for growth in the role, in which case larger increases may be awarded to move salary positioning to a typical market level as the individual gains experience;
• change in size and complexity of the Group; and/or
• significant market movement.
Such increases may be implemented over such time period as the Committee deems appropriate.</td></tr>
</table>

Element: Retirement Benefits	
Purpose and link to strategy Provide a competitive means of saving to deliver appropriate income in retirement.	
Operation The Company operates a Group Stakeholder personal pension scheme. Tony Griffin participates in a defined benefit pension plan which has been established in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a €50,000 cap. Pension contributions over this cap are paid into a defined contribution pension plan. In appropriate circumstances, an Executive Director may receive a salary supplement in lieu of contributions to a pension scheme.	**Performance measure** Not applicable.
Maximum opportunity The Company contributes up to 14% of salary to a pension scheme on behalf of the Executive Directors, and/or as a salary supplement in lieu of pension contributions where appropriate.	

Element: Benefits	
Purpose and link to strategy Provided on a market competitive basis.	
Operation The Company provides benefits in line with market practice and includes the use of a fully expensed car (or car allowance), medical cover and life assurance scheme. Other benefits may be provided based on individual circumstances, which may include relocation costs and expatriate allowances.	**Performance measure** Not applicable.
Maximum opportunity Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.	

Element: Annual Bonus	
Purpose and link to strategy The executive bonus scheme rewards Executive Directors for achieving financial and strategic targets in the relevant year by reference to operational targets and individual objectives.	
Operation Targets are reviewed annually and any pay-out is determined by the Committee after the year end based on targets set for the financial period. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance. Recovery provisions apply, as referred to below. **Maximum opportunity** The maximum bonus opportunity for Executive Directors is 100% of base salary.	**Performance measure** Operational targets (which may be based on financial or strategic measures) and individual objectives are determined to reflect the Company's strategy. The personal objectives for the Chief Executive Officer are set by the Chairman. The personal objectives for other Executive Directors are set by the Chief Executive Officer. The personal objectives are reviewed and endorsed by the Committee. At least 75% of the bonus opportunity is based on financial measures (which may include profit before tax). For financial measures, up to 15% of the maximum for the financial element is earned for threshold performance, rising to up to 50% of the maximum for the financial element for target performance and 100% of the maximum for the financial element for maximum performance. Vesting of the bonus in respect of strategic measures or individual objectives will be between 0% and 100% based on the Committee's assessment of the extent to which the relevant metric or objective has been met.

Element: Long Term Incentive Plan (LTIP)

Purpose and link to strategy
The LTIP provides a clear link between the remuneration of the Executive Directors and the creation of value for shareholders by rewarding the Executive Directors for the achievement of longer term objectives aligned to shareholders' interests.

Operation
LTIP awards for the Company's 2018 financial year and future years will be made under the new LTIP for which shareholder approval is sought at the 2017 Annual General Meeting.

Under the new LTIP, the Committee may grant awards as conditional shares, as nil (or nominal) cost options, as forfeitable shares, as market value share options with a per share exercise price equal to the market value of a share at the date of grant or as cash settled equivalents (or may settle in cash a share award). Other than in the case of 'Qualifying LTIP awards' as referred to below, market value share options will not be granted to Executive Directors. Awards will usually vest following the assessment of the applicable performance conditions, but will not be released (so that the participant is entitled to acquire shares) until the end of a holding period of two years beginning on the vesting date. Alternatively, awards may be granted on the basis that the participant is entitled to acquire shares following the assessment of the applicable performance conditions but that (other than as regards sales to cover tax liabilities) the award is not released (so that the participant is able to dispose of those shares) until the end of the holding period.

An additional payment (in the form of cash or shares) may be made in respect of shares which vest under the LTIP to reflect the value of dividends which would have been paid on those shares during the period beginning with the date of grant and ending with the release date (this payment may assume that dividends had been reinvested in Dechra shares on a cumulative basis).

Market value options may be granted under the LTIP as tax-advantaged Company Share Option Plan (CSOP) options, offering tax savings to the Group and the participant.

The Committee may at its discretion structure awards as Qualifying LTIP Awards, consisting of a CSOP option and an ordinary nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option.

Recovery provisions apply, as referred to below.

Maximum opportunity
The maximum award level under the LTIP in respect of any financial year is 200% of salary.

If a Qualifying LTIP award is granted, the value of shares subject to the CSOP option will not count towards the limits referred to above, reflecting the provisions for the scale back of the ordinary LTIP award.

Performance measure
Performance measures under the LTIP will be based on financial measures (which may include, but are not limited to, earnings per share growth, relative total shareholder return, return on capital employed and free cash flow).

Awards will vest as to 25% for threshold performance, increasing to 100% for maximum performance.

Element: All Employee Share Plans	
Purpose and link to strategy Provision of the Save As You Earn Scheme (SAYE) to Executive Directors creates staff alignment with the Group and provides a sense of ownership. Executive Directors may participate in such other all employee share plan as may be introduced from time to time.	
Operation Tax qualifying monthly savings scheme facilitating the purchase of shares at a discount. Any other all employee share plan would be operated for Executive Directors in accordance with its rules and on the same basis as for other qualifying employees.	**Performance measure** Not subject to performance conditions in line with typical market practice.
Maximum opportunity The limit on participation and the permitted discount under the SAYE scheme will be those set in accordance with the applicable tax legislation from time to time. The limit on participation under and other relevant terms of any other all employee share plan would be determined in accordance with the plan rules (and, where relevant, applicable legislation) and would be the same for the Executive Directors as for other relevant employees.	

Recovery Provisions (Malus and Clawback)

The annual bonus and LTIP are subject to recovery provisions as set out below.

Annual Bonus

The annual bonus opportunity may be cancelled or reduced before payment (malus) in the event of material misstatement of Dechra's financial statements, serious reputational damage to Dechra or gross misconduct on the part of the Executive Director.

For up to two years following the payment of a bonus, the amount paid may be recovered (clawback) in the event of material misstatement of Dechra's financial statements or gross misconduct on the part of the Executive Director.

LTIP

At any time prior to its vesting, an LTIP award may be cancelled or reduced (malus) in the event of a material misstatement of Dechra's financial statements, serious reputational damage to Dechra, if an annual bonus award has paid out at a higher level than would have been the case but for a material misstatement or serious reputational damage, or in the event of gross misconduct.

For up to two years after the vesting of an LTIP award, it may be cancelled or reduced (if it has not been exercised) or the Executive Director may be required to make a payment to the Company in respect of some or all of the shares acquired (clawback). These clawback provisions may be applied in the event of material misstatement of Dechra's financial statements or gross misconduct on the part of the Executive Director.

Malus and clawback may be applied to any CSOP option granted under the LTIP to the extent permitted by the applicable tax legislation.

Operation of Share Plans

The Committee may amend the terms of awards and options under its share plans in accordance with the plan rules in the event of a variation of Dechra's share capital or a demerger, special dividend or other similar event or otherwise in accordance with the rules of those plans.

Explanation of Performance Metrics

Performance measures for the LTIP and annual bonus are selected to reflect the Company's strategy. Stretching performance targets are set each year by the Committee taking into account a number of different factors.

Annual Bonus

The Committee considers that the underlying profit before tax is closely aligned to the Group's key performance metrics; together with annual personal objectives linked to the achievement of strategic milestones, we consider that this encourages sustainable growth year by year.

LTIP

The application of EPS and TSR targets to the LTIP aligns management's objectives with those of shareholders for the longer term.

The Committee may vary or substitute any performance measure if an event occurs which causes it to determine that it would be appropriate to do so, provided that any such variation or substitution is fair and reasonable and (in the opinion of the Committee) the change would not make the measure less demanding. If the Committee were to make such a variation, an explanation would be given in the next Directors' Remuneration Report.

Shareholding Guidelines

To align the interests of Executive Directors with those of shareholders, the Committee has adopted formal shareholding guidelines. Executive Directors are required to retain half of any shares acquired under the LTIP and, if relevant, any recruitment award (after sales to cover tax) until such time as their holding has a value equal to 200% of salary.

Shares subject to LTIP awards which have vested but not been released (that is which are in a holding period) or which have been released but have not been exercised count towards the guidelines on a net of assumed tax basis.

Directors' Remuneration Report
continued

Policy Table for Non-Executive Directors:

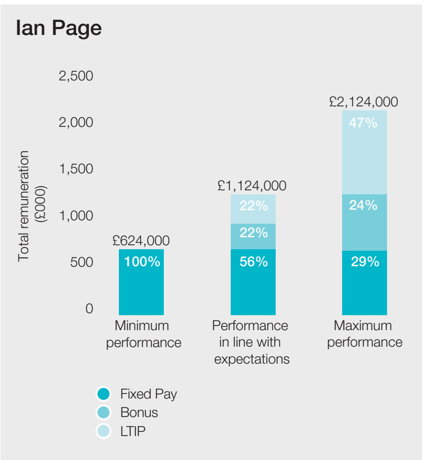
Element	Purpose and link to strategy	Operation	Opportunity
Fees and benefits	To provide fees within a market competitive range reflecting the experience of the individual, responsibilities of the role and the expected time commitment.	The fees of the Chairman are determined by the Committee and the fees of the Non-Executive Directors are determined by the Board following a recommendation from both the Chief Executive Officer and the Chairman. Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes. Non-Executive Directors may be eligible to receive benefits such as travel and other reasonable expenses.	Fees are set taking into account the responsibilities of the role and expected time commitment. Non-Executive Directors are paid a basic fee with additional fees paid for the chairing of Committees. An additional fee is also paid for the role of Senior Independent Director. Where benefits are provided to Non-Executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances.

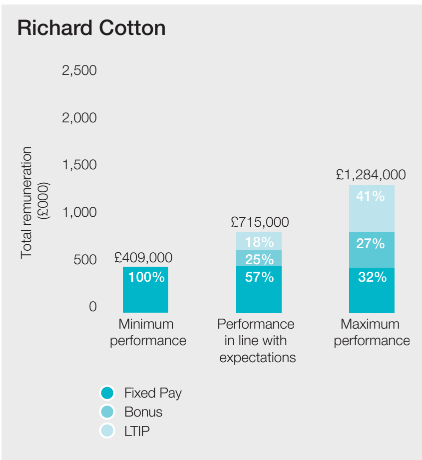
Policy for the Remuneration of Employees More Generally:

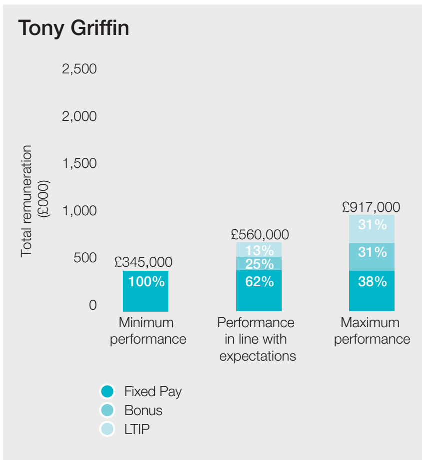
The Group aims to provide a remuneration package that is competitive in an employee's country of employment and which is appropriate to promote the long term success of the Company. The Company intends to apply this policy fairly and consistently and does not intend to pay more than is necessary to attract and motivate staff. In respect of the Executive Directors, a greater proportion of the remuneration package is 'at risk' and determined by reference to performance conditions. The Company's SAYE scheme encourages share ownership by qualifying employees and enables them to share in value created for shareholders.

Illustrations of Application of Remuneration Policy:

The following charts provide an illustration, for each of the Executive Directors, of the application for the 2018 financial year of the Policy. The charts show the split of remuneration between fixed pay (that is base salary, benefits and employer pension contributions/salary supplement), annual bonus and long term incentive pay on the basis of minimum remuneration, remuneration receivable for performance in line with Dechra's expectations and maximum remuneration (not allowing for any share price appreciation).







In illustrating the potential reward, the following assumptions have been made.

	Annual bonus	LTIP	Fixed pay
Minimum performance.	No bonus.	No LTIP vesting.	Base salary (being the latest known salary as at 1 July 2017, employer pension contributions at an assumed rate of 14% on the latest known salary, and benefits as disclosed in the single figure table on page 92 for the 2017 financial year less, in the case of Richard Cotton, a relocation allowance of £15,000 paid in the 2017 financial year and with the resulting figure then doubled to give an annual equivalent figure).
Performance in line with expectations.	Bonus equal to 50% of salary is earned.	LTIP vests as to 25% of the maximum award (50% of salary for Ian Page, 37.5% of salary for Richard Cotton and 25% of salary for Tony Griffin).	
Maximum performance.	Bonus equal to 100% of salary is earned.	LTIP vests in full (200% of salary for Ian Page, 150% of salary for Richard Cotton and 100% of salary for Tony Griffin).	

Recruitment Remuneration Policy

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Policy.

When determining appropriate remuneration arrangements, the Committee may include other elements of pay which it considers are appropriate. However, this discretion is capped and is subject to the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension will only be provided in line with the above Policy.
- The Committee will not offer non-performance related incentive payments (for example a 'guaranteed sign-on bonus').
- Other elements may be included in the following circumstances:
  - an interim appointment being made to fill an Executive Director role on a short term basis;
  - if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short term basis;
  - if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
  - if the Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee.
- The Committee may also alter the performance measures, performance period, vesting period and holding period of the annual bonus or LTIP, subject to the rules of the LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the next Directors' Remuneration Report.
- The maximum level of variable remuneration which may be granted (excluding 'buyout' awards as referred to below) is 300% of salary.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure 'buyout' awards or payments on a comparable basis to the remuneration arrangements forfeited. Any such payments or awards are excluded from the maximum level of variable remuneration referred to above. 'Buyout' awards will ordinarily be granted on the basis that they are subject to forfeiture or 'clawback' in the event of departure within 12 months of joining Dechra, although the Committee will retain discretion not to apply forfeiture or clawback in appropriate circumstances.

Any share awards referred to in this section will be granted as far as possible under Dechra's ordinary share plans. If necessary and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue in accordance with their terms.

Fees payable to a newly appointed Chairman or Non-Executive Director will be in line with the policy in place at the time of appointment.

Policy on Service Contracts:

Details of the Executive Directors' service contracts and Non-Executive Directors' letters of appointment are set out on page 101.

Whilst the Committee's policy is for the service contract of any newly appointed Executive Director to have a notice period of not more than 12 months, the Committee retains discretion to set an initial notice period of up to 24 months, reducing to 12 months over the initial 12 months of employment.

Policy on Payment for Loss of Office:

Individual Directors' eligibility for the various elements of compensation is set out below:

Provision	Treatment upon loss of office
Base Salary/Fees	Base salary/fees and benefits (including pension contributions or applicable salary supplement) based on the duration of the notice period receivable from the Company.
Payments in Lieu of Notice	The Company has discretion to make a payment in lieu of notice at any time after notice has been given by either the Company or the Director. Such a payment would consist of basic salary for the unexpired period of notice and may also include benefits (including pension contributions or applicable salary supplement) for that period.
Annual Bonus	This will be reviewed on an individual basis and the decision whether or not to award a bonus in full or in part will be dependent upon a number of factors including the circumstances of their departure and their contribution to the business during the bonus period in question. Any bonus payment would typically be pro-rated for time in service to termination and paid at the usual time (although the Committee retains discretion to pay the bonus earlier in appropriate circumstances).
LTIP	If an Executive Director ceases employment with the Group before an award under the new LTIP vests as a result of ill-health, injury, death, transfer of his employing entity out of the Group or any other reason, at the discretion of the Committee, the award will usually be released on the normal release date, although the Committee has discretion to permit the award to be released on cessation or at some other time (such as following the end of the performance period). In either case, the award will vest to the extent determined by reference to the relevant performance conditions and as reduced to reflect the period of time from the start of the performance period to the date of cessation as a proportion of the performance period. If an Executive Director ceases employment for any reason after the vesting date of an award under the new LTIP but before it is released (that is if he ceases employment during the holding period), that award will continue to subsist in accordance with the rules of the new LTIP (unless the cessation is due to summary dismissal, in which case the award will lapse) and will ordinarily be released at the normal release date, although the Remuneration Committee has discretion to release the award at the date of cessation. The award will be released to the extent it vested by reference to the performance conditions. If an Executive Director ceases employment for any reason after the release date of an award under the new LTIP, that award will continue to subsist in accordance with the rules of the new LTIP (unless the cessation is due to summary dismissal, in which case the award will lapse).
Other Payments	In appropriate circumstances, payments may also be made in respect of accrued holiday pay, and outplacement and legal fees. Options under the Company's SAYE scheme will vest on cessation in accordance with the plan rules, which do not allow for discretionary treatment.
Change of Control	In the event of a change of control, unvested awards under the new LTIP will be released to the extent determined by the Committee taking into account the relevant performance conditions and, unless the Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the relevant performance period that has elapsed. In the event of a change of control during the holding period relating to an award under the new LTIP, that award will be released to the extent it vested by reference to the performance conditions. Options under the SAYE scheme will vest on a change of control.

Where appropriate the Committee would have regard to the departing Executive Director's duty to mitigate loss, except in the event of dismissal following a change of control of the Company. Other than as described above, there are no express provisions within the Directors' service contracts for the payment of compensation or liquidated damages on termination of employment.

Where a 'buyout' or other award is made, the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

The Non-Executive Directors are entitled to compensation on termination of their appointment confined to three months' remuneration.

Consideration of Employment Conditions Elsewhere in the Group

The Committee does not formally consult with employees as part of its process when determining Executive Director pay. However, as noted in the Policy table on page 84, the level of salary increases of employees within the wider Group is considered when setting base salary for Executive Directors. The Committee is also kept informed of general decisions made in relation to employee pay and related issues.

Consideration of Shareholders' Views

The Committee believes that ongoing dialogue with major shareholders is of key importance. During the 2017 financial year, the Committee consulted with shareholders in relation to the new policy and new LTIP, and our proposals have been finalised having regard to feedback received.

Legacy Remuneration Arrangements

The Committee reserves the right to make remuneration payments and payments for loss of office notwithstanding that they are not in line with the Policy set out above where the terms of payments were agreed:

- before the Policy came into effect (provided that, in the case of any payments agreed on or after 24 October 2014 they are in line with the Policy approved at the 2014 Annual General Meeting); or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes, 'payments' includes the satisfaction of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' no later than the time the award is granted.

Any such payment shall include the satisfaction of any awards granted under the Dechra Long Term Incentive Plan 2008 and of the recruitment awards granted to Richard Cotton on 7 March 2017 as referred to on page 88 of Dechra's Annual Report and Accounts for the year ended 30 June 2016 and as further described on page 98 of Dechra's Annual Report and Accounts for the year ended 30 June 2017. The Committee may operate the Dechra Long Term Incentive Plan 2008 in accordance with its terms, including the ability to adjust awards as referred to on page 87.

Ishbel Macpherson
Remuneration Committee Chairman
4 September 2017

Directors' Remuneration Report
continued

2017 Annual Report on Remuneration

The following section provides detail of remuneration earned by the Directors during the year in line with the Directors' Remuneration Policy approved by the shareholders at the Annual General Meeting held on 24 October 2014, along with details of how the Policy to be proposed to shareholders at the 2017 Annual General Meeting will be applied in the 2018 financial year. PricewaterhouseCoopers LLP (PwC) have audited pages 92 to 101 unless indicated otherwise.

Single Total Figure of Remuneration

The table below sets out the total remuneration for each person who has served as a Director in the period ended 30 June 2017. The table shows the remuneration for each such person in respect of the year ended 30 June 2017 and the year ended 30 June 2016:

	Salaries & Fees £000[1]		Benefits £000[2]		Annual Bonus £000[3]		Long Term Incentives £000[4]		Pension £000[5]		Total £000	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016[6]	**2017**	2016	**2017**	2016
Ian Page	**490**	440	**54**	54	**451**	317	**2,046**	1,607	**68**	62	**3,109**	2,480
Richard Cotton[7]	**175**	—	**20**	—	**161**	—	**—**	—	**25**	—	**381**	—
Tony Griffin[8]	**285**	232	**19**	28	**256**	167	**531**	424	**39**	25	**1,130**	876
Anne-Francoise Nesmes[9]	**29**	323	**—**	16	**—**	232	**—**	719	**4**	45	**33**	1,335
Tony Rice[10]	**102**	6	**—**	—	**—**	—	**—**	—	**—**	—	**102**	6
Michael Redmond[11]	**39**	126	**—**	—	**—**	—	**—**	—	**—**	—	**39**	126
Ishbel Macpherson[12]	**58**	43	**—**	—	**—**	—	**—**	—	**—**	—	**58**	43
Julian Heslop	**55**	45	**—**	—	**—**	—	**—**	—	**—**	—	**55**	45
Lawson Macartney[13]	**29**	—	**—**	—	**—**	—	**—**	—	**—**	—	**29**	—
Total	**1,262**	1,215	**93**	98	**868**	716	**2,577**	2,750	**136**	132	**4,936**	4,911

Please note the following methodologies have been used in respect of the above table:

1. Salaries & Fees – this is the cash paid or received in respect of the relevant period.
2. Benefits – this represents the taxable value of all benefits paid or received in respect of the relevant period. The benefits provided include the use of a fully expensed car, medical cover and life assurance. The amount for Richard Cotton includes a one-off relocation allowance of £15,000.
3. Annual Bonus – this is the amount of cash bonus paid in respect of the financial year.
4. Long Term Incentives – this is the value of any long term incentives vesting where the performance period ended in the relevant period.
5. Pension – this is the cash value of the employer contribution to the Group stakeholder personal pension scheme or, in the case of Tony Griffin, defined contribution pension plan plus the value of any salary supplement paid.
6. The 2016 value assigned to the long term incentives for Ian Page, Tony Griffin and Anne-Francoise Nesmes was shown in last year's Annual Report as an estimate, with the value determined by reference to a share price of £11.299 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2016). This has been restated to show the actual value determined by reference to a price of £12.92 (being the market value of a share on 28 November 2016, the date of vesting).
7. Richard Cotton was appointed on 3 January 2017.
8. Tony Griffin's remuneration is paid in Euros but reported in Sterling for the purpose of this table. The exchange rate used for this purpose was 1.3432 for 2016 and 1.1681 for 2017. His salary was €332,560 for 2017 (reflecting two months at a salary of €324,449 and ten months at a salary of €334,182) and €311,949 for 2016 (reflecting six months at a salary of €299,449 and six months at a salary of €324,449).
9. Anne-Francoise Nesmes resigned on 31 July 2016.
10. Tony Rice was appointed to the Board on 5 May 2016 and to the office of Chairman on 21 October 2016.
11. Michael Redmond retired on 21 October 2016.
12. Ishbel Macpherson's fee increased to £58,000 from £43,000 on her appointment as Chairman of the Remuneration Committee (the 2017 figure includes the increase in the base fee). The fee increase in 2016 was pro-rated.
13. Lawson Macartney was appointed on 1 December 2016.

Additional Disclosures in Respect of the Single Figure Table

Salaries and Fees

As disclosed in the Directors' Remuneration Report in the 2016 Annual Report, the Executive Directors' base salaries were reviewed in September 2016 in order that the review is aligned with the performance development review calendar to provide a clearer link between performance and reward.

Following that review, Tony Griffin's salary was increased by 3% to €334,182 with effect from 1 September 2016, broadly in line with the average range of increases awarded to employees in the wider Group.

Ian Page's salary was increased to £500,000 with effect from 1 September 2016, as referred to in the statement from the Remuneration Committee Chairman on page 82. Ian Page has notified the Committee that he does not wish to be considered for a salary increase in respect of the 2018 financial year.

The Committee's approach to Executive Directors' salaries for the year ending 30 June 2018 is summarised on page 100.

The Chairman and other Non-Executive Directors are paid a fee for their role. The Senior Independent Director and the chairmen of the Remuneration Committee and Audit Committee receive an additional fee for those roles. As disclosed in the Directors' Remuneration Report in the 2016 Annual Report, it had been agreed to increase the base fee from £40,000 to £50,000. No changes were made to the additional fees and the fee for the Chairman for the year ended 30 June 2017. The Non-Executive Directors' fees for the years ended 30 June 2017 and 30 June 2016 were determined on the following basis:

Office	**2017 Fee £000**	2016 Fee £000
Chairman	**126**	126
Non-Executive Director	**50**	40
Remuneration Committee Chairmanship additional fee	**5**	5
Audit Committee Chairmanship additional fee	**5**	5
Senior Independent Director additional fee	**3**	3

The Committee's approach to the Chairman's and Non-Executive Directors' fees for the year ending 30 June 2018 is summarised on page 100.

Annual Bonus

The Company operates an annual cash incentive scheme for the Executive Directors. Annual bonuses were awarded by the Committee in respect of the 2017 financial year having regard to the performance of the Group and personal performance objectives for the year.

The amount achieved for the year ended 30 June 2017 against targets for the 2017 financial year is as follows:

2017 Financial Year Targets	Amount Achieved for the Year Ended 30 June 2017
Underlying profit before tax performance: 10% of salary payable upon the achievement of 95% of Group profit target rising to 90% of salary payable upon the achievement of 110% of Group profit target.	The underlying profit before tax target was £65.6 million. Actual underlying profit before tax was £77.0 million. This converted into an achievement of 108% of the profit target when translated at constant exchange rate resulting in a payment worth 82% of salary.
Personal objectives: up to an additional 10% of salary was payable to Executive Directors upon the achievement of personal objectives*.	Actual performance resulted in payment worth 10% of salary for the period for Ian Page and Richard Cotton and 8% of salary for Tony Griffin. The objectives are based on key aspects of delivering the Group's strategy*.
Total Annual Bonus Earned for the Year Ended 30 June 2017	**92% of salary for Ian Page and Richard Cotton and 90% for Tony Griffin**

* The Committee considers that the objectives for the forthcoming financial year (2018) are commercially sensitive as they give our competitors insight into our business plans and therefore are not detailed in this report.

Further information regarding the 2017 financial year personal objectives for each Executive Director and the performance achieved is given on the following page.

The personal objectives of each Executive Director for the year ended 30 June 2017 are set on an individual basis and are closely linked to the corporate, financial, strategic and other non-financial objectives of the Company. This enables the Committee to reward the Executive Directors' contribution to both the annual financial performance and the achievement of specific objectives. A summary of the objectives is set out below along with a description of the performance against them. The Committee reviewed the performance of each Executive Director against their specific objectives based on a report by the Chief Executive Officer and with respect to the Chief Executive Officer, a report by the Chairman.

Director	Objective	Performance
Ian Page	Pipeline Delivery	Successful launch of Amoxi-Clav
	Portfolio Focus	Development of vaccines strategy
	Acquisition	Acquisition of business and assets of Apex Laboratories Pty Ltd and 33.0% stake in Medial Ethics Pty Ltd
	Geographical Expansion	Establishment of Dechra Veterinary Products International
Richard Cotton	Onboarding	Completed a rigorous induction
	Leadership of finance team	Established as Leader of finance team and developed the treasury strategy
Tony Griffin	Portfolio Focus	Companion Animal Product sales increased by 9.0%
	Geographical Expansion	Key new territories performed in line with expectations
	Revenue Growth	Strong sales growth in Italy and Poland
	Technology Enabler	Implementation of the Oracle DVP EU ERP solution has fallen behind schedule and will now be completed during the 2018 financial year

Based on the above assessment against objectives set, the Committee determined that the performance of Ian Page and Richard Cotton warranted maximum payout in relation to the non-financial elements of their respective bonuses. Tony Griffin warranted a payout of 8% in relation to the non-financial elements of his bonus. The Committee's approach to Executive Directors' annual bonus opportunities for the year ending 30 June 2018 is summarised on page 100.

LTIP Awards Vesting in Respect of the Year Ended 30 June 2017

The LTIP awards granted on 15 September 2014 are due to vest on 15 September 2017. Ian Page and Tony Griffin were granted LTIP Awards on 15 September 2014, the performance targets for which are as follows: 50% of the award is subject to a performance condition based on the Company's total shareholder return (TSR) performance over the performance period relative to the constituent companies of the FTSE 250 index (excluding investment trusts) over the performance period as follows:

TSR performance	Vesting percentage
Below median	0%
Median	25% of the TSR portion will vest
Between median and upper quartile	Pro-rata vesting between 25% and 100% based on the Company's ranking in the comparator group
Upper quartile	100% of the TSR portion will vest

50% of each award is subject to a performance condition based on the growth in the Company's underlying diluted earnings per share (EPS) over the performance period as follows:

EPS compound annual growth rate	Vesting Percentage
<8% CAGR	0%
8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 13%	Pro-rata vesting between 25% and 100%
>13% CAGR	100% of the EPS portion will vest

Both the TSR element and the EPS element are subject to an additional return on capital employed (ROCE) performance measure. Unless the Group's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance. The percentage vesting will be reduced by 10% for every 1% that ROCE falls below 15%.

The Company's TSR performance was over 168.1% compared with a 64.7% TSR for the upper quartile company in the comparator group (FTSE 250 Index (excluding Investment Trusts)). Therefore 100% of the TSR element will vest. In addition, the compound annual growth in the Group's underlying diluted EPS for the performance period was 21.0%. Accordingly, 100% of the EPS element will vest. Overall, taking into account that ROCE performance for 2017 was 17.7%, the LTIP awards will vest as to 100% of maximum opportunity. In the single figure table on page 92, the value attributable to this award is calculated by multiplying the number of shares in respect of which the award is expected to vest by £17.741 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2017).

Anne-Francoise Nesmes' LTIP award granted on 15 September 2014 lapsed on 31 July 2016.

The details of the LTIP awards granted during the year ended 30 June 2017 are set out below. The Committee's approach to Executive Directors' LTIP awards for the year ending 30 June 2018 is summarised on page 100.

SAYE Exercised During the Year Ended 30 June 2017

	Date of grant	Number of options	Option price	Exercise date
Ian Page	7 April 2014	1,630	£5.52	2 May 2017

The aggregate gain made by the Executive Directors on share options and LTIP awards exercised during 2017 was £2,872,032 (2016: £1,803,017).

Pension

Ian Page was a member of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year, and Richard Cotton became a member of the scheme following his joining the Group in January 2017. Tony Griffin is a member of a defined benefit pension plan in the Netherlands. Contributions made by Dechra Pharmaceuticals PLC on behalf of the Executive Directors during the year equated to no more than 14% of pensionable salary for each Executive Director.

The annual allowance for tax relief on pension savings for individuals earning over £150,000 per annum reduced from £40,000 to £10,000 on 6 April 2016. Richard Cotton elected to receive a salary supplement in lieu of the employer contribution over and above the £10,000 limit for the entire period under review. From 6 April 2016, Ian Page's pension savings reached the lifetime allowance and from this date he elected to receive his pension contributions as a salary supplement.

Tony Griffin is a member of the Basispensioen, a defined benefit pension plan established in the Netherlands. The table below sets out the arrangements for Tony Griffin for the period under review.

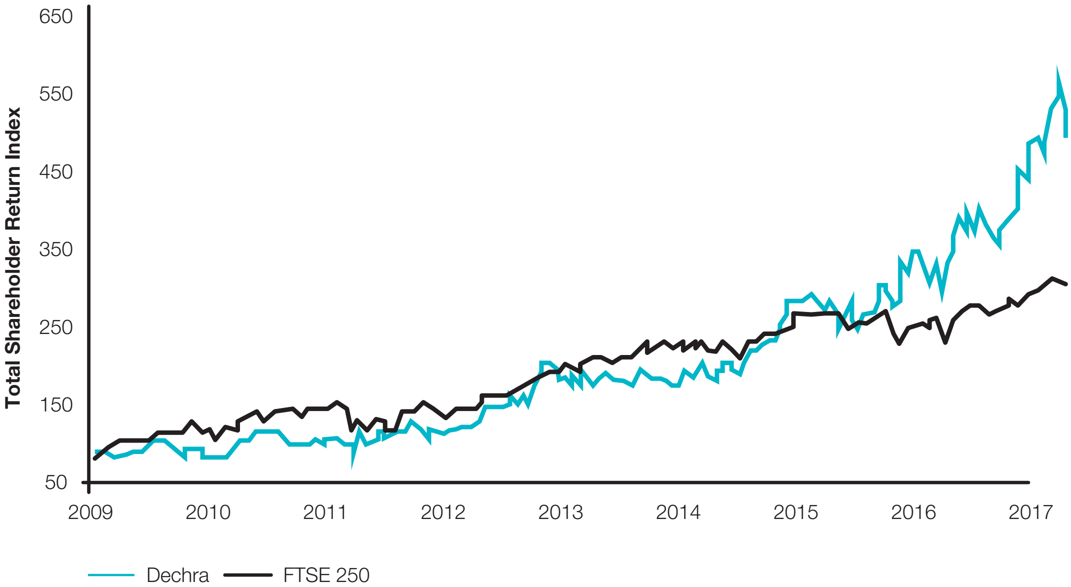
Accrued benefit at 1 July 2016	€10,940
Increase in accrued benefit excluding inflation allowance	€11,631
Increase in accrued benefit including inflation allowance	€12,086
Transfer value of benefit accrued during the period less member contributions	€45,000
Transfer value at 1 July 2016	€206,000
Transfer value at 30 June 2017	€253,000
Increase in transfer value over the period after member contribution	€47,000

The defined benefit pension plan is capped at €50,000. Pensionable salary over this cap is paid into a defined contribution plan. Following the implementation by the Dutch government of a reduction in the cap on maximum amount of pensionable income to €100,000, Tony Griffin elected to receive a salary supplement in lieu of the pension premium entitlement for earnings above €100,000. This was effective from 1 January 2015. The earliest date that a non-reduced pension is payable is 10 February 2040.

Directors' Remuneration Report
continued

Total Shareholder Return (TSR) Graph

The graph below shows the TSR performance of the Company over the past eight financial years compared with the TSR over the same period for the FTSE 250 Total Return Index. Throughout the financial year ended 30 June 2017 the Company has been a constituent member of the FTSE 250; for this reason it is considered that the TSR performance of the FTSE 250 Index is the appropriate comparator for this report.



Chief Executive Officer Remuneration for Eight Previous Years

Year ended	Total single figure remuneration £000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
30 June 2017	3,109	92	100.0
30 June 2016	2,480	72	96.25
30 June 2015	1,934	80	93.1
30 June 2014	1,589	80	100.0
30 June 2013	1,201	36	100.0
30 June 2012	682	60	0
30 June 2011	984	60	71.1
30 June 2010	768	44	100.0

Percentage Change in Chief Executive Officer Remuneration

The table below sets out in relation to salary, taxable benefits and annual bonus the percentage change in pay for Ian Page and the average percentage change for all UK based employees, comparing pay in respect of the year ended 30 June 2016 and the year ended 30 June 2017. For these purposes, UK employees were chosen as a comparator group reflecting that Ian Page is UK based and the number of UK employees was sufficiently large to provide a robust comparison. Employees outside the UK were not included in the comparator group since country specific differences could distort the comparison.

	Chief Executive Officer			Average per all UK based Employees		
	2017 £000	2016 £000	Increase %	**2017 £000**	2016 £000	Increase %
Salary[1]	**490**	440	11.4	**35.6**	31.6	12.5
Taxable benefits[2]	**54**	54	—	**1.7**	1.6	8.6
Annual bonus	**451**	317	42.3	**3.0**	2.8	9.8

1. As referred to in the Remuneration Committee Chairman's statement on page 82, prior to September 2016 Ian Page's salary had not been increased since January 2014, since which date there has been an exceptional change in the scale and complexity of the Group. The increase in Ian Page's salary between 2016 and 2017 should be viewed in this context. Ian Page has elected to waive any increase in his salary for 2018.
2. Excludes SAYE options granted in the financial year.

Relative Importance of Spend on Pay

The following table sets out the percentage change in distributions to shareholders by way of dividend and share buyback and total remuneration paid to or receivable by all Group employees comparing the year ended 30 June 2016 and the year ended 30 June 2017.

	Year ended 30 June 2017 £000	Year ended 30 June 2016 £000	% change
Distributions to shareholders by way of dividend and share buyback	**19,973**	16,865	18.4
Overall expenditure on pay	**76,117**	56,504	34.7

Directors' Remuneration Report
continued

Long Term Incentive Arrangements and Share Schemes:

LTIP Awards Made During the Year Ended 30 June 2017

Awards were granted to the Executive Directors on 19 September 2016, on the following basis:

	Type of award	Maximum opportunity	Number of shares	Face value at grant[1]	% of award vesting at threshold	Performance period
Ian Page	Nil cost option under the LTIP	200% of salary	73,260	£999,999	25%	1 July 2016 – 30 June 2019
Tony Griffin[2]	Conditional award under the LTIP	100% of salary	20,858	£284,712	25%	1 July 2016 – 30 June 2019

1. For these purposes, the face value of the award is calculated by multiplying the number of shares by £13.65 (being the average share price used to determine the number of shares comprised in the awards).
2. The exchange rate used for this purpose was 1.1737 (the exchange rate at grant).

50% of each award is subject to a performance condition based on the Company's TSR performance over the performance period relative to the constituent companies of the FTSE 250 index (excluding investment trusts) over the performance period as follows:

TSR performance	Vesting percentage
Below median	0%
Median	25% of the TSR portion will vest
Between median and upper quartile	Pro-rata vesting between 25% and 100% based on the Company's ranking in the comparator group
Upper quartile	100% of the TSR portion will vest

50% of each award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period. As disclosed in the Directors' Remuneration Report in the 2016 Annual Report, following the acquisitions of Genera and Putney in 2016, we increased the EPS growth target required for maximum vesting, recognising the additional earnings forecasted, to 20% CAGR. Accordingly, the EPS target is as follows:

Original EPS compound annual growth rate	Vesting percentage
<8% CAGR	0%
8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 20%	Pro-rata vesting between 25% and 100%
>20% CAGR	100% of the EPS portion will vest

Both the TSR element and the EPS element are subject to an additional ROCE performance measure. Unless the Group's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance. The percentage vesting will be reduced by 10% for every 1% that ROCE falls below 15%.

Recruitment Award for Richard Cotton

As disclosed in the Directors' Remuneration Report for the 2016 financial year, as part of his recruitment, the Committee agreed to award Richard two 'buyout' awards in respect of incentives forfeited as a consequence of joining Dechra. Each award was over shares with a value of £350,000 at the date of grant.

The awards were granted on 7 March 2017 as follows:

Type of award	Number of shares subject to award	Face value of award	Performance condition	Vesting date
Nil cost option	21,033[1]	£349,998[2]	Performance in role	3 January 2018
Nil cost option	21,033[1]	£349,989[2]	The performance conditions applying to the LTIP awards granted on 15 September 2015	15 September 2018

1. Either award may be reduced to take into account of any relevant performance conditions for the forfeited awards not being achieved.
2. For these purposes, the face value of the awards is calculated by multiplying the number of shares by £16.64 (being the average closing mid-market price for the five dealing days preceding to the award date).

SAYE Options Granted in the Year

No Directors were granted SAYE options during the year ended 30 June 2017.

Payments to Past Directors

There were no payments made to past Directors during the period.

Payments for Loss of Office

There were no payments for loss of office made to Directors during the period.

Shareholding Guidelines and Statement of Directors' Shareholdings and Interests:

Executive Directors

In respect of the financial year ended 30 June 2017, the Company's shareholding guidelines for Executive Directors required that by the third anniversary of their appointment to the Board, Executive Directors are required to have acquired and retained a holding of Dechra shares equivalent to the value of at least 100% of their base salaries. Thereafter, by the fifth anniversary of appointment, the Chief Executive Officer and Chief Financial Officer are required to have acquired and retained a holding equivalent to the value of at least 200% and 150% respectively of their base salary. The holdings of each person who served as an Executive Director during the period ended 30 June 2017 (and their families as at 30 June 2017 or, if earlier, the date of resignation) are as follows:

Name	Appointment date	Ordinary shares Number	Ordinary shares £000*	% of salary
Ian Page	13 June 1997	676,808	11,506	2,301.5
Richard Cotton	3 January 2017	12,837	218	62.4
Tony Griffin	1 November 2012	64,320	1,093	382.2
Anne-Francoise Nesmes	2 April 2013	39,502	525	162.7

* Calculated using the share price as at 30 June 2017 (or, if earlier, the date of resignation).

Non-Executive Directors

By the third anniversary of their appointment to the Board, Non-Executive Directors are required to have acquired and retained a holding of Dechra shares equivalent to the value of at least 50% of their annual base fee. The holdings of the Non-Executive Directors and their families as at 30 June 2017 (or, if earlier, the date of retirement) are as follows:

Name	Appointment date	Ordinary shares number	Ordinary shares £000*	% of base fee
Tony Rice	5 May 2016	40,000	680	539.7
Ishbel Macpherson	1 February 2013	5,848	99	198.8
Julian Heslop	1 January 2013	10,000	170	340.0
Lawson Macartney	1 December 2016	—	—	—
Michael Redmond	19 April 2001	73,417	1,088	800.0

* Calculated using the share price as at 30 June 2017 (or, if earlier, the date of retirement).

There have been no changes in the holdings of the Directors between 30 June and 4 September 2017.

Executive Directors' Interests under Share Schemes Long Term Incentive Plan

Awards held under the Long Term Incentive Plan by each person who was a Director at during the year ended 30 June 2017 are as follows:

	Award date	Number of shares at 30 June 2016	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 30 June 2017[1]	Status	Performance period
Ian Page	27 November 2013	129,221	—	(4,846)	(124,375)	**—**	Vested	2013–2016
	15 September 2014	115,334	—	—	—	**115,334**	Unvested	2014–2017
	15 September 2015	90,721	—	—	—	**90,721**	Unvested	2015–2018
	19 September 2016	—	73,260	—	—	**73,260**	Unvested	2016–2019
Richard Cotton	7 March 2017[2]	—	21,033	—	—	**21,033**	Unvested	2017–2018
	7 March 2017[2]	—	21,033	—	—	**21,033**	Unvested	2015–2018
Tony Griffin	27 November 2013	34,129	—	(1,280)	(32,849)	—	Vested	2013–2016
	15 September 2014	29,937	—	—	—	**29,937**	Unvested	2014–2017
	15 September 2015	22,641	—	—	—	**22,641**	Unvested	2015–2018
	19 September 2016	—	20,858	—	—	**20,858**	Unvested	2016–2019
Anne-Francoise Nesmes	27 November 2013	66,079	—	(2,478)	(63,601)	**—**	Vested	2013–2016
	15 September 2014[3]	60,747	—	(60,747)	—	**—**	Lapsed	2014–2017
	15 September 2015[3]	49,993	—	(49,993)	—	**—**	Lapsed	2015–2018

1. Number of shares as at 30 June 2017, or at the date of leaving if earlier.
2. These awards are Recruitment Awards granted to Richard Cotton as referred to on page 98. They were granted outside the rules of the LTIP.
3. These awards lapsed on 31 July 2016.

SAYE Scheme

Options held under the SAYE Scheme by each person who was served as a Director during the year ended 30 June 2017 are shown below:

	Date of grant	Number of options at 30 June or, if earlier, date of resignation	Option price	Exercise date
Ian Page	13 October 2014	1,465	£6.14	December 2017
Anne-Francoise Nesmes[1]	13 October 2014	1,465	£6.14	December 2017

1. This options lapsed on 31 July 2016.

Implementation of the Directors' Remuneration Policy in the Year Ending 30 June 2018 (Unaudited):

Subject to approval at the 2017 Annual General Meeting, the Directors' Remuneration Policy outlined on pages 84 to 91 will be implemented in the year ending 30 June 2018, as set out below.

Salary and Fees

The next review of Executive Directors' salaries will be undertaken in September 2017. It is planned that the Executive Directors' salaries for 2017 will increase in line with the range of increases proposed for the wider workforce, although Ian Page has notified the Committee that he does not wish to be considered for a salary increase in respect of 2018 financial year.

No changes will be made to the fee for the Chairman and Non-Executive Directors for the year ending 30 June 2018. There will be no changes to the additional fees.

Annual Bonus

No changes have been made to the bonus structure. Consequently Executive Directors will have a bonus opportunity of 100% of salary for the year ending 30 June 2018, on the same basis as for the year ended 30 June 2017. Details of the bonus structure can be found on pages 93 and 94. In the opinion of the Board, the performance targets applying to the annual bonus are commercially sensitive, and prospective disclosure could provide competitors with insight into the Group's business plans and expectations. However, the Company will disclose how any bonus earned relates to performance against targets on a retrospective basis when the targets are no longer considered commercially sensitive, as shown on pages 93 and 94 in respect of bonuses for the Group's 2017 financial year.

LTIP

The Committee proposes that LTIP awards for the year ending 30 June 2018 (the 2018 Grant) will be made at the level of 200% of salary for Ian Page, 150% for Richard Cotton and 100% of salary for Tony Griffin.

The performance measures for the awards will be based on TSR (one third) and EPS (two thirds), with an underpin based on ROCE. The TSR targets will be the same as for the awards made in the 2017 financial year, details of which can be found on page 94.

As referred to on page 82, the EPS growth target required for maximum vesting for the 2018 Grant has been decreased to 15.5% CAGR to reflect the fact that the acquisitions are now included in the base year and to reflect the lower 2020 financial year broker forecasts. Accordingly, the EPS targets for the 2018 Grant are:

EPS compound annual growth rate	Vesting percentage
<8% CAGR	0%
8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 15.5%	Pro-rata vesting between 25% and 100%
>15.5% CAGR	100% of the EPS portion will vest

Both the TSR element and the EPS element will be subject to an additional ROCE performance measure. Unless the Company's ROCE is 10% or more in the final year of the performance period, the awards will lapse in full regardless of TSR and EPS performance.

Subject to its approval by shareholders, the Awards in respect of the 2018 Grant will be granted under the new LTIP for which shareholder approval is sought at the 2017 Annual General Meeting. The awards will ordinarily be subject to a two year post vesting holding period.

Consideration by Directors of Matters Relating to Directors' Remuneration:

Governance

The Board has overall responsibility for the Group's Remuneration Policy and the setting of the Non-Executive Directors' fees, although the task of determining and monitoring the remuneration packages of the Executive Directors and agreeing the Chairman's fee level has been delegated to the Committee.

Membership

Details of each member's attendance at the Committee's meetings is detailed on page 68.

The Chief Executive Officer attended all meetings held during the financial year in order to assist on matters concerning remuneration of other senior executives within the Group. However, he was not present during the part of the meetings where his own remuneration was discussed. Furthermore, the Group HR Director has attended all meetings held during the financial year.

Responsibilities
The Committee has its own terms of reference, which are approved by the Board. These are reviewed on an annual basis to ensure that they continue to adhere to best practice. During the 2017 financial year this review took place at the July 2017 meeting. Copies can be obtained via the Company website at www.dechra.com. The Committee Chairman and the Company Secretary are available to shareholders to discuss the Remuneration Policy.

An overview of the Committee's terms of reference is provided on page 69.

Service Contracts and Letters of Appointment
Details of the Executive Directors' service contracts and Non-Executive Directors' letters of appointment are set out below.

		Notice Period	
Name	**Commencement date**	**Director**	**Company**
Tony Rice	5 May 2016	3 months	3 months
Ian Page	1 September 2008	6 months	12 months
Richard Cotton	3 January 2017	6 months	12 months
Tony Griffin	1 November 2012	6 months	12 months
Julian Heslop	1 January 2013	3 months	3 months
Lawson Macartney	1 December 2016	3 months	3 months
Ishbel Macpherson	1 February 2013	3 months	3 months

There are no expiry dates applicable to either Executive or Non-Executive Directors' service contracts. The Non-Executive Directors are entitled to compensation on termination of their appointment confined to three months' remuneration.

While the Committee's policy is for the service contract of any newly appointed Executive Director to have a notice period of not more than 12 months, the Committee retains discretion to set an initial notice period of up to 24 months, reducing to 12 months over the initial 12 months of employment.

Policy on External Appointments
The Company recognises that Executive Directors may be invited to become Non-Executive Directors of other companies and that this can help broaden the skills and experience of a Director. Executive Directors are only permitted to accept external appointments with the approval of the Board.

The only Executive Director to hold an external appointment is Ian Page. He is Non-Executive Chairman of Sanford DeLand Asset Management Limited, a position which he has held since 7 October 2010. During the year, Ian Page received no remuneration for this appointment.

Advisers
The following have provided advice to the Committee during the year in relation to its consideration of matters relating to Directors' remuneration:

- Chief Executive Officer, Chief Financial Officer, Group HR Director and Company Secretary; and
- Deloitte LLP (Deloitte).

Deloitte is retained to provide independent advice to the Committee as required. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK. Deloitte's fees for providing remuneration advice to the Committee were £19,000 for the year ended 30 June 2017. The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when considering this. Deloitte was appointed by the Committee and has provided share scheme advice and general remuneration advice to the Company. Details of additional services which Deloitte provided to Dechra are detailed on page 78.

Statement of Voting at Previous Annual General Meeting
The Company remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. The following table sets out actual voting in respect of the advisory vote on the Directors' Remuneration Report and the binding vote on the Remuneration Policy at the Company's Annual General Meeting on 21 October 2016 and 24 October 2014 respectively:

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
To approve Remuneration Report	66,616,092	98.76	834,805	1.24	1,734,331
To approve Remuneration Policy	66,935,753	98.32	1,140,380	1.68	302,814

Ishbel Macpherson
Remuneration Committee Chairman
4 September 2017

Directors’ Report – Other Disclosures

The Directors present their annual report on the affairs of the Group, together with the audited Group financial statements for the year ended 30 June 2017. Certain disclosure requirements which form part of the Directors’ Report are included elsewhere in this Annual Report. Therefore, this report should be read in conjunction with the Strategic Report (which includes the Corporate Social Responsibility Report) on pages 8 to 61 along with the Corporate Governance Report and Board Committee Reports. They are incorporated by reference into this Directors’ Report and include:

- Details in respect of the Board of Directors;
- Details in respect of Directors’ Indemnities;
- Statement of Directors’ Responsibilities;
- Review of the Group’s business during the year and any likely future developments;
- Going concern and viability statements;
- Employees with disabilities and employee involvement; and
- Details in respect of Greenhouse Gas Emissions.

Information in relation to post-balance sheet events and financial risk management (including the exposure to price, credit and liquidity risk) can be found in notes 24 and 35 to the Financial Statements.

Acquisitions and Disposals

The acquisitions during the year under review are as follows:

Date of acquisition	Detail		Consideration
October 2016	Business and assets of Apex Laboratories Pty Limited.	A business that manufactures, markets and sells branded non-proprietary prescription and other related companion animal products in Australia and New Zealand.	Consideration of AUD$55.0 million (£34.2 million), funded from the Group’s own cash and debt resources.
March 2017	33.0% of the issued share capital in Medical Ethics Pty Ltd (Medical Ethics).	Parent company of Animal Ethics Pty Ltd (Animal Ethics), an Australian based company focused on developing ethical pain relief products in animal health.	Consideration of AUD$18.0 million (£11.0 million). The AUD$18.0 million will be split as to AUD$9.0 million of new equity to provide funding to Animal Ethics and the balance to acquire existing shares from the current shareholders.

Amendment of the Articles of Association

The Company’s Articles of Association may be amended by a special resolution of its shareholders.

Significant Agreements/Change of Control

As detailed in the Going Concern Statement on page 72, the Group has bank facilities with a group of banks comprising Bank of Ireland (UK) plc, BNP Paribas, Fifth Third Bank, HSBC Bank plc, Lloyds Bank plc, Raiffeisen Bank International AG and Santander UK plc (the Banks); these facilities include a change of control provision. Under this provision, a change of control of the Company could result in withdrawal of facilities. No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole.

The Company does not have agreements with any Director or employee that provide compensation for loss of office or employment resulting from a takeover, other than the Company share schemes. Under such schemes outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time. In the event of a change of control, unvested awards under the Long Term Incentive Plan will vest to the extent determined by the Remuneration Committee taking into account the relevant performance conditions and, unless the Remuneration Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the relevant performance period that has elapsed.

The Directors consider that there are no contracted or other single arrangements, such as those with major suppliers, which are likely to influence, directly or indirectly, the performance of the business and its values. Furthermore, there are no contracts of significance subsisting during the financial year between any Group undertaking and a controlling shareholder or in which a Director is or was materially interested.

Directors

The Articles of Association state that a Director may be appointed by an ordinary resolution of the shareholders or by the Directors, either to fill a vacancy or as an addition to the existing Board but so that the total number of Directors does not exceed the maximum number of Directors allowed pursuant to the Articles of Association. The maximum number of Directors currently allowed pursuant to the Articles of Association is ten.

The Articles of Association also state that the Board of Directors is responsible for the management of the business of the Company and in doing so may exercise all the powers of the Company subject to the provision of relevant legislation and the Company’s Articles of Association. The powers of the Directors set out in the Articles of Association include those in relation to the issue and buy-back of shares.

Overseas Branches
The Company, through its subsidiary Genera d.d., has established branches in Bosnia-Herzegovina and Serbia.

Political Donations and Expenditure
No political donations were made during the year ended 30 June 2017 (2016: nil). The Group has a policy of not making any donations to political organisations or independent election candidates or incurring political expenditure anywhere in the world as defined in the Political Parties, Elections and Referendums Act 2000.

Research and Development
The Group has a structured development programme with the aim of identifying and bringing to market new pharmaceutical products. Investment in development is seen as key to strengthen further the Group's competitive position. Further information in relation to product development can be found on pages 44 and 45. The expense on this activity for the year ended 30 June 2017 was £14,978,000 (2016: £10,355,000) and a further £1,258,000 (2016: £570,000) was capitalised as development costs.

Results and Dividends
The results for the year and financial position at 30 June 2017 are shown in the Consolidated Income Statement on page 115 and Consolidated Statement of Financial Position on page 117. The Directors are recommending the payment of a final dividend of 15.33 pence per share which, if approved by shareholders, will be paid on 17 November 2017 to shareholders registered at 27 October 2017. The shares will become ex-dividend on 26 October 2017. An interim dividend of 6.11 pence per share was paid on 7 April 2017, making a total dividend for the year of 21.44 pence per share (2016: 18.46 pence per share). The total dividend payment is £19,973,000 (2016: £16,865,000).

Share Capital
The issued share capital of the Company for the year is set out in note 25 to the Consolidated Financial Statements. As at the end of the financial year 93,178,756 fully paid ordinary shares were in issue, which included 431,758 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes.

The holders of shares are entitled to receive dividends when declared, to receive the Company's Report and Accounts, to attend and speak at general meetings of the Company, to appoint proxies and to exercise voting rights. There are no restrictions on transfer or limitations on the holding of shares in the Company, nor are there any requirements to obtain prior approval in respect of any transfer of shares. The Directors are not aware of any agreements which limit the transfer of shares or curtail voting rights attached to those shares. The only exception to this is the Trustees of the Dechra Employee Benefit Trust, who hold 42,066 shares and have waived their rights to dividends and in accordance with the Investment Association guidance they abstain from voting at general meetings.

At the Annual General Meeting of the Company held on 21 October 2016, the Company was authorised to purchase up to 9,275,208 of its ordinary shares, representing 10% of the issued share capital of the Company as at 9 September 2016. No shares were purchased under this authority during the financial year. A resolution will be put to shareholders at the forthcoming Annual General Meeting to renew this authority for a further period of one year. Under the proposed authority shares purchased may be either cancelled or held in treasury.

The Directors require authority from shareholders to allot unissued share capital to the Company and to disapply shareholders' statutory pre-emption rights. Such authorities were granted at the 2016 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2017 Annual General Meeting.

Directors' Report – Other Disclosures
continued

Substantial Interests in Voting Rights
In accordance with the requirements in the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority, the Company had been notified of the following interests exceeding the 3% notification threshold as at the end of the financial year and a date not more than one month before the date of the notice of the Annual General Meeting.

	30 June 2017		**14 August 2017**	
	Aggregate voting rights	Percentage	**Aggregate voting rights**	**Percentage**
Fidelity Management & Research	8,563,921	9.19	**8,666,431**	**9.30**
Standard Life Aberdeen	—	—	**7,041,399**	**7.56**
BlackRock Inc	6,419,020	6.89	**6,492,125**	**6.97**
Standard Life	4,770,145	5.12	**—**	**—**
The Capital Group Companies, Inc	4,160,036	4.46	**3,890,018**	**4.17**
Schroders	4,135,440	4.44	**4,017,465**	**4.31**
Aviva plc	3,730,200	4.00	**3,902,307**	**4.19**
Old Mutual	3,575,190	3.84	**3,255,911**	**3.49**
Legal & General Group	3,486,988	3.74	**3,355,126**	**3.60**
AEGON	3,361,786	3.61	**3,479,454**	**3.73**
Aberdeen Group	3,127,481	3.36	**—**	**—**
Hargreave Hale Ltd Stockbrokers	2,955,497	3.17	**2,966,698**	**3.18**

Auditor
A resolution to re-appoint PricewaterhouseCoopers LLP as external auditor and to authorise the Audit Committee to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Audit Information
Each of the Directors who held office at the date of the approval of the Directors' Report confirms that, so far as he or she is aware, there is no relevant audit information of which the external auditor is unaware, and each Director has taken all steps that he or she ought to have undertaken as a Director to make himself or herself aware of any relevant audit information and to establish that the external auditor is aware of that information.

The Directors' Report has been approved by the Board and signed on its behalf by:

Melanie Hall
Company Secretary
4 September 2017

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements

The Directors are responsible for preparing the Annual 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 they are required to prepare the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Company Financial Statements in accordance with United Kingdom (UK) Accounting Standards (UK, comprising FRS101 'Reduced Disclosure Framework', and applicable law).

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 Group and Company and of their profit or loss for that period. In preparing each of the Financial Statements, the Directors are required to:

- select appropriate accounting policies and apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group Financial Statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company Financial Statements, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company, and enable them to ensure that its Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Directors' Responsibility Statement

Each of the Directors as at the date of the Annual Report, whose names and functions are set out on pages 64 and 65, confirm that to the best of his/her knowledge:

1. the Company Financial Statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company;
2. the Group Financial Statements, prepared in accordance with the IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of Group; and
3. the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by:

Ian Page
Chief Executive Officer
4 September 2017

Richard Cotton
Chief Financial Officer
4 September 2017

Financial Statements

Independent Auditor's Report to the Members of Dechra Pharmaceuticals PLC

Report on the Audit of the Financial Statements

Opinion

In our opinion:

- Dechra Pharmaceuticals PLC's Group financial statements and Company financial statements (the Financial Statements) give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2017 and of the Group's profit and cash flows for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements, included within the Annual Report and Accounts (the Annual Report), which comprise: the Consolidated and Company Statements of Financial Position as at 30 June 2017; the Consolidated Income Statement and Statement of Comprehensive Income, the Consolidated Statement of Cash Flows; and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, which includes the FRC's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 to the Financial Statements, we have provided no non-audit services to the Group or the Company in the period from 1 July 2016 to 30 June 2017.

Our Audit Approach

Overview

- Group overall materiality – £2.6 million (2016: £1.6 million).
- In determining Group overall materiality, we have considered a range of benchmarks that may be appropriate in the Group's circumstances and which are used to assess the performance of the Group. These include Group Revenue, Group Profit before tax and Group Profit before tax adjusted for non-recurring items. Applying our professional judgement, we determined Group overall materiality to be £2.6 million.
- Company Financial Statement materiality – £1.2 million (2016: £1.2 million) based on 0.5% of net assets.

- Following our assessment of the risks of material misstatement of the Consolidated Financial Statements we performed audits of the complete financial information of 19 reporting units and specified procedures for a further 1 reporting unit.
- In addition the Group engagement team audited the Company and certain centralised functions, including those covering the Group treasury operations, corporate taxation, and goodwill and intangible asset impairment assessments.
- The components on which audits of the complete financial information and centralised work was performed accounted for 92% of Group revenue and 88% of adjusted profit before tax.
- As part of our supervision process, the Group engagement team have visited significant components, in addition to performing the audits of the in scope UK reporting locations. We have also visited the component auditors in the Netherlands during the year.

Our assessment of the risk of material misstatement also informed our views on the areas of particular focus of our work which are listed below;

- Business combinations – assessment of the acquisition accounting in respect of Apex Laboratories Pty Ltd and revisions made to the fair values assigned to the acquired assets and liabilities of Putney Inc.
- Associate accounting – assessment of the accounting for the investment in an associate following the acquisition of 33.0% of the share capital in Medical Ethics Pty Ltd.
- Licensing agreements – recognition of acquired intangible assets in respect of licensing agreements.
- Impairment of intangible assets subject to amortisation – assessment of the carrying value of acquired intangible assets and other relevant assets.

The Scope of Our Audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key Audit Matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Business combinations – assessment of the acquisition accounting in respect of Apex Laboratories Pty Ltd and revisions made to the fair values assigned to the acquired assets and liabilities of Putney Inc. *Refer to the Audit Committee Report on page 76, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 121, and note 32 (Acquisitions).* The Group completed the acquisition of Apex Laboratories Pty Ltd (Apex) on 14 October 2016. We focused on this area because the accounting for business combinations including the opening balance sheet position is inherently judgemental. IFRS 3 (revised) requires that consideration is given to the existence and measurement of separable identifiable intangible assets that have been acquired as part of each respective acquisition agreement. For the acquisition of Apex, significant value has been attributed to the developed technology, brand and product portfolio, the recognition of which is dependent on cash flow forecasts including future business growth, product development and the application of an appropriate discount rate, all of which are subjective. The calculation of deferred tax liabilities arising on the identifiable intangible assets is reliant on the correct application of local tax rates. The 12 month measurement period following the acquisition of Putney Inc concluded on 21 April 2017. The provisional fair values attributed to the assets and liabilities acquired have been reviewed, specifically deferred taxes. The measurement of deferred taxes is dependent on the understanding and application of local tax rules, with the recognition of any deferred tax assets being judgemental based on the Directors' evaluation of recoverability.	• *Intangible assets* – We obtained the cash flow forecasts supporting the intangible assets identified and agreed that these were consistent with those approved by the Board as part of the acquisition process. For sales volumes we tested that the relevant assumptions are consistent to the recent performance of the acquired business. We assessed the validity of new products being made available for sale through independent research as to the accessibility and marketability of similar products. We engaged our valuation specialists who, benchmarked within a reasonable range that the growth assumptions were in line with industry expectation and the specific geographical locations in which the business operates. Our valuation specialists also agreed that the discount rates were consistent with those applied by companies of comparable size and within the relevant industry. • *Taxation* – We recalculated the deferred tax liabilities arising on the acquired intangibles assets and agreed that relevant tax rates have been used. In respect of Putney, the Directors evaluated the operating losses available for future utilisation. We have agreed the quantum and nature of the losses to the filed tax computations taking in to account the period to the date of acquisition. We recalculated the deferred tax asset and agreed the recognition of this by confirming the basis of recoverability as being consistent with historical performance and Board approved forecasts.

Independent Auditor's Report to the Members of Dechra Pharmaceuticals PLC
continued

Key Audit Matters continued

Key audit matter	How our audit addressed the key audit matter
Associate accounting – assessment of the accounting for investment in associate following the acquisition of 33.0% share capital in Medical Ethics Pty Ltd *Refer to the Audit Committee Report on page 76, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 120, and note 6 (Interest in Associate).* On 30 March 2017, the Group completed the acquisition of 33.0% of the share capital of Medical Ethics Pty Ltd, an entity incorporated in Australia and the parent company of Animal Ethics Pty Ltd. Considering the terms of the agreement and the percentage of ownership acquired, the Directors' concluded that they cannot demonstrate control but have significant influence. As such the transaction has been accounted for as an investment in an associate. The investment in the associate has been initially recognised at cost with subsequent measurement reflecting the Group's 33.0% share of the associate's post acquisition profit or loss including an adjustment made for the amortisation of acquired intangible assets. As such, a 'notional' purchase price allocation has been undertaken, to identify and fair value the assets and liabilities of the associate. This assessment is dependent on cash flow forecasts including future business growth and the application of an appropriate discount rate, all of which are subjective in nature.	*Share capital* – we have agreed the percentage of share capital acquired to the purchase agreement and verified the associated cash outflow. *Notional fair value assessment* – in order to assess the carrying values of the acquired intangibles, we have agreed the cash inflows are matched to the milestone payment schedule which forms part of the purchase agreement and the sum of cash inflows arising from the other payments due including forecast royalty income. We have agreed that the forecast royalty income is consistent with that approved by the Board. We have performed sensitivities on the growth assumptions, confirming that the basis of the respective valuations have taken into account appropriate assumptions. Our valuation specialists have agreed that the discount rate is consistent to those applied by other companies of comparable geographical spread and operating activities. *Amortisation* – we have re-performed the calculation of amortisation based on the applicable share of identified intangible assets without exception.
Licensing agreements – recognition of acquired intangible assets in respect of licensing agreements Refer to the Audit Committee Report on page 76, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 120, and note 12 (Intangible Assets). **Medical Ethics** On 30 March 2017 the long term in-licensing agreement for the exclusive rights to market and sell Tri-Solfen for all animal species in all international markets (excluding Australia and New Zealand) was acquired from Animal Ethics Pty Ltd. The licensing agreement has been recorded at cost and is being amortised straight line over the period of the contract to 2029. Consideration is in the form of milestone payments and other payments which are forecast to reflect the probability of successful registration and subsequent performance within different global territories. Future payments are contingent on these factors and therefore represent an area of judgement. **Kane BioTech** On 5 March 2017 an exclusive distribution agreement for StrixNB and DispersinB in the US, Canadian and Mexican veterinary markets was acquired. The in-licensing agreement has been recorded at cost and will be amortised straight line over the period of the contract to 2027. The milestone payments and other payments are forecast to reflect the probability of successful product launch and subsequent performance. The future payments are contingent on these factors and therefore represent an area of judgement.	*Medical Ethics and Kane BioTech* – We have agreed the total consideration being paid, split between an initial payment and contingent consideration as set out in the purchase agreement. In respect of Tri-Solfen, we have performed sensitivities on the growth and expected timing of market registrations and agreed that those adopted are consistent with those approved by the Board. For Kane BioTech products, we have performed sensitivities on volumes and the expected timing of product launch and agreed that the assumptions adopted are consistent with those approved by the Board. In performing sensitivities we have confirmed that the basis of the respective valuations have taken into account appropriate assumptions. Our valuation specialists also agreed that the discount rate was consistent to those applied by other companies of comparable geographical spread and operating activities.

Key Audit Matters continued

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets subject to amortisation - assessment of the carrying value of acquired intangible assets and other relevant assets Refer to the Audit Committee Report on page 76, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 120, and note 12 (Intangible Assets). The Directors' exercise judgement as to whether impairment triggers, which require a full impairment assessment to be performed, have been identified in relation to acquired intangible assets and other relevant assets. Where a full impairment assessment is required to support the carrying value of the assets held, the Directors' have prepared a discounted cash flow which includes a number of assumptions. The assumptions which are deemed to be the most significant in respect of these forecasts are the current and future performance of individual products. The long term growth and discount rate are also considered to be subjective.	*Acquired intangible assets and other relevant assets* – We agreed that the basis of the current and future revenue forecasts are consistent with previous performance. Our valuation specialists benchmarked, within a reasonable range, the growth and discount rate to economic and industry averages and the cost of capital for other comparable companies respectively. We have performed sensitivities on a selection of these assumptions confirming that the level of headroom calculated is not unduly susceptible to change.

How We Tailored the Audit Scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group is structured along three segments being European Pharmaceuticals, North American Pharmaceuticals and Pharmaceuticals Research and Development, with each division set up to manage operations on both a regional and functional basis, consisting of a number of reporting units.

The Group Financial Statements are a consolidation of 38 active reporting units comprising the Group's operating businesses and centralised functions. These reporting units maintain their own accounting records and controls and report to the head office finance team in the UK.

Accordingly, of the Group's 38 active reporting units we identified 18 which, in our view, required a full audit of their complete financial information in order to ensure that sufficient audit evidence was obtained. The reporting units on which a full audit of their complete financial information was performed accounted for 92% of Group revenue and 84% of adjusted profit before tax. Of these reporting units, two were considered to be significant components due to their size, being Dechra Veterinary Products LLC and Putney Inc. both in the USA.

In addition to the significant components, 16 active non-significant reporting units were subjected to a full scope audit, five located in the UK, seven located in Denmark, two located in the Netherlands and one located in Germany and Croatia respectively, were conducted such that the audit work was complete prior to the finalisation of the Group Financial Statements either by the Group engagement team or by PwC network firms in those territories, operating under our instruction. Specific audit procedures on certain balances and transactions were performed on a further one reporting unit.

The Group consolidation, Financial Statements disclosures and a number of centralised functions were audited by the Group engagement team at the head office. These included, but were not limited to, central procedures on treasury operations, UK and corporate taxation and goodwill and intangible asset impairment assessments. We also performed Group level analytical procedures on all of the remaining out of scope active reporting units to identify whether any further audit evidence was needed, which resulted in no extra testing being required. The Company was also subject to a full scope audit.

The Group engagement team visits component auditors based on significance and/or risk characteristics, to ensure coverage across the Group. The Group engagement team are responsible for the audit of all in scope UK reporting locations performing full scope audits. As part of our supervision process, the Group engagement team have visited significant components, in addition to performing the audits of the in scope UK reporting locations. We have also visited the component auditors in the Netherlands during the year.

Additionally the Group audit team was in contact, at each stage of the audit, in line with detailed instructions issued and through global planning calls and further regular written communication. Specifically, for all component teams, the Group team discussed in detail the planned audit approach at the component level, were in attendance at local audit close meetings and following independent review, discussed the detailed reported findings of the audit with each component team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual Financial Statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the Financial Statements as a whole.

Independent Auditor's Report to the Members of Dechra Pharmaceuticals PLC
continued

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

	Group Financial Statements	Company Financial Statements
Overall materiality	£2.6 million (2016: £1.6 million).	£1.2 million (2016: £1.2 million).
How we determined it	In determining Group overall materiality, we have considered a range of benchmarks that may be appropriate in the Group's circumstances and which are used to assess the performance of the Group. These include Group Revenue, Group Profit before tax and Group Profit before tax adjusted for non-recurring items. Applying our professional judgement, we determined Group overall materiality to be £2.6 million.	0.5% of net assets.
Rationale for benchmark applied	We believe that profit before tax adjusted for non-recurring items provides a consistent basis for determining materiality as it eliminates the impact of these items which fluctuate year on year and can have a disproportionate impact on the Consolidated Income Statement.	The Company is the ultimate holding Company of the Dechra Group of Companies and with no trading activity, net assets is considered to be the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.15 million and £1.9 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million in respect of both the Group and Company (2016: £0.1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going Concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' Statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the Financial Statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting On Other Information

The other information comprises all of the information in the Annual Report and Accounts other than the Financial Statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report, Directors' Report and Corporate Governance Statement, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2017 is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

Corporate Governance Statement

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 66 to 74) about internal controls and risk management systems in relation to financial reporting processes and about share capital structures in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook of the FCA (DTR) is consistent with the Financial Statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in this information. (CA06)

In our opinion, based on the work undertaken in the course of the audit, the information given in the Corporate Governance Statement (on pages 64 to 71) with respect to the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the DTR. (CA06)

We have nothing to report arising from our responsibility to report if a corporate governance statement has not been prepared by the Company. (CA06)

The Directors' Assessment of the Prospects of the Group and of the Principal Risks That Would Threaten The Solvency Or Liquidity of The Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 73 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 73 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the Code); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 77, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 75 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Independent Auditor's Report to the Members of Dechra Pharmaceuticals PLC
continued

Responsibilities for the Financial Statements and the Audit

Responsibilities of the Directors for the Financial Statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 105, the Directors are responsible for the preparation of the Financial Statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditors responsibilities. This description forms part of our auditors' report.

Use of this Report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other Required Reporting

Companies Act 2006 Exception Reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Directors on 23 October 2015 to audit the Financial Statements for the year ended 30 June 2016 and subsequent financial periods. The period of total uninterrupted engagement is two years, covering the years ended 30 June 2016 to 30 June 2017.

Andrew Hammond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
4 September 2017

- The maintenance and integrity of the Dechra Pharmaceuticals PLC website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial statements since they were initially presented on the website.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

For the year ended 30 June 2017

	Note	2017 Underlying £000	2017 Non-underlying* (notes 4 & 5) £000	2017 Total £000	2016 Underlying £000	2016 Non-underlying* (notes 4 & 5) £000	2016 Total £000
Revenue	2	359,275	—	359,275	247,562	—	247,562
Cost of sales		(163,335)	(4,225)	(167,560)	(109,052)	(6,070)	(115,122)
Gross profit		195,940	(4,225)	191,715	138,510	(6,070)	132,440
Selling, general and administrative expenses		(99,613)	(32,469)	(132,082)	(75,298)	(27,294)	(102,592)
Research and development expenses		(14,978)	(11,441)	(26,419)	(10,355)	—	(10,355)
Operating profit	2	81,349	(48,135)	33,214	52,857	(33,364)	19,493
Finance income	3	805	—	805	21	—	21
Finance expense	4	(5,056)	(242)	(5,298)	(3,200)	(1,766)	(4,966)
Share of loss of investments accounted for using the equity method	6	(101)	(58)	(159)	—	—	—
Profit before taxation	7	76,997	(48,435)	28,562	49,678	(35,130)	14,548
Income taxes	9	(16,865)	14,413	(2,452)	(11,288)	9,252	(2,036)
Profit for the year		60,132	(34,022)	26,110	38,390	(25,878)	12,512
Attributable to:							
Owners of the parent		60,127	(34,022)	26,105	38,376	(25,708)	12,668
Non-controlling interests	27	5	—	5	14	(170)	(156)
Profit for the year		60,132	(34,022)	26,110	38,390	(25,878)	12,512
Earnings per share							
Basic	11			28.09p			14.00p
Diluted	11			27.93p			13.90p
Dividend per share (interim paid and final proposed for the year)	10			21.44p			18.46p

* Non-underlying items comprise amortisation of acquired intangibles and impairment of acquired intangibles, impairment of investments, acquisition expenses, fair value uplift of inventory acquired through business combinations, rationalisation costs, loss on extinguishment of debt, and fair value and other movements on deferred and contingent consideration.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	2017 £000	2016 £000
Profit for the year	26,110	12,512
Other comprehensive income/(expense):		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension scheme	2,074	(1,551)
Income tax relating to components of other comprehensive income/(expense)	(535)	385
	1,539	(1,166)
Items that may be reclassified subsequently to profit or loss:		
Effective portion of changes in fair value of cash flow hedges	–	(154)
Cash flow hedges recycled to income statement	15	233
Recycle of profit/(losses) arising on available for sale financial assets	343	(450)
Foreign currency translation differences for foreign operations	12,877	32,116
Income tax relating to components of other comprehensive income	–	1,234
	13,235	32,979
Total comprehensive income for the period	40,884	44,325
Attributable to:		
Owners of the parent	40,719	44,202
Non-controlling interests	165	123
	40,884	44,325

Consolidated Statement of Financial Position

At 30 June 2017

	Note	2017 £000	Restated 2016 £000
ASSETS			
Non-current assets			
Intangible assets	12	**396,262**	355,258
Property, plant and equipment	13	**45,197**	37,718
Investments	6	**10,854**	—
Deferred tax assets	15	**780**	466
Total non-current assets		**453,093**	393,442
Current assets			
Inventories	16	**56,507**	54,375
Trade and other receivables	17	**67,269**	68,869
Cash and cash equivalents	18	**61,200**	39,142
Total current assets		**184,976**	162,386
Total assets		**638,069**	555,828
LIABILITIES			
Current liabilities			
Borrowings	21	**(973)**	(1,672)
Trade and other payables	19	**(61,309)**	(59,946)
Deferred and contingent consideration		**(1,617)**	(467)
Current tax liabilities	20	**(2,512)**	(3,897)
Total current liabilities		**(66,411)**	(65,982)
Non-current liabilities			
Borrowings	21	**(180,186)**	(154,093)
Deferred and contingent consideration		**(33,373)**	(3,166)
Employee benefit obligations	23	**(3,009)**	(3,721)
Provisions	22	**(3,180)**	(3,334)
Deferred tax liabilities	15	**(49,273)**	(48,920)
Total non-current liabilities		**(269,021)**	(213,234)
Total liabilities		**(335,432)**	(279,216)
Net assets		**302,637**	276,612
EQUITY			
Issued share capital	25	**932**	927
Share premium account		**173,376**	172,451
Own shares	26	**(667)**	(21)
Hedging reserve		**—**	(15)
Foreign currency translation reserve		**18,241**	5,524
Merger reserve		**1,770**	1,770
Retained earnings		**107,422**	93,995
Total equity attributable to equity holders of the parent		**301,074**	274,631
Non-controlling interests	27	**1,563**	1,981
Total equity		**302,637**	276,612

The financial statements were approved by the Board of Directors on 4 September 2017 and are signed on its behalf by:

Ian Page
Chief Executive Officer
4 September 2017

Richard Cotton
Chief Financial Officer
4 September 2017

Company number: 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2017

	Attributable to owners of the parent									
Year ended 30 June 2016	Issued share capital £000	Share premium account £000	Own shares £000	Hedging reserve £000	Foreign currency translation reserve £000	Merger reserve £000	Retained earnings £000	**Total £000**	Non-controlling interests £000	**Total equity £000**
At 1 July 2015	880	124,801	(303)	(94)	(27,547)	1,770	94,981	**194,488**	—	**194,488**
Profit/(loss) for the period	—	—	—	—	—	—	12,668	**12,668**	(156)	**12,512**
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	—	(154)	—	—	—	**(154)**	—	**(154)**
Losses arising on available for sale financial assets	—	—	—	—	—	—	(450)	**(450)**	—	**(450)**
Foreign currency translation differences for foreign operations, net of tax	—	—	—	—	33,071	—	—	**33,071**	279	**33,350**
Remeasurement of defined benefit pension scheme, net of tax	—	—	—	—	—	—	(1,166)	**(1,166)**	—	**(1,166)**
Cash flow hedges recycled to income statement, net of tax	—	—	—	233	—	—	—	**233**	—	**233**
Total comprehensive income	—	—	—	79	33,071	—	11,052	**44,202**	123	**44,325**
Transactions with owners:										
Dividends paid	—	—	—	—	—	—	(15,292)	**(15,292)**	—	**(15,292)**
Share-based payments	—	—	—	—	—	—	3,536	**3,536**	—	**3,536**
Shares issued	47	47,650	—	—	—	—	—	**47,697**	—	**47,697**
Acquisition of non-controlling interests	—	—	—	—	—	—	—	**—**	1,858	**1,858**
Own shares recycled to retained earnings	—	—	282	—	—	—	(282)	**—**	—	**—**
Total contributions by and distributions to owners	47	47,650	282	—	—	—	(12,038)	**35,941**	1,858	**37,799**
At 30 June 2016	927	172,451	(21)	(15)	5,524	1,770	93,995	**274,631**	1,981	**276,612**
Year ended 30 June 2017										
At 1 July 2016	927	172,451	(21)	(15)	5,524	1,770	93,995	**274,631**	1,981	**276,612**
Profit for the period	—	—	—	—	—	—	26,105	**26,105**	5	**26,110**
Recycle of losses arising on available for sale financial assets	—	—	—	—	—	—	343	**343**	—	**343**
Foreign currency translation differences for foreign operations, net of tax	—	—	—	—	12,717	—	—	**12,717**	160	**12,877**
Remeasurement of defined benefit pension scheme, net of tax	—	—	—	—	—	—	1,539	**1,539**	—	**1,539**
Cash flow hedges recycled to income statement, net of tax	—	—	—	15	—	—	—	**15**	—	**15**
Total comprehensive income	—	—	—	15	12,717	—	27,987	**40,719**	165	**40,884**
Transactions with owners:										
Dividends paid	—	—	—	—	—	—	(17,664)	**(17,664)**	—	**(17,664)**
Share-based payments	—	—	—	—	—	—	3,104	**3,104**	—	**3,104**
Shares issued	5	925	—	—	—	—	—	**930**	—	**930**
Acquisition of non-controlling interests	—	—	—	—	—	—	—	**—**	(583)	**(583)**
Own shares purchased	—	—	(646)	—	—	—	—	**(646)**	—	**(646)**
Total contributions by and distributions to owners	5	925	(646)	—	—	—	(14,560)	**(14,276)**	(583)	**(14,859)**
At 30 June 2017	932	173,376	(667)	—	18,241	1,770	107,422	**301,074**	1,563	**302,637**

Hedging Reserve

The hedging reserve represents the cumulative fair value gains or losses on derivative financial instruments for which cash flow hedge accounting has been applied, net of tax.

Foreign Currency Translation Reserve

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries.

Merger Reserve

The merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries where statutory merger relief has been applied in the financial statements of the Parent Company.

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Note	2017 £000	Restated 2016 £000
Cash flows from operating activities			
Operating profit		33,214	19,493
Non-underlying items		48,135	33,364
Underlying operating profit		81,349	52,857
Adjustments for:			
Depreciation	13	4,913	3,763
Amortisation and impairment	12	1,942	3,890
Loss on disposal of intangible assets	7	309	—
Loss on disposal of tangible assets	7	212	69
Equity settled share-based payment expense	28	2,268	2,058
Underlying operating cash flow before changes in working capital		90,993	62,637
(Increase)/decrease in inventories		(1,552)	5,712
Decrease/(increase) in trade and other receivables		6,360	(16,393)
Increase in trade and other payables		2,122	8,571
Cash generated from operating activities before interest, taxation and non-underlying items		97,923	60,527
Cash outflows in respect of non-underlying items		(3,653)	(4,076)
Cash generated from operating activities before interest and taxation		94,270	56,451
Interest paid		(4,836)	(1,393)
Income taxes paid		(12,008)	(11,483)
Net cash inflow from operating activities		77,426	43,575
Cash flows from investing activities			
Interest received		32	33
Acquisition of subsidiaries (net of cash acquired)		(34,966)	(166,173)
Acquisition of non-controlling interests	27	(583)	(390)
Acquisition of investments in associates	6	(11,013)	—
Purchase of property, plant and equipment	13	(4,221)	(2,802)
Capitalised development expenditure	12	(1,258)	(570)
Purchase of other intangible non-current assets	12	(5,266)	(4,133)
Net cash outflow from investing activities		(57,275)	(174,035)
Cash flows from financing activities			
Proceeds from the issue of share capital	25	930	47,697
Own shares purchased	26	(646)	—
New borrowings		25,000	103,841
Expenses of raising borrowing facilities		(150)	(360)
Repayment of borrowings		(5,879)	(10,572)
Dividends paid	10	(17,664)	(15,292)
Net cash inflow from financing activities		1,591	125,314
Net increase/(decrease) in cash and cash equivalents		21,742	(5,146)
Cash and cash equivalents at start of period		39,142	45,948
Exchange differences on cash and cash equivalents		316	(1,660)
Cash and cash equivalents at end of period	18	61,200	39,142

	Note	2017 £000	Restated 2016 £000
Reconciliation of net cash flow to movement in net (borrowings)/cash			
Net increase/(decrease) in cash and cash equivalents		21,742	(5,146)
New borrowings		(25,000)	(103,841)
Repayment of borrowings		5,879	10,572
Expenses of raising borrowing facilities		150	360
Acquisition of subsidiary borrowings		—	(15,027)
Exchange differences on cash and cash equivalents		316	(1,660)
Retranslation of foreign borrowings		(6,282)	(14,308)
Other non-cash changes		(141)	(994)
Movement in net borrowings in the period		(3,336)	(130,044)
Net (borrowings)/cash at start of period		(116,623)	13,421
Net borrowings at end of period	29	(119,959)	(116,623)

Notes to the Consolidated Financial Statements

1. Accounting Policies

Dechra Pharmaceuticals PLC is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the United Kingdom. The address of its registered office is 24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, England. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below,these have been applied consistently in all years presented.

(a) Statement of Compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRS IC) as adopted by the European Union, and the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and they are separately presented on pages 160 to 168.

(b) Basis of Preparation

The Group's business activities together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 8 to 61. The Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Refer to the Corporate Governance Report on page 72 for details.

The consolidated financial statements are presented in Sterling, rounded to the nearest thousand, or rounded to the nearest million in the commentary to the notes. They are prepared on a going concern basis and under the historical cost convention, except where IFRS require an alternative treatment. The principal variations relate to derivative financial instruments, cash settled share-based transactions, contingent consideration and assets and liabilities acquired through business combinations that are stated at fair value.

The preparation of consolidated financial statements in conformity with IFRSs requires the use of accounting estimates and for management to exercise its judgement in the process of applying the Group's accounting policies. These judgements and estimates are based on historical experience and management's best knowledge of the amounts, events or actions under review and the actual results may ultimately differ from these estimates. Areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are, where necessary, disclosed separately.

In the preparation of the financial statements, comparative amounts have been restated to reflect the hindsight adjustments made on the provisional Putney and Brovel acquisition accounting adjustments. Hindsight adjustments have been made to goodwill, intangibles, deferred tax, receivables and payables.

Critical Judgements in Applying the Group's Accounting Policies and Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, the Directors have made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements. The key sources of estimation uncertainty which may cause a material adjustment to the carrying amount of assets and liabilities are also discussed below.

(i) Impairment of Goodwill and Indefinite Life Intangible Assets

The Group determines whether goodwill and indefinite life assets are impaired at least on an annual basis or whenever there is an indication of impairment. This requires an estimation of the value in use of the cash generating units to which they are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further detail on the assumptions used in determining value in use calculations is provided in note 14.

(ii) Valuation of Intangible Assets

Product rights, commercial relationships and brand intangibles that are acquired by the Group as part of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses. Fair value at the date of acquisition reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate. Other intangible assets acquired by the Group are stated at cost, which might include future milestone and royalty payments. The measurement of these reflect management's best estimate as to future performance, discounted at an appropriate rate.

(iii) Taxation

The Group recognises deferred tax assets and liabilities based upon future taxable income and the expected recoverability of the balance. The estimate will include assumptions regarding future income streams of the Group and the future movement in corporation tax rates in the respective jurisdictions. In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. The estimate of liabilities in respect of current taxation depends on estimates and judgements in respect of whether or not, and the extent to which, items of income and expenditure will be taxable.

(iv) Non-underlying Items

The Group presents a number of non-GAAP measures. This is to allow investors to understand the underlying performance of the Group, excluding items associated with areas such as acquisition and disposal related expenses and income (including amortisation and impairment on acquired intangibles, fair value uplift of inventory acquired, and the reversal of fair value and other movements on deferred and contingent consideration), the profit and related expenses on disposal of discontinued operations, debt refinancing including any loss on extinguishment of debt, impairment of investments and rationalisations. Judgement is associated with the classification of these items. The costs incurred in making acquisitions and their integration are deemed to be non-underlying as they don't relate to the sales and profit from ongoing trading activities.

1. Accounting Policies continued

(v) Business Combinations
Deferred and contingent consideration and assets and liabilities acquired through business combinations are recorded initially at fair value. Those fair values are based on risk-adjusted future cash flows discounted using appropriate interest rates. The assumptions relating to future cash flows and discount rates are based on future forecasts and therefore are inherently judgemental.

Adoption of New and Revised Standards

There are no new standards, amendments to standards or interpretations mandatory for the first time for the year ended 30 June 2017, which have had a material impact on the financial statements.

New Standards and Interpretations not yet Adopted

There are a number of new standards and amendments to existing standards currently in issue but not yet effective, including three significant standards:

- IFRS 9 'Financial Instruments';
- IFRS 15 'Revenue from contracts with customers'; and
- IFRS 16 'Leases'

IFRS 9 and IFRS 15 are now expected to be effective for the year ended 30 June 2019, with IFRS 16 expected to be effective for the year ended 30 June 2020. It is not currently practicable to quantify their effect. There are no other new standards, amendments to existing standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

(c) Basis of Consolidation

Subsidiary Undertakings
Subsidiary undertakings are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. All subsidiary undertakings have been consolidated. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation. Non-controlling interests represent the portion of shareholders' earnings and equity attributable to third party shareholders.

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company, with the exception of Genera Pharma d.o.o. and Dechra-Brovel S.A. de C.V. (which both prepare local financial statements to 31 December each year, in line with local tax authority regulations).

Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition. Intangible assets identified as part of the notional purchase price allocation are amortised over the useful life of each asset, with the Group's share recognised as a charge in the income statement.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates in the income statement.

Gains and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Foreign Currency Translation

(i) Functional and Presentational Currency
The consolidated financial statements are presented in Sterling, which is the Group's presentational currency, and are rounded to the nearest thousand, except where it is deemed relevant to disclose the amounts to the nearest million. Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

(ii) Foreign Currency Translation
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, with the exception of differences on transactions that are subject to effective cash flow hedges, which are recognised in other comprehensive income.

1. Accounting Policies continued

(iii) Foreign Operations

The income and expenses are translated to Sterling at the average rate for the period being reported. The assets and liabilities of foreign operations are translated to Sterling at the closing rate at the reporting date. Foreign currency differences on all translations are recognised in other comprehensive income in the foreign currency translation reserve, a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. On disposal of a foreign entity, accumulated exchange differences previously recognised in other comprehensive income are recognised in the income statement in the same period in which the gain or loss on disposal is recognised.

(e) Accounting for Financial Assets and Liabilities, Derivative Financial Instruments and Hedging Activities

The Group classifies its financial assets into the following categories: held for trading financial assets, available for sale financial assets, and loans and receivables. The classification depends on the purpose for which the assets are held.

Management determines the classification of its financial assets at initial recognition in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and re-evaluates this designation at every reporting date for financial assets other than those held at fair value through the income statement.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Gains and losses (both realised and unrealised) arising from changes in the value of financial assets held at fair value through the income statement are included in the income statement in the period in which they arise.

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets needs to be impaired.

Held for Trading and Available for Sale Financial Assets

This category has two sub-categories: financial assets held for trading or available for sale and those designated at fair value through the income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives that do not qualify for hedge accounting are also categorised as held for trading. Held for trading financial assets are recognised and subsequently carried at fair value.

Derivative Financial Instruments

The Group uses derivative financial instruments to manage its exposure to interest rate risks. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are remeasured to fair value at each reporting date.

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income remains there until the forecast transaction occurs.

Net Investment Hedge

For hedges of net investments in foreign operations, where the hedge is effective movements are recognised in other comprehensive income. Ineffectiveness is recognised in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

Trade Receivables

Trade and other receivables are initially recognised at fair value and subsequently stated at amortised cost less appropriate allowances for amounts which are expected to be non-recoverable. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the provision is recognised in the income statement in operating expenses.

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost.

Borrowings and Borrowing Costs

Borrowings are recognised initially at fair value net of directly attributable transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

1. Accounting Policies continued

(f) Property, Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Leased Assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment. Land is not depreciated. Assets in the course of construction are not depreciated until the date the assets become available for use. The estimated useful lives are as follows:

- freehold buildings — 25 years
- short leasehold buildings — period of lease
- plant and fixtures — 3 to 15 years
- motor vehicles — 4 years

The residual value, where significant, is reassessed annually.

(g) Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred before 1 July 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the separable assets, liabilities and contingent liabilities acquired.

Acquisitions after this date fall under the provisions of 'Revised IFRS 3 Business Combinations (2009)'. For these acquisitions, transaction costs, other than share and debt issue costs, are expensed as incurred and subsequent adjustments to the fair value of consideration payable are recognised in the income statement.

Contingent consideration is measured at fair value based on an estimate of the expected future payments.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is allocated to cash generating units and is tested annually for impairment.

Research and Development Costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense is incurred.

The Group is also engaged in development activity with a view to bringing new pharmaceutical products to market. Due to the strict regulatory process involved, there is inherent uncertainty as to the technical feasibility of development projects often until regulatory approval is achieved, with the possibility of failure even at a late stage. The Group considers that this uncertainty means that the criteria for capitalisation are not met unless it is highly probable that regulatory approval will be achieved and the project is commercially viable. Internally generated costs of development are capitalised, once the criteria are met, in the consolidated statement of financial position unless those costs cannot be measured reliably or it is not probable that future economic benefits will flow to the Group, in which case the relevant costs are expensed to the income statement as incurred.

Where development costs are capitalised, the expenditure includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Acquired Intangible Assets

Intangible assets recognised as a result of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses.

Other Intangible Assets

Other intangible assets that are acquired by the Group are stated at cost (including future milestone and royalty payments as applicable) less accumulated amortisation and impairment losses. Expenditure on internally generated goodwill and other intangibles is recognised in the income statement as an expense is incurred.

Subsequent Expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates or extends the asset life. All other expenditure is expensed as incurred.

Notes to the Consolidated Financial Statements
continued

1. Accounting Policies continued

(g) Intangible Assets

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite or is otherwise stated below. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date. Intangible assets are amortised from the date that they are available for use. Assets in the course of construction are not amortised until the date the assets become available for use. The estimated useful lives are as follows:

• software	5 to 7 years
• capitalised development costs	5 to 10 years or period of patent
• patent rights	period of patent
• marketing authorisations	indefinite life or period of marketing authorisation
• product rights	10 to 15 years
• commercial relationships	7 years
• brand	3 to 10 years
• acquired capitalised development costs	10 to 15 years
• pharmacological process	10 years

The pharmacological process is amortised on a reducing balance method at a rate of 20% over a 10 year life based on the expected profile of future cash flows.

The amortisation of the intangible assets are classified as an administrative expense because they relate to the right to sell and distribute the product. Within the acquired intangibles the product rights encompass market authorisations, and the capitalised development costs encompass product authorisations subject to regulatory approval. The pharmacological process is classified as a research and development expense as it relates to the process of taking a product through to registration.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Impairment

The carrying amounts of the Group's assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each consolidated statement of financial position date and when there is an indication that the asset is impaired.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units (group of units), and then to reduce the carrying amount of the other assets in the units (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1. Accounting Policies continued

(k) Dividends

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid.

(l) Employee Benefits

Pensions

The Group operates a stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the income statement as incurred.

Dechra Veterinary Products SAS and Dechra Veterinary Products BV participate in state-run pension arrangements. These are not considered to be material to the Group financial statements and are accounted for as defined contribution schemes, with contributions being recognised as an expense in the income statement as incurred.

The Group sponsors defined benefit arrangements in certain countries, the most material being a defined benefit pension plan in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a cap. The arrangement is funded through an insurance contract.

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods.

That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the consolidated statement of comprehensive income. Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Share-based Payment Transactions

The Group operates a number of equity settled share-based payment programmes that allow employees to acquire shares in the Company. The Group also operates a Long Term Incentive Plan for Directors and Senior Executives.

The fair value of shares or options granted is recognised as an employee expense over the vesting period on a straight-line basis in the income statement with a corresponding movement to equity reserves. Fair values are determined by use of an appropriate pricing model and by reference to the fair value of the options granted. The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

At each consolidated statement of financial position date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revisions of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity reserves, over the remaining vesting period.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model, as performed by a qualified third party valuation expert.

The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model, as performed by a qualified third party valuation expert.

When the options are exercised, the company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each consolidated statement of financial position date.

Bonus and Commission Payments

The Group operates sales incentives schemes for certain employees and third party sales representatives in particular territories. The related bonuses and commissions are accrued in line with the related sales revenues.

1. Accounting Policies continued

(m) Revenue Recognition

Revenue is recognised in the income statement when goods are supplied to external customers against orders and, title and risk of loss are passed to the customer. As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when title and risk has passed in full to the customer. This review and the corresponding recognition of revenue encompasses a number of factors which include, but are not limited to the following:

- reviewing delivery arrangements and whether the buyer has accepted title – we recognise the revenue at the point at which full title has passed; and/or
- where distribution arrangements are in place, recognising when the goods pass to the third party customer (for example by reviewing insurance arrangements) and recognising revenue at the point at which title has passed.

Rebates, deductions and discounts are provided for in the same period as the related sales are recorded, and are recognised when reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete. We estimate the quantity and value of goods which may ultimately be returned at the point of sale. Our return accruals are based on actual experience over the preceding 12 months for established products. For newly launched products, we use rates based on our experience with similar products or a predetermined percentage.

Revenue from third party manufacturing consists principally of the production of goods to customer specification together with the provision of technical services. Revenues from third party manufacturing are recognised upon completion of the work order, either the completion and agreed delivery of the product, or upon full provision of the service.

Revenue represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in light of contractual and legal obligations, historical trends, past experience and projected market conditions. Market conditions are evaluated using wholesaler and other third party analysis, and internally generated information. Value added tax and other sales taxes are excluded from revenue.

(n) Leases

Operating Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement evenly over the period of the lease, as an integral part of the total lease expense.

Finance Leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest rate method.

(o) Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on provisions, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (e)) and gains or losses on the retranslation of financial assets and liabilities denominated in foreign currencies. Interest income is recognised in the income statement as it accrues. The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

(p) Provisions

Provisions for legal claims, environmental remediation, deferred rent and advanced grants for property, plant and equipment are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required on settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1. Accounting Policies continued

(r) Basis of Charge for Taxation

Income tax expense comprises current and deferred tax. Current and deferred taxes are recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the consolidated statement of financial position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the consolidated statement of financial position liability method and represents the tax payable or recoverable on most temporary differences which arise between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base). Temporary differences are not provided on: goodwill that is not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and do not arise from a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is based upon tax rates enacted or substantively enacted at the consolidated statement of financial position date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realised against future taxable profits. The carrying amounts of deferred tax assets are reviewed at each consolidated statement of financial position date.

In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability. In calculating any such liability a risk based approach is applied which takes into account, as appropriate, the probability that the Group would be able to obtain compensatory adjustments under international tax treaties.

The estimated annual benefit of global intellectual property and innovation incentives is accounted for within current and deferred tax.

Current and deferred tax credits received in respect of share-based payments are recognised in the income statement to the extent that they do not exceed the standard rate of taxation on the income statement charge for share-based payments. Credits in excess of the standard rate of taxation are recognised directly in equity.

(s) Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period. Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue for the effects of all potential dilutive ordinary shares, which comprise share options granted to employees.

The Group has also chosen to present an alternative EPS measure, with profit adjusted for non-underlying items. A reconciliation of this alternative measure to the statutory measure required by IFRSs is given in notes 4 and 5.

2. Operating Segments

The Group has three reportable segments, as discussed below, which are based on information provided to the Board of Directors, which is deemed to be the Group's chief operating decision maker. Several operating segments which have similar economic characteristics have been aggregated into the reporting segments. In undertaking this aggregation the assessment determined that the aggregated segments have similar products, production processes, customers and overall regulatory environment.

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Apex Laboratories Pty Limited (Apex), Genera and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine and Food producing Animal Products. This Segment also includes third party manufacturing and other non-core activities sales. The Segment expanded during the year with the acquisition of the trade and assets of Apex.

The North American Pharmaceuticals Segment consists of Dechra Veterinary Products US, Putney, Dechra Veterinary Products Canada, and Dechra-Brovel, which sells Companion Animal, Equine Products and Food producing Animal Products in those territories. The Segment also includes our manufacturing unit based in Melbourne, Florida.

The Pharmaceuticals Research and Development Segment includes all of the Group's pharmaceutical research and development activities. From a Board perspective, this Segment has no revenue income.

Notes to the Consolidated Financial Statements
continued

2. Operating Segments continued

Reconciliation of reportable segment revenues, profit or loss and liabilities and other material items:

		2017 £000	2016 £000
Revenue by segment			
European Pharmaceuticals	— total	226,930	188,859
NA Pharmaceuticals	— total	132,345	58,703
		359,275	247,562
Operating profit/(loss) by segment			
European Pharmaceuticals		60,706	51,653
NA Pharmaceuticals		43,195	17,500
Pharmaceuticals Research and Development		(14,978)	(10,355)
Segment operating profit		88,923	58,798
Corporate and other unallocated costs		(7,574)	(5,941)
Underlying operating profit		81,349	52,857
Amortisation of acquired intangibles		(40,444)	(20,149)
Impairment of acquired intangibles and associated deferred consideration		—	(1,675)
Impairment of assets available for sale		(602)	—
Fair value uplift of inventory acquired through business combinations		(4,225)	(6,070)
Rationalisation costs		(809)	(1,581)
Expenses relating to acquisition activities		(2,055)	(3,889)
Total operating profit		33,214	19,493
Finance income		805	21
Finance expense		(5,298)	(4,966)
Share of losses in investment accounted for using the equity method		(159)	—
Profit before taxation		28,562	14,548
Total liabilities by segment			
European Pharmaceuticals		(73,738)	(47,498)
NA Pharmaceuticals		(20,165)	(15,890)
Pharmaceuticals Research and Development		(404)	(776)
Segment liabilities		(94,307)	(64,164)
Corporate loans and revolving credit facility		(181,143)	(155,741)
Corporate accruals and other payables		(8,197)	(6,494)
Current and deferred tax liabilities		(51,785)	(52,817)
		(335,432)	(279,216)
Revenue by product category			
CAP		223,826	137,686
Equine		27,246	20,518
FAP		47,315	38,101
Diets		27,457	24,383
Other		33,431	26,874
		359,275	247,562
Additions to intangible non-current assets by segment (including through business combinations)			
European Pharmaceuticals		64,502	15,809
NA Pharmaceuticals		4,409	161,011
Pharmaceuticals Research and Development		1,373	55
Corporate and central costs		104	2,404
		70,388	179,279

2. Operating Segments continued

	2017 £000	2016 £000
Additions to Property, Plant and Equipment by segment (including through business combinations)		
European Pharmaceuticals	10,117	19,443
NA Pharmaceuticals	567	924
Pharmaceuticals Research and Development	82	36
Corporate and central costs	—	69
	10,766	20,472
Depreciation and amortisation by segment		
European Pharmaceuticals	22,697	18,984
NA Pharmaceuticals	23,367	5,901
Pharmaceuticals Research and Development	500	345
Corporate and central costs	735	85
	47,299	25,315
The total depreciation and amortisation charge is made up of the following;		
Non-underlying		
Amortisation — selling, general and administrative expenses	29,003	20,149
Amortisation — research and development expenditure	11,441	—
	40,444	20,149
Underlying		
Amortisation	1,942	1,403
Depreciation	4,913	3,763
	6,855	5,166

Geographical Information

The following table shows revenue based on the geographical location of customers and non-current assets based on the country of domicile of the entity holding the asset:

	2017 Revenue £000	2017 Non-current assets £000	2016 Revenue £000	2016 Non-current assets £000
UK	56,317	15,567	54,420	19,624
Germany	37,410	2,404	34,105	2,326
Rest of Europe	113,118	192,461	91,794	162,138
USA	124,128	193,166	53,912	206,364
Rest of World	28,302	49,495	13,331	2,990
	359,275	453,093	247,562	393,442

3. Finance Income

	2017 £000	2016 £000
Finance income arising from:		
— Cash and cash equivalents	204	21
— Foreign exchange gains	601	—
	805	21

Notes to the Consolidated Financial Statements
continued

4. Finance Expense

Underlying	2017 £000	2016 £000
Finance expense arising from:		
— Financial liabilities at amortised cost	5,016	2,372
— Net interest on net defined benefit obligations	40	17
— Foreign exchange losses	—	811
Underlying finance expense	5,056	3,200

Non-underlying	2017 £000	2016 £000
Loss on extinguishment of debt (note 21)	—	844
Fair value and other movements on deferred and contingent consideration	242	922
Non-underlying finance expense	242	1,766
Total finance expense	5,298	4,966

5. Non-underlying Items

Non-underlying items charged to operating profit comprise:

	2017 £000	2016 £000
Amortisation of acquired intangibles		
— classified within selling, general and administrative expenses	29,003	20,149
— classified within research and development expenses	11,441	—
Impairment of investments	602	—
Impairment of acquired intangibles and associated deferred consideration	—	1,675
Fair value uplift of inventory acquired through business combinations	4,225	6,070
Rationalisation costs	809	1,581
Expenses relating to acquisition activities	2,055	3,889
	48,135	33,364

Amortisation of acquired intangibles reflects the amortisation of the fair values of future cash flows recognised on acquisition in relation to the identifiable intangible assets acquired.

Impairment of investments relates to the impairment of the investment in Jaguar Animal Heath Inc.

Impairment of acquired intangibles and associated deferred consideration includes the impairment of a US generic pharmaceutical product following the acquisition of Putney Inc., as Putney have already developed a similar product. It also includes the impairment of an acquired intangible due to the cessation of sales following a competitor registration in the US.

The fair value uplift of inventory acquired through business combinations is recognised in accordance with IFRS 3 'Business Combinations' to record the inventory acquired at fair value and its subsequent release into the income statement.

Rationalisation costs relate to the integration and restructuring programmes implemented subsequent to acquisitions or the reorganisation of internal functions.

Expenses relating to acquisition activities includes legal and professional fees incurred during the acquisitions of Apex (£1.6 million) and Medical Ethics (£0.4 million).

6. Interests in Associate

(a) Losses in Associate

Set out below is the summarised financial information of Medical Ethics Pty Ltd for the period 30 March 2017 to 30 June 2017, which are accounted for using the equity method. This is not Dechra PLC's share of the results.

	2017 £000
Revenue	1,631
Pre-tax loss from continuing operation	(65)
Post-tax loss from continuing operations	(303)

	2017 £000
Non-current assets	–
Current assets	5,548
	5,548
Non-current liabilities	–
Current liabilities	(538)
	(538)
Net assets of associate	5,010

(b) Interest in Associate

	£000
1 July 2016	–
Additions	11,013
Share of underlying loss after tax	(101)
Share of amortisation of intangible asset identified on acquisition	(58)
30 June 2017	10,854

On 30 March 2017 the Group acquired a 33.0% interest in Medical Ethics Pty Ltd for AUD$18.0 million (£11.0 million), which is the holding company of Animal Ethics Pty Ltd. The company is incorporated in Australia, which is also the principal place of business. The registered address is c/o Level 3, 649 Bridge Road, Richmond, Victoria 3121, Australia. The company has share capital consisting solely of ordinary shares, which are directly owned by the group. Medical Ethics Pty Ltd is a private company and there is no quoted market price available for its shares. There is no contingent liabilities relating to the Group's interest in the associate. Acquisition related costs (included in operating expenses) amounted to £0.4 million in the period.

As explained in note 1, the Group has undertaken a provisional notional fair value exercise at the date of acquisition to allocate the cost of the investment to the individual assets, liabilities and contingent liabilities at their acquisition date fair values. The fair values attributed at the acquisition date are provisional as the Directors have not yet reached final determination of all aspects of the fair value exercise. The Directors will finalise the fair values within 12 months of the acquisition date. The Group's share of the loss arising from its investment in Medical Ethics Pty Ltd for the period 30 March 2017 to 30 June 2017, includes the effect of amortising the fair value adjustments.

(c) Reconciliation of summarised financial information presented to the carrying amount of its interest in associates

	2017 £000
Opening net assets 1 July 2016	–
Fair value of associate acquired	2,420
Post-tax loss from continuing operations	(101)
Amortisation of notional intangible asset recognised on acquisition	(58)
Interest in associate	2,261
Goodwill	8,593
Carrying value of investment in associate	10,854

Notes to the Consolidated Financial Statements
continued

7. Profit Before Taxation

The following items have been included in arriving at profit before taxation of continuing operations:

	2017 £000	2016 £000
Cost of inventories recognised as an expense	147,742	104,221
Impairment of inventories included in above figure	920	988
Depreciation of property, plant and equipment		
— owned assets	4,891	3,761
— under finance leases	22	2
Amortisation of intangible assets	42,386	21,552
Loss on disposal of property, plant and equipment	212	69
Loss on disposal of intangible assets	309	–
Impairment of intangible assets — underlying	—	2,487
Impairment of intangible assets — non-underlying	—	1,675
Impairment of receivables	426	93
Operating lease rentals payable	3,037	2,543
Research and development expenditure as incurred	14,978	10,355
Auditors' remuneration	663	559
Analysis of total fees paid to the Auditors':		
Audit of these financial statements	232	186
Audit of financial statements of subsidiaries pursuant to legislation	342	317
Other services pursuant to legislation	37	35
Other assurance services	52	21
Total fees paid to Auditors'	663	559

8. Employees

The average numbers of staff employed by the Group during the year, which includes Directors, were:

	2017 Number	2016 Number
Manufacturing	486	417
Distribution	109	121
Administration	743	770
Total	1,338	1,308

The costs incurred in respect of these employees were:

	2017 £000	2016 £000
Wages and salaries	60,869	44,331
Social security costs	8,039	6,748
Other pension costs	4,384	3,039
Share-based payments charge (see note 28)	2,825	2,386
Total	76,117	56,504

Related party transactions — the remuneration of key management was as follows:

	2017 £000	2016 £000
Short term employee benefits	5,108	4,350
Post-employment benefits	234	251
Share-based payments charge	1,656	1,332
	6,998	5,933

Key management comprises the Board and the Senior Executive Team.

Details of the remuneration, shareholdings, share options, pension contributions and payments for loss of office of the Executive Directors are included in the Directors' Remuneration Report on pages 81 to 101.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. The Group also participates in state-run pension arrangements for certain employees in Dechra Veterinary Products SAS and Dechra Veterinary Products BV and operates defined benefit schemes in some countries. Total pension contributions amounted to £4,384,000 (2016: £3,039,000). Contributions to defined benefit pension schemes included in the above figures total £670,000 (2016: £581,000).

9. Income Tax Expense

		2017 £000	2016 £000
Current tax	— UK corporation tax	4,406	1,629
	— overseas tax at prevailing local rates	7,846	7,755
	— adjustment in respect of prior years	(942)	(218)
Total current tax expense		11,310	9,166
Deferred tax	— origination and reversal of temporary differences	(9,475)	(7,116)
	— adjustment in respect of tax rates	(34)	(62)
	— adjustment in respect of prior years	651	48
Total deferred tax expense		(8,858)	(7,130)
Total income tax expense in the Consolidated Income Statement		**2,452**	2,036

The tax on the Group's profit before taxation differs from the standard rate of UK corporation tax of 19.75% (2016: 20.0%). The current tax rate used for the period is 19.75% based on rates already enacted in previous periods. The differences to this rate are explained below:

	2017 £000	2016 £000
Profit before taxation	28,562	14,548
Tax at 19.75% (2016: 20.0%)	5,641	2,910
Effect of:		
— expenses not deductible	162	235
— acquisition expenses	565	167
— one-off costs (foreign exchange/acquisition costs) in relation to the acquisition of Putney Inc.	—	1,314
— research and development related tax credits	(57)	(231)
— patent box tax credits	(2,086)	(1,118)
— impact of financing (income not taxable)	(741)	(405)
— share of results of associate	31	—
— effects of overseas tax rates	(745)	(608)
— adjustment in respect of prior years	(291)	(170)
— difference between current and deferred tax rates	7	4
— change in tax rates	(34)	(62)
Total income tax expense in the Consolidated Income Statement	2,452	2,036

Recurring items in the tax reconciliation include: research and development related tax credits and patent box incentives; expenses not deductible; share of results of associate; and the impact of financing. The effective tax rate is 8.6% (excluding non-underlying items the effective tax rate is 21.9%).

Tax Credit/(Charge) Recognised Directly in Equity

	2017 £000	2016 £000
Corporation tax on foreign currency translation	—	1,234
Deferred tax on employee benefit obligations	(535)	385
Tax recognised in Consolidated Statement of Comprehensive Income	**(535)**	1,619
Corporation tax on equity settled transactions	758	1,366
Deferred tax on equity settled transactions	78	112
Total tax recognised in Equity	**836**	1,478

The Government has announced in the Finance Act 2016 that it intends to reduce the rate of corporation tax to 17% with effective from 1 April 2020, this was substantively enacted in September 2016. The Finance Act 2015 (No. 2) which was substantively enacted in October 2015 included provisions to reduce the rate of corporation tax to 19% with effect from April 2017. Deferred tax has been calculated using these rates based on the timing of when each individual deferred tax balance is expected to reverse in the future. To the extent that more deferred tax reverses after 1 April 2020 than expected then the impact will be a greater reduction on the net deferred tax liability.

The Group's future tax charge, and its effective tax rate could be affected by several factors including the impact of the implementation of the OECD's Base Erosion and Profit Shifting ('BEPS') actions.

10. Dividends

	2017 £000	2016 £000
Final dividend paid in respect of prior year but not recognised as a liability in that year: 12.91 pence per share (2016: 11.82 pence per share)	**11,979**	10,401
Interim dividend paid: 6.11 pence per share (2016: 5.55 pence per share)	**5,685**	4,891
Total dividend 19.02 pence per share (2016: 17.37 pence per share) recognised as distributions to equity holders in the period	**17,664**	15,292
Proposed final dividend for the year ended 30 June 2017: 15.33 pence per share (2016: 12.91 pence per share)	**14,288**	11,974
Total dividend paid and proposed for the year ended 30 June 2017: 21.44 pence per share (2016: 18.46 pence per share)	**19,973**	16,865

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2017 has not been accrued for in these financial statements. It will be shown as a deduction from equity in the financial statements for the year ending 30 June 2018. There are no income tax consequences. The final dividend for the year ended 30 June 2016 is shown as a deduction from equity in the year ended 30 June 2017.

11. Earnings per Share

Earnings per ordinary share has been calculated by dividing the profit attributable to equity holders of the parent after taxation for each financial period by the weighted average number of ordinary shares in issue during the period.

	2017 Pence	2016 Pence
Basic earnings per share		
— Underlying*	**64.68**	42.95
— Basic	**28.09**	14.00
Diluted earnings per share		
— Underlying*	**64.33**	42.65
— Diluted	**27.93**	13.90

The calculations of basic and diluted earnings per share are based upon:

	2017 £000	2016 £000
Earnings for underlying basic and underlying diluted earnings per share	**60,132**	38,390
Earnings for basic and diluted earnings per share	**26,110**	12,512

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**92,962,967**	89,380,414
Impact of share options	**516,032**	628,307
Weighted average number of ordinary shares for diluted earnings per share	**93,478,999**	90,008,721

* Underlying measures exclude non-underlying items as defined in the Consolidated Income Statement on page 115.

At 30 June 2017, there are 294,848 options that are excluded from the EPS calculations as they are not dilutive for the period presented but may become dilutive in the future.

12. Intangible Assets

	Goodwill £000	Software £000	Development costs £000	Patent rights £000	Marketing authorisations £000	Acquired intangibles £000	Total £000
Cost							
At 1 July 2015	49,326	5,663	10,640	3,680	853	185,614	255,776
Additions	—	2,796	570	1,337	—	—	4,703
Acquisitions through business combinations	52,323	108	—	—	—	122,145	174,576
Impairment	—	(151)	(1,537)	—	—	(4,277)	(5,965)
Foreign exchange adjustments	11,530	752	592	—	—	36,699	49,573
At 30 June 2016 and 1 July 2016 (restated)	113,179	9,168	10,265	5,017	853	340,181	478,663
Additions	—	3,237	1,258	299	104	34,183	39,081
Acquisitions through business combinations	9,906	78	—	—	—	21,323	31,307
Disposals	—	(100)	(317)	—	—	—	(417)
Foreign exchange adjustments	5,049	349	488	—	—	13,668	19,554
At 30 June 2017	**128,134**	**12,732**	**11,694**	**5,316**	**957**	**409,355**	**568,188**
Accumulated Amortisation							
At 1 July 2015	—	2,226	5,298	2,138	—	79,430	89,092
Charge for the year	—	202	796	405	—	20,149	21,552
Impairment	—	(151)	(1,319)	—	—	(333)	(1,803)
Foreign exchange adjustments	—	264	354	—	—	13,946	14,564
At 30 June 2016 and 1 July 2016 (restated)	—	2,541	5,129	2,543	—	113,192	123,405
Charge for the year	—	375	984	583	—	40,444	42,386
Disposals	—	(96)	—	—	—	(12)	(108)
Foreign exchange adjustments	—	102	31	—	—	6,110	6,243
At 30 June 2017	**—**	**2,922**	**6,144**	**3,126**	**—**	**159,734**	**171,926**
Net book value							
At 30 June 2017	**128,134**	**9,810**	**5,550**	**2,190**	**957**	**249,621**	**396,262**
At 30 June 2016 (restated)	113,179	6,627	5,136	2,474	853	226,989	355,258

	2017 £000	2016 £000
Software assets in the course of construction included above	**9,403**	1,451

The asset within patent rights comprises payments to acquire the right to develop and market Trilostane, the active ingredient of *Vetoryl* Capsules, for animal health applications in the USA and Canada. The carrying value at 30 June 2017 was £0.3 million with a remaining amortisation period of 1.5 years. The rights to *Equidone*, which was launched in the US during 2011, has a carrying value of £0.4 million with a remaining amortisation period of 4 years. The in-licensed products within EU and Canada acquired in 2016 had a carrying value of £0.7 million and £0.4 million respectively, with remaining amortisation periods of 3.5 years and 8.5 years respectively. During the year, £0.3 million was added to patent rights for new in-licenced products within EU, with a remaining amortisation period of 4.5 years.

£0.8 million of the marketing authorisations relate to the *Vetivex* range of products. Ownership of the marketing authorisations rests with the Group in perpetuity. There are not believed to be any legal, regulatory or contractual provisions that limit their useful lives. *Vetivex* is an established range of products which are relatively simple in nature and there are a limited number of players in the market. Accordingly, the Directors believe that it is appropriate that the marketing authorisations are treated as having indefinite lives for accounting purposes.

Goodwill is allocated across cash generating units that are expected to benefit from that business combination. Key assumptions made in this respect are given in note 14.

Notes to the Consolidated Financial Statements
continued

12. Intangible Assets continued

In accordance with the disclosure requirements of IAS 38 'Intangible Assets', the components of acquired intangibles are summarised below:

	Commercial relationships £000	Pharmacological process £000	Brand £000	Capitalised development costs £000	Product rights £000	Total £000
Cost						
At 1 July 2015	—	—	—	20,719	164,895	185,614
Acquired through business combinations	1,370	45,464	11,546	63,765	—	122,145
Impairment	—	—	—	—	(4,277)	(4,277)
Foreign exchange adjustments	192	3,371	886	8,597	23,653	36,699
At 30 June 2016 and 1 July 2016 (restated)	1,562	48,835	12,432	93,081	184,271	340,181
Additions	—	—	—	—	34,183	34,183
Acquisitions through business combinations	—	—	374	17,956	2,993	21,323
Foreign exchange adjustments	126	1,712	441	3,462	7,927	13,668
At 30 June 2017	**1,688**	**50,547**	**13,247**	**114,499**	**229,374**	**409,355**
Accumulated Amortisation						
At 1 July 2015	—	—	—	6,009	73,421	79,430
Charge for the year	188	759	309	3,367	15,526	20,149
Impairment	—	—	—	—	(333)	(333)
Foreign exchange adjustments	19	55	24	1,297	12,551	13,946
At 30 June 2016 and 1 July 2016 (restated)	207	814	333	10,673	101,165	113,192
Charge for the year	358	11,441	1,984	9,102	17,559	40,444
Disposals	(12)	—	—	—	—	(12)
Foreign exchange adjustments	20	(172)	(23)	643	5,642	6,110
At 30 June 2017	**573**	**12,083**	**2,294**	**20,418**	**124,366**	**159,734**
Net book value						
At 30 June 2017	**1,115**	**38,464**	**10,953**	**94,081**	**105,008**	**249,621**
At 30 June 2016 (restated)	1,355	48,021	12,099	82,408	83,106	226,989

12. Intangible Assets continued

The table below provides further detail on the acquired intangibles and their remaining amortisation period.

Significant assets	Description	Carrying value £'000	Sub-Total carrying value £'000	Remaining amortisation period
Intangible assets arising from the acquisition of VetXX Holding A/S	Product, marketing and distribution rights	4,855	4,855	½ year
Intangible assets arising from the acquisition of Dermapet	Product, marketing and distribution rights	26,183	26,183	8 ½ years
Intangible assets arising from the acquisition of Genetrix	Product, marketing and distribution rights	1,912	1,912	3 ½ years
Intangible assets arising from the acquisition of Eurovet	Technology, product, marketing and distribution rights	41,585	41,585	5 years
Intangible assets arising from the acquisition of PSPC Inc	Product, marketing and distribution rights	4,517	4,517	7 years
Intangible asset acquired from Pharmaderm Animal Health	Marketing and distribution rights	838	838	5 years
HY-50 intangible asset acquired from Bexinc Limited	Marketing and distribution rights	2,344	2,344	4 ½ years
Intangible assets arising from the acquisition of Genera	Product, brand, technology, marketing and distribution rights	1,286		5 ½ years
		470		8 ½ years
		8,572		13 ½ years
			10,328	Genera – total
Intangible assets arising from the acquisition of Putney	Product, brand, technology, pharmacological process, marketing and distribution rights	10,178		9 years
		38,478		9 years
		56,146		11 years
			104,802	Putney – total
Intangible asset arising from the acquisition of Apex	Product and technology	16,342		16 years
		3,003		13 years
			19,345	Apex - total
Intangible asset relating to Animal Ethics	Marketing and distribution rights	29,079	29,079	10 years
Intangible assets relating to a US dental licensing agreement	Marketing and distribution rights	3,832	3,833	10 years
			249,621	

Notes to the Consolidated Financial Statements
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13. Property, Plant and Equipment

	Freehold land and buildings £000	Short leasehold buildings £000	Motor vehicles £000	Plant and fixtures £000	Total £000
Cost					
At 1 July 2015	17,536	4,128	125	18,436	40,225
Additions	142	167	2	2,491	2,802
Acquired through business combinations	11,554	51	215	5,850	17,670
Disposals	(98)	(7)	(67)	(202)	(374)
Foreign exchange adjustments	4,421	15	(19)	2,516	6,933
At 30 June 2016 and 1 July 2016	33,555	4,354	256	29,091	67,256
Additions	148	15	56	4,002	4,221
Acquired through business combinations	3,400	—	96	3,049	6,545
Disposals	(10)	—	(9)	(919)	(938)
Foreign exchange adjustments	2,131	6	21	1,186	3,344
At 30 June 2017	**39,224**	**4,375**	**420**	**36,409**	**80,428**
Accumulated Depreciation					
At 1 July 2015	8,314	2,146	106	12,837	23,403
Charge for the year	1,007	308	42	2,406	3,763
Disposals	(98)	(7)	—	(200)	(305)
Foreign exchange adjustments	1,453	8	(29)	1,245	2,677
At 30 June 2016 and 1 July 2016	10,676	2,455	119	16,288	29,538
Charge for the year	625	316	62	3,910	4,913
Disposals	(8)	—	(10)	(708)	(726)
Foreign exchange adjustments	779	(2)	7	722	1,506
At 30 June 2017	**12,072**	**2,769**	**178**	**20,212**	**35,231**
Net book value					
At 30 June 2017	**27,152**	**1,606**	**242**	**16,197**	**45,197**
At 30 June 2016	22,879	1,899	137	12,803	37,718
Net book value of assets held under finance leases					
At 30 June 2017	**—**	**—**	**—**	**—**	**—**
At 30 June 2016	—	43	—	—	43

	2017 £000	2016 £000
Contracted capital commitments	**4,160**	112
Assets in the course of construction included above	**303**	269

14. Impairment Reviews

Goodwill and indefinite life assets are tested for impairment annually, or more frequently if there are indications that amounts might be impaired. The impairment tests involve determining the recoverable amount of the relevant asset or cash generating unit, which corresponds to the higher of the fair value less costs to sell or its value in use. In the Group's case, the recoverable amount is based on the value in use calculations.

Acquired intangible assets that are being amortised are reviewed for indicators of impairment annually, and in the event that impairment indicators exist, a full value in use calculation is performed. Despite the current year sales growth, given the previous sales decline of our FAP products, the impairment indicator assessment for FAP assets was given particular attention. A review was performed to ensure that the individual products capitalised are reflective of the sales growth in the period and that no impairment indicators exist. No impairment was recognised on these assets.

Value in use calculations are performed by forecasting the future cash flows attributable to the asset being tested (or the relevant cash generating unit in respect of goodwill). The forecast cash flows are discounted at an appropriate rate as described below.

The cash flow forecasts are derived as follows:

- The latest available Board-approved business plan for the first two years;
- The business plan is extrapolated by applying a growth rate of between 0% and 3% (2016: 3%) per annum in years three and four; and
- Thereafter, a terminal value is calculated based on year four cash flows, and assuming a long term growth rate of 0% (2016: 0%).

The projections covered a period of four years as we believe this to be the most appropriate timescale over which to review and consider annual performances before applying a fixed terminal value.

Value in use calculations were performed at 30 June 2017 for the following assets:

	2017			
Cash generating unit	Goodwill carrying value £000	Indefinite life assets carrying value £000	Total value £000	Pre-tax discount rate %
Dechra Veterinary Products EU	72,307	957	73,264	11.7
Dechra Veterinary Products NA	53,596	—	53,596	14.5
Dechra Pharmaceuticals Manufacturing — Skipton	2,231	—	2,231	13.2
	128,134	957	129,091	

	2016			
Cash generating unit	Goodwill carrying value (restated) £000	Indefinite life assets carrying value £000	Total value £000	Pre-tax discount rate %
Dechra Veterinary Products EU	54,510	853	55,363	12.3
Dechra Veterinary Products NA	56,438	—	56,438	13.5
Dechra Pharmaceuticals Manufacturing — Skipton	2,231	—	2,231	11.1
	113,179	853	114,032	

Key Assumptions

The key assumptions implicit in the impairment review are those regarding the Board-approved business plan, medium and long term growth rates and the discount rate.

The Board-approved business plan incorporates a number of key input assumptions, most notably regarding market growth expectations, the competitive and legislative environments, lifecycle management, selling prices, product margins and direct costs. The assumptions applied in the business plan are based on past experience and the Group's expectation of future market changes and, where applicable, are consistent with external sources of information.

The medium and long term growth rates of 2-3% and 0% respectively reflect a cautious estimate of expected future growth in the Group's markets, are no higher than those implicit in the Group's strategic planning process, and do not exceed the long term growth rates in the countries in which each CGU operates.

The pre-tax discount rates have been estimated using a market participant rate, which is adjusted after consideration of market information, and risk adjusted dependent upon the specific circumstances of each asset or cash generating unit.

Sensitivity Analysis

We have performed sensitivity analyses around the key assumptions and have concluded that no reasonable changes in key assumptions would cause the recoverable amount to be less than the carrying value. An increase in the pre-tax discount rate of 10% and a reduction in the growth rate to nil would still not result in the requirement for an impairment provision.

Notes to the Consolidated Financial Statements
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15. Deferred Taxes

(a) Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2017 £000	Restated 2016 £000	2017 £000	Restated 2016 £000	2017 £000	Restated 2016 £000
Intangible assets	—	—	(61,316)	(63,711)	(61,316)	(63,711)
Property, plant and equipment	—	—	(3,772)	(3,604)	(3,772)	(3,604)
Inventories	831	—	—	(74)	831	(74)
Receivables/payables	3,488	1,555	—	—	3,488	1,555
Share-based payments	1,581	1,370	—	—	1,581	1,370
Losses	8,414	14,042	—	—	8,414	14,042
R&D tax credits	1,289	793	—	—	1,289	793
Employee benefit obligations	992	1,175	—	—	992	1,175
	16,595	18,935	(65,088)	(67,389)	(48,493)	(48,454)

Deferred tax assets and liabilities are offset to the extent that there is a legally enforceable right to offset current tax assets against current tax liabilities.

(b) Unrecognised Deferred Tax

The aggregate amount of gross temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £1,478,000 (2016: £nil). The estimated unprovided deferred tax liability in relation to these temporary differences is £74,000 (2016: £nil).

Deferred tax assets in relation to losses amounting to £1.1 million (2016: £1.0 million) have not been recognised due to uncertainty over their recoverability. Included within unrecognised losses are £1.1 million of losses which expire prior to 2030. Other losses may be carried forward indefinitely.

(c) Movements during the Year

	Balance at 1 July 2015 £000	Recognised in income £000	Acquired through business combinations (restated) £000	Recognised in equity £000	Foreign exchange adjustments £000	Balance at 30 June 2016 (restated) £000
Intangible assets	(17,235)	3,824	(44,715)	—	(5,585)	(63,711)
Property, plant and equipment	(1,806)	(127)	(1,289)	—	(382)	(3,604)
Inventories	165	2,698	(2,873)	—	(64)	(74)
Receivables/payables	480	689	247	—	139	1,555
Share-based payments	1,210	48	—	112	—	1,370
Losses	99	197	12,797	—	949	14,042
R&D tax credits	129	13	585	—	66	793
Employee benefit obligations	667	(212)	251	385	84	1,175
	(16,291)	7,130	(34,997)	497	(4,793)	(48,454)

	Balance at 1 July 2016 (restated) £000	Recognised in income £000	Acquired through business combinations £000	Recognised in equity/OCI £000	Foreign exchange adjustments £000	Balance at 30 June 2017 £000
Intangible assets	(63,711)	11,135	(6,397)	—	(2,343)	(61,316)
Property, plant and equipment	(3,604)	(101)	—	—	(67)	(3,772)
Inventories	(74)	1,273	(286)	—	(82)	831
Receivables/payables	1,555	1,873	—	—	60	3,488
Share-based payments	1,370	133	—	78	—	1,581
Losses	14,042	(6,226)	—	—	598	8,414
R&D tax credits	793	479	—	—	17	1,289
Employee benefit obligations	1,175	292	—	(535)	60	992
	(48,454)	8,858	(6,683)	(457)	(1,757)	(48,493)

15. Deferred Taxes continued

Deferred tax assets and liabilities are analysed in the statement of financial position, after offset of balances within countries as follows:

	2017 £000	Restated 2016 £000
Deferred tax asset:	780	466
Deferred tax liability:	(49,273)	(48,920)
	(48,493)	(48,454)

16. Inventories

	2017 £000	2016 £000
Raw materials and consumables	15,572	13,375
Work in progress	3,898	4,378
Finished goods and goods for resale	37,037	36,622
	56,507	54,375

Included in finished goods and goods for resale is £nil (2016: £5,188,000) of inventory held at net realisable value having been acquired through business combinations.

17. Trade and Other Receivables

	2017 £000	Restated 2016 £000
Trade receivables	59,679	59,232
Other receivables	5,501	8,084
Available for sale financial assets (note 24)	–	129
Prepayments and accrued income	2,089	1,424
	67,269	68,869

18. Cash and Cash Equivalents

	2017 £000	2016 £000
Cash at bank and in hand	61,200	39,142

19. Trade and Other Payables

	2017 £000	Restated 2016 £000
Trade payables	21,433	24,326
Other payables	18,713	17,210
Derivative financial instruments	–	50
Other taxation and social security	4,797	5,147
Accruals and deferred income	16,366	13,213
	61,309	59,946

20. Current Tax Liabilities

	2017 £000	2016 £000
Corporation tax payable	2,512	3,897

21. Borrowings

	2017 £000	2016 £000
Current liabilities:		
Bank loans	965	1,648
Finance lease obligations	8	24
	973	1,672
Non-current liabilities:		
Bank loans	180,529	154,435
Finance lease obligations	8	—
Arrangement fees netted off	(351)	(342)
	180,186	154,093
Total borrowings	181,159	155,765

In October 2016, the Group increased its existing facility from £150.0 million plus an accordion of £30.0 million to a multi-currency revolving credit facility of £205.0 million with no accordion until September 2019. During the year £25.0 million was drawn from this revised facility. This facility is not secured on any specific assets of the Group but is supported by a joint and several cross-guarantee structure. Interest will be charged at 1.8% over LIBOR. All covenants were met during the year ended 30 June 2017. This facility has since been refinanced post year-end, refer to Note 35.

At 30 June 2016, it was noted that the £1.6 million of the facility exceeded the £150.0 million limit due to exchange rate movements, as such, this was disclosed within the current portion of borrowing.

Genera also has borrowing facilities of £7.4 million, of which £4.7 million was drawn down at 30 June 2017. Interest is fixed at 3.2%.

The maturity of the bank loans and overdrafts is as follows:

	2017 £000	2016 £000
Payable:		
Within one year	965	1,648
Between one and two years	1,158	—
Between two and five years	179,371	154,435
	181,494	156,083

The minimum lease payments and the present value of minimum lease payments payable under finance lease obligations are:

	Minimum lease payments		Present value of minimum lease payments	
	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	8	24	8	24
Between one and two years	7	—	7	—
Between two and five years	1	—	1	—
Total minimum lease payments	16	24	16	24
Future finance charges	1	2	1	2
Present value of lease obligations	17	26	17	26

Further information on the interest profile of borrowings is shown in note 24.

22. Provisions

	Deferred Rent £'000	Provision for PPE grant £'000	Environmental Health & Safety £'000	**Total £'000**
At start of period	(559)	(2,603)	(172)	**(3,334)**
Provision recognised	—	—	(300)	**(300)**
Provision utilised	37	514	118	**669**
Foreign exchange differences	(20)	(178)	(17)	**(215)**
At end of period	(542)	(2,267)	(371)	**(3,180)**

The Group has received advanced payment for rental income on its facilities in Portland. This has been recognised at amortised cost and is being utilised over the period of the rental contract.

Genera has received advanced funding for the refurbishment of the manufacturing facility for a third party manufacturing contract. The funding has been recognised at amortised cost and is being utilised over the life of the property, plant and equipment.

On the acquisition of Genera, the Group acquired a fair value provision to address existing legal and environmental compliance. A provision is recognised at the present value of the costs to be incurred for the remediation of the manufacturing site.

23. Employee Benefit Obligations

The Group sponsors defined benefit arrangements in certain countries, the most material being a defined benefit pension plan in the Netherlands. This is a funded career average pay arrangement, where pensionable salary is subject to a cap. The arrangement is financed through an insurance contract.

The other defined benefit pension arrangements operated by the Company are unfunded: Jubilee awards of £182,000 (2016: £187,000) for employees in the Netherlands are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2017.

The pension cost relating to the defined benefit pension arrangement in the Netherlands is assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The major actuarial assumptions used by the actuary were:

	2017	2016
Discount rate	**2.10%**	1.50%
Inflation assumption	**1.80%**	1.80%
Salary growth	**2.30%**	2.30%
Rate of increase in accrued pensions of active members	**0.80%**	1.00%
Rate of increase in pensions in payment	**0.00%**	0.00%
Rate of increase in pensions in deferment	**0.00%**	0.00%

In valuing the liabilities of the pension scheme at 30 June 2017 and 30 June 2016, mortality assumptions have been made as indicated below.

The mortality assumption follows the Prognosetafel AG2016 (2016: Prognosetafel AG2014) mortality tables with an experience adjustment in line with the ES-P2 tables as published by the Dutch Alliance of Insurers.

Assumed life expectations on retirement age	Male	Female
Retiring today (age 67)	19.6	21.8
Retiring in 20 years (age 47)	21.9	24.2

The assumptions used by the Group are the best estimates chosen by the Directors from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

	2017 £000	2016 £000
Present value of funded defined benefit obligations	**(17,907)**	(17,360)
Fair value of scheme assets	**14,898**	13,639
Net pension scheme deficit	**(3,009)**	(3,721)

Notes to the Consolidated Financial Statements
continued

23. Employee Benefit Obligations continued

Movements in Present Value of Defined Benefit Obligations

	2017 £000	2016 £000
Defined benefit obligation at beginning of the period	17,360	7,210
Service cost	1,644	867
Interest cost	269	211
Employee contributions	206	171
Benefits paid	(20)	(6)
Remeasurements:		
— (Gain)/loss from change in financial assumptions	(3,429)	4,814
— Loss from change in demographic assumptions	122	—
— Experience losses	658	2,034
Foreign exchange difference on translation	1,097	2,059
Defined benefit obligations at end of the period	**17,907**	17,360

Movements in Fair Value of Scheme Assets

	2017 £000	2016 £000
Fair value of scheme assets at beginning of the period	13,639	5,899
Interest income	230	194
Additional charges	(136)	(124)
Employer contributions	670	581
Employee contributions	206	171
Benefits paid	(20)	(6)
Remeasurements:		
— Premium adjustment	483	62
— Return on plan assets	(1,058)	5,235
Foreign exchange difference on translation	884	1,627
Fair value of scheme assets at end of the period	**14,898**	13,639

Analysis of the Amount Charged to the Income Statement

	2017 £000	2016 £000
Service cost	1,644	867
Net interest cost	39	17
Additional charges	136	124
Net pension expense	**1,819**	1,008

Cumulative Analysis of the Amount Charged to the Other Statement of Consolidated Income

	2017 £000	2016 £000
Amounts charged in previous periods	2,570	1,019
Actuarial (gain)/loss on defined benefit pension scheme	(2,074)	1,551
Net pension expense	**496**	2,570

23. Employee Benefit Obligations continued

Scheme Assets

The Group's defined benefit pension scheme in the Netherlands is financed through an insurance contract. Under this contract, a market price for the assets in respect of this insurance contract is not available. In accordance with IAS 19 for such insurance policies, an asset value has been calculated by discounting expected future cash flows. The discount rate used for this calculation reflects the risk associated with the scheme assets and the maturity or expected disposal date of those assets.

The fair value of the scheme's assets is as follows:

	2017 £000	2016 £000
Total fair value of assets	14,898	13,639
Actual return on scheme assets	230	194
Discount rate used to value assets	2.10%	1.50%

The long term rate of return on pension plan assets is determined by aggregating the expected return for each asset class over the strategic asset allocation as at the year end. This rate of return is then adjusted for any expected profit sharing based on market related returns on notional loans.

The scheme's assets do not include any of the Group's own financial instruments or any property occupied by or other assets used by the Group.

The employer has a contract with the insurance company Nationale-Nederlanden to cover the committed pension benefits.

The employer contributions expected to be paid into the scheme for the next financial period amount to £680,069 (2016: £630,000).

History of Amounts in the Current Period

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Present value of funded defined benefit obligations	(17,907)	(17,360)	(7,210)	(5,927)	(4,722)
Fair value of scheme assets	14,898	13,639	5,899	4,857	3,726
Deficit in the scheme	(3,009)	(3,721)	(1,311)	(1,070)	(996)

The sensitivity of the defined benefit obligation to change in the weighted principal assumptions is:

		Impact on defined benefit obligation	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.25%	Decrease by 6.8%	Increase by 7.4%
Salary growth rate	0.25%	Increase by 0.7%	Decrease by 0.7%
Inflation rate	0.25%	Increase by 0.2%	Decrease by 0.3%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 2.7%	Decrease by 2.7%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method has been applied as when calculating the pension liability recognised within the statement of financial position.

24. Financial Instruments and Related Disclosures

The Group's financial instruments comprise cash deposits, bank loans and overdrafts, finance lease obligations, derivatives used for hedging purposes and trade receivables and payables.

Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits. The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and financial risks in support of the Group's corporate activities.

The Board of Directors has approved a policy which governs all treasury activities.

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations. Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate swaps, are used to hedge against changes in foreign currencies and interest rates. Hedges of net investments in foreign operations are also used in the management of foreign currency risk.

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policy specifically prohibits such activity. All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation.

Capital Management

The capital structure of the Group consists of net borrowings and shareholders' equity. At 30 June 2017, net borrowing was £120.0 million (2016: net borrowing was £116.6 million), whilst shareholders' equity was £302.6 million (2016: £276.6 million).

The Group maintains a strong capital base so as to maintain investors', creditors' and market confidence and to sustain future development of the business.

The Group manages its capital structure to maintain a prudent balance between debt and equity that allows sufficient headroom to finance the Group's product development programme and appropriate acquisitions. There were no changes in the Group's approach to capital management during the year.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. The Group's operating subsidiaries are generally cash generative and none are subject to externally imposed capital requirements.

There are financial covenants associated with the Group's borrowings, which are interest cover, and net debt to underlying EBITDA. The Group complied with these covenants in 2017 and 2016.

Operating cash flow is used to fund investment in the development of new products as well as to make the routine outflows of capital expenditure, tax, dividends and repayment of maturing debt.

The Group's policy is to maintain borrowing facilities centrally which are then used to finance the Group's operating subsidiaries, either by way of equity investments or loans.

Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due. Cash flows and covenants of the Group are monitored quarterly. These are reviewed to ensure sufficient financial headroom exists for at least a 12 month period.

The Group manages its funding requirements through the following lines of credit:

- £205.0 million multi-currency revolving credit facility;
- £4.7 million bank loans; and
- various finance leases.

The Group's revised borrowing facilities at 30 June 2017 are detailed in note 21. Refer to note 35 for events after the reporting period for changes in the facility.

24. Financial Instruments and Related Disclosures continued

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Group's income or the value of its holding of financial instruments.

Interest Rate Risk Management

The majority of the Group's borrowings bear interest at floating rates linked to base rate or LIBOR and are consequently exposed to cash flow interest rate risk.

The Group has hedged interest rate risk on a proportion of its revolving credit facility by means of an interest rate swap arrangement whereby the Group's exposure to fluctuations in LIBOR is fixed at a rate of 1.8% on the revolving credit facility. The amount of the revolving credit outstanding at 30 June 2017 was £176.8 million at the year end exchange rates (2016: £151.6 million).

Foreign Exchange Risk Management

Foreign currency transaction exposure arising on normal trade flows is not hedged. The Group matches receipts and payments in the relevant foreign currencies as far as possible. To this end, bank accounts are maintained for all the major currencies in which the Group trades. Translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged.

The Group hedges selectively expected currency cash flows outside normal trading activities. During the previous year the Group designated a US dollar loan of $120.0 million, as a net investment hedge of US dollar net assets.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Group considers its maximum credit risk to be £65.2 million (2016: £67.4 million), which is the total carrying value of the Group's financial assets excluding cash and cash equivalents.

Cash is only deposited with highly rated banks in line with our treasury policy.

The Group offers trade credit to customers in the normal course of business. Trade and bank references are obtained prior to extending credit.

Our principal customers are pharmaceutical wholesalers and distributors. The failure of a large wholesaler could have a material adverse impact on the Group's financial results.

The largest customer of the Group sits within the NA Pharmaceuticals segment and accounted for approximately 15.4% of gross trade receivables at 30 June 2017 (2016: 11.8%). This customer accounted for 18.5% (2016: 14.5%) of total Group revenues. One other customers accounted for more than 10% of total Group revenues (2016: none).

Receivables are written off when management considers the debt to be no longer recoverable.

Fair Value of Financial Assets and Liabilities

The following table presents the carrying amounts and the fair values of the Group's financial assets and liabilities at 30 June 2017 and 30 June 2016. The following assumptions were used to estimate the fair values:

- Cash and cash equivalents — approximated to the carrying amount.
- Forward exchange contracts — based on market price and exchange rates at the balance sheet date.
- Available for sale financial instruments — based on the market rates at year end.
- Derivatives (Interest rate swaps) — based upon the amount that the Group would receive or pay to terminate the instrument at the balance sheet date, being the market price of the instrument.
- Receivables and payables — approximated to the carrying amount.
- Bank loans and overdrafts — based upon discounted cash flows using discount rates based upon facility rates renegotiated at the year end.
- Finance lease obligations — based upon discounted cash flows using discount rates based upon the Group's cost of borrowing at the balance sheet date.

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures continued

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2017		2016	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	61,200	61,200	39,142	39,142
	61,200	61,200	39,142	39,142
Available for sale financial instruments	—	—	129	129
Loans and receivables				
— trade receivables	59,679	59,679	59,232	59,232
— other receivables	5,501	5,501	8,084	8,084
	65,180	65,180	67,445	67,445
Total financial assets	126,380	126,380	106,587	106,587
Financial liabilities				
Bank loans and overdrafts	(181,494)	(181,494)	(155,741)	(155,741)
Held for trading financial liabilities				
— derivatives designated as hedges	—	—	(50)	(50)
Finance lease liabilities	(16)	(16)	(24)	(24)
Trade payables	(21,433)	(21,433)	(24,326)	(24,326)
Other payables	(18,713)	(18,713)	(17,210)	(17,210)
Deferred and contingent consideration	(34,990)	(34,990)	(3,633)	(3,633)
Total financial liabilities	(256,646)	(256,646)	(200,984)	(200,984)
Net financial liabilities	(130,266)	(130,266)	(94,397)	(94,397)

In March 2015, the Group made an investment of US$1 million in Jaguar Animal Health Inc. (Jaguar) to potentially gain access to the EU marketing rights for a companion animal product. At 30 June 2017, the Company holds 178,571 shares in Jaguar following its IPO. The Company also holds 89,286 warrants, which are valid for three years. The shares and warrants have been fully impaired during the period.

24. Financial Instruments and Related Disclosures continued

Fair Value Hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method. Where possible, quoted prices in active markets are used (Level 1). Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data. If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3. There were no transfers between Level 1 and Level 2 during the year.

30 June 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial instruments	—	—	—	—
Derivative financial liabilities	—	—	—	—
Deferred and contingent consideration for business combinations	—	—	(34,990)	(34,990)
Total	—	—	(34,990)	(34,990)

30 June 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial instruments	129	—	—	129
Derivative financial liabilities	—	(50)	—	(50)
Deferred and contingent consideration for business combinations	—	—	(3,633)	(3,633)
Total	129	(50)	(3,633)	(3,554)

Deferred and contingent consideration is recorded at fair value based on risk-adjusted future cash flows discounted using appropriate interest rates, which are reviewed annually. The inputs relating to future cash flows will include cash flows relating to the relevant contractual arrangements. There would be no material effect on the amounts stated from any reasonably probable change in such inputs at 30 June 2017. Refer to note 4 for amounts recognised in the Consolidated Income Statement in the year.

At 30 June 2017, the deferred and contingent consideration balance is made up of £0.5 million in relation to the Brovel acquisition, £3.0 million in relation to the *Phycox* acquisition, £3.6 million in relation to the Kane licensing agreement and £27.9 million in relation to the Animal Ethics licensing agreement. Movements in deferred and contingent consideration consist of: £0.8 million decrease due to foreign exchange differences, £28.8 million and £3.7 million in relation to the acquisition of the Medical Ethics Pty Ltd and Kane Biotech Inc licensing agreements respectively; payments of £0.7 million and £0.3 million of unwinding of discount.

Credit Risk — Overdue Financial Assets

The following table shows financial assets which are overdue and for which no impairment provision has been made:

	2017 £000	2016 £000
Overdue by:		
Up to one month	2,829	3,524
Between one and two months	625	1,844
Between two and three months	221	259
Over three months	624	200
	4,299	5,827

The movement in the impairment provision was as follows:

	2017 £000	2016 £000
At start of period	2,836	263
Impairment provision recognised	426	93
Acquired through business combinations	—	2,327
Foreign exchange differences	224	291
Impairment provision utilised	(315)	(138)
At end of period	3,171	2,836

Notes to the Consolidated Financial Statements
continued

24. Financial Instruments and Related Disclosures continued

Liquidity Risk — Contracted Cash Flows of Financial Liabilities

The following table shows the cash flow commitments of the Group in respect of financial liabilities at 30 June 2017 and 30 June 2016. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

At 30 June 2017	**Deferred and contingent consideration £000**	**Bank loans and overdrafts £000**	**Finance leases £000**	**Trade and other payables £000**	**Total £000**
Carrying value	**(34,990)**	**(181,494)**	**(16)**	**(40,146)**	**(256,646)**
Arrangement fees netted off	**—**	**351**	**—**	**—**	**351**
Future interest	**(26,777)**	**(411)**	**(1)**	**—**	**(27,189)**
Total committed cash flow	**(61,767)**	**(181,554)**	**(17)**	**(40,146)**	**(283,484)**
Payable:					
Within 6 months	**(843)**	**(639)**	**(5)**	**(38,461)**	**(39,948)**
Between 6 months and 1 year	**(843)**	**(546)**	**(4)**	**(1,685)**	**(3,078)**
Between 1 and 2 years	**(3,349)**	**(1,258)**	**(7)**	**—**	**(4,614)**
Between 2 and 3 years	**(6,984)**	**(177,733)**	**(1)**	**—**	**(184,718)**
Between 3 and 4 years	**(6,398)**	**(1,184)**	**—**	**—**	**(7,582)**
Between 4 and 5 years	**(3,341)**	**(194)**	**—**	**—**	**(3,535)**
Over 5 years	**(40,009)**	**—**	**—**	**—**	**(40,009)**
	(61,767)	**(181,554)**	**(17)**	**(40,146)**	**(283,484)**

At 30 June 2016	Deferred and contingent consideration £000	Bank loans and overdrafts £000	Finance leases £000	Trade and other payables £000	Total £000
Carrying value	(3,633)	(156,083)	(24)	(41,536)	(201,276)
Arrangement fees netted off	—	342	—	—	342
Future interest	(1,273)	(632)	(2)	—	(1,907)
Total committed cash flow	(4,906)	(156,373)	(26)	(41,536)	(202,841)
Payable:					
Within 6 months	(234)	(632)	(5)	(41,536)	(42,407)
Between 6 months and 1 year	(234)	—	(5)	—	(239)
Between 1 and 2 years	(789)	—	(8)	—	(797)
Between 2 and 3 years	(961)	—	(7)	—	(968)
Between 3 and 4 years	(541)	(155,741)	(1)	—	(156,283)
Between 4 and 5 years	(570)	—	—	—	(570)
Over 5 years	(1,577)	—	—	—	(1,577)
	(4,906)	(156,373)	(26)	(41,536)	(202,841)

The contractual undiscounted cash flows in respect of derivative financial instruments are as follows:

	2017 £000	2016 £000
Due:		
Within 6 months	**—**	50
	—	50

The Group has a contractual obligation to pay £nil (2016: £50,000), as its interest rate swap arrangement ended on 31 October 2016.

There are no other assets (2016: none) that have been impaired during the year.

24. Financial Instruments and Related Disclosures continued

Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2017 and 30 June 2016 were:

At 30 June 2017	Danish Krone £000	Euro £000	US Dollar £000	Other £000
Financial assets				
Trade receivables	918	7,626	1,102	395
Other receivables	—	77	—	—
Cash balances	—	—	5,759	5,725
	918	7,703	6,861	6,120
Financial liabilities				
Bank loans and overdrafts	(12,957)	(7,911)	(127,144)	—
Trade payables	(29)	(6,963)	(1,081)	(42)
Other payables	—	(515)	—	(357)
Finance lease	—	(16)	—	—
	(12,986)	(15,405)	(128,225)	(399)
Net balance sheet exposure	(12,068)	(7,702)	(121,364)	5,721

At 30 June 2016	Danish Krone £000	Euro £000	US Dollar £000	Other £000
Financial assets				
Trade receivables	—	4,057	1,402	851
Other receivables	—	—	51	49
Cash balances	—	—	495	6,422
	—	4,057	1,948	7,322
Financial liabilities				
Bank loans and overdrafts	(15,167)	(31,688)	(122,838)	—
Trade payables	(2)	(4,513)	(698)	(133)
Other payables	—	(790)	(16)	(705)
Derivatives	—	(25)	(25)	—
	(15,169)	(37,016)	(123,577)	(838)
Net balance sheet exposure	(15,169)	(32,959)	(121,629)	6,484

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in annual interest rates compared to those ruling at 30 June 2017 would reduce Group profit before taxation and equity by £3,620,000 (2016: £3,120,000).

Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro. The Group does not hedge either economic exposure or the translation exposure arising from the profits of non-Sterling businesses. The Group is hedging certain foreign currency translations through the designation of a US dollar loan as a net investment hedge of US dollar net assets.

The following table shows the impact on the Group's profit after taxation of a 10% appreciation of Sterling against each of these currencies compared to the rates prevailing at the year end date. In this analysis, only financial assets and liabilities held on the balances sheet at the year end are assessed and are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them. There is no impact on other equity reserves.

	Profit after taxation £000
Danish Krone	(943)
US Dollar	(602)
Euro	(9,479)

24. Financial Instruments and Related Disclosures continued

The sensitivities above represent the Directors' view of reasonably possible changes in each risk variable, not worst case scenarios or stress tests. The outputs from the sensitivity analysis are estimates of the impact of the effect of changes in market risks assuming that the specified changes occur at the year end and are applied to the risk exposures at that date. Accordingly, they show the impact on profitability and the balance sheet from such movements.

Actual results in the future may differ materially from these estimates due to commercial actions taken to mitigate any potential losses from such rate movements, to the interaction of more than one sensitivity occurring and to further developments in global financial markets. As such, this table should not be considered as a projection of likely future gains and losses.

25. Share Capital

	Ordinary shares of 1p each			
	2017		2016	
	£000	Number	£000	Number
Allotted, called up and fully paid at start of year	927	92,746,998	880	87,971,163
New shares issued	5	431,758	47	4,775,835
Allotted, called up and fully paid at end of year	932	93,178,756	927	92,746,998

The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital. At the 2009 Annual General Meeting, the shareholders approved a resolution whereby all provisions relating to the Company's authorised share capital were removed from the Company's constitutional documents.

During the year, 431,758 new ordinary shares of 1p (2016: 377,235 new ordinary shares of 1p) were issued following the exercise of options under the Long Term Incentive Plan, and the Approved, Unapproved and SAYE Share Options Schemes. The consideration received was £931,342 (2016: £742,988). The holders of ordinary shares are entitled to receive dividends as declared or approved at General Meetings from time to time and are entitled to one vote per share at such meetings of the Company.

26. Own Shares

	2017 £000	2016 £000
At start of the period	21	303
Recycled to profit and loss account	—	(282)
Purchase of own shares	646	—
At end of period	667	21

The own shares reserve represents the cost of shares in Dechra Pharmaceuticals PLC purchased in the market and held by the Group's Employee Benefit Trust to satisfy options under the Group's share options schemes (see note 28 for details). The number of ordinary shares held by the Employee Benefit Trust at 30 June 2017 was 42,066 (2016: 2,880).

27. Non-Controlling Interests

Following the acquisition of Genera in October 2015, the following non-controlling interest has been recorded in the Group financial statements;

	2017 £'000	2016 £'000
At start of period	1,981	—
Acquired through business combinations	—	2,248
Additional consideration paid to non-controlling interests	(583)	(390)
Profit/(loss) for the period	5	(156)
Foreign exchange differences	160	279
At end of period	1,563	1,981

On 8 November 2016, the Group purchased 0.12% of the voting shares for a consideration of HRK 344,000 (£0.04 million). On 5 December 2016, the Group purchased another 1.62% of the voting shares for a consideration of HRK 4,810,000 (£0.54 million). The Group now holds 95.13% of the equity share capital of Genera.

28. Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan and the Save As You Earn (SAYE) Share Option Scheme as described below:

Unapproved and Approved Share Option Schemes

Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant. For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period. Once vested, options must be exercised within ten years of the date of grant.

Long Term Incentive Plan

Vesting is dependent on two performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted. 50% of the award will vest dependent on the Company's TSR performance against an appropriate comparator group. 50% of the award will vest subject to a performance condition based on annual earnings per share targets. Each of the TSR and EPS elements is subject to an additional ROCE underpin. Unless the Company's ROCE is 10% or more in the final year of the performance period, the award will lapse in full.

SAYE Option Scheme

This scheme is open to all UK employees. Participants save a fixed amount of up to £500 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. Prior to 16 October 2012, participants were able to save for a seven year period. The SAYE options must ordinarily be exercised within six months of the completion of the relevant savings period. The exercise of these options is not subject to any performance criteria.

Notes to the Consolidated Financial Statements
continued

28. Share-based Payments continued
Year ended 30 June 2017

	Exercise Period	Exercise price per share Pence	At 1 July 2016 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2017 Number
Unapproved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	6,649	(3,383)	—	—	3,266
10 October 2008†*	2011–2018	364.63	5,444	(2,722)	—	—	2,722
30 March 2009†*	2012–2019	381.15	10,886	(2,177)	—	—	8,709
1 March 2010†*	2013–2020	418.81	4,354	(2,177)	—	—	2,177
28 February 2011†*	2014–2021	461.97	8,164	(4,943)	—	—	3,221
10 September 2012†	2015–2022	541.00	31,000	(5,000)	—	—	26,000
16 September 2013	2016–2023	721.00	47,628	(29,863)	—	—	17,765
5 March 2014	2017–2024	698.00	2,000	(2,000)	—	—	—
11 September 2014	2017–2024	763.00	57,713	(9,104)	—	(4,600)	44,009
15 September 2015	2018-2025	975.00	55,060	(1,911)	—	(5,089)	48,060
18 March 2016	2019-2026	1118.00	950	—	—	—	950
19 September 2016	2019-2026	1369.00	—	—	96,798	(7,946)	88,852
			229,848	(63,280)	96,798	(17,635)	245,731
Approved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	3,612	(2,524)	—	—	1,088
1 March 2010†*	2013–2020	418.81	5,360	(4,894)	—	—	466
28 February 2011†*	2014–2021	461.95	44	—	—	—	44
10 September 2012†	2015–2022	541.00	500	(500)	—	—	—
16 September 2013	2016–2023	721.00	11,158	(7,909)	—	—	3,249
11 September 2014	2017–2024	763.00	12,087	—	—	(1,096)	10,991
15 September 2015	2018-2025	975.00	18,940	—	—	(5,500)	13,440
18 March 2016	2019-2026	1118.00	5,050	—	—	—	5,050
19 September 2016	2019-2026	1369.00	—	—	9,202	(54)	9,148
			56,751	(15,827)	9,202	(6,650)	43,476
Long Term Incentive Plan							
27 November 2013	2016–2017	—	267,070	(257,052)	—	(10,018)	—
15 September 2014	2017–2018	—	266,158	(7,046)	—	(63,854)	195,258
15 September 2015	2018–2019	—	220,621	(5,170)	—	(59,617)	155,834
22 March 2016	2019–2019	—	8,786	—	—	—	8,786
19 September 2016	2019–2020	—	—	—	149,463	—	149,463
10 October 2016	2019–2020	—	—	—	5,319	—	5,319
7 March 2017	2018–2019	—	—	—	42,066	—	42,066
			762,635	(269,268)	196,848	(133,489)	556,726
SAYE Option Scheme							
12 October 2009*	2012–2016	304.92	3,418	(3,418)	—	—	—
13 December 2010*	2013–2017	375.64	7,064	(2,431)	—	(91)	4,542
17 October 2011*	2014–2018	365.54	6,326	(6,326)	—	—	—
16 October 2012	2015–2019	471.00	7,576	—	—	—	7,576
7 April 2014	2017–2019	552.00	95,043	(69,726)	—	(2,934)	22,383
13 October 2014	2017–2023	614.00	106,577	(1,482)	—	(4,966)	100,129
12 October 2015	2018–2024	792.00	92,162	—	—	(9,358)	82,804
13 October 2016	2019–2025	1095.00	—	—	52,877	(3,448)	49,429
			318,166	(83,383)	52,877	(20,797)	266,863
Total			1,367,400	(431,758)	355,725	(178,571)	1,112,796
Weighted average exercise price*			300.46p	215.71p	570.71p	232.47p	430.64p

* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.
† Total share options exercisable at 30 June 2017 are 68,707.

28. Share-based Payments continued

Year ended 30 June 2016

	Exercise Period	Exercise price per share Pence	At 1 July 2015 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2016 Number
Unapproved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	9,915	(3,266)	—	—	6,649
10 October 2008†*	2011–2018	364.62	11,976	(6,532)	—	—	5,444
30 March 2009†*	2012–2019	381.15	20,683	(7,620)	—	(2,177)	10,886
1 March 2010†*	2013–2020	418.81	14,143	(7,612)	—	(2,177)	4,354
28 February 2011†*	2014–2021	461.97	18,461	(8,120)	—	(2,177)	8,164
10 September 2012	2015–2022	541.00	63,244	(30,244)	—	(2,000)	31,000
16 September 2013	2016–2023	721.00	47,842	—	—	(214)	47,628
5 March 2014	2017–2024	698.00	2,000	—	—	—	2,000
11 September 2014	2017–2024	763.00	60,817	(721)	—	(2,383)	57,713
15 September 2015	2018–2025	975.00	—	—	55,060	—	55,060
18 March 2016	2019–2026	1188.00	—	—	950	—	950
			249,081	(64,115)	56,010	(11,128)	229,848
Approved Share Option Scheme							
19 March 2007†*	2010–2017	265.43	7,620	(7,620)	—	—	—
2 April 2008†*	2011–2018	336.15	9,766	(6,154)	—	—	3,612
1 March 2010†*	2013–2020	418.81	5,360	—	—	—	5,360
28 February 2011†*	2014–2021	461.97	5,545	(5,501)	—	—	44
10 September 2012	2015–2022	541.00	10,756	(10,256)	—	—	500
16 September 2013	2016–2023	721.00	15,158	(2,123)	—	(1,877)	11,158
11 September 2014	2017–2024	763.00	15,183	(415)	—	(2,681)	12,087
15 September 2015	2018–2025	975.00	—	—	18,940	—	18,940
18 March 2016	2019-2026	1188.00	—	—	5,050	—	5,050
			69,388	(32,069)	23,990	(4,558)	56,751
Long Term Incentive Plan							
5 March 2013	2016–2016	—	226,168	(210,112)	—	(16,056)	—
27 September 2013†	2014–2015	—	41,739	(38,859)	—	(2,880)	—
27 November 2013	2016–2017	—	276,012	(4,113)	—	(4,829)	267,070
15 September 2014	2017–2018	—	275,332	—	—	(9,174)	266,158
15 September 2015	2018–2019	—	—	—	220,621	—	220,621
22 March 2016	2019-2026	—	—	—	8,786	—	8,786
			819,251	(253,084)	229,407	(32,939)	762,635
SAYE Option Scheme							
13 October 2008*	2011–2015	315.02	5,306	(5,306)	—	—	—
12 October 2009*	2012–2017	304.92	3,418	—	—	—	3,418
13 December 2010*	2013–2016	375.64	16,379	(8,830)	—	(485)	7,064
17 October 2011*	2014–2018	365.54	6,825	—	—	(499)	6,326
16 October 2012	2015–2019	471.00	59,599	(50,686)	—	(1,337)	7,576
7 April 2014	2017–2019	552.00	102,257	(905)	—	(6,309)	95,043
13 October 2014	2017–2023	614.00	120,502	(1,091)	—	(12,834)	106,577
12 October 2015	2018-2024	792.00	—	—	101,513	(9,351)	92,162
			314,286	(66,818)	101,513	(30,815)	318,166
Total			1,452,006	(416,086)	410,920	(79,440)	1,367,400
Weighted average exercise price*			244.39p	178.56p	387.56p	364.60p	300.46p

* Adjusted to reflect the bonus element of the Rights Issue — there has been no impact on the overall fair value of options in issue.
† Total share options exercisable at 30 June 2016 were 76,013.

The weighted average exercise price of options eligible to be exercised at 30 June 2017 was 470.86p (2016: 453.67p). For options exercised during the year, the weighted average market price at the date of exercise was 1,415p (2016: 1,206p). The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was four years (2016: four years).

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2014 were exercisable at 30 June 2017. No options issued under SAYE plans were exercisable at 30 June 2017 (2016: nil).

Notes to the Consolidated Financial Statements
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28. Share-based Payments continued

The fair values for shares granted under the Unapproved, Approved and SAYE Option Schemes have been calculated using the Black–Scholes option pricing model. The fair values of shares awarded under the Long Term Incentive Plan have been calculated using a Monte Carlo simulation model which takes into account the market-based performance conditions attaching to those shares. The assumptions used in calculating fair value are as follows:

Long Term Incentive Plan

Date of grant	07/03/17	07/03/17	10/10/16	19/9/16	22/03/16	15/09/15
Number of shares awarded	21,033	21,033	5,319	149,463	8,786	220,621
Share price at date of grant	1652p	1652p	1389p	1379p	1200p	990p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	2 years	1 year	3 years	3 years	3 years	3 years
Risk-free rate	0.12%	0.12%	0.12%	0.12%	0.46%	0.68%
Volatility	22%	22%	22%	22%	22%	22%
Dividend yield	1.54%	1.54%	1.54%	1.54%	1.61%	0.54%
Fair value per share	1500p	1500p	1108p	1108p	1021p	764p

Unapproved and Approved Share Option Schemes

Date of grant	19/9/16	18/03/16	15/09/15
Number of shares awarded	106,000	6,000	74,000
Share price at date of grant	1379p	1185p	990p
Exercise price	1369p	1188p	975p
Expected life	6.5 years	6.5 years	6.5 years
Risk-free rate	0.47%	1.02%	1.47%
Volatility	26%	26%	27%
Dividend yield	1.54%	1.62%	0.54%
Fair value per share	305p	273p	284p

Save As You Earn Option Scheme

Date of grant	13/10/16	12/10/15
Number of shares awarded	52,877	101,513
Share price at date of grant	1370p	930p
Exercise price	1095p	792p
Expected life		
— three year scheme	3.25 years	3.25 years
— five year scheme	5.25 years	5.25 years
Risk-free rate		
— three year scheme	0.22%	0.83%
— five year scheme	0.44%	1.17%
Volatility		
— three year scheme	22%	22%
— five year scheme	24%	26%
Dividend yield	1.51%	0.53%
Fair value per share		
— three year scheme	302p	215p
— five year scheme	346p	283p

Expected volatility was determined by calculating the historical volatility of the Group's share price over its entire trading history.

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments and are therefore treated as cash settled awards. The Group had an accrual at 30 June 2017 of £968,000 (2016: £842,000), of which £78,000 (2016: £65,000) related to vested options. The total charge to the Consolidated Income Statement in respect of share-based payments was:

	2017 £000	2016 £000
Equity settled share-based transactions	2,268	2,058
Cash settled share-based transactions	557	328
	2,825	2,386

The above charge to the Consolidated Income Statement is included within administrative expenses.

29. Analysis of Net Borrowings

	2017 £000	2016 £000
Bank loans	(181,143)	(155,741)
Finance leases and hire purchase contracts	(16)	(24)
Cash and cash equivalents	61,200	39,142
Net borrowings	(119,959)	(116,623)

30. Operating Leases

At the balance sheet date the Group had outstanding commitments for future minimum rentals payable under non-cancellable operating leases as follows:

	Land and buildings		Other assets		Total	
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
Within one year	1,009	986	2,282	1,978	3,291	2,964
Between one and five years	2,573	2,619	4,006	3,142	6,579	5,761
In five years or more	1,620	1,536	1,143	1,517	2,763	3,053
	5,202	5,141	7,431	6,637	12,633	11,778

The Group leases properties, plant, machinery and vehicles for operational purposes. Property leases vary in length up to a period of 20 years. Plant, machinery and vehicle leases typically run for periods of up to five years.

31. Foreign Exchange Rates

The following exchange rates have been used in the translation of the results of foreign operations:

	Average rate for 2016	Closing rate at 30 June 2016	Average rate for 2017	Closing rate at 30 June 2017
Danish Krone	10.0162	9.0010	8.6901	8.4571
Euro	1.3432	1.2099	1.1681	1.1372
US Dollar	1.4870	1.3433	1.2735	1.2978

32. Acquisitions

Acquisition of Apex

On 14 October 2016, Dechra acquired certain trade and assets of Apex Laboratories Pty Ltd, a veterinary pharmaceuticals company based in New South Wales, Australia. The Group paid £34.2 million (AUD$ 55.0 million) consideration in cash on a debt free, cash free basis.

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	6,545
Software	78
Inventories	2,120
Trade and other receivables	1,575
Trade and other payables	(462)
Non-current liabilities	(171)
Identifiable intangible assets	21,323
Net deferred tax liability	(6,683)
Net identifiable assets	24,325
Goodwill	9,906
Total consideration	34,231
Satisfied by:	
Cash	34,231
Total consideration transferred	34,231
Net cash outflow arising on acquisition	
Cash consideration	34,231
	34,231

The fair values shown above are provisional and may be amended if information not currently available comes to light. The provisional fair value adjustments principally relate to harmonisation with Group IFRS accounting policies, including the application of fair values on acquisition, principally being the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3.

Notes to the Consolidated Financial Statements
continued

32. Acquisitions continued

The goodwill of £9.9 million arising from the acquisition consists of technical expertise of the assembled workforce, access to the Australasian and Asia Pacific regions to continue geographical expansion, and future sales expected to be achieved through the registration of Dechra products in these countries. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £1.6 million. Apex's results are reported within the EU Pharmaceuticals Segment. Apex contributed £7.1 million revenue and £1.1 million to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date. If the acquisition of Apex had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £9.9 million and the Group pre-tax profit would have been £2.1 million.

Prior Year Acquisitions

In the prior year the Group acquired Putney and Brovel. The fair values of the assets and liabilities acquired have been reconsidered as part of the hindsight period.

In relation to Putney, there was a reduction in provisions of £0.4 million to true-up the position at acquisition. Intangible assets were reduced by £0.8 million to reflect an agreement that at the point of acquisition was not required due to the existence of other supplier relationships. Hindsight adjustments have also been made in respect of deferred tax assets on losses (£2.9 million), inventory (£0.2 million), R&D credits (£0.6 million), intangibles (£0.3 million) and receivables (£0.3 million).

In relation to Brovel, there was a reduction in receivables (£0.1 million) and an increase in payables of £0.1 million following a true-up of the final working capital position. A deferred tax asset of £0.3 million has been recognised following a detailed assessment of the recoverability of these assets.

Following the acquisition of Genera in October 2015, the disclosure of the final fair values of the assets and liabilities acquired have been included in the financial statements for the year ended 30 June 2016.

Acquisition of Brovel

The revised fair values of the acquired assets and liabilities on the acquisition of Brovel are detailed below:

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	243
Inventories	1,152
Trade and other receivables	346
Cash and cash equivalents	202
Trade and other payables	(465)
Net deferred tax asset	120
Net identifiable assets	1,598
Goodwill	2,466
Total consideration	4,064
Satisfied by:	
Cash	3,473
Contingent consideration arrangement	591
Total consideration transferred	4,064
Net cash outflow arising on acquisition	
Cash consideration	3,473
Less cash and cash equivalents acquired	(202)
	3,271

32. Acquisitions continued

Acquisition of Putney

The revised fair values of the acquired assets and liabilities on the acquisition of Putney are detailed below:

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**466**
Inventories	**14,037**
Trade and other receivables	**5,699**
Cash and cash equivalents	**1,541**
Trade and other payables	**(7,160)**
Provisions	**(546)**
Debt	**(6,299)**
Identifiable intangible assets	**112,580**
Net deferred tax liability	**(31,517)**
Net identifiable assets	**88,801**
Goodwill	**45,391**
Total consideration	**134,192**
Satisfied by:	
Cash	**134,192**
Total consideration transferred	**134,192**
Net cash outflow arising on acquisition	
Cash consideration	**134,192**
Less cash and cash equivalents acquired	**(1,541)**
	132,651

33. Related Party Transactions

Subsidiaries

The Group's ultimate Parent Company is Dechra Pharmaceuticals PLC. A listing of subsidiaries is shown within the financial statements of the Company on pages 167 to 168.

Transactions with Key Management Personnel

The details of the remuneration, Long Term Incentive Plans, shareholdings, share options and pension entitlements of individual Directors are included in the Directors' Remuneration Report on pages 81 to 101. The remuneration of key management is disclosed in note 8.

Non-Controlling Interests

Refer to note 27 for transactions with non-controlling interests during the year.

34. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

35. Events after the Reporting Period

On 25 July 2017, the Group signed a new Credit agreement refinancing its previous £205.0 million Revolving Credit Facility (RCF). The new committed facilities are a new five year multi-currency RCF with two one year extension options for £235.0 million through seven banks: HSBC, BNP Paribas, Fifth Third, Santander, Lloyds, Bank of Ireland and Raiffeisen. The RCF has an Accordion facility of a further £125.0 million.

There are two covenants governing the RCF:

- Leverage: Net Debt to underlying EBITDA not greater than 3:1
- Interest cover: underlying EBITDA to Net Finance Charges not less than 4:1

There is a non-utilisation fee of 35.0% of the applicable margin. The margin over LIBOR (or equivalent) ranges from 1.3% for gearing below 1 time, up to 2.2% for gearing above 2.5 times.

Following the refinancing, the existing capitalised arrangement fees of £0.4 million will be accelerated to the income statement.

Company Statement of Financial Position

At 30 June 2017

	Note	2017 £000	2016 £000
Non-current assets			
Investments	iv	447,489	413,199
Intangible assets	v	7,715	5,726
Tangible assets	vi	122	197
		455,326	419,122
Current assets			
Trade and other receivables (includes amounts falling due after more than one year of £1,362,000 (2016: £1,351,000))	vii	15,129	18,617
Cash at bank and in hand		—	—
		15,129	18,617
Borrowings	ix	(11,334)	(32,133)
Trade and other payables	viii	(66,073)	(34,745)
Net current liabilities		(62,278)	(48,261)
Total assets less current liabilities		393,048	370,861
Non-current liabilities			
Borrowings	ix	(151,793)	(128,163)
Net assets		241,255	242,698
Equity			
Called up share capital	xi	932	927
Share premium account		173,376	172,451
Foreign currency translation reserve		545	545
Hedging reserve		—	(15)
At 1 July		68,790	86,768
Profit/(loss) for the year attributable to the owners		11,829	(5,772)
Other changes in retained earnings		(14,217)	(12,206)
Retained earnings		66,402	68,790
Total equity shareholders' funds		241,255	242,698

The financial statements were approved by the Board of Directors on 4 September 2017 and are signed on its behalf by:

Ian Page
Chief Executive Officer
4 September 2017

Richard Cotton
Chief Financial Officer
4 September 2017

Company number: 3369634

Company Statement of Changes in Shareholders' Equity

For the year ended 30 June 2017

	Attributable to owners of the parent					
	Called up share capital £000	Share premium account £000	Hedging reserve £000	Foreign currency translation reserve £000	Retained earnings £000	Total shareholders' funds £000
Year ended 30 June 2016						
At 1 July 2015	880	124,801	(91)	545	86,768	212,903
Loss for the period	—	—	—	—	(5,772)	(5,772)
Effective portion of changes in fair value of cash flow hedges, net of tax	—	—	(154)	—	—	(154)
Losses arising available for sale financial assets	—	—	—	—	(450)	(450)
Cash flow hedges recycled to income statement, net of tax	—	—	230	—	—	230
Total comprehensive expense	—	—	76	—	(6,222)	(6,146)
Transactions with owners						
Dividends paid	—	—	—	—	(15,292)	(15,292)
Share-based payments	—	—	—	—	3,536	3,536
Shares issued	47	47,650	—	—	—	47,697
Total contributions by and distributions to owners	47	47,650	—	—	(11,756)	35,941
At 30 June 2016	**927**	**172,451**	**(15)**	**545**	**68,790**	**242,698**
Year ended 30 June 2017						
At 1 July 2016	927	172,451	(15)	545	68,790	242,698
Profit for the period	—	—	—	—	11,829	11,829
Cash flow hedges recycled to income statement, net of tax	—	—	15	—	—	15
Recycle of losses on available for sale financial assets	—	—	—	—	343	343
Total comprehensive income	—	—	15	—	12,172	12,187
Transactions with owners						
Dividends paid	—	—	—	—	(17,664)	(17,664)
Share-based payment charge	—	—	—	—	3,104	3,104
Shares issued	5	925	—	—	—	930
Total contributions by and distributions to owners	5	925	15	—	(14,560)	(13,630)
At 30 June 2017	**932**	**173,376**	**—**	**545**	**66,402**	**241,255**

Notes to the Company Financial Statements

(i) Principal Accounting Policies of the Company

Accounting Principles

The Company Statement of Financial Position has been prepared on a going concern basis, under the historical cost convention, in accordance with applicable UK accounting standards and the Companies Act 2006. The principle accounting policies applied in the preparation of these financial statements are set out below, and have been applied consistently.

Basis of Preparation

No income statement is presented for the Company as permitted by Section 408(2) and (3) of the Companies Act 2006. The profit dealt with in the accounts of the Company was £11,829,000 (2016: loss £5,772,000).

The following exemptions have been taken in preparing the financial statements;

(a) Exemption for fair value as deemed cost

The Company has elected to measure certain items of property, plant and equipment at fair value at the date of transition and has used those values as the deemed cost at that date.

(b) Exemption for borrowing costs

The Company has elected to apply the requirements of IAS 23 only with effect from 1 July 2014. Borrowing costs incurred on or after 1 July 2014 are accounted for in accordance with IAS 23, that is borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being one that takes a substantial amount of time to get ready for its intended use, are capitalised as part of the cost of the asset.

(c) Business combinations

Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations' as the equivalent disclosures are included in the consolidated financial statements of the Group.

(d) Share-based payments

Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods and services received was determined).

Investments

Investments held as fixed assets are stated at cost less any impairment losses. Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs. Where investments are denominated in foreign currencies, they are treated as monetary assets and revalued at each year end date.

Intangible Assets

Product rights that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses. Product rights are amortised over the period of their useful lives.

Derivative Financial Instruments

The Company uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for speculative purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value of instruments that do not qualify for hedge accounting is recognised immediately in the income statement.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the instrument at the statement of financial position date. The fair value of forward exchange contracts and options is their quoted market price at the year end date, being the present value of the quoted forward price.

Hedging

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised as profit or loss in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Cash Flow Statement

As the ultimate holding company of the Group, the Company has relied upon the exemption in FRS 101 not to present a cash flow statement as part of its financial statements.

(i) Principal Accounting Policies of the Company continued

Dividends
Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid. Dividends receivable from subsidiaries are recognised when either received in cash or applied to reduce a creditor balance with the subsidiary.

Interest-Bearing Borrowings
Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Related Parties
Under FRS 101 the Company is exempt from the requirement to disclose related party transactions with other Group undertakings as they are all wholly owned within the Group and are included in the Dechra Pharmaceuticals PLC Consolidated Financial Statements.

Transactions with Key Management Personnel
There were no material transactions with key management personnel except for those relating to remuneration (see notes 8 and 33 to the Consolidated Financial Statements) and shareholdings.

Transactions with Other Related Parties
There are no controlling shareholders of the Company. There have been no material transactions with the shareholders of the Company other than distributions in the period (see note 10 of the Consolidated Financial Statements).

Employee Benefits
(a) Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees. Obligations for contributions are recognised as an expense in the income statement as incurred.

(b) Share-based Payment Transactions

The Company operates a number of equity settled share-based payment programmes that allow employees to acquire shares of the Company. The Company also operates a Long Term Incentive Plan for Directors and Senior Executives.

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the income statement with a corresponding movement in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period). The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted. The amount recognised as an expense in the income statement is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved.

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model. The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model.

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each statement of financial position date.

Where the Company grants options over its own shares to the employees of its subsidiaries, it recharges the expense to those subsidiaries.

Foreign Currency
Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the closing rate at the reporting date. Foreign exchange gains and losses are recognised in the income statement.

Taxation
The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply and have been substantively enacted in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by IAS 12 'Income Taxes'.

Financial Guarantee Contracts
Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Notes to the Company Financial Statements
continued

(ii) Directors and Employees

Total emoluments of Directors (including pension contributions) amounted to £4,936,000 (2016: £4,911,000). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 81 to 101. Tony Griffin's remuneration is paid by Dechra Veterinary Products EU in Euros but reported in Sterling for the purposes of these figures. The exchange rate used was 1.1681 (2016: 1.3432).

	2017 Number	2016 Number
Administration	31	24
Total	**31**	24

The costs incurred in respect of these employees were:

	2017 £000	2016 £000
Wages and salaries	4,273	3,063
Social security costs	579	457
Other pension costs	161	126
Share-based payments charge (see note 28)	2,825	2,386
Total	**7,838**	6,032

Related party transactions — the remuneration of key management was as follows:

	2017 £000	2016 £000
Short term employee benefits	3,666	2,984
Post-employment benefits	179	168
Share-based payments charge	1,368	1,095
	5,213	4,247

Key management comprises the Board and the Senior Executive Team.

The Group operates a stakeholder personal pension scheme for certain employees and contributed between 4% and 14% of pensionable salaries. Total pension contributions amounted to £161,000 (2016: £126,000).

(iii) Profit/(loss) Before Taxation

The following items have been included in arriving at profit/(loss) before taxation of continuing operations:

	2017 £000	2016 £000
Depreciation of property, plant and equipment		
— owned assets	79	74
Amortisation of intangible assets	612	524
Operating lease rentals payable	142	119
Auditor's remuneration — audit of these financial statements	22	22

(iv) Investments

	Shares in subsidiary undertakings £000
Cost	
At 1 July 2016	425,443
Additions	34,290
At 30 June 2017	**459,733**
Impairment	
At 30 June 2016	12,244
Charge for the period	—
At 30 June 2017	**12,244**
Net book value	
At 30 June 2017	**447,489**
At 30 June 2016	413,199

A list of subsidiary undertakings is given in note (xii). During the year, the Company invested in Dechra Investments Limited and Dechra Finance Ireland DAC, both wholly owned subsidiaries.

(v) Intangible Assets

	Acquired Intangibles £000	Software £000	Total Intangible assets £000
Cost			
At 1 July 2016	5,114	2,883	7,997
Additions	—	2,601	2,601
At 30 June 2017	**5,114**	**5,484**	**10,598**
Accumulated Amortisation			
At 30 June 2016	2,259	12	2,271
Charge for the year	512	100	612
At 30 June 2017	**2,771**	**112**	**2,883**
Net book value			
At 30 June 2017	**2,343**	**5,372**	**7,715**
At 30 June 2016	2,855	2,871	5,726

	2017 £000	2016 £000
Software assets in the course of construction included above	**4,728**	2,494

(vi) Tangible Assets

	Tangible assets £000
Cost	
At 1 July 2016	394
Additions	4
At 30 June 2017	**398**
Accumulated Depreciation	
At 1 July 2016	197
Charge for the year	79
At 30 June 2017	**276**
Net book value	
At 30 June 2017	**122**
At 30 June 2016	197

(vii) Trade and Other Receivables

	2017 £000	2016 £000
Amounts owed by subsidiary undertakings	**10,067**	11,853
Group relief receivable	**3,230**	4,726
Deferred taxation (see note (x))	**1,362**	1,351
Available for sale financial assets	**—**	129
Other receivables	**336**	476
Prepayments and accrued income	**134**	82
	15,129	18,617

Included in debtors are amounts of £1,362,000 (2016: £1,351,000) due after more than one year relating to deferred tax assets. Of the amounts owed by subsidiary undertakings, £nil is due after more than one year (2016: £nil).

In March 2015, the Group made an investment of US$1.0 million in Jaguar Animal Health Inc. (Jaguar) to potentially gain access to the EU marketing rights for their companion animal products. At 30 June 2017, the Company holds 178,571 shares in Jaguar following its IPO. The Company also holds 89,286 warrants, which are valid for three years. During the year this investment has been impaired.

Notes to the Company Financial Statements
continued

(viii) Trade and Other Payables

	2017 £000	2016 £000
Amounts due to subsidiary undertakings	**61,536**	30,631
Derivative financial instruments	**—**	50
Current tax liabilities	**272**	—
Other taxation and social security	**175**	132
Accruals and deferred income	**4,090**	3,932
	66,073	34,745

In accordance with IAS 10 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2017 of 15.33 pence per share (2016: 12.91 pence per share) has not been accrued for in these financial statements. It will be shown in the financial statements for the year ending 30 June 2017. The total cost of the proposed final dividend is £14,288,000 (2016: £11,974,000).

(ix) Borrowings

	2017 £000	2016 £000
Borrowings due within one year		
Bank overdraft	**11,334**	32,133
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
— between two and five years	**152,144**	128,505
Arrangement fees netted off	**(351)**	(342)
	151,793	128,163
Total borrowings	**163,127**	160,296

In October 2016, the Group increased its existing facility from £150.0 million plus an accordion of £30 million to a multi-currency revolving credit facility of £205.0 million with no accordion until September 2019. During the year £25.0 million was drawn from this revised facility. On 25 July 2017, the Company refinanced this facility. Refer to note 21 and 35 of the Consolidated Financial Statements for further details. No interest has been capitalised during the year (2016: £nil).

The Company guarantees certain borrowings of other Group companies, which at 30 June 2017 amounted to £nil (2016: £nil).

(x) Deferred Tax

	£000
At 1 July 2016 (included in trade and other receivables)	1,351
Additions to the income statement	(109)
Additions to statement of changes in equity	120
At 30 June 2017 (included in trade and other receivables)	**1,362**

The amounts provided for deferred taxation at 18% (2016: 19%) are as follows:

	2017 £000	2016 £000
Short term timing differences	**1,593**	1,453
Accelerated capital allowances	**(231)**	(102)
	1,362	1,351

(xi) Called up Share Capital

	Ordinary shares of 1p each	
Issued share capital	£000	Number
Allotted, called up and fully paid at 1 July 2016	927	92,746,998
New shares issued	5	431,758
Allotted, called up and fully paid at 30 June 2017	**932**	**93,178,756**

Details of new ordinary shares issued following the exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE Share Option Schemes are shown in notes 25 and 28 to the Consolidated Financial Statements.

Share Options
Details of outstanding share options over ordinary shares of 1p at 30 June 2017 under the various Group share option schemes are shown in note 28 to the Consolidated Financial Statements.

(xii) Subsidiary Undertakings

Operating subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Albrecht GmbH	Germany	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Hauptstr. 6-8, Aulendorf, Germany	Eurovet Animal Health B.V.
Apex Laboratories Pty Limited	Australia	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	2 Cal Close, Somersby NSW 2250, Australia	Dechra Holding Australia Pty Limited
Cooperatieve Dechra Finance Netherlands W.A.	The Netherlands	Activities of financial services holding company	Pettelaarpark 38, 5216PD 's-Hertogenbosch, Netherlands	Dechra Finance Limited
Dechra Development LLC	USA	Contract regulatory and product development services for the Group	Principal Place of Business: 7015 College Blvd, Suite 510, Overland Park KS 66211, United States*	Dechra Holdings US Inc
Dechra Limited	England and Wales	Developer, regulatory, product development, manufacturer and marketer of veterinary pharmaceuticals	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Investments Limited
Dechra Finance Australia Limited	England and Wales	Financial Services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Finance B.V.	The Netherlands	Financial services	Pettelaarpark 38, 5216PD 's-Hertogenbosch, Netherlands	Cooperatieve Dechra Finance Netherlands W.A.
Dechra Finance Ireland Designated Activity Company	Republic of Ireland	Financial services	6th Floor, 2 Grand Canal Square, Dublin 2, Ireland	Dechra Pharmaceuticals PLC
Dechra Finance Limited	England and Wales	Activities of financial services holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Finance Sterling Limited	England and Wales	Financial services	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
Dechra Veterinary Products, Inc	Canada	Marketer of veterinary pharmaceuticals and pet diets	100 King Street West, Suite 6100, 1 First Canadian Place, Toronto ON M5X 1B8, Canada	Dechra Limited
Dechra Veterinary Products GmbH	Austria	Marketer of veterinary pharmaceuticals and pet diets	Hintere Achmhlerstrasse 1a, 6850 Dornbirn, Austria	Dechra Limited
Dechra Veterinary Products N.V.	Belgium	Marketer of veterinary pharmaceuticals and pet diets	Achterstenhoek 48 2275 Lille, Belgium	Eurovet Animal Health B.V.
Dechra Veterinary Products A/S	Denmark	Marketer of veterinary pharmaceuticals and pet diets	Mekuvej 9, DK-7171 Uldum, Denmark	Dechra Pharmaceuticals PLC
Dechra Veterinary Products Oy	Finland	Marketer of veterinary pharmaceuticals and pet diets	c/o As.ajotoimisto Borenius Oy, Yrjönkatu 13 A, 00120 Helsinki, Finland	Dechra Limited
Dechra Veterinary Products SAS	France	Marketer of veterinary pharmaceuticals and pet diets	60 Avenue du Centre, 78180 Montigny le Bretonneux, France	Dechra Veterinary Products A/S
Dechra Veterinary Products S.r.l.	Italy	Marketer of veterinary pharmaceuticals and pet diets	Via Agostino da Montefeltro 2, 10134 Torino, Italy	Dechra Limited
Dechra Veterinary Products AS	Norway	Marketer of veterinary pharmaceuticals and pet diets	Henrik Ibsens Gate 90, Postboks 2943 Solli, 0230 Oslo, Norway	Dechra Veterinary Products A/S
Dechra Veterinary Products B.V.	Netherlands	Marketer of veterinary pharmaceuticals and pet diets	Handelsweg 25, 5531AE Bladel, Netherlands	Dechra Veterinary Products A/S
Dechra Veterinary Products Sp. z o.o.	Poland	Marketer of veterinary pharmaceuticals and pet diets	1st Floor, 61 Moldlinska Str., 03-199 Warsaw, Poland	Dechra Limited
Dechra Veterinary Products, S.L. Unipersonal	Spain	Marketer of veterinary pharmaceuticals and pet diets	C/Balmes, 202, P.6-08006 Barcelona, Spain	Dechra Veterinary Products A/S
Dechra Veterinary Products AB	Sweden	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: Stora Wäsby Orangeriet 3 , Upplands Väsby, 194 37 , Sweden	Dechra Veterinary Products A/S
Dechra Veterinary Products Limited	England and Wales	Marketer of veterinary pharmaceuticals and pet diets	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Veterinary Products A/S
Dechra Veterinary Products, LLC	USA	Marketer of veterinary pharmaceuticals and pet diets	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Holding US Inc

Notes to the Company Financial Statements
continued

(xii) Subsidiary Undertakings continued

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Dechra-Brovel, S.A. de C.V.	Mexico	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Principal Place of Business: Empresa Numero 66, Colonia Mixcoac, Delegacion Benito Juarez, Ciudad de Mexico, Distrito Federal, Mexico	Dechra Limited
Eurovet Animal Health B.V.	The Netherlands	Holding company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals	Handelsweg 25, 5531AE Bladel, Netherlands	Dechra Pharmaceuticals PLC
Genera d.d.*	Croatia	Holding company, Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals and crop protection	Svetonedeljska cesta 2, Kalinovica, 10436 Rakov Potok , Croatia	Eurovet Animal Health B.V.
Genera d.o.o Sarajevo	Bosnia Herzegovina	Marketer of veterinary pharmaceuticals	Hamdije Čemerlića 2, Sarajevo, Bosnia and Herzegovina	Genera d.d.
Genera Pharma d.o.o.	Serbia	Marketer of veterinary pharmaceuticals	Gostivarska 70, Vozdovac, Beograd, Serbia	Genera d.d.
Genera Sl d.o.o	Slovenia	Marketer of veterinary pharmaceuticals	Parmova Ulica, Ljubljana, Slovenia	Genera d.d.
Putney, Inc	USA	Developer, regulatory and marketer of veterinary pharmaceuticals	Principal Place of Business: One Monument Square, Suite 400, Portland ME ME 04101, United States	Dechra Holdings US Inc
Scanimalhealth ApS	Denmark	Marketer of veterinary pharmaceuticals	Radhustorvet 5 2, 3520 Farum, Denmark	Eurovet Animal Health B.V.

Other subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Apex Laboratories Pty Limited	New Zealand	Non-trading	Level 12, 55 Shortland Street, Auckland, 1010, New Zealand	Apex Laboratories Pty Limited
Arnolds Veterinary Products Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Broomco 4263 Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dales Pharmaceuticals Limited	England and Wales	Non-trading	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Veneto Limited
Dechra Holding Australia Pty Limited	Australia	Holding Company	2 Cal Close, Somersby NSW 2250, Australia	Dechra Limited
Dechra Holdings US Inc	USA	Holding company	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Limited
Dechra Investments Limited	England and Wales	Holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC
DermaPet, Inc	USA	Non-trading	Principal Place of Business: 7015 College Blvd, Suite 525, Overland Park KS 66211, United States	Dechra Veterinary Products LLC
Farvet Laboratories B.V.	The Netherlands	Non-trading	Handelsweg 25, 5531AE Bladel, Netherlands	Eurovet Animal Health B.V.
Veneto Limited	England and Wales	Holding company	24 Cheshire Avenue, Cheshire Business Park, Lostock Gralam, Northwich, CW9 7UA, United Kingdom	Dechra Pharmaceuticals PLC

* Eurovet Animal Health B.V. holds 85.54%, 10.0% is held as treasury stock and 4.46% is held by minority shareholders

Financial History

	2017 £000	2016 £000	2015 £000	2014 £000	2013 £000
Consolidated Income Statement					
Revenue	359,275	247,562	203,480	193,571	189,176
Underlying operating profit	81,349	52,857	44,351	42,168	39,108
Underlying profit after taxation	60,132	38,390	35,307	31,849	25,464
Underlying earnings per share					
— basic (pence)	64.68	42.95	40.17	37.61	38.98
— diluted (pence)	64.33	42.65	39.90	37.48	38.71
Continuing underlying earnings per share					
— basic (pence)	64.68	42.95	40.17	36.45	29.27
— diluted (pence)	64.33	42.65	39.90	36.32	29.07
Dividend per share (pence)	21.44	18.46	16.94	15.40	14.00
Operating profit	33,214	19,493	25,980	24,996	18,336
Profit after taxation	26,110	12,512	19,459	19,416	10,850
Earnings per share					
— basic (pence)	28.09	14.00	22.14	67.57	20.59
— diluted (pence)	27.93	13.90	21.99	67.33	20.45
Continuing earnings per share					
— basic (pence)	28.09	14.00	22.14	22.22	12.47
— diluted (pence)	27.93	13.90	21.99	22.14	12.39

Consolidated Statement of Financial Position					
Non-current assets	453,093	393,442	184,903	214,440	235,670
Current assets	184,976	162,386	108,624	86,334	89,672‡
Current liabilities	(66,411)	(65,982)	(44,109)	(35,715)	(49,558)‡
Non-current liabilities	(269,021)	(213,234)	(54,930)	(60,253)	(136,991)
Net assets held for sale	—	—	—	—	35,823
Shareholders' funds	302,637	276,612	194,488	204,806	174,616

Consolidated Statement of Cash Flows					
Net cash inflow from operating activities	77,426	43,575	40,983	11,472	36,865
Net cash (outflow)/inflow from investing activities	(57,275)	(174,035)	(4,651)	76,575	(19,368)
Net cash (outflow)/inflow from financing activities	1,591	125,314	(14,819)	(92,148)	(18,266)

‡ Excluding net assets held for sale.


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Shareholder Information

Glossary

The following is a glossary of a number of the terms and acronyms which can be found within this document:

Adriatic region
Croatia, Bosnia-Herzegovina, Serbia and Slovenia

AER
Actual Exchange Rate

API
Active Pharmaceutical Ingredient

APM
Alternative Performance Measures

BEPS
Base Erosion Profit Sharing

Bioequivalence
The demonstration that the proposed formulation has the same biological effects as the pioneer product to which it is being compared. This is usually demonstrated by comparing blood concentrations of the active over time, but can be compared using a clinical endpoint (e.g. lowering of a worm count) for drugs that are not absorbed or for which blood levels cannot be determined

bps
Basis Points

CAGR
Compound Annual Growth Rate

CAP
Companion Animal Products

CER
Constant Exchange Rate

CMOs
Contract Manufacturing Organisations

CPD
Continuing Professional Development

CRM
Customer Relationship Management

CSOP
Company Share Option Plan

CTR
Clinical Trials Required

Dechra Values or Values
Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition

DPM
Dechra Pharmaceuticals Manufacturing

DSC
Dechra Service Center

DVP
Dechra Veterinary Products

DVP EU
Dechra Veterinary Products EU or Dechra Veterinary Products Europe

DVP International
Dechra Veterinary Products International

DVP NA
Dechra Veterinary Products North America

DVP US
Dechra Veterinary Products US

EBIT
Earnings before interest and tax. This is the same as non-underlying operating profit

EBITDA
Earnings before interest, tax, depreciation and amortisation

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

EU Pharmaceuticals
European Pharmaceuticals Segment comprising DVP EU, DVP International and DPM

Executive Directors
The Executive Directors of the Company, currently Ian Page, Richard Cotton and Tony Griffin

FAP
Food producing Animal Products

FDA
US Food and Drug Administration; a federal agency of the US Department of Health and Human Services

FRC
Financial Reporting Council

FRS
Financial Reporting Standards

FTSE
Companies listed on the London Stock Exchange

FTSE100 Index
An index comprising the 1st to 100th largest companies listed on the London Stock Exchange in terms of their market capitalisation

FTSE250/350 Index
An index comprising the 101st to 350th largest companies listed on the London Stock Exchange in terms of their market capitalisation

GAAP
Generally Accepted Accounting Practices

GHG
Greenhouse Gas

GMP
Good Manufacturing Practice

HALMED
Agency for Medicinal Products and Medicinal Devices of Croatia

HR
Human Resources

IAS
International Accounting Standards

IFRSs
International Financial Reporting Standards

IT
Information Technology

KPI
Key Performance Indicator

Leverage
The ratio of Net Debt to underlying EBITDA

LIBOR
The London Inter-Bank Offered Rate

LTAFR
Lost Time Accident Frequency Rate

LTIP
Long Term Incentive Plan

MAT
Moving Annual Total

MHRA
Medicines and Healthcare products Regulatory Agency; an executive agency of the Department of Health in the UK

Maximum Residue Limit (MRL)
The maximum acceptable concentration of a substance that may be found in a food product obtained from an animal that has received a veterinary medicine

NADA
New Animal Drug Application

Non-Executive Directors
The Non-Executive Directors of the Company, currently Tony Rice, Julian Heslop, Lawson Macartney and Ishbel Macpherson

North America Pharmaceuticals
North American Pharmaceuticals Segment comprising DVP US and Canada and Dechra-Brovel

OECD
The Organisation for Economic Cooperation and Development

Ordinary Shares
An ordinary share of 1 pence in the share capital of the Company

Oracle Programme
Enterprise Resources Planning (ERP) software

POMs
Prescription Only Medicines

PDRA
Dechra's Product Development and Regulatory Affairs team

Qualifying LTIP Award
Qualifying LTIP Awards comprises a CSOP option and an ordinary nil-cost LTIP award, with the ordinary award scaled back at exercise to take account of any gain made on exercise of the CSOP option.

R&D
Research and Development

RCF
Revolving Credit Facility

RIDDOR
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations

Rights Issue
The three for ten rights issue of 20,040,653 shares, details of which are set out in the prospectus of the Company dated 25 April 2012

ROCE
Return On Capital Employed

RPI
Retail Price Index

SAYE
Save As You Earn Share Scheme

SET
Senior Executive Team

SG&A
Selling, General and Administrative Expenses

SKU's
Stock Keeping Units

TSR
Total Shareholder Return

VMD
Veterinary Medicines Directorate

Shareholder Information

Financial Calendar

Interim Management Statement	20 October 2017
2017 Annual General Meeting	20 October 2017
Final Dividend Ex-Dividend Date	26 October 2017
Final Dividend Record Date	27 October 2017
Final Dividend Payment Date	17 November 2017

Annual General Meeting

The 2017 Annual General Meeting of the Company will be held at 1.00pm on 20 October 2017 at The Mere Golf Resort & Spa, Chester Road, Mere, Knutsford, Cheshire WA16 6LJ. The notice of meeting (the Notice), which includes special business to be transacted at the Annual General Meeting together with an explanation of the resolutions to be considered at the meeting, is made available on the Company website or mailed to shareholders, if they have elected to receive the Notice in paper format.

Share History

Dechra floated on the London Stock Exchange in September 2000 at £1.20 per share, with a market capitalisation of £60.0 million.

In relation to the acquisition of VetXX Holdings A/S, on 15 January 2008, Dechra undertook a placing and open offer on the basis of 11 Open Offer shares for every 50 existing shares held on 10 December 2007 at an issue price of 303 pence. On 9 January 2008, 11,624,544 shares were issued.

On 5 April 2012, a Rights Issue was announced on the basis of three new ordinary shares for every existing ten shares held on 23 April 2012 at a subscription price of £3.00 per share. The Rights Issue resulted in 20,040,653 shares being issued with dealings commencing on 16 May 2012.

On 17 March 2016 4,398,600 ordinary shares were offered by way of placing at an issue price of £11.00 per share.

Company Website

The Dechra website (www.dechra.com) is the best source of useful and up-to-date information about Dechra and its activities, including the latest news, financial and product information to help improve understanding of our business. Additionally, the terms of reference of all our Committees, Articles of Association, our Values and a number of our internal policies are published on the website.

Visit us at our website

www.dechra.com

Electronic Communications

Shareholders now have the opportunity to receive shareholder communications electronically, e.g. Annual Reports, Notice of the Annual General Meeting and Proxy Forms. You can elect to receive email notifications of shareholder communications by registering at www.shareview.co.uk, where you can also set up a bank mandate to receive dividends directly to your bank account and to submit proxy votes for shareholder meetings. Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner.

Registrar

Dechra's Registrar is Equiniti Limited.

Equiniti should be contacted for any matters relating to your shareholding, including:

- Notification of change in name and address
- Enquiries about dividend payments
- Submission of proxy form for voting at the Annual General Meeting

Shareholders who receive duplicate sets of Company mailings because they have multiple accounts should contact Equiniti to have their accounts amalgamated.

Equiniti offers a facility whereby shareholders are able to access their shareholdings in Dechra via their website (www.shareview.co.uk).

Alternatively, Equiniti can be contacted at:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrars' Shareholder Helpline for Dechra: 0371 384 2030 or +44(0) 121 415 7047, if calling from outside of the UK.

Please have your Shareholder Reference Number to hand whenever you contact the Registrar; this can be found on your share certificate or a recent dividend tax voucher.

Share Dealing Service

Equiniti Financial Services Limited offer a Share Dealing Service to buy or sell shares. Further information can be obtained from www.shareview.co.uk/dealing or by telephoning 0845 603 7037.

	Telephone share dealing	Internet share dealing	Postal share dealing
Fee (on value of transaction) up to £50,000	1.5%	1.5%	1.75%
Balance over £50,000	0.25%	0.25%	1.75%
Minimum charge	£60.00	£45.00	£60.00
Stamp duty charge (purchases only)	0.5%	0.5%	0.5%

Equiniti Financial Services Limited and its agents are authorised and regulated by the Financial Conduct Authority.

Please note that the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested. If you are in any doubt, you should contact an independent financial adviser.

Warning to Shareholders

Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. Previously we were alerted by some of our shareholders to cold calls which they had received. The callers purport to represent various entities, including Drexel-Bearns, a US based firm. The callers stated that they were seeking to gain control of investor shareholdings held in the Company and/or personal financial information. We believe these to be boiler room scams.

These types of calls are typically from overseas based 'brokers' who target UK shareholders and are commonly referred to as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. While high profits are promised, those who buy or sell shares in this way usually lose their money.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- check the FCA Register at www.fca.org.uk to ensure they are authorised;
- confirm that the firm is genuine by asking them for their firm reference number and contact details. Always use the details on the FCA Register to contact the firm. You should only access the Register from the FCA website at www.fca.org.uk;
- call the FCA Consumer Helpline on 0800 111 6786 (or +44 207 066 1000, if calling from outside of the UK) if there are no contact details on the Register or you are told they are out of date;
- make additional checks to confirm that you are dealing with the firm direct, for example, checking the details on the firm's website with directory enquiries or Companies House;
- search the FCA unauthorised firms list; and
- remember: if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong.

If you are approached about a share scam, you should tell the FCA by contacting their Consumer Helpline on 0800 111 678 (or +44 207 066 1000, if calling from outside of the UK). If you have been offered, bought or sold shares, you can use the share fraud reporting form at www.fca.org.uk/scams.

If you have already paid money to share fraudsters or suspect fraud, you should contact Action Fraud on 0300 123 2040.

Protecting your Identity

Suggestions for safeguarding your shares:

- ensure all your share certificates are kept in a safe place or hold your shares electronically in CREST via a nominee;
- keep all correspondence relating to your shares in a safe place or destroy the correspondence by shredding;
- notify the Registrar of a change of address in writing or via their website (as detailed on the previous page);
- consider having your dividend paid directly into your bank account to eliminate the risk of a lost dividend cheque;
- notify the Registrar of bank account detail changes in writing or via their website; and
- if you decide to sell or buy shares, use only brokers registered in your own country or the UK.

Advisers

Auditor
PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Stockbroker & Financial Advisers
Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Lawyers
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham
B2 4DL

Registrars
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Aspect House
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BN99 6DA

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Regency Court
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Birmingham
B3 1UG

Principal Bankers
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40 Mespil Road
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B3 2QZ

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10 Harewood Avenue
London
NW1 6AA

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati
Ohio 45263
USA

Principal Bankers continued
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Midlands Corporate Banking Centre
4th Floor
120 Edmund Street
Birmingham
B3 2QZ

Lloyds Bank plc
125 Colmore Row
Birmingham
B3 3SF

Raiffeisen Bank International AG
Am Stadtpark 9
1030 Vienna
Austria

Santander UK PLC
2nd Floor
100 Ludgate Hill
London
EC4M 7RE

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Dechra

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