

Annual Report and Accounts
for the year ended 30 June 2018

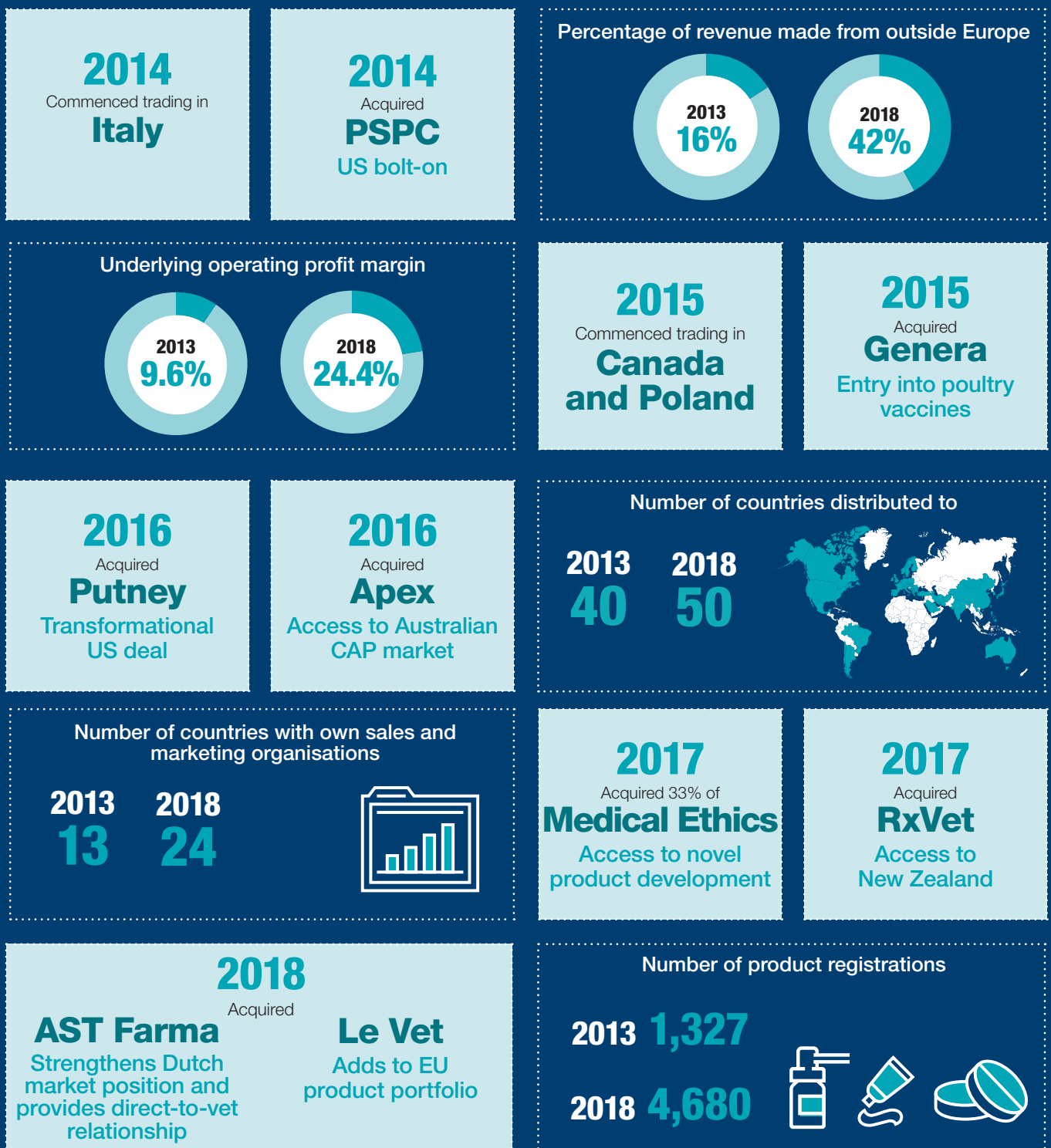


**SUSTAINING
GROWTH**

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.

We have made excellent progress since setting our priorities for each Growth Driver in 2013.

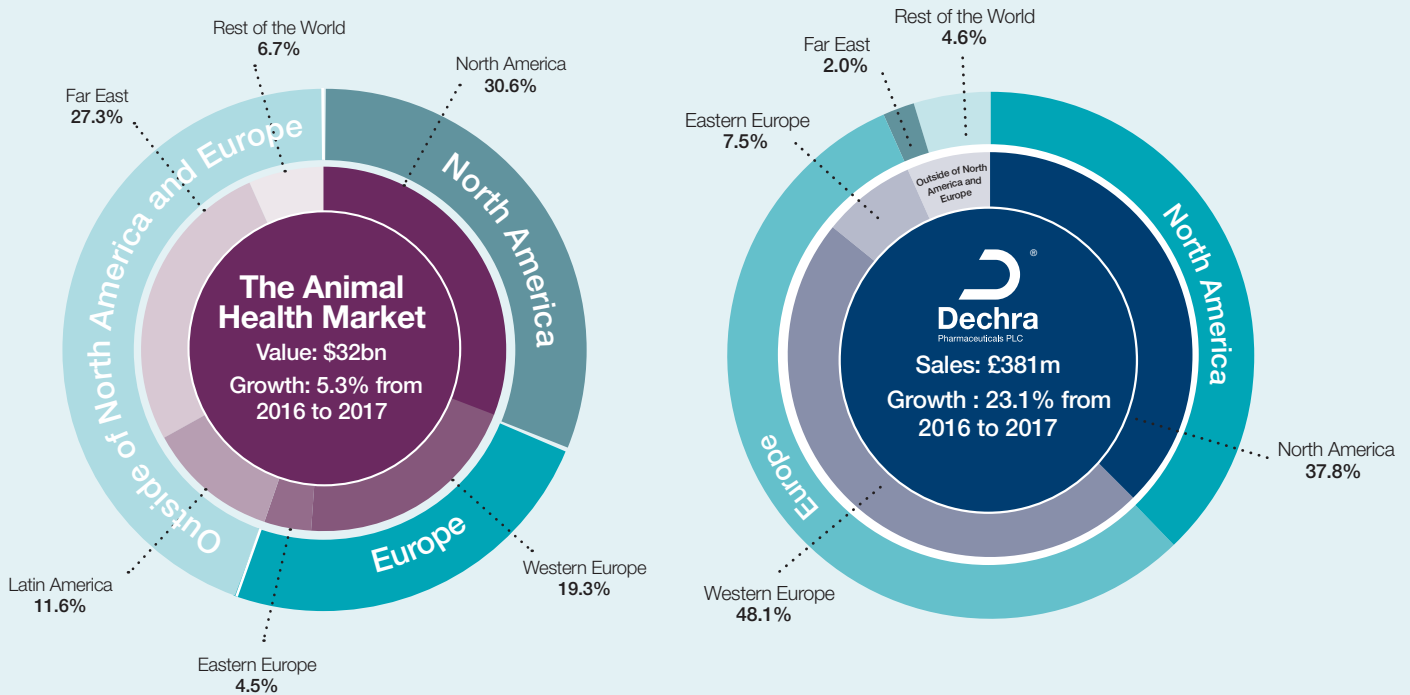


The Global Market Opportu

Dechra is underweight in geographical diversity compared to the wider market.

Note: figures shown on this page are for the 2017 calendar year, unless otherwise indicated.

As at 31 December 2017




* Vetnosis: Review 2017.

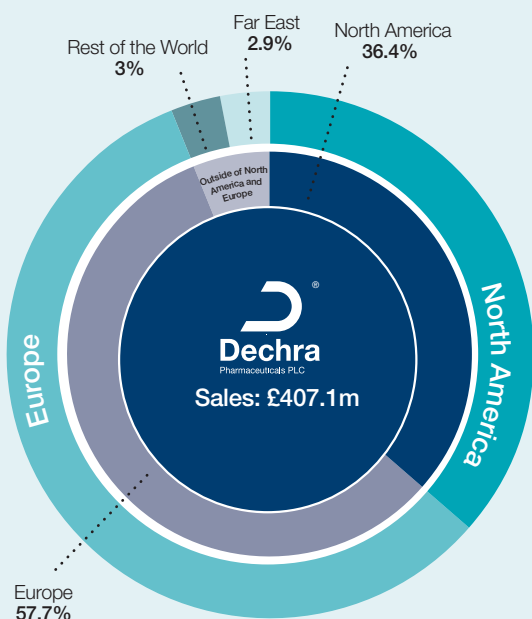
Sustainable Market Dynamics

Continuing Growth in FAP and CAP Markets

Animal health globally is generally described as comprising two segments: **Food producing Animal Products (FAP)** and **Companion Animal Products (CAP)**. FAP continues to show global growth due to an increased demand for high quality protein production, whereas CAP growth (a sector in which horses are generally included) is driven by the pet owners' compassion for their animals, improved nutrition and a wider range of medical products and treatments.

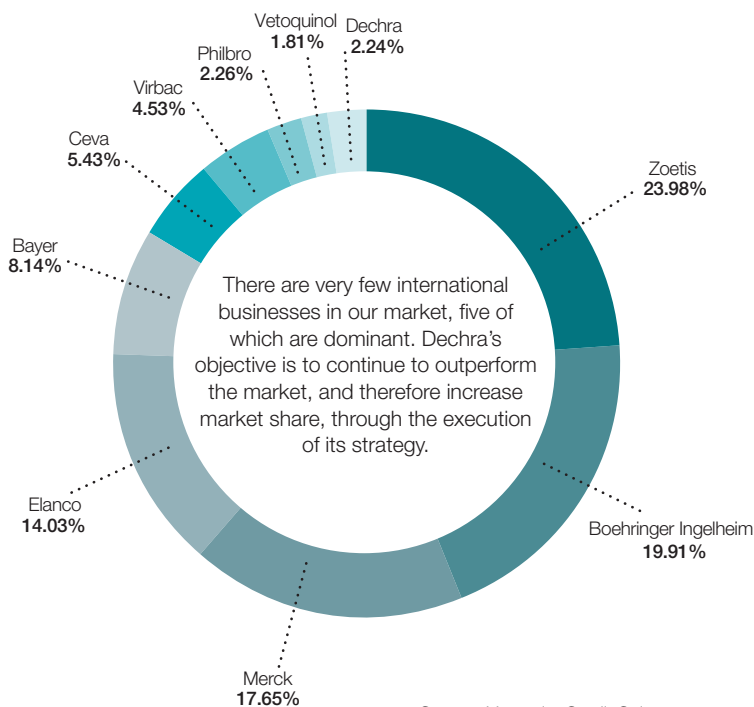
 Read more about [Our Products](#) on page 11

As at 30 June 2018



Market Share

As at December 2017



Source: Vetnosis, Credit Suisse

Companion Animal Products (CAP)

- Pet spending growing
- Pet ownership increasing in developing countries
- Increasing demand for new premium treatments and medicines
- Generics do not devalue markets to the extent that generics do for human products
- Some pricing pressure from consolidating practice groups



Food producing Animal Products (FAP)

- Increased world demand for high quality animal protein and dairy products (7 billion people consume animal protein)
- Demand for healthier and more productive animals
- Increased use of vaccines
- Increased focus on animal welfare
- Pricing pressure from professional farming groups



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.

Dechra's Strengths

Market Leading Positions

We are a global leader in veterinary endocrinology and topical dermatology, have the broadest portfolio of pain and analgesia pharmaceuticals and we are also recognised as innovators in other specialisations such as equine lameness, nutrition and differentiated generics (generic plus).

Well 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.

Expertise in Key Therapeutic Areas

We support our customers in our key therapeutic areas with technical helplines, continued education through online learning, webinars and lectures by key opinion leaders.

Read more in the [Corporate Social Responsibility](#) report on page 52

New Product Development Pipeline

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

Read more on [Product Development](#) on pages 38 and 39

Manufacturing

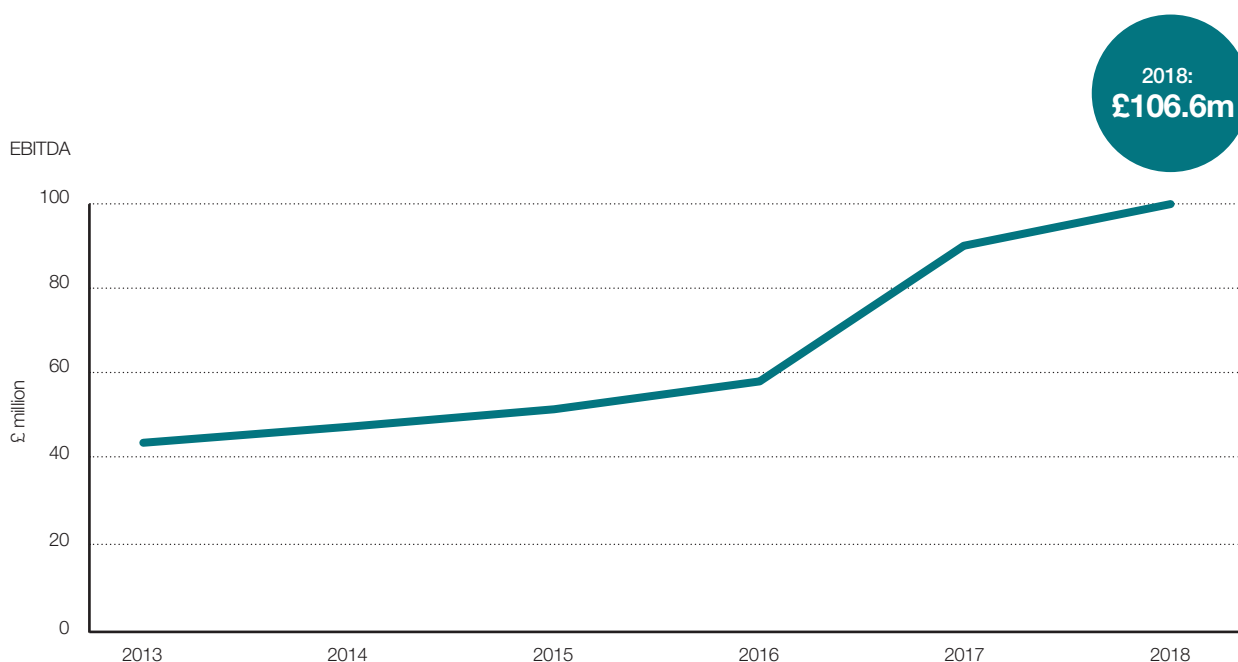
Our manufacturing sites offer a wide range of dosage forms and packaging capabilities which can be produced in small to large-scale production batches. This flexibility is a key requirement in producing our varied product portfolio.

Skilled People

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.

Read more in the [Corporate Social Responsibility](#) report on pages 42 to 53

Delivering Our Strategy



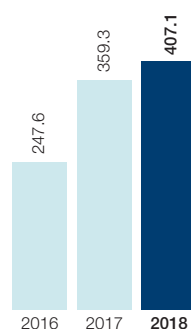
Highlights

Total Revenue £407.1m

2017: £359.3m

CER: +13.9%

AER: +13.3%

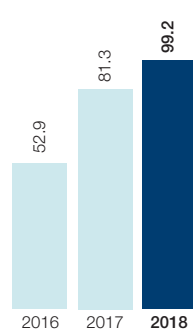


Underlying Operating Profit £99.2m

2017: £81.3m

CER: +24.0%

AER: +22.0%

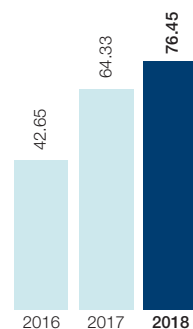


Underlying Diluted Earnings Per Share 76.45p

2017: 64.33p

CER: +20.9%

AER: +18.8%

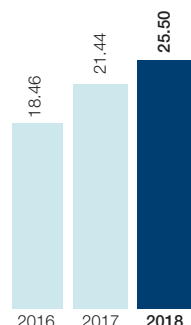


Dividend Per Share 25.50p

2017: 21.44p

CER: +18.9%

AER: +18.9%

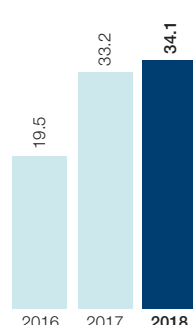


Reported Operating Profit £34.1m

2017: £33.2m

CER: +6.3%

AER: +2.7%

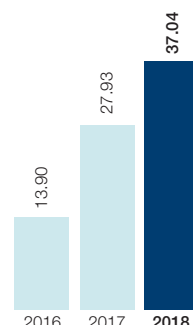


Reported Diluted Earnings Per Share 37.04p

2017: 27.93p

CER: +38.5%

AER: +32.6%



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 20. All of the below measures are at CER unless otherwise stated.

Financial Performance

- Revenue growth of 13.9% to £407.1 million.
- Underlying operating profit growth of 24.0% to £99.2 million.
- Underlying EBIT margin expansion of 200 bps to 24.4%.
- Underlying diluted EPS increased by 20.9% to 76.45 pence.
- Full dividend of 25.50 pence.

Strategic Progress

- Acquired AST Farma and Le Vet in the Netherlands/EU and RxVet in New Zealand.
- Outperformance in the majority of our countries and therapeutic sectors.
- Several new global product registrations, and new opportunities secured.

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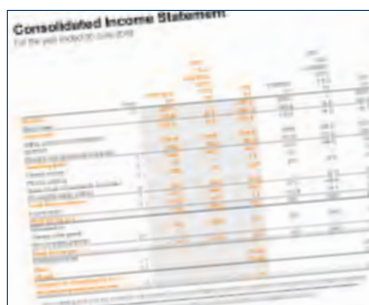
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Strategic Report

Providing a comprehensive review of Dechra's business and strategy.

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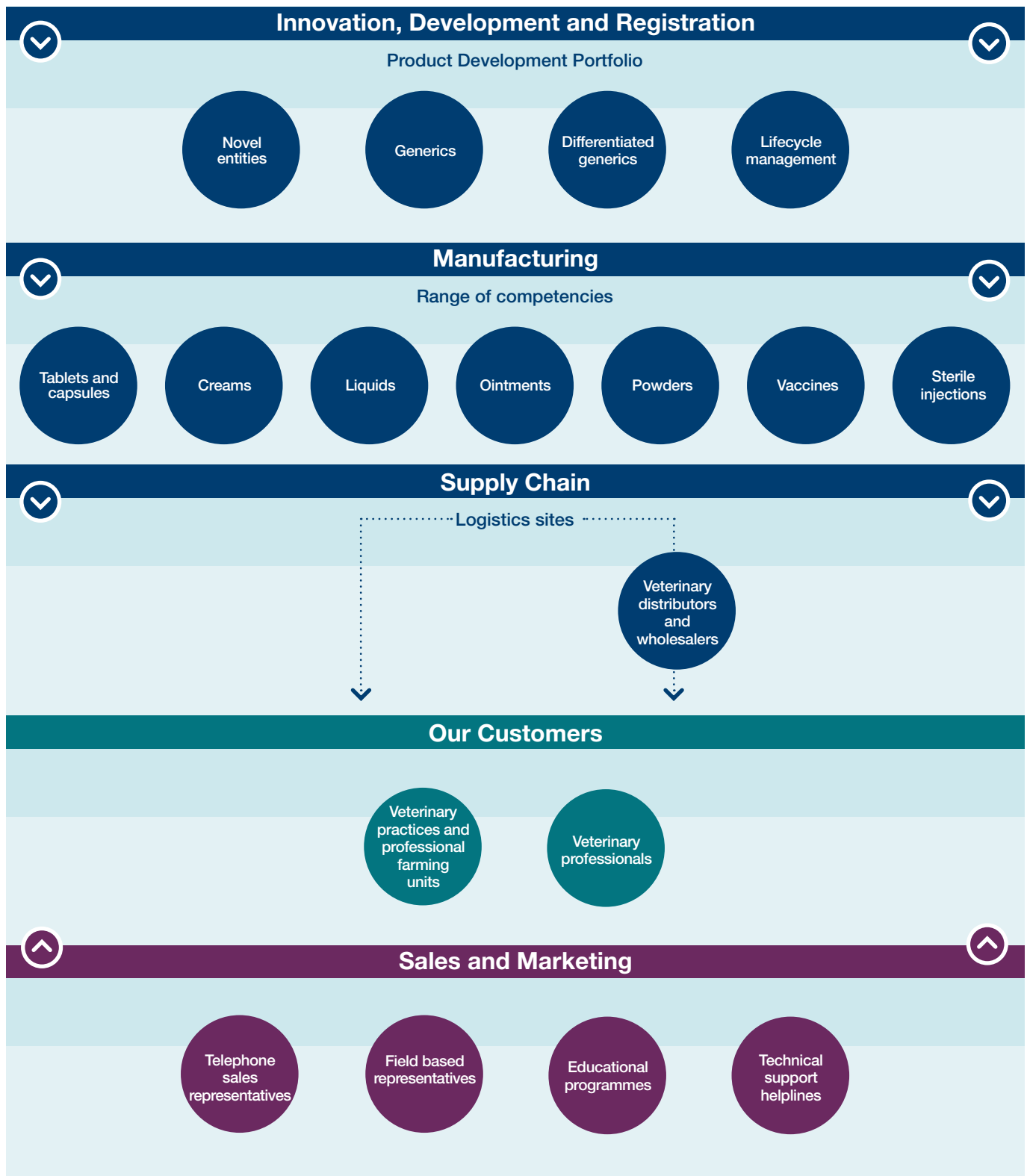
Read more on **Our Strategy in Action** on pages 30 to 37





Our Business Model

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 promote the Dechra brand and to develop a strong relationship with, and be recognised as an important partner to, veterinarians.



Our Business Model Explained

Innovation, Development and Registration



Product development ideas are generated in numerous ways, including:

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

In addition, our profile 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 assess opportunities and ideas to determine whether we can technically manufacture the product and whether it is commercially viable to do so. 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, research 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.

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, vaccines and sterile injections that can be packed in a multitude of different presentations.

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 and, post AST Farma acquisition, the Netherlands 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 hours 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. 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 65.5% 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 managing 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 12.0% 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. 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 relatively few, even in major countries such as the USA where current estimates are only seven 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

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:

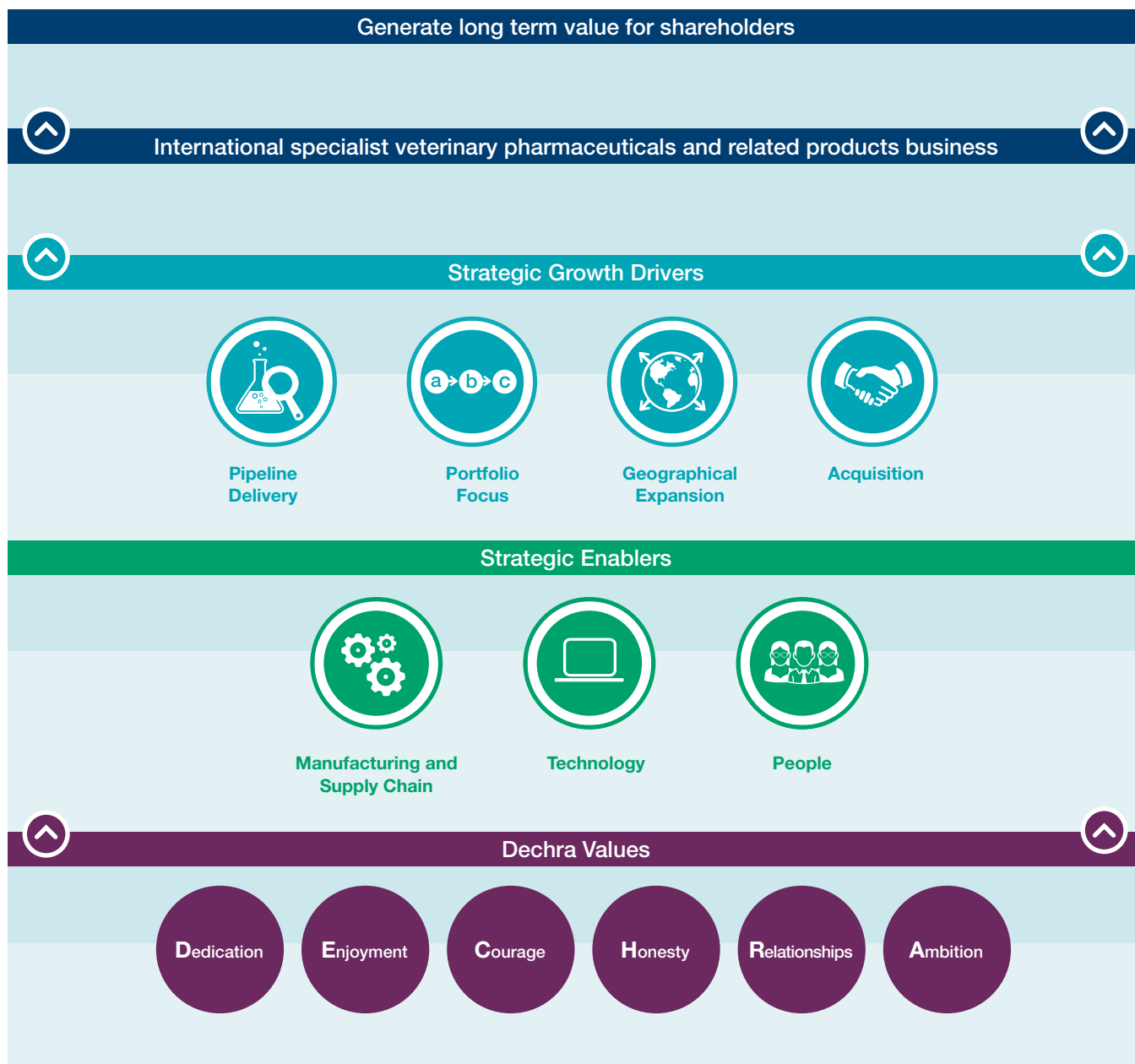
Dogs and cats.

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 nutrition 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.

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 opposite. In this section of the Annual Report we describe the progress we have made towards achieving our strategic objectives.



 Read more on [Strategic Growth Drivers](#) on pages 30 to 37

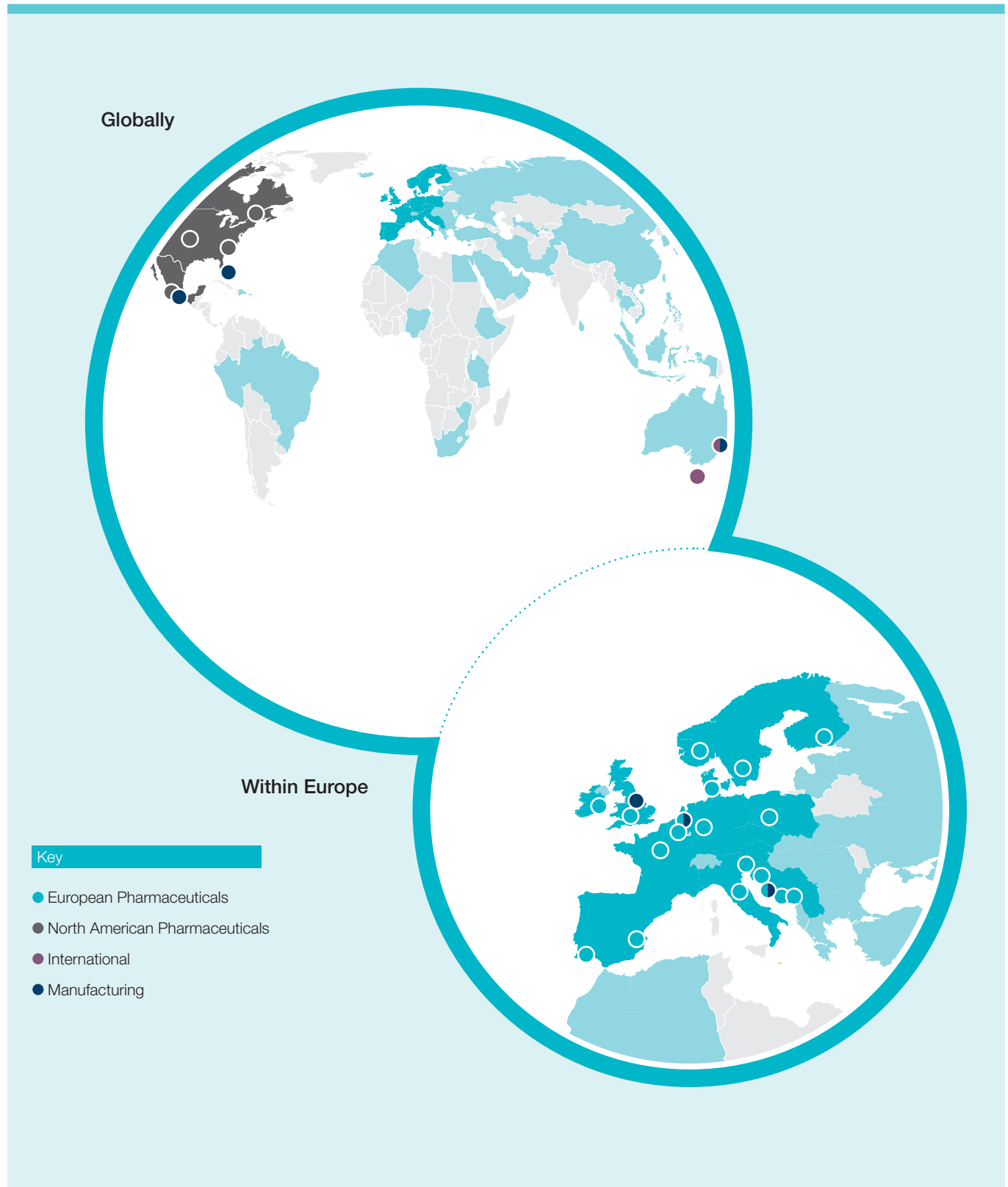
 Read more on [Our Values](#) on page 45



Our Strategic Growth Drivers	Our Progress in 2018	Future Priorities	Link to Strategy in Action
 <p>Pipeline Delivery Deliver our pipeline on time, at the right costs and with the expected returns. Refill the pipeline so that we get a constant flow of new products in future years.</p>	<ul style="list-style-type: none"> • Two further Poultry Vaccines registered in EU: <i>Avishield</i>® IBH120 and ND B1. • Launch of further Amoxi-Clav dose sizes to complete range for the USA market. • In-licensing of major new products including Redonyl® Ultra, <i>Vetradent</i>® and BioEquin®. • Progress in co-development licensing opportunities. 	<ul style="list-style-type: none"> • 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. • Prepare for registration and launch of Tri-Solfen®. 	<p>Vaccines</p> <p> See pages 30 and 31</p>
 <p>Portfolio Focus Maximise our revenue by increasing market penetration, focusing on targeted therapeutic sectors within CAP, Equine, FAP and Nutrition.</p>	<ul style="list-style-type: none"> • Resolution of Nutrition supply and palatability issues, and launch of refreshed cat diets. • Strong growth in European FAP following antibiotic product alignment and range additions. • Leveraging CAP product success to increase penetration across Group. • Continued growth in Equine, with stronger growth in Europe from market penetration and range additions. 	<ul style="list-style-type: none"> • Deepen market penetration of existing products across all territories. • Enhance Nutrition and FAP sales growth. • Continue to drive marketing and sales force effectiveness. 	<p>Enhancing our Specific Portfolio</p> <p> See pages 32 and 33</p>
 <p>Geographical Expansion Leverage our product portfolio into new geographic regions through distribution partners, in-country presence and new country product registrations.</p>	<ul style="list-style-type: none"> • Over 80 new country registrations of existing portfolio products. • Acquisition of RxVet expanding our presence in New Zealand, route to market, and dis-intermediating distribution margin. • Successful establishment of the Dechra Veterinary Products (DVP) International team. • Development of international registrations strategy and prioritisation plan. 	<ul style="list-style-type: none"> • Develop Dechra Veterinary Products International business. • Continue to leverage current registration portfolio in newer territories. • Increase international country registrations. 	<p>Expansion into New Zealand</p> <p> See pages 34 and 35</p>
 <p>Acquisition Expand our geographical footprint and/or enhance our product portfolio through acquisition.</p>	<ul style="list-style-type: none"> • Acquisition and successful integration of RxVet, expanding our presence in New Zealand, route to market, and dis-intermediating distribution margin. • First full year of Apex, which opened up new bridgehead into Australasia and South East Asia. • Acquisition and successful initial integration of AST Farma and Le Vet, providing transformation in EU Pharmaceuticals' portfolio and pipeline. 	<ul style="list-style-type: none"> • Continue integration and leverage of recent acquisitions. • Acquire businesses in target geographical/therapeutic markets. 	<p>Integration of AST Farma/Le Vet</p> <p> See pages 36 and 37</p>
 <p>Strategic Enablers Our strategic enablers, Manufacturing and Supply Chain, People and Technology, support the execution of our strategy.</p>	<ul style="list-style-type: none"> • Progress in execution of Manufacturing remodelling strategy, in Zagreb (inbound transfers) and Bladel (FDA) in particular. • 12 months without a lost time accident. • Completion of employee engagement survey, providing valuable feedback. • Successful implementation of the European Oracle project and completion of Hyperion suite. 	<ul style="list-style-type: none"> • 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. 	<p>Corporate Social Responsibility Report</p> <p> See pages 46 and 47 for more on our Employee Engagement Survey and Health and Safety</p> <p>Chairman and Chief Executive Officer's Report</p> <p> See page 18 for more on Technology</p>

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.



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



Dechra has delivered another successful year from both a financial and strategic perspective.

Tony Rice
Non-Executive Chairman

Ian Page
Chief Executive Officer

Dechra has delivered another successful year from both a financial and strategic perspective, the highlights of which are:

- the European (EU) Pharmaceuticals Segment has continued to deliver above market growth;
- the North American (NA) Pharmaceuticals Segment has delivered another exceptional performance;
- the International business is beginning to gain traction;
- the pipeline has delivered numerous international registrations;
- licensing deals have been signed or are in negotiation to strengthen our pipeline of novel, innovative products;
- we are at an advanced stage of integrating the AST Farma, Le Vet and RxVet acquisitions; and
- we have achieved the successful implementation and go live of the Oracle integrated ERP system in Europe.

Market Changes

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

Portfolio Focus

EU Pharmaceuticals Segment

In the year ended 30 June 2018 (the Period) total EU Pharmaceuticals Segment revenues increased by 11.4% at CER (14.0% at AER). Existing business reported revenues increased by 3.7% at CER (6.0% at AER). Excluding third party contract manufacturing and treating Apex on a like for like basis, revenues increased by 4.4% at CER (6.9% at AER). This performance was in line with our expectations, with the majority of countries in which we operate performing ahead of the markets. With the consolidation of veterinary practices we are starting to adapt the support model with an increase in key account managers and resource for the technical support team aimed at supporting these corporate groups in growing their business. Whilst consolidators put pressure on margins they deliver volume. We believe we have strong relationships with the majority of the key players whom we clearly regard as important customers.

Companion Animal Products (CAP) continues to perform well with our key therapeutic sectors, especially endocrinology and anaesthesia and analgesia, delivering good growth. Food producing Animal Products (FAP) also continues to deliver growth of 0.4%, despite the ongoing pressure on antibiotic reduction. We believe our FAP antibiotic range is now aligned for best prescribing practice and the overall portfolio is in a strong position to continue to deliver future growth. Our range of in-house developed poultry vaccines will enhance this position. Equine products have performed well, and sales of *Osphos*[®] have continued to grow as its clinical merits are more widely appreciated. The performance from Nutrition is pleasing as we have addressed historic supply and palatability issues by delivering growth of 4.4%. We have now launched our refreshed cat diets with a new modern packaging design, a *Velcro*[®] type sealing system to keep the product fresh once opened and significantly improved palatability. Additionally, we have reduced the number of stocking units which will decrease the amount of plastic we use and reduce distribution costs. We are currently embarking on a similar programme for our dog diets.

NA Pharmaceuticals Segment

Total NA Segment revenues increased by 18.2% at CER (12.1% at AER). The USA was the main driver of this growth, although Canada also performed well. With the exception of our *Carprofen* chews and caplets, where sales and margin were affected by distributors marketing their own brands, growth was delivered across our entire range. Strong performers were *Amoxi-Clav*, following the launch of the smallest tablet size which completes the range, *Vetivex*[®] IV critical care fluids and *Zycortal*[®] suspension, which benefited from increased market share and additional demand in the fourth quarter due to a competitor product being out of stock. Sales leverage is being realised from the enlarged sales team

11.4%

Revenue Growth in the EU

18.2%

Revenue Growth in NA



Read the [Financial Review](#) on pages 19 to 25

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

continued



Glossary

Terms used within this section:

CER: Constant Exchange Rates

AER: Actual Exchange Rates

CAP: Companion Animal Products

ERP: Enterprise Resource Planning

EU Pharmaceuticals: European Pharmaceuticals Segment comprising DVP EU, DVP International and Dechra Pharmaceuticals Manufacturing

FAP: Food producing Animal Products

NA Pharmaceuticals: North American Pharmaceuticals Segment comprising DVP US, Canada and Dechra-Brovel

PEA: Palmitoylethanolamide

which has benefited from a significant amount of investment over recent years. The team now comprises 107 sales professionals and they provide good geographical coverage across all the major regions of the USA. To mitigate the activity of distributors selling their own competitive products we have realigned our terms. Incorporation of veterinary practices in the USA continues. These groups are an important customer base to Dechra and we have therefore increased our focus on corporate account management. Over the two years of ownership of Dechra-Brovel, our Mexican subsidiary, we have made significant changes. We have recruited a completely new management team which has been finalised with the recent appointment of Adrian Dominguez as Country Manager. Following the successful registration of several Dechra products, the details of which are outlined in the Pipeline Delivery section of this report, we are now able to transform the business into the Dechra brand, focusing on our key products and delisting a number of the original, low value Brovel FAP range. We anticipate Mexico making a more meaningful contribution to our NA Pharmaceuticals Segment performance in the financial year ending June 2019.

Product Pipeline

Integrated Team

The Development and Regulatory teams that have been brought together by the acquisitions made over recent years have integrated well and are forming a cohesive unit. We have also strengthened the team with the appointment of new Regulatory Affairs Managers in Mexico and Canada and by the appointment of an additional Group Pharmaceutical Business Development Manager. A new project management structure and improved reporting systems for both financial and key milestone progress have been implemented. The development work of 20 plus projects acquired through the acquisition of AST Farma B.V. and Le Vet Beheer B.V. will continue to be conducted by a third party contract organisation as they are providing an excellent service.

Pipeline Delivery

Numerous new product registrations, line extensions and international registrations were achieved in the Period with many of these new products already launched. Significant new product registrations achieved in Europe include:

- *Solacyl*[®] water soluble powder, an anti-inflammatory for turkeys;
- *Diatrim*[®], an antibiotic for the treatment of a wide range of infections, including cattle mastitis;
- *Avishield* IBH120, our second EU registered poultry vaccine;
- *Avishield* ND B1, our third EU registered poultry vaccine; and
- *Tiasol*[®], a solution to treat various infections such as swine dysentery and colitis in pigs and treatment of chronic respiratory disease in turkeys and chickens.

Additionally, over 60 registrations were achieved for existing products in new EU territories as we increase our geographical footprint and standardise the range.

Internationally there have been over 20 product registrations achieved across Australia, Kazakhstan, Malaysia, New Zealand, Russia, South Korea and Thailand. This is as a result of our increasing focus on geographical expansion and the dedicated regulatory resource committed to the Dechra Veterinary Products (DVP) International team.

In North America, we have extended the range of *Vetivex* critical care fluids and have launched the full range of Amoxi-Clav tablets. We have also developed in-house *Redonyl*[®] Ultra, a soft chew dermatological supplement incorporating ultra micronised PEA, an active supplement, sourced through a licensing agreement with Premune AB. In Mexico, *Osphos*, *Vetoryl*[®], *Canaural*[®] and *Forthyron*[®] have all been approved.



In addition to our pipeline we have in-licensing deals with:

- Redonyl® Ultra, a dermatological supplement from Premune AB which has been launched in the EU, and as detailed above as a soft chew for the USA;
- Vetradent, a water additive to combat biofilms from Kane Biotech Inc., extending our dental range, has been launched in the USA; and
- BioEquin®, our first equine vaccine from Bioveta, a.s., for herpes, has been launched in Germany. We have an agreement in place to access additional equine vaccines from the Bioveta, a.s. pipeline for the major EU markets.

Filling the Pipeline

Our recent acquisitions have extended the range of products in development extensively; however, this is predominantly in the generic or generic plus arena. We have been proactively working on signing licensing agreements to obtain early stage technology to develop novel products and have been successful in gaining access to two molecules which are currently undergoing proof of concept studies and an additional molecule that is in full development. The extra resources in business and product development will help us to identify further opportunities; negotiations are ongoing which will hopefully lead to further pipeline projects. We continue to work closely with Animal Ethics Pty Ltd who are making good progress on the international registration and promotion of their farm animal pain relief product, Tri-Solfer®.

Acquisitions

In December 2017, we completed the acquisition of RxVet Limited, a small CAP business in New Zealand. RxVet had been Dechra's distributor since 2010, with revenue in the year to March 2017 of £0.8 million (NZ\$1.4 million); sales of Dechra products accounted for approximately half of this. The former owner managers have remained with the business and are working to increase market share and build Dechra's presence in the region. Operationally the business is now integrated into our Australian business and rebranding into Dechra livery has commenced.

In February 2018, we completed the acquisition of AST Farma B.V. and Le Vet Beheer B.V. for a total consideration of £307.3 million (€340.0 million) on a debt-free and cash-free basis. The total consideration was satisfied by approximately 75% in cash and 25% in new Dechra shares, which are subject to a two year lock-in. AST Farma and Le Vet together own approximately 90 generic, generic plus and novel products. AST Farma is one of the leading companion animal pharmaceutical companies in the Netherlands which offers a wide range of products on a direct-to-vet basis, with the majority of its sales bypassing the distributors. They achieve their market position with a quality product range and by offering high levels of customer care and added value services to veterinarians. Since acquisition, we have merged our existing Dutch sales team into the AST Farma team and have differentiated the sales function with the majority of representatives focused on gaining market penetration and with four providing technical and educational support across the country. This enlarged sales team is already leveraging sales of Dechra's existing portfolio. We are now in the process of making the Dechra portfolio available to order directly through the AST Farma network with the full service targeted to be available from 1 January 2019.

Le Vet has focused on the European markets outside of the Netherlands. Selecting products from the AST Farma range, Le Vet has developed a strong portfolio of registrations which it has sold through an established network of marketing partners across Europe, which included Dechra. There are significant revenue synergies available to Dechra by bringing the Le Vet products in-house to sell through our existing European sales and marketing organisations. The majority of the most valuable third party contracts have been terminated and the resultant value is in line with our pre-acquisition expectations.

Le Vet has a substantial pipeline with a number of product registrations already having been achieved since acquisition and an additional 20 plus projects which have been evaluated in detail and which will be progressed. The majority are expected to be approved within the next two to three years. The acquisition was a rare opportunity to consolidate and strengthen our market position in Europe and had been identified by the Dechra management team as a primary target for several years.

We continue to explore relevant acquisition opportunities and are engaging with a number of target companies and believe we are well placed to make further acquisitions.

Geographical Expansion

At the beginning of the year we established DVP International with its own management team and specific targets orientated around generating a material presence in markets outside of Western Europe and North America. Good progress has been made in establishing the business; one clear strategic objective has been targeting the registration of our existing portfolio into target markets. Our historic view of developing countries was orientated around the registration of FAP products; however, new research has provided us with a list of opportunities and a programme which has commenced to register a number of our higher margin CAP and Equine products. Furthermore, our increasing presence in international markets is providing us with a closer insight into potential future acquisition targets. Our Australian business, created through the acquisition of Apex, has performed well with sales growth in line with the market. We have made significant improvements to our manufacturing facility to improve efficiency and we have sufficient capacity to deliver future growth. We have strengthened the management team with the appointment of three veterinarians to assist in technical marketing. Currently, International revenues are reported within our EU Pharmaceuticals Segment; however, we anticipate that its materiality will increase to merit separate segmental reporting over time.

Strategic Enablers

Manufacturing

Increasing efficiency and creating centres of excellence at our main manufacturing sites continues to be a priority for the Group. We are investing in both capital equipment and additional inventory to deliver our strategic objectives within Manufacturing. Substantial progress has been made at both Bladel, Netherlands, where we are investing to achieve FDA approval for our aseptic facility, and in Zagreb, Croatia, where improvements in infrastructure and quality systems have been made across the site. In line with our strategic plan, we continue to move away from third party contract manufacturing to allow us to focus on manufacturing the increasing volumes of our own brands. It is very pleasing to report that we have had 12 months without a lost time accident in any of our manufacturing facilities.

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

continued

Technology

At the beginning of May we went live across the majority of our European markets with an Oracle integrated ERP system which replaces several unsupported legacy systems. We built additional inventory across the EU to mitigate any risk of failure; however, following go live we experienced only minor teething problems. This has been a major achievement by our EU team who, over the next 12 months, will look to utilise the system to improve management information and deliver operational efficiencies. The Hyperion financial system is also now fully operational; this will allow us to simplify and automate the reporting and consolidation of accounts and financial planning processes in the future.

We have continued to update both of our e-learning platforms, the Dechra Academy and the internal Delta system. The Dechra Academy is an online learning and educational tool that is available to veterinarians and veterinary nurses; several new courses have been developed this year, predominantly in the strategic therapeutic areas of endocrinology and dermatology. Delta is an internal system that provides over 130 modules designed to ensure Dechra employees are up-to-date with current policy and legislation. It enables them to have detailed knowledge on the business and its products to ensure that we offer the best possible support and advice to the veterinary profession.

People

Our people strategy remains important to the success of the Group. We have instigated numerous initiatives within the year, including ongoing leadership and management development programmes, several apprenticeship schemes as well as offering ongoing training across all levels of employment within the Group. We have also launched wellness and wellbeing initiatives and have had an independent company conduct an employee engagement survey which was completed by 87% of all Group staff with the vast majority stating that Dechra is a great place to work. We would not be able to achieve anything without the commitment, hard work and dedication of our team and we would like to thank all employees for their contribution to the ongoing success of the business.

Brexit

We have engaged in contingency planning and are implementing a hard Brexit mitigation plan. We expect the financial impact to be immaterial. Details of the mitigation plan can be found in Understanding Our Key Risks on page 56.

Dividend

The Board is proposing a final dividend of 18.17 pence per share (2017: 15.33 pence per share). Added to the interim dividend of 7.33 pence per share, this brings the total dividend for the financial year ended 30 June 2018 to 25.50 pence per share, representing 18.9% growth over the previous year.

Subject to shareholder approval at the Annual General Meeting to be held on 19 October 2018, the final dividend will be paid on 16 November 2018 to shareholders on the Register at 26 October 2018. The shares will become ex-dividend on 25 October 2018.

Outlook

Following a strong set of results in 2018, the new financial year has started well and in line with management expectations. Good progress is being made on all parts of our strategy, with several new opportunities being realised and recent acquisitions delivering the expected returns. Whilst there are many challenges in the market, which is developing faster than at any time in its history, we believe that our strategy and flexibility to adapt to change positions us well to continue to outperform.

Tony Rice

Non-Executive Chairman
3 September 2018

Ian Page

Chief Executive Officer
3 September 2018



Financial Review



Dechra has delivered another strong set of financial results, from both existing business and acquisitions. We continue to invest both organically and through acquisitions to deliver enhanced shareholder value.

Richard Cotton
Chief Financial Officer


Overview of Reported Financial Results


To assist with understanding our reported financial performance, the consolidated results below are split between existing business and acquisition; acquisition includes those businesses acquired in the current and prior year, reported on a 'like for like' basis. Additionally, the table below shows the growth at both reported actual exchange rates (AER), and constant exchange rates (CER) to identify the impact of foreign exchange movements. The acquisition loss includes underlying

operating profit of £9.0 million and non-underlying items of £26.6 million. These non-underlying items are comprised of amortisation of acquired intangibles of £18.7 million, non-cash uplift on acquired inventory of £5.1 million and acquisition costs of £2.8 million.

Including non-underlying items, the Group's consolidated profit before tax increased by 4.9% at CER (1.0% at AER). Dechra existing business grew by 66.4% at CER (65.4% at AER), with reported profit before tax of £47.3 million.

As Reported	2018			2017 £m	Growth at AER		Growth at CER	
	Existing £m	Acquisition £m	Consolidated £m		Existing %	Consolidated %	Existing %	Consolidated %
Revenue	389.0	18.1	407.1	359.3	8.3%	13.3%	9.0%	13.9%
Gross profit	215.7	6.7	222.4	191.7	12.5%	16.0%	13.8%	17.1%
Gross profit %	55.4%	37.0%	54.6%	53.4%	200bps	120bps	230bps	150bps
Operating profit/ (loss)	51.7	(17.6)	34.1	33.2	55.7%	2.7%	57.8%	6.3%
EBIT %	13.3%	(97.2%)	8.4%	9.2%	490bps	(80bps)	420bps	(60bps)
Profit/(loss) before tax	47.3	(18.4)	28.9	28.6	65.4%	1.0%	66.4%	4.9%
Diluted EPS (p)			37.04	27.93	—	32.6%	—	38.5%

 Read the [Geographical Expansion case study](#) on pages 34 and 35

 Read the [Acquisition case study](#) on pages 36 and 37

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. A reconciliation of underlying results to reported results in the year to 30 June 2018 is provided in the table below. In the commentary which follows, all references will be to CER unless otherwise stated.

	2018 Underlying Results £m	Non-underlying Items				2018 Reported Results £m
		Non-cash uplift on acquired inventory £m	Amortisation and related costs of acquired intangibles £m	Acquisition, impairments and restructuring costs £m	Tax rate changes and finance expenses £m	
Revenue	407.1	—	—	—	—	407.1
Gross profit	227.5	(5.1)	—	—	—	222.4
Selling, general and administrative expenses	(110.0)	—	(46.1)	(5.9)	—	(162.0)
R&D expenses	(18.3)	—	(8.0)	—	—	(26.3)
Operating profit	99.2	(5.1)	(54.1)	(5.9)	—	34.1
Net finance costs	(5.4)	—	—	—	0.5	(4.9)
Share of associate loss	(0.1)	—	(0.2)	—	—	(0.3)
Profit before tax	93.7	(5.1)	(54.3)	(5.9)	0.5	28.9
Taxation	(19.2)	1.3	13.5	0.7	10.9	7.2
Profit after tax	74.5	(3.8)	(40.8)	(5.2)	11.4	36.1
Diluted EPS (p)	76.45	—	—	—	—	37.04

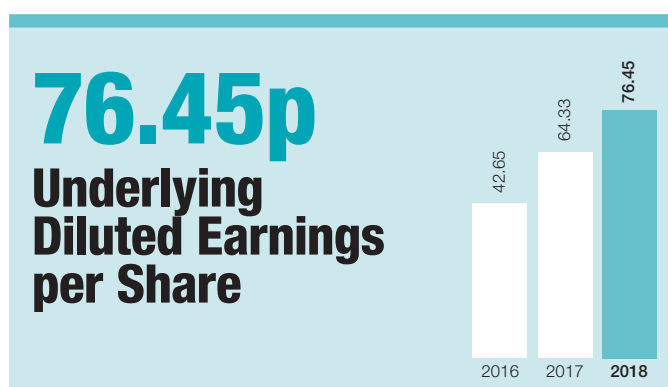
In the year, Dechra delivered consolidated revenue of £407.1 million, representing an increase of 13.9% on the prior year. This included £389.0 million from its existing business, an increase of 9.0%, and a £18.1 million contribution from acquisition business.

Consolidated underlying operating profit of £99.2 million, represents a 24.0% increase on the prior year. This included £90.2 million from Dechra's existing business, an increase of 13.3%, and a £9.0 million contribution from acquisition business.

Underlying EBIT margin increased by 200bps to 24.4%, with the accretion coming from both the existing and acquisition business in EU Pharmaceuticals.

Underlying diluted EPS grew by 20.9% to 76.45p reflecting the profit growth from the existing and acquired businesses, offset by higher finance charges from the increase in debt and equity issuance to fund the acquisitions, adjusted by the change in mix of the applicable tax rates.

Underlying	2018 Existing £m	2018 Acquisition £m	2018 Consolidated £m	2017 £m	Growth at CER	
					Existing %	Consolidated %
Revenue	389.0	18.1	407.1	359.3	9.0%	13.9%
Gross profit	215.7	11.8	227.5	195.9	11.3%	17.1%
Gross profit %	55.4%	65.2%	55.9%	54.5%	120bps	160bps
Underlying Operating profit	90.2	9.0	99.2	81.3	13.3%	24.0%
Underlying EBIT %	23.2%	49.7%	24.4%	22.6%	90bps	200bps
Underlying EBITDA	97.4	9.2	106.6	88.2	12.5%	22.6%
Underlying Diluted EPS (p)	—	—	76.45	64.33	—	20.9%
Dividend per share	—	—	25.50	21.44	—	18.9%



Reported Segmental Performance

Reported segmental performance is presented in note 2 on pages 123 and 125. The effect of acquisitions made in the year was material: the reported segmental performance is analysed between existing and acquisition businesses, and at AER and CER in the table below. The acquisition elements capture the additional base business coming into the Group, the growth Dechra generated in them during the year, and the synergies that have already been realised by the Group since acquisition. This analysis becomes less definitive the further in time from the completion of the acquisition, as the acquisition business is progressively integrated with the existing business.

Reported	2018 Existing £m	2018 Acquisition £m	2018 Consolidated £m	Growth at AER			Growth at CER	
				2017 £m	Existing %	Consolidated %	Existing %	Consolidated %
Revenue by segment								
EU Pharmaceuticals	240.6	18.1	258.7	226.9	6.0%	14.0%	3.7%	11.4%
NA Pharmaceuticals	148.4	—	148.4	132.4	12.1%	12.1%	18.2%	18.2%
Total	389.0	18.1	407.1	359.3	8.3%	13.3%	9.0%	13.9%
Operating profit/(loss) by segment								
EU Pharmaceuticals	67.5	9.5	77.0	60.7	11.2%	26.9%	9.7%	24.9%
NA Pharmaceuticals	48.3	—	48.3	43.2	11.8%	11.8%	18.3%	18.3%
Pharmaceuticals Research and Development	(17.8)	(0.5)	(18.3)	(15.0)	(18.7%)	(22.0%)	(18.7%)	(22.0%)
Segment operating profit	98.0	9.0	107.0	88.9	10.2%	20.4%	12.4%	22.2%
Corporate and unallocated costs	(7.8)	—	(7.8)	(7.6)	(2.6%)	(2.6%)	(2.6%)	(2.6%)
Underlying operating profit	90.2	9.0	99.2	81.3	10.9%	22.0%	13.3%	24.0%
Non-underlying operating items	(38.5)	(26.6)	(65.1)	(48.1)				
Reported operating profit	51.7	(17.6)	34.1	33.2	55.7%	2.7%	57.2%	6.3%

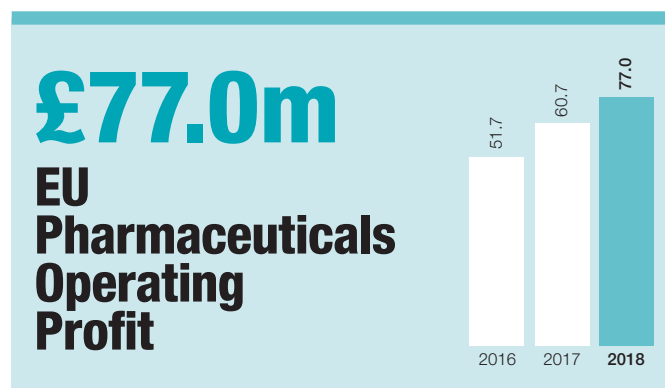
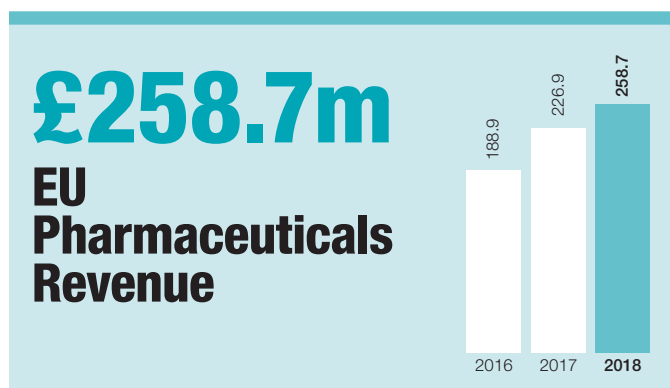
Underlying Segmental Performance

European Pharmaceuticals

Revenue in European (EU) Pharmaceuticals grew by 11.4%. The existing business grew by 3.7% including like for like Apex revenue: excluding third party contract manufacturing, which is being reduced in line with our strategy and replaced with own product manufacturing, revenues increased by 4.4%. This growth was driven by the strong contribution from market penetration and new product launches in the Companion Animal Products (CAP), Equine, Food producing Animal Products (FAP) and Nutrition. The acquisitions of Apex (like for like year on year, acquired in October 2016) and RxVet Limited (Dechra Veterinary Products International business), acquired in December 2017, and AST Farma B.V. and Le Vet Beheer B.V. (acquired in February 2018) contributed a combined £18.1 million to revenue and are reported within EU Pharmaceuticals.

Operating Profit from existing business grew 9.7%, with operating margin expanding to 28.1% and consolidated operating margin increasing to 29.8% as a result of operating leverage and the accretive operating margin of AST Farma and Le Vet, partially offset by increased investment in our Dechra Veterinary Products International business to drive growth in new international markets.

Underlying	2018 Existing £m	2018 Acquisition £m	2018 Consolidated £m	2017 £m	Growth at CER	
					Existing %	Consolidated %
Revenue	240.6	18.1	258.7	226.9	3.7%	11.4%
EBITDA	72.3	9.7	82.0	65.0	10.0%	24.5%
EBITDA %	30.0%	53.6%	31.7%	28.6%	180bps	340bps
Operating Profit	67.5	9.5	77.0	60.7	9.7%	24.9%
EBIT %	28.1%	52.5%	29.8%	26.8%	150bps	320bps



Financial Review

continued

North American Pharmaceuticals

Revenue from North American (NA) Pharmaceuticals grew by 18.2% to £148.4 million. All of the growth was in the existing business, with no acquisitions in NA Pharmaceuticals within the current or prior year. The growth came from market penetration and product launches in CAP and Equine, slightly offset by a reduction in FAP as older non-strategic (ex-Brovel) FAP products were withdrawn from the market in Mexico, and replaced with Dechra CAP portfolio products which have been successfully registered.

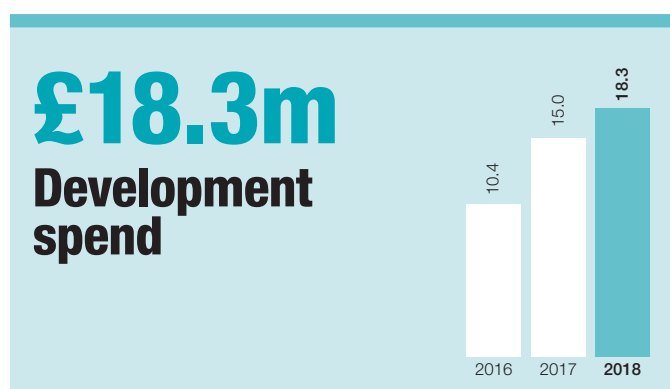
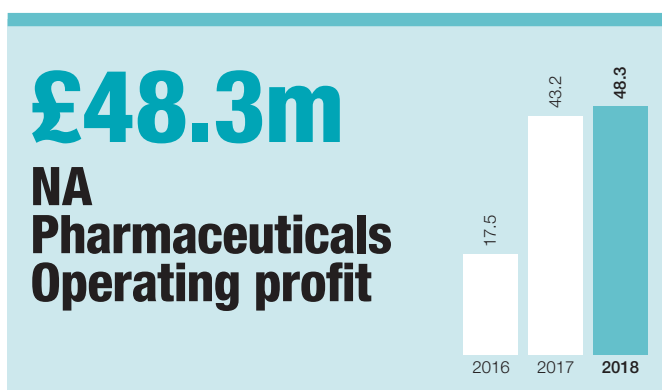
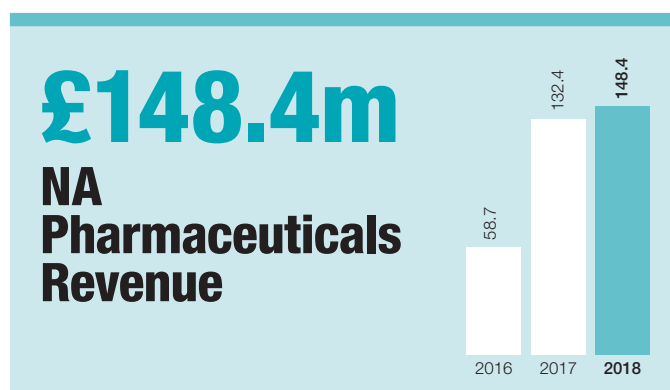
Operating Profit from the business grew by 18.3% with the EBIT margin constant at 32.5%, as further investments were made in the commercial team to drive future growth.

Underlying	2018	2018	2018	2017	Growth at CER	
	Existing	Acquisition	Consolidated		Existing	Consolidated
	£m	£m	£m	£m	%	%
Revenue	148.4	—	148.4	132.4	18.2%	18.2%
EBITDA	48.6	—	48.6	43.6	17.9%	17.9%
EBITDA %	32.7%	—	32.7%	32.9%	(10bps)	(10bps)
Operating Profit	48.3	—	48.3	43.2	18.3%	18.3%
EBIT %	32.5%	—	32.5%	32.6%	10bps	10bps

Pharmaceuticals Research and Development

Pharmaceuticals Research and Development (R&D) expenses increased by 22.0% from £15.0 million to £18.3 million, with existing business research and development increasing by 18.7%. R&D activities of the acquisitions of Apex, RxVet, AST Farma and Le Vet added £0.5 million. Overall R&D expenses as a percentage of sales increased from 4.2% to 4.5%, excluding the acquired R&D expenses, the increase was from 4.2% to 4.6%. This was in line with the previously communicated strategic intent to expand the Group's product pipeline to drive enhanced future growth.

	2018	2018	2018	2017	Growth at CER	
	Existing	Acquisition	Consolidated		Existing	Consolidated
	£m	£m	£m	£m	%	%
R&D expenses	(17.8)	(0.5)	(18.3)	(15.0)	(18.7%)	(22.0%)
% of Sales	4.6%	2.8%	4.5%	4.2%		

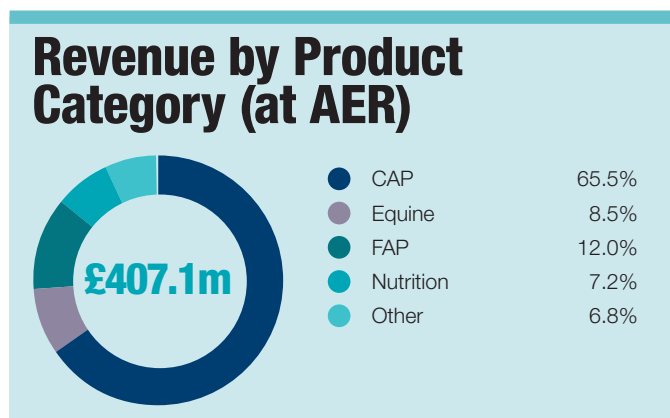


Revenue by Product Category

CAP revenue continues to be the largest proportion of Dechra's business at 65.5%, up from 62.3% in the prior year. CAP grew 21.1% in the year from market penetration, product launches and the addition of the acquisition revenues. Equine revenue grew strongly by 28.3% in the year, with growth in both EU Pharmaceuticals and NA Pharmaceuticals. Equine now represents 8.5% of the business (2017: 7.6%). FAP revenue contracted slightly over the prior year by 0.4%, whilst delivering growth in EU Pharmaceuticals: this was due to the intentional withdrawal of older (ex-Brovel) non-strategic FAP products from the market (as described under NA Pharmaceuticals above). FAP now represents 12.0% of the business (2017: 13.2%). Nutrition revenue grew 4.4% on the prior year: this pleasing growth follows the launch of the refreshed cat range with new improved packaging.

Other revenue contracted by 17.9% to £27.9 million, now representing only 6.8% of the business as we continue our planned exit from third party contract manufacturing in line with our manufacturing strategy, to improve the production efficiency of Dechra's own products.

	2018 £m	2017 £m	% Change at AER	% Change at CER
CAP	266.7	223.8	19.2%	21.1%
Equine	34.4	27.2	26.5%	28.3%
FAP	48.7	47.3	3.0%	(0.4%)
Subtotal Pharmaceuticals	349.8	298.3	17.3%	18.3%
Nutrition	29.4	27.5	6.9%	4.4%
Other	27.9	33.5	(16.7%)	(17.9%)
Total	407.1	359.3	13.3%	13.9%



Underlying Gross Profit

Underlying Gross Margin for the existing business increased by 120 bps to 55.4%. The consolidated Underlying Gross Margin grew by 160 bps to 55.9%, reflecting the accretive Gross Margin in the acquisition businesses, in particular AST Farma and Le Vet.

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

SG&A costs at AER grew from £99.6 million in the prior year to £110.0 million in the current year, a growth of 10.6%. This represents growth from both acquisitions and the existing business, and infrastructure cost added to manage the acquisitions. It represents an increased investment within overall SG&A to drive further growth. Within this, Corporate and unallocated costs rose slightly to £7.8 million; this represents a slowing down in the historical rate of investment in central infrastructure in Corporate costs.

More significantly, SG&A as a percentage of revenue declined in the year from 27.7% in 2017 to 27.0% in 2018, as the revenue growth in the business generated operating leverage from the cost base.

Non-underlying Items

Non-underlying items incurred in the year are fully described in note 5 on page 126. In summary, they relate to the following:

- Amortisation and related costs of acquired intangibles of £54.1 million – this includes the amortisation of the acquired intangibles, and has grown significantly in the year from £40.4 million following the acquisitions in the current year;
- Remeasurement of contingent consideration gain of £0.1 million – this relates to the excess release to the income statement of the contingent consideration on remeasurement of milestone and sales performance liabilities;
- Non-cash inventory adjustment of £5.1 million – the non-cash inventory adjustment which increases the value of acquisition inventory sold relates to the acquisitions of RxVet, AST Farma and Le Vet. It is the result of the fair value exercise carried out in accordance with IFRS 3 'Business combinations' on acquisition;
- Expenses relating to acquisition activities of £3.1 million – this includes the transaction costs associated with the acquisitions of RxVet, AST Farma and Le Vet;
- Rationalisation of manufacturing footprint reorganisation of £2.9 million – this includes the costs associated with this strategic programme;
- Finance income of £0.5 million – this represents the unwinding of the present value discounts relating to deferred consideration due and associated foreign exchange. This is offset by the acceleration of arrangement fees in relation to the existing financing facility on refinance in July 2018;
- Taxation credit of £26.4 million – this represents the tax impact of the above, as well as the revaluation of deferred tax balance sheet items following changes in corporate tax rates, notably following the Tax Cuts and Jobs Act in the USA.

Taxation

The reported effective tax rate (ETR) for the year is a credit of 24.9% (2017: 8.6%), primarily reflecting the one off impact of the reduction in USA tax rates on deferred tax balances; this includes both the underlying and non-underlying business. On an underlying basis the ETR is 20.5% (2017: 21.9%); the main differences to the UK corporation tax rate applicable of 19.0% (2017: 19.75%) relate to patent box allowances, and differences in overseas tax rates particularly by the extent of growth in NA Pharmaceuticals, though this effect has moderated to an extent due to corporate tax rate reductions in USA from the Tax Cuts and Jobs Act.

The underlying ETR is expected to remain broadly similar in the current year, due to the anticipated mix of profits from different countries.

We continue to monitor relevant tax legislation internationally as it may affect our future ETR. Further details can be found in Understanding Our Risk on page 56.

Earnings per Share and Dividend

Underlying diluted EPS for the year was 76.45 pence, a 20.9% growth on the prior year. The EBIT growth of 24.0% was slightly offset by higher interest costs from increased debt to part fund the acquisition of AST Farma and Le Vet. The weighted average number of shares for the year was 97.5 million (2017: 93.5 million).

The reported diluted EPS for the year was 37.04 pence (2017: 27.93 pence).

The Board is proposing a final dividend of 18.17 pence per share (2017: 15.33 pence), added to the interim dividend of 7.33 pence, the total dividend per share for the year ended 30 June 2018 is 25.50 pence. This represents 18.9% growth over the prior year. Dividend cover based on underlying diluted EPS is 3.0 times (2017: 3.0 times). The Board continues to operate a progressive dividend policy recognising investment opportunities as they arise.

Financial Review

continued

Currency Exposure

Currency rate movements have been less significant in the year than in 2017. The average rate for £/€ has declined by 3.4%, and the £/\$ rate has increased by 5.7% during the financial year. The effect in the Consolidated Income Statement and Statement of Financial Position 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 like for like comparable basis.

	Average rates		
	2018	2017	% Change
£/€	1.1286	1.1681	(3.4%)
£/\$	1.3465	1.2735	5.7%

Currency Sensitivity

Euro €: a 1% variation in the £/€ exchange rate affects underlying diluted EPS by approximately +/- 0.7%.

US Dollar \$: a 1% variation in the £/\$ exchange rate affects underlying diluted EPS by approximately +/- 0.5%.

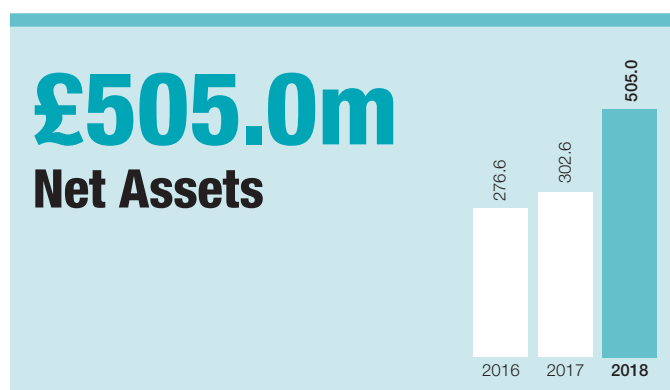
Current exchange rates are £/€ 1.1028 and £/\$ 1.2914 as at 29 August 2018. If these rates had applied throughout the year, the underlying diluted EPS would have been approximately 3.7% higher.

Statement of Financial Position

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

- Non-current assets increased from £453.2 million to £765.6 million mainly due to the acquisition of AST Farma and Le Vet (£307.3 million).
- Working capital has increased from £62.5 million to £92.5 million following the acquisition of AST Farma and Le Vet. This was also impacted by a planned increase in inventory to support the shutdown of production lines at the Bladel facility during their manufacturing site upgrade, and to increase service levels in North America.
- Net debt has increased in the year by £91.4 million from £120.0 million to £211.4 million; net of cash generation by the business, this includes £133.4 million of additional debt drawn to part fund the acquisition of AST Farma and Le Vet. Exchange rate variations favourably affected the Net Debt position by £5.7 million.
- Corporate and deferred tax has increased from £51.0 million to £98.9 million mostly as a result of the acquisition of intangible fixed assets associated with AST Farma and Le Vet.

	2018 £m	2017 £m
Total non-current assets	765.6	452.3
Working capital	92.5	62.5
Net debt	(211.4)	(120.0)
Corporate and deferred tax	(98.9)	(51.0)
Other liabilities	(42.8)	(41.2)
Total net assets	505.0	302.6



Cash Flow, Financing and Liquidity

The Group enjoyed strong cash generation during the year, with the EBITDA margin strengthening from 24.5% to 26.2%. However, as mentioned above, working capital has increased by £23.4 million, mainly due to planned increases in inventory at Bladel and in North America and increased working capital to support the Oracle implementation which occurred in the last quarter of the financial year. This resulted in net cash generated from operations before non-underlying items of £85.6 million, representing cash conversion of 81.9%. It is expected that the increased working capital levels will unwind to a certain extent during the forthcoming year as these strategic projects conclude.

	2018 £m	2017 £m
Underlying operating profit	99.2	81.3
Depreciation and amortisation	7.4	6.9
EBITDA	106.6	88.2
EBITDA %	26.2%	24.5%
Working capital movement	(23.4)	6.9
Other	2.4	2.8
Net cash generated from operations before interest, taxation and non-underlying items	85.6	97.9
Non-underlying items	(4.4)	(3.7)
Net cash generated from operations	81.2	94.2
Cash conversion (%)	81.9%	115.9%

Net Debt Bridge

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

- Capital expenditure on tangible and intangible assets was broadly similar at £12.6 million (2017: £10.7 million), representing 1.7 times depreciation and amortisation, which includes sums for the ongoing Manufacturing remodelling project.
- Acquisition of subsidiaries, associates and minority interests of £229.1 million includes the acquisition of RxVet, AST Farma and Le Vet. Further details in note 32 to the accounts on pages 153 and 154.
- Net equity issued of £103.3 million, includes the proceeds of the equity placement and issue of new shares as consideration for the acquisition of AST Farma and Le Vet, and the settlement of vested employee share schemes.

	£m
Net Debt 30 June 2017	(120.0)
Net cash generated from operations before non-underlying items	85.6
Non-underlying items	(4.4)
Capital expenditure	(12.6)
Acquisition of subsidiaries, associates and minority interests	(229.1)
Interest and tax	(17.2)
Net equity issued	103.3
Dividend paid	(21.8)
Foreign exchange on net debt and other non-cash movements	4.8
Net Debt 30 June 2018	(211.4)
Net Debt: underlying EBITDA ratio	1.75

- The Net Debt/underlying EBITDA leverage ratio per the borrowing facilities' leverage covenant, which includes the proforma adjustment to full year EBITDA for the acquisitions, was 1.75 times (2017: 1.4 times). This is broadly in line with the guidance provided at the time of the acquisition of AST Farma and Le Vet of 1.7 times, the bulk of the difference being attributable to adverse currency exchange rate movements since completion in February 2018.

Borrowing Facilities

Revolving Credit Facility

On 25 July 2017, the Group signed a new credit agreement, refinancing its previous £205.0 million Revolving Credit Facility (RCF). The 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 2018: 1.75) 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 2018: 15.4).

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 first of the two one year extension options was exercised on 25 June 2018. The termination date for the RCF is now 25 July 2023.

Term Loan Facility

On 24 January 2018, the Group signed a new Term Loan facility of £350.0 million to provide funding for acquisitions. The committed facility has a termination date of 31 December 2020. It has an initial availability period of 30 June 2018 which was subsequently extended to 31 December 2018 on 25 June 2018. A sum of €150.0 million was drawn on 12 February 2018 to fund part of the consideration paid for the AST Farma and Le Vet acquisition.

The facility has the same covenants as the RCF above. However the Leverage covenant on both facilities was increased from 3:1 to 3.25:1 for the measurement period ending on 30 June 2018, after which it moves back to 3:1 on both facilities.

Return on Capital Employed (ROCE)

ROCE fell to 15.4% in the year (2017: 17.7%). This is largely due to the inclusion in the metric of 100% of the assets acquired from AST Farma and Le Vet in mid February in the Capital Employed element, but only 4.5 months' profit in the Return element. We expect this to rise in the coming year as the Group consolidates a full year of profit from the acquisition.

Acquisitions

The Group has made several acquisitions in recent years. Performance of the acquisitions made during the 2018 and 2017 financial years is separately summarised compared to the existing business in the sections above.

In December 2017, the Group acquired the entire issued share capital of RxVet Limited, a small CAP business in New Zealand. RxVet has been Dechra's distributor in New Zealand since 2010, with revenue in the year to March 2017 of NZ\$1.4 million; sales of Dechra products account for about half of this. The business has been successfully integrated into the Group, has been renamed Dechra Veterinary Products NZ Limited, and is performing in line with management expectations. The acquisition was financed from the Group's existing working capital resources.

In February 2018, we completed the acquisition of AST Farma B.V. and Le Vet Beheer B.V. for a total consideration of £307.3 million (€340.0 million) on a debt-free and cash-free basis. The combined revenue in the year ended 31 December 2016, excluding business with Dechra prior to the acquisition, was €36.9 million. The total consideration was satisfied as to approximately 75% in cash and 25% in new Dechra shares, which are subject to a two year lock-in. The acquisition was financed from the £102.3 million proceeds of an equity placing, issuance of new consideration ordinary shares, and debt drawn from a new Term Loan facility (see Borrowing Facilities above). Integration has proceeded in line with plan, and the ongoing synergy realisation programme is on schedule.

Accounting Standards

The accounting policies adopted are outlined in note 1 to the accounts. There are no accounting policy changes which have impacted the 2018 financial year.

Note 1 to the Accounts identifies the evaluation of the impact of IFRS 9 (financial instruments) and IFRS 15 (revenue recognition) which the Group will adopt in 2019, and the effect on the 2018 accounts when they are realigned with the new standard, which is not material. The status of the Group's impact assessment of IFRS 16 (leases) which will be adopted in 2020 is also outlined in Note 1.

Summary

The existing business has performed well in the year, with above market growth rates and operating leverage. This has produced additional resources to invest more intensively in R&D, the newly formed International business and the North American commercial team, to provide future organic growth, whilst still growing the operating margin.

We are very excited by our investments in the acquisitions of RxVet, AST Farma and Le Vet and the future growth and breadth which they will deliver, as well as the ongoing investments in the Manufacturing remodelling programme which are proceeding to plan.

The Group's balance sheet is strong, enabling us to continue to consider further relevant acquisition opportunities as they arise.

Richard Cotton

Chief Financial Officer
3 September 2018



Q&A with Ian Page



It has been another good and ultimately successful year for Dechra.

Ian Page
Chief Executive Officer

Q What have been the key drivers of success throughout the year?

A It has been another good and ultimately successful year for Dechra despite a number of challenges, those namely being the reorganisation and investment that we have had to put in to Manufacturing to improve efficiencies, but also we have invested a huge amount of time and effort into what proved to be a successful go live on an Oracle ERP integrated system for the majority of European countries which happened in May.

Commercially, it has been a similar pattern to previous years where we have outperformed the majority of markets in which we trade within the EU. We have also put greater investment into our International business, but the biggest success has been the USA where we have massively outperformed the market and we have seen yet again excellent growth. Overlaying that is the full year effect from Apex, but also a four month contribution from the most recent acquisition that we have made which is AST Farma and Le Vet.

Q Can you tell us more about the strategy behind the AST Farma and Le Vet acquisition and the progress on integration to date?

A The strategy is very clear. AST Farma and Le Vet has been our number one target within Europe for some time. It brings additional products to the Group, it strengthens our position in the Netherlands and also extends our European pipeline. Although it is predominantly generic or generic plus, most of the range is complementary to our existing range. In the AST Farma part of the business it strengthens our Dutch offering but also gives us a direct to vet capability from a logistics perspective where we do not have to be dependent upon the distribution network that is currently in place. The big benefit to the Group though is the Le Vet side of the business. Le Vet, we were already one of their major distributors, but they also sold their products through several other companies and we are now able to terminate those agreements to bring more products in-house.

From an integration perspective, the Dutch aspect of the business is now fully integrated; the sales teams are co-ordinated, the commercial aspects are now all operating out of the AST Farma facility for the Dutch market, but as I have already said the big benefit falls on the Le Vet side and with Le Vet we have now terminated most of their agreements with our competitors and we are now starting to bring the products in-house which gives us the full value chain and the full margin for these products and I think within two years we will have completed the majority of the exercise and will have taken the full value out of this acquisition.

Q Following the AST Farma and Le Vet acquisition you have been described by one arm of the animal health press as the “generics specialists”: is that now your strategy?

A I can understand how people may come to that conclusion with a

little bit of knowledge, however, our real emphasis is on providing novel products to veterinarians. We have bought two businesses that are predominantly generic or generic plus within AST Farma and Le Vet and within Putney recently, but we have also invested a huge amount of time and effort in new partnerships and researching new ideas to make sure we have got a drug development pipeline that includes a lot of unique and novel products that will enhance our key therapeutic sectors.

Q Acquisitions are clearly a major factor of your growth; what is next on your agenda?

A As always, we have a target and list, and we are engaging with a number of companies. It is very difficult to get them to the table and it is very difficult to get them over the line. Having said that, we have proved successful and we have delivered good growth through acquisition over recent years. So we remain hopeful that in the near term we can bring one or two more complementary businesses into the Dechra Group.

Q How does the increasing amount of consolidation of veterinary practices by groups such as Banfield and CVS affect Dechra?

A This has been a facet of our market, particularly in the USA and the UK for a number of years now and we see the incorporated groups as major customers to Dechra and the trend is only going to continue. We have started to restructure a number of our sales organisations to put greater focus on key account management and to put more emphasis on these practice consolidators. They do put a challenge on margins, but at the same time they deliver volume. I think there is a lot of change in the marketplace overall, not just consolidation of practices, but also the change of the role of the distributors but I think that one of Dechra's advantages is our flexibility and our capabilities to deal with change very quickly.

Q What does the future hold for Dechra and also you personally?

A First of all looking at Dechra, the market for veterinary products continues to grow, people continue to spend more on their pets, the demand for high quality protein increases year on year across the globe, so Dechra as one of the few mid-sized companies I think is best placed in terms of its flexibility and its strategy to continue to outperform markets.

From a personal perspective I have been CEO now for 17 years. I still have drive; I still have ambition, I believe we are still creating a huge number of opportunities for Dechra, so as long as I have got the Board's, the employees' and the shareholders' support, I see no reason for change in the immediate future.



Watch the full interview with Ian Page at dechra.annualreport2018.com

Q&A with Richard Cotton



Pharmaceuticals R&D increased by 22.0% as the Group invested to expand its development pipeline.

Richard Cotton
Chief Financial Officer

Q What were the financial highlights of 2018?

A Dechra produced another strong set of financial results in 2018 in both the existing and acquisition business. Revenue grew 13.9% over 2017, which translated to a 17.1% increase in Gross profit. This leveraged the cost base with a 24.0% increase in Underlying Operating Profit and a 20.9% increase in Underlying diluted EPS.

Q Revenue grew strongly in the year – where did the growth come from?

A European Pharmaceuticals' existing business revenue grew to £240.6 million, from market penetration and new product launches, and acquisition business added £18.1 million of revenue from Apex, RxVet, AST Farma and Le Vet. North American Pharmaceuticals grew particularly strongly, with 18.3% growth to £148.4 million as the commercial team expansion bore results.

Q The AST Farma and Le Vet acquisition was a significant financial investment by the Group. How was it financed?

A At €340.0 million, AST Farma and Le Vet was the biggest acquisition that Dechra has ever made. Consideration was paid 75% in cash and 25% in new Dechra ordinary shares. The cash consideration was financed from the net £102.3 million proceeds of an equity placing with the balance of £126.7 million drawn from a new £350.0 million Term Loan facility.

Q What caused the increase in Net Debt during the year? What is the Group's balance sheet leverage ratio and what does the Board target?

A Net debt increased from £120.0 million to £211.4 million in the year. This comprises an increase of £133.4 million to part fund the acquisition of AST Farma and Le Vet in February and a net £40.6 million reduction from cash generated by the business during the year.

The Group maintains a conservative balance sheet, with the Net debt: EBITDA leverage ratio at 1.75 times. This is broadly in line (adjusted for currency exchange rate fluctuations) with the guidance given at the time of the AST Farma and Le Vet acquisition when new debt was drawn. Typically the Board would target maximum Net debt: underlying EBITDA of 2.0 times, though in the right circumstances may go to a level above this.

Q The Group's cash conversion was weaker than in recent years – what was the main cause of that?

A Working capital increased in the year due to a number of reasons. The Manufacturing remodelling strategy includes a planned shutdown and upgrade of production lines at our Bladel facility over several months. To achieve this, inventory was built up during the year to cover the period of production capacity outage. We expect this to be a temporary increase in inventory which will unwind over 2019. There has also been a planned increase in Inventory in North America to improve customer service levels. Following the go live of Oracle, there was a temporary delay in shipping some product which was then shipped in June, resulting in a delay in expected Accounts Receivable collection. These were minor new system teething issues which have since been overcome.

Q How much did Dechra invest in research and development (R&D) in the year?

A Pharmaceuticals R&D expenditure increased by 22.0% from £15.0 million to £18.3 million: this included an 18.7% increase in the existing business as well as R&D expenses incurred within the acquired business. Dechra stated in the 2017 Annual Report its strategic intent of increasing R&D expenditure to enable the expansion of the Group's product pipeline. R&D expenses as a percentage of sales have increased from 4.2% to 4.5%. This was delivered without impacting the Group's Underlying EBIT margin, which increased by 200 bps to 24.4%.

Q How much is Dechra investing in the Manufacturing remodelling project, and how much of that spend has already been incurred?

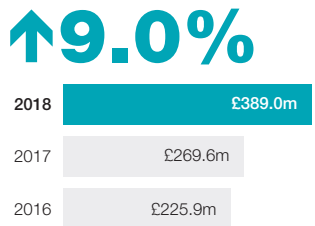

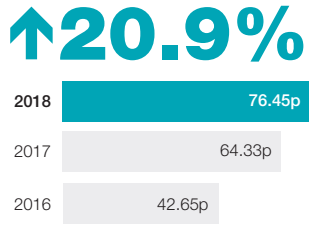

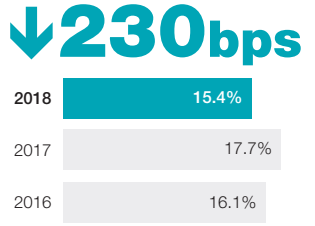

A When the programme was first communicated in 2017, the Group indicated that between capex and non-underlying expenditure it was planning to invest £18.0 million in the project over five years. That target remains, and the project is on schedule and budget. In the year £3.5 million was spent on capex and non-underlying expenditure, so cumulatively £4.2 million has now been spent since the project's inception.

* All growth figures quoted are at constant exchange rate (CER) unless otherwise stated







Watch the full interview with Richard Cotton at dechra.annualreport2018.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.	 <p>2018 £389.0m</p> <p>2017 £269.6m</p> <p>2016 £225.9m</p>	Dechra's existing business in EU Pharmaceuticals grew by 4.4%, excluding third party contract manufacturing, and in NA Pharmaceuticals by 18.2%.	 <p>A key driver of our strategy is to deliver sustainable sales growth through delivering our pipeline, maximising our existing portfolio and expanding geographically.</p>
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.	 <p>2018 76.45p</p> <p>2017 64.33p</p> <p>2016 42.65p</p>	This includes a 24.0% increase in underlying operating profit offset by an increase in finance charges from the increase in debt and equity issuance to fund acquisitions.	 <p>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.</p>
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).	 <p>2018 15.4%</p> <p>2017 17.7%</p> <p>2016 16.1%</p>	The decline is largely due to the inclusion of 100% of the assets acquired from AST Farma and Le Vet in February in the Capital employed element, but only 4.5 months' profit in the Return element.	 <p>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.</p>


Key to Strategic Growth Drivers:


-  Pipeline Delivery
-  Portfolio Focus
-  Geographical Expansion
-  Acquisition

Key to Strategic Enablers:

-  Manufacturing and Supply Chain
-  Technology
-  People

Key:

-  Long Term Incentive Plan (LTIP) performance condition

 Read [Delivering Our Strategy](#) on pages 12 and 13

 Read [How the Business Manages Risk](#) on pages 54 and 55

 Read the [Directors' Remuneration Report](#) on pages 83 to 98

KPI and Definition	Performance	Commentary	Relevance to Strategy								
<p>Underlying Cash Conversion</p> <p>Cash generated from underlying operations before tax and interest payments as a percentage of underlying operating profit.</p>	<p>↓3,400bps</p> <table border="1"> <tr><th>Year</th><th>Percentage</th></tr> <tr><td>2018</td><td>81.9%</td></tr> <tr><td>2017</td><td>115.9%</td></tr> <tr><td>2016</td><td>106.8%</td></tr> </table>	Year	Percentage	2018	81.9%	2017	115.9%	2016	106.8%	<p>Underlying cash conversion was weaker in the year due to the planned temporary increase in inventory to support the shutdown of production lines at our Bladel facility during the site upgrade, and to increase customer service levels in North America.</p>	<p>Our stated aim is to be a cash generative business. Cash generation supports investment in the pipeline, acquisition and people.</p>
Year	Percentage										
2018	81.9%										
2017	115.9%										
2016	106.8%										
<p>New Product Revenue</p> <p>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.</p>	<p>↑720bps</p> <table border="1"> <tr><th>Year</th><th>Percentage</th></tr> <tr><td>2018</td><td>15.4%</td></tr> <tr><td>2017</td><td>8.2%</td></tr> <tr><td>2016</td><td>14.4%</td></tr> </table>	Year	Percentage	2018	15.4%	2017	8.2%	2016	14.4%	<p>New product revenues reflect the strong market penetration of products launched in the current and previous four years.</p>	<p>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.</p>
Year	Percentage										
2018	15.4%										
2017	8.2%										
2016	14.4%										
<p>Lost Time Accident Frequency Rate (LTAFR)</p> <p>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.</p>	<p>↓100%</p> <table border="1"> <tr><th>Year</th><th>Rate</th></tr> <tr><td>2018</td><td>0</td></tr> <tr><td>2017</td><td>0.26</td></tr> <tr><td>2016</td><td>0.35</td></tr> </table>	Year	Rate	2018	0	2017	0.26	2016	0.35	<p>There have been no lost time accidents during the year. None of the previous year's incidents resulted in a work-related fatality or disability.</p>	<p>The safety of our employees is core to everything we do. We are committed to a strong culture of safety in all our workplaces.</p> <p>Read about Corporate Social Responsibility on pages 42 to 53</p>
Year	Rate										
2018	0										
2017	0.26										
2016	0.35										
<p>Employee Turnover</p> <p>Number of leavers during the period as a percentage of the average total number of employees in the period.</p>	<p>↑20bps</p> <table border="1"> <tr><th>Year</th><th>Percentage</th></tr> <tr><td>2018</td><td>15.9%**</td></tr> <tr><td>2017</td><td>15.7%</td></tr> <tr><td>2016</td><td>13.1%*</td></tr> </table> <p>* excludes Apex, Brovel, Genera and Putney ** excludes RxVet, AST Farma and Le Vet</p>	Year	Percentage	2018	15.9%**	2017	15.7%	2016	13.1%*	<p>The increase relates to the restructuring of our manufacturing business.</p>	<p>Attracting and retaining the best employees is critical to the successful execution of our strategy.</p>
Year	Percentage										
2018	15.9%**										
2017	15.7%										
2016	13.1%*										

Vaccines

As part of Dechra's strategy in the Food producing Animal Product (FAP) market, we entered the fast growing vaccines segment in October 2015 by acquiring the Croatian company, Genera d.d. It marketed a range of essential live poultry vaccines to the regional Adriatic countries and to a number of developing international markets thereby providing Dechra with a solid basis to enter the vaccine sector. Since the acquisition we have continued to build on this foundation, focusing on development and approval of this range in key European markets and subsequently expanding into additional international markets. With the growing worldwide emphasis on preventing diseases and reducing the use of antibiotics, we believe that this step is key to the future of Dechra's FAP business.

When we acquired Genera the core range of live poultry vaccines consisted of six products. At that time none of these had been approved for sale in the main European poultry production markets of the UK, Germany, France, Spain and Italy. Having spent time with the team in Croatia, evaluating the capabilities and production potential, we decided to focus on ensuring that the six key products gained approval in these key European markets.

Utilising the basis of the EU marketing registration, we were then able to gain marketing authorisations in the main poultry production countries in North Africa, the Middle East and Asia. In addition to the first six products, a further

four were added to our development programme to ensure that our live poultry range meets the needs of veterinarians and farmers across all of these markets.

The development team in Zagreb has worked extremely hard and has successfully delivered products and registrations to the planned timelines. In 2016 the first European marketing authorisation was received for *Avishield* ND, used for the prevention of Newcastle disease in chickens and turkeys. Despite only having one product, we quickly discovered that veterinarians became enthusiastic about this new vaccine. Through clinical studies we had demonstrated that our product was more effective and safer to use than the established products from our competitors. We therefore proceeded to launch in Germany and Belgium, where we quickly gained high market shares despite not being able to offer a complete range. To date, we have succeeded in obtaining authorisation in all key European markets for an additional three vaccines for the prevention of infectious bronchitis, infectious bursal disease and an additional strain of Newcastle disease. Using the slogan 'Protection Evolved' we are now preparing to launch the complete range across Europe, and continue to develop our position in the international markets.



Avishield[®] IB H120

**STRONG PROTECTION.
FROM DAY ONE.**



Dechra
Veterinary Products



Avishield[®]
PROTECTION EVOLVED



Enhancing our Specific[®] Portfolio

One of Dechra's key therapy areas is its range of veterinarian dedicated dog and cat foods. This range offers targeted special care diets that provide the optimum in nutritional support for pets with illnesses and diets for everyday nutritional needs. Branded 'Specific', we have marketed the range since January 2008 when we acquired VetXX Holdings A/S.

We have implemented a programme of revitalising the *Specific* range; the initial focus being on refreshing the cat range with improved recipe, design and packaging. The diets support some of our key pharmaceutical products with a look and feel that belongs to the Dechra family of products providing a useful cross over to our other key therapy areas.

Recipe Development

The refreshed look involves a development in the recipes that introduce:

natural antioxidants;

- chelated minerals for better bioavailability; and
- further improvements to the palatability.

There have been further ingredient advances that reflect our ongoing investment in utilising up to date nutritional knowledge that will support good pet health. We have included Marine Stewardship Council (MSC) certified fish within these updates, to strengthen our commitment to a sustainable future.

Design

The historic design of the *Specific* packaging had been in existence since 2005; a newly updated design brings a fresh looking, simplified approach and reflects our pharmaceutical image but retains elements of the original branding. This builds upon our strong veterinarian brand identity and enables us further to emphasise our dedication to this channel. The updated design differentiates it from the everyday foods making it a strong brand identifier.

As an exciting part of the refresh we have updated and refocused our pet owner websites. This provides easy accessibility and functionality for pet owners looking to discover quality nutritional advice that enhances their pet's life.

Packaging

In order to strengthen our sustainability position and as part of our environmental road map we have rationalised our pack sizes which will:

- reduce our use of plastics by 8%;
- reduce our freight on the cat product range by 35%; and
- reduce our carbon footprint by 50,000 kg CO₂ equivalent.

Included with the sustainability benefits are some great innovations for the pet owner, such as:

- a new easy open pack utilising a laser scored tear line;
- a new reclose system employing Sensi Grip® seals; and
- improved barrier film that exploits up to the minute developments in packaging technology.

Next Phase

Once the cat refresh is fully launched we will commence a programme to update the dog diets with similar innovations.

The Future

We will continue to emphasise the importance of feeding pets with diets with nutritional advantages over other pet foods and continue the exciting developments with additional category leading recipe innovations and packaging design.

We are also revitalising the product pipeline creating closer links to our pharmaceutical heritage. We will continue to innovate to improve the growth and contribution from this key therapy area and will continue to provide veterinarian dedicated support which is a cornerstone to *Specific's* success.





SPECIFIC

SPECIFIC® The power of **marine omega-3**
to promote companion animal health



Expansion into New Zealand

Background

RxVet Limited was first established in 2010 by two entrepreneurs with an animal health background, Peter Blaikie and Nick Gorman, who recognised an opening to provide a broader range of veterinary products than were currently available in New Zealand and to offer a local, more intimate service. RxVet had acted as our distributor since 2010, selling Dechra products into the New Zealand market.

Over the years the business grew as the collaboration delivered new registrations and products for the New Zealand companion animal and equine veterinarians. The founders also attracted a few other suppliers to add critical mass and complementary products.

In October 2016, Dechra established its own organisation in Australia through the acquisition of the trade and assets of Apex Laboratories Pty Ltd. Apex Laboratories were also commercialising some veterinary registrations in New Zealand and therefore the next natural step was to discuss with RxVet how we could best optimise the sales growth and customer service. It was agreed that by combining forces, the merged businesses would offer better critical mass, be more competitive and grow sales through a more optimal territory coverage. At this point Dechra offered to purchase the RxVet business with the proviso that current owners remained in the business to allow customer continuity and retain local market experience.

Acquisition and Integration

The deal was finalised in November 2017 and completed in December 2017 for a total consideration of £0.3 million (NZ\$0.6 million) with a further £0.02 million (NZ\$0.04 million) deferred payment which was paid in July 2018. Plans were developed to merge the activities, and the first step was to combine the sales teams to offer optimal territory coverage.

The next challenge was to ensure that both sets of sales people were familiarised with the wider product range. This required both technical and commercial sales training as the Apex products were broadly generic with sales generated through commercial negotiations and good relations, whereas the RxVet products were more orientated to the technical benefits of the products. This is an ongoing process and is reliant on building a good team ethic.

It was also important to ensure the products in registration did not lose focus or time to market due to management being engaged in integration activities. To date this has been successfully achieved with three new products having been registered since the acquisition.

The next phase of the plan was to rebrand and rename RxVet to Dechra Veterinary Products NZ Limited. This is a key factor in our international strategy to enhance Dechra's image globally and ensure that where we have our own sales organisation, our employees feel that they are part of the larger family with greater opportunity for career progression and that they embrace the Dechra Values.





Integration of AST Farma/Le Vet

Background

On 13 February 2018, Dechra acquired AST Farma B.V and Le Vet Beheer B.V. for a total consideration of €340.0 million on a debt-free and cash-free basis. The total consideration was satisfied as to approximately 75% in cash and 25% in new Dechra shares, which are subject to a two year lock-in.

AST Farma was established in 1999 by Sebastiaan Tesink, and had grown to become one of the leading companion animal pharmaceutical companies in the Netherlands, focused on generic plus products. The business was started with a basic range of companion animal registrations acquired from Fort Dodge (now Zoetis), and grew its reputation by launching niche products, including ranges for minor species, and by offering added value services to veterinarians. In an independent Dutch market research conducted by Vet 150, assessing customers' opinions of suppliers, AST Farma has consistently scored in the top two companies among companion animal veterinarians for the past ten years.

Dechra considered AST Farma to be innovative and a very customer oriented company. Part of its success had been driven by their direct-to-vet delivery model, with over 80% of sales going direct instead of through the wholesalers. In the past 15 years they have been very focused on developing quality generic plus products. Additionally, they have taken molecules from human medicine and developed the first veterinary licensed equivalent products. A prime example of this is the European registrations of *Metrobactin®* and *Tralieve®*.

Le Vet B.V., a subsidiary of Le Vet Beheer B.V., was established in 2002 by Alexander Tesink. Le Vet had focused on the European markets outside of the Netherlands, registering 60 of the AST Farma products in EU member states which were sold through a network of marketing partners including Dechra.

Reasons for the Acquisition and Progress To Date

• Strengthening the Group's Position in the Netherlands

The combination of Dechra and AST Farma in the Netherlands has moved Dechra to number four in the rankings of animal health companies in that market. In April 2018, we integrated the two sales organisations in the Netherlands into the AST Farma premises in Oudewater. The changes in roles and responsibilities have been communicated to our customers and the team was quickly working cohesively. Combining the strengths of both companies and ensuring that

we continue to maintain the good reputation and image of AST Farma among Dutch veterinarians, will enable us to create the strongest partner for companion animal veterinarians in the Netherlands.

• New Opportunities with AST Farma Direct to Vet Model

In the Dutch market the direct-to-vet distribution model will offer new opportunities for Dechra. We intend to increase market penetration and improve margins by making Dechra's products available directly to veterinarians through AST Farma logistics and by promotion through the combined enlarged sales team. We will start supplying the *Specific* nutrition range through this model from 1 September 2018 and the complete Dechra range in January 2019.

• Increasing our Broad Portfolio of Products in the EU

In the rest of Europe, gaining access to the 60 Le Vet products will significantly strengthen our range. We already market a number of products, 15 of the 60 products, in the majority of EU territories; however in some countries, notably Germany and Belgium, we had no access to the Le Vet product range.

Since completion we have already terminated 20 agreements with Le Vet marketing partners across Europe. We will start to relaunch Le Vet products in Dechra livery, starting in Germany and France in early September 2018, with a flow of products continuing through to the end of 2019. By this time we will be marketing the vast majority of Le Vet products through our own sales organisations. Bringing sales that were made through third party marketing partners in-house allows us retain the distribution margin.

• Access to a Robust Pipeline

In addition to the existing portfolio, AST Farma and Le Vet were developing a robust new product pipeline of over 30 products, a number of which have already been approved since the acquisition completed. This pipeline will further strengthen Dechra's portfolio to its customers across Europe and we will also look to register a number of the products in our international markets. We are now preparing to launch the first new product, *Tralieve* (a pain relief tablet), in Germany, the UK and France. This first veterinary license for the use of tramadol in dogs fits perfectly into our fast growing anaesthesia and analgesia focus therapeutic range.






Dechra
Veterinary Products



AST *farma*
PARTNER IN PRAKTIJK



Product Development

Although some products may have a slightly different path, most novel and generic products follow a fairly standard process containing six phases, defined as: Evaluation, Feasibility, Research, 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 speed to market relative to the competition.

In addition to developing new products, Dechra also is looking continuously to improve existing commercial products to retain and grow market share. Lifecycle activities are varied but may include changing primary packaging or dose form for improving convenience for the user or adding claims or species to widen the addressable market. These activities are generally called lifecycle management and can lead to substantial growth, even for established products.

Dechra's current development pipeline is a mixture of short, medium and long term new opportunities and lifecycle projects.

Generating and Prioritising Ideas

Ideas are usually generated by Marketing and Business Development, but Dechra encourages all employees to share ideas for new or existing products. Ideas will be prioritised by Marketing and the most attractive ones will be evaluated by a small cross functional Evaluation team. During the **Evaluation** phase, the team defines the scope of the project and assesses if the cost benefit ratio is favourable considering market need, market value, therapeutic indications, strategic fit and the probability of technical and regulatory success. The team also define the work required in the Feasibility phase.

Making the Chemistry Work

The second phase of the process is **Feasibility**, which involves the collection of a range of preliminary data to identify early stop points.

In this phase proof of concept level data for pharmaceutical development (formulation and manufacturing process), efficacy and safety is created and a regulatory pathway is identified. The purpose of this phase is to eliminate projects with low probability of success as early as possible.

All the necessary pilot data is generated in the **Research** phase to:

- understand the efficacy and safety profile (innovation) or the likelihood of establishing bioequivalence (generics);
- ensure high quality pharmaceutical development; and
- establish the best strategy to maximise the probability of technical and regulatory success.

The main purpose of the Research phase is to de-risk the expensive, long and resource intensive Development phase. In addition, during the Research phase the formulation and manufacturing process are finalised, and the dose that is both safe and effective is determined. For some projects, this phase can be relatively straight forward, while for others it can be iterative, for example finding a formulation that gives the desired safety and efficacy profile.

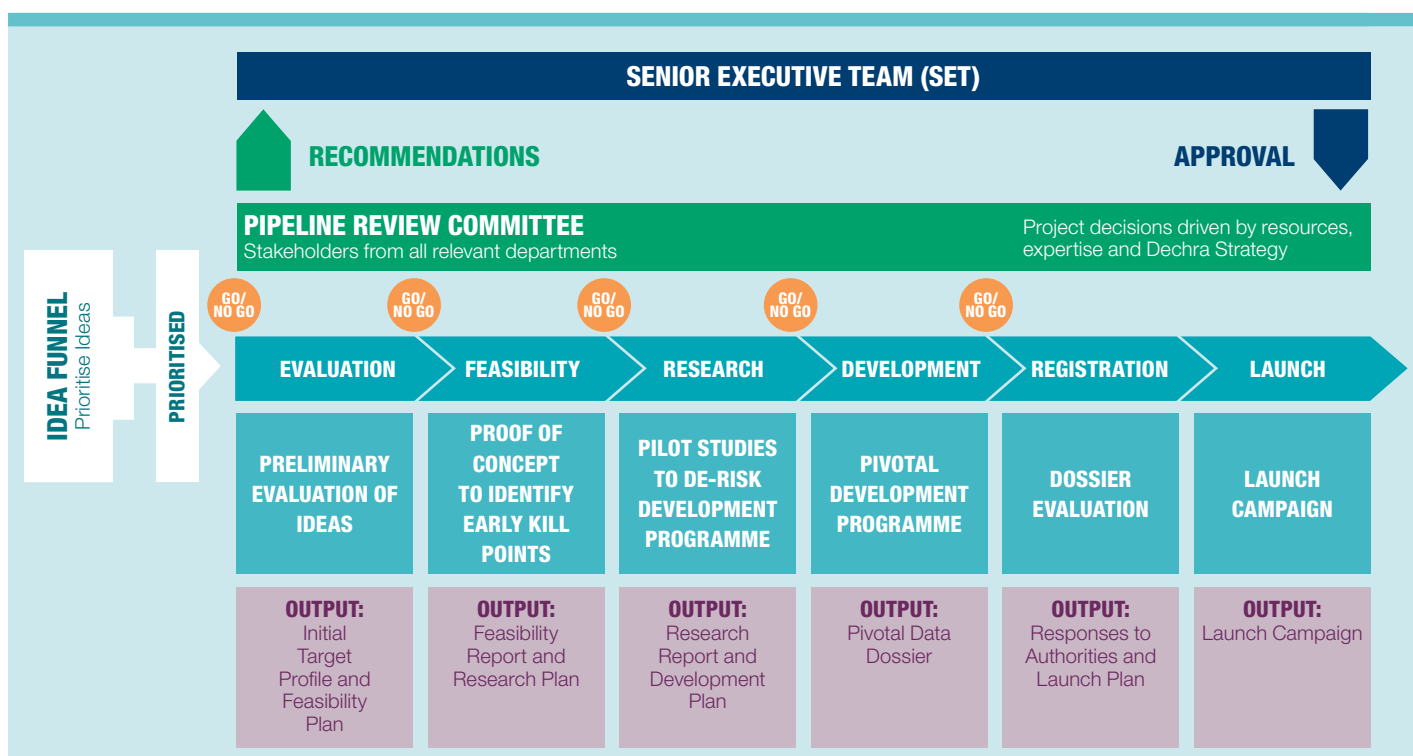
Entering the Development Phase

The **Development** phase is the longest part of the process, potentially taking two or four years. After the formulation has been demonstrated to be stable, up to three registration 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**.

The whole process from beginning to end can take between three and ten years before **Launch** depending on complexity and nature of the product.

Stage Gate Process

The Pipeline Review Committee analyses each project after each phase for any technical or regulatory risks and issues and any changes in the business case. Projects are prioritised based on their overall commercial and strategic value.





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 market or as projects are terminated. For competitive reasons, exact project details are not disclosed.

Evaluation		Feasibility		Research		Development		Registration	
CAP/Equine	FAP	CAP/Equine	FAP	CAP/Equine	FAP	CAP/Equine	FAP	CAP/Equine	FAP
<p>New opportunities are constantly being evaluated and will move into Feasibility quickly if of interest</p>	Analgesic therapy for cats	Antibiotic for cattle and pigs	Paracetamide for cats	Antibiotic for pigs	Paracetamide for dogs	Antibiotic for cattle	Antibiotic for dogs and cats	Fluid therapy for cattle	
	Anti-inflammatory for horses	Antibiotic for pigs and poultry	Paracetamide for dogs	Paracetamide for poultry	Endocrine diagnostic	Poultry vaccines	Dermatological therapy for dogs	Poultry vaccines	
	Gastrointestinal therapy for dogs	Anti-inflammatory for Poultry	Dermatological therapy for dogs	Antibiotic for pigs	Dermatological therapy for dogs	Poultry vaccines	Antibiotic for dogs and cats		
		Swine vaccines	Analgesic therapy for dogs	Antibiotic for cattle, pigs and poultry	Lameness therapy for horses	Antibiotic for cattle, dogs, cats, horses	Analgesic therapy for dogs		
			Dermatological therapy for dogs	Poultry vaccines	Lameness therapy for horses		Analgesic /anti-inflammatory for horses		
			Dermatological therapy for dogs	Poultry vaccines	Lameness therapy for horses		Antibiotic for dogs and cats		
			Endocrine therapy for horses		Analgesic therapy for horses		Anaesthetic for dogs and cats		
			Endocrine therapy for cats		Endocrine therapy for dogs		Gastrointestinal therapy for dogs and cats		
			Ocular anti-inflammatory for dogs		Cardiovascular therapy for cats		Anaesthetic for horses		
			Gastrointestinal therapy for dogs		Gastrointestinal therapy for dogs		Anaesthetic for dogs and cats		
			Anti-inflammatory for horses		Gastrointestinal therapy for dogs		Anaesthetic for horses		
			Dermatological therapy for dogs		Dermatological therapy for dogs		Antibiotic for horses		
			Antibiotic for rabbits		Antibiotic for dogs and cats		Gastrointestinal therapy for dogs		
			Antibiotic for dogs		Anti-inflammatory for dogs and cats				
					Gastrointestinal therapy for dogs				
				Urological therapy for dogs					
				Anti-inflammatory for horses					

Key

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

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	NZ	Norway	Poland	Portugal	Spain	Sweden	UK	US
<i>Felimazole</i>		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
<i>Forthyron/Thyforon</i>		●	●	●		●	●	●	●	●	●	●	●		●	●	●	●	●	●	●
<i>Vetoryl</i>		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
<i>Zycortal</i>		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

Dermatology and Care

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

Anaesthesia and Analgesia

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

Cardiovascular

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

Ophthalmology

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

Equine Medicine

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

Food producing Animal Products

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

Nutrition

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

Vaccines

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

CAP Generics/ Other

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



Corporate Social Responsibility



Tony Griffin

Managing Director, Dechra Veterinary Products EU

Katy Clough

Group HR Director

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.

Code of Conduct

Dechra established a Code of Conduct in August 2009, which sets out the standards of conduct to be adopted by all employees. During the year, reflecting organic and acquisition growth, the Board approved a revised Code of Conduct, which encompasses the Group's Values and the standards of conduct to be adopted by all Dechra businesses worldwide. The Code of Conduct incorporates a number of our policies and standards to enable us to act with integrity and honesty, and includes Anti-Bribery and Anti-Corruption (ABC), Sanctions, Data Protection, Modern Slavery, Health and Safety and Donations. In a number of areas the standards are supported by more detailed Group or local policies and procedures.

During the year we have also relaunched and renamed our Whistleblowing Policy (now referred to as How to Raise a Concern). The procedure encourages all employees to report anything which they believe is a breach of Dechra's standards of conduct via one of four reporting channels. Any concern will be taken seriously and the individual will be treated fairly, confidentially and with discretion. During the forthcoming financial year, both the refreshed Code of Conduct and the How to Raise a Concern procedure will be translated into local languages.

Our Code of Conduct sets the standard of how we interact with our stakeholders and wider community, and is based around four pillars: Our People, Our Community, Our Environment and Our Business.

Pillar	Policy	Objectives
Our People	A great and safe place to work.	Leverage the Dechra Values and culture.
	We value difference and believe diversity of people, skills and abilities is a strength that helps us to achieve our best.	Maintain high levels of employee engagement.
		Reinforce a culture of safe working practices.
Our Community	To contribute to the social and economic welfare of the local communities in which we operate.	Contribute towards charitable causes through the donation of time, products and skills.
Our Environment	We are committed to minimising the impact of our operations on the environment by adopting responsible environmental practices and complying with applicable environmental legislation.	Minimise our environmental footprint.
		Optimise the energy we use.
		To utilise the most eco-friendly and financially cost effective distribution system.
	Wherever practicable, to use sustainable raw materials in our pet diets.	
Our Business	We are committed to acting responsibly and with integrity. We comply with the laws and regulations and respect the traditions and cultures of the countries within which we operate.	Maintain and improve the knowledge and skills of veterinarians who prescribe and use our products.
		To act honestly and with integrity.
		To develop products to improve animal welfare.

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



Our People

At Dechra, our people are our greatest asset and underpin everything we do in the business. We recognise that the diversity of our team and an inclusive culture is beneficial for our business, its processes, and its performance. Our objective is to continue to be a high performing business driven by highly skilled and committed teams. Accordingly, we are committed to:

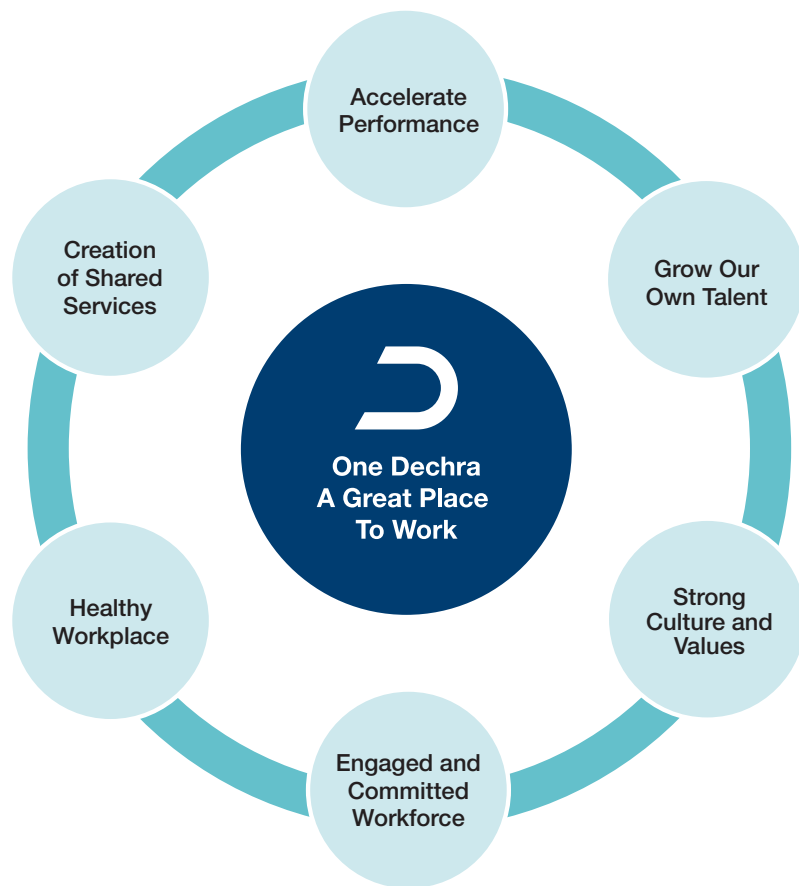
- strengthening and communicating the Dechra culture and ensuring our values encompass our business ethics and standards;
- attracting, retaining and developing talent to build and maintain a top quality team; and
- developing effective succession plans to ensure business continuity.

In delivering these aims, it is the Group's policy to recruit and promote people on the basis of their personal ability, contribution and potential, regardless of age, gender, sexual orientation, marital status, race, colour, ethnicity, disability, religion, political affiliation or union membership. We are committed to ensuring that everywhere across our Group we promote, support and maintain a culture of fairness, respect and equal opportunity for all.

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. The Group does not tolerate bullying and harassment.

We are committed to fair employment practices and comply with national legal requirements regarding wages and working hours.

During the year the Board formalised its diversity policy further details of which can be found in the Nomination Committee Report on pages 80 to 82.



Our original people plan was developed four years ago to support the delivery of the Group's five year plan. Following significant progress, we adapted the people plan in the 2017 financial year 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.

Corporate Social Responsibility

continued

Attract, Retain and Develop Talent

Dechra is committed to enhancing the skills of our workforce, planning for a successful future and creating a sustainable talent pipeline.

Dechra Pharmaceuticals Manufacturing (DPM)

A total of ten trainees have been working at the Zagreb site gaining valuable experience to set each of these talented graduates up for successful careers.

Marina Zubcic

When I applied for this position in Dechra (Quality Control for vaccines) I honestly did not know what to expect since I graduated from my degree course in Nutrition Science. But from the information I got from the Company's website I knew this was the position for me and I have been proved right.



I have learned so much in a relatively short time and am aware that I still have a lot to learn. The people in my lab are like a little family. Whenever there is build of work in analysis, other people jump in to help, everyone participates in the planning of the work, every person's word is heard and acknowledged. I am really happy that I have had the opportunity to work here because the experience that I am getting is invaluable.

Andrea Križanac

Your first job teaches you how to apply those techniques you have learned at college in the "real world", I can say I am really grateful that my first job was at Dechra. I have learnt new skills, gained valuable on the job training, and have grown my experience. These nine months have been exciting and inspirational. I met such great people and real experts in different areas. I have always dreamed of being a part of company because of its culture and people and I can tell I found this in Dechra. It all takes time and the right attitude to learn. Accomplishment in such small tasks only gives you the courage to take up bigger projects. So, I hope I will continue to be part of this story and contribute with my work to the Company's development and success.

At Skipton, UK, we have had several employees undertake NVQ programmes in a variety of departments. The site is working with Cogent as its Apprenticeship partner to plan ongoing development in developing its managers and skills in quality and production. The engineering apprenticeship programme continues to go from strength to strength. A key highlight, showing the incredible calibre of employees is demonstrated by our second year apprentice, Stephanie Thorne. Her previous roles were all administration, but her true passion lies in engineering. This has been evident throughout her life as she volunteers with a local steam train group and is a fully qualified fire fighter. Her interest in fixing things and striving to learn has resulted in her winning the college 'Apprentice of the Year'. Her tutor, Dave Crook, said the reason why she was nominated was that she excelled in all her work from the year before, bringing all her course work in ahead of schedule, and then helping others with their work.

Hayley Barritt, currently a materials planner, has recently completed her three years Chartered Institute of Procurement and Supply studies and has achieved full membership status. Hayley has worked full time throughout the period. She said: 'Studying while working full time is really difficult, but this achievement has made it all worthwhile. The diploma has really strengthened my subject knowledge and confidence.'

Dechra Veterinary Products EU (DVP EU)

We have centrally implemented a Dechra Sales Academy, the aim of which is to help improve commercial and coaching skills across the business in a wider culture of continuous improvement. As well as developing a common language on leadership and sales, improving and securing a standard level of sales, and delivering a consistent and high level of sales support throughout the organisation.

The Dechra Sales Academy contains Leadership, Management and Sales programmes for all countries within the European business. This year we successfully conducted the 'Success Through Leadership' and the 'Success through Management' programmes. These programmes focused on the concept of High Performing Teams, which will facilitate an increase in the sales level within these teams. Across a two year period we will conduct the 'Success through Sales' programme in all DVP EU countries. We will continue to develop our employees by holding refreshment days, programmes for new employees, mentor programmes and team building sessions around the 'High Performing Team' methodology.

At the Sansaw offices, UK, Maisie Grew is undertaking a Customer Services Practitioner apprenticeship. Maisie joined Dechra after studying Business and Events Management at Reaseheath College for two years. She has excelled in her apprenticeship, taking everything in her stride including adapting to new systems and varied pressures on a daily basis and has already demonstrated herself to be a vital member of the UK and Ireland Customer Services team.

Product Development

Katherine Palmatier, Product Development Coordinator

My career development was just beginning when I came to Dechra almost four years ago as an administrative assistant. Joining the global product development team put me in a prime position at the ground level of the organisation to learn more about the overall veterinary pharmaceutical industry, collaborate with many Dechra team members around the world, and familiarise myself with various departments and operations within the Company.

Although this role was a great learning opportunity, as time passed I began to feel ready to take on something new at Dechra. I was fortunate to receive guidance and career counselling from my direct manager, human resources and an external career counsellor to enhance this discovery process.

It was important for me to determine where could I add value at Dechra along with satisfying my professional and personal goals. The guidance I received helped me identify my strengths and focus and concentrate my thoughts on the direct path ahead. As a result, I was promoted into the role of Product Development Coordinator and now manage my successor in the administrative assistant role.

I have realised from this overall process that development is not easy – there will always be new behaviours to learn in order to rise to the challenges ahead. While this can seem intimidating at first, reflecting on the support I have received from Dechra and what I have learned during this process will assuredly help me to be able to advance my career more confidently in the future.



Dechra Veterinary Products North America (DVP NA)

Consistent with our values, we encourage employees to have honest conversations about their needs, aspirations and ambitions. This year, within the DVP NA team, we have transitioned a territory manager into an inside sales representatives position that was better suited to her supporting her work life balance and personal needs.

Leverage the Dechra Values and Culture

Our culture and Values are important to us and have helped to drive the Group's success. We believe that our Values encapsulate our business ethics and set the standards that we wish to achieve and ultimately exceed. They outline the type of people we are, the services we provide and the way we aim to do business.

Dedication



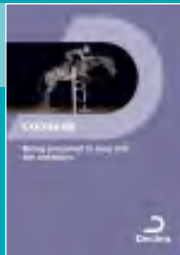
We are dedicated to delivering products and services that meet the highest level of service and quality to our customers. We take pride in and are committed to our jobs within Dechra. Through the ownership of our responsibilities we will contribute to the competitiveness of our business in the marketplace. We constantly look for better ways to do things, resulting in a culture of continuous improvement. We encourage people to make decisions and accept there may be mistakes that will form part of our learning experience.

Enjoyment



We will provide challenge for our people within their roles to help them stay motivated and engaged. We will endeavour to create an environment where our people want to come to work and feel a part of Dechra. We will develop ourselves personally and professionally. We want an environment that encourages learning and development and will achieve ever-increasing personal competence. We will generate enthusiasm and energy through positive thinking and actions.

Courage



We want a business where we dare to challenge each other, creating better cross-organisational solutions. We want an environment where innovation and creativity can flourish. We encourage each person to be pro-active and to take initiatives. We will encourage everyone to have confidence in themselves and have the strength and character to question the status quo. We will nurture individuality and free thinking, thereby creating a strong and competitive spirit.

Honesty




We will act with integrity and fairness and treat everyone with respect. We are honest and open in all interactions. Openness is supported at all levels of the organisation. In our business every job is important. We value each person's contributions to the business as much as we value our own.

Relationships



We see our customers and suppliers as business partners and thereby work together to ensure common success. We know that success is not built on the performance of an individual, therefore we encourage co-operation and cross-organisational team working to produce better results together.

Ambition



We are goal oriented and shall deliver solid results through our energetic and resilient approach throughout the organisation. Our ambitions shall ensure that we at all times deliver the highest possible levels of quality and services to our customers and to each other. We are determined to do our best and to celebrate as many successes as possible.

Corporate Social Responsibility

continued

Maintain High Levels of Employee Engagement

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 keep our employees 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.

At Dechra, people are our greatest asset. We have attracted and retained qualified and skilled employees, and to retain our current employees and attract new employees we wanted to:

- gain an understanding of how our employees, collectively, see Dechra as a place to work today; and
- shape Dechra's HR strategy and priorities through a better understanding of our collective strengths and opportunities.



To achieve these objectives we decided to launch our very first engagement survey and after considering a number of external partners, Great Place to Work (GPTW) was selected as our engagement partner. The GPTW Institute runs the world's largest employee survey and recognition programme, and works with around 9,800 organisations globally including a significant number of other pharmaceutical clients.

A number of communications were shared with our employees globally

to inform them that the engagement survey would be launched in March 2018. The communications asked our employees to provide open and honest feedback. Managers also held briefing sessions with their teams to share the GPTW presentation to build an understanding of why Dechra was launching the survey. We also used posters across our sites as a reminder to our teams of the importance of their input.

Following the completion of the engagement survey, videos were posted to thank our teams for their input.

Dechra received an 87% response which is fantastic for a first global engagement survey, and as shared by GPTW, very rarely seen for a first survey launch.

The global high level results of survey are:

- Engagement level of 75% (18 percentage points higher than the benchmark**);
- Trust index level of 67%; and
- 74% of our employees stating that Dechra is 'a great place to work' (18 percentage points higher than the benchmark**).

Some of our top strengths as an organisation are shown to be:

- Diversity (84%, 16 percentage points higher than the benchmark**);
- Empowerment and Accountability (75%, 9 percentage points higher than the benchmark**);
- Our Culture (75%, 14 percentage points higher than the benchmark**).

As our Group is very diverse we have had a range of scores with a distinction between the engagement levels of our employees based in manufacturing sites and our other key employee groups.

Overall, we are extremely pleased with our first ever engagement survey results and our HR team is now working with our business areas to provide them with their results, and are working with them to identify one or two key areas of focus and agree a corresponding action plan for the forthcoming 12 months.

Global SAYE

The existing Dechra UK SAYE scheme which has been in place since 2001 has proved a popular benefit to our UK employees with the November 2017 grant having a 51% uptake. As Dechra continues to expand internationally we receive regular feedback and requests from employees and managers who want to be able to enjoy the benefits of participation in a share save scheme.

Therefore we would like to offer the majority of our existing employee base the opportunity to benefit from share ownership which will provide a more equitable approach to our global reward schemes. The current SAYE scheme rules are due for renewal in October 2020, and it is proposed to ask for shareholder approval of new UK rules along with an International Plan at the forthcoming Annual General Meeting in October 2018 and to authorise the Directors to adopt an employee stock purchase plan (ESPP) as a sub-plan of the International SAYE. The launch will, subject to shareholder approval, be in September 2019 initially to a limited number of countries: Australia, Croatia, Denmark, France, Germany, the Netherlands and the USA. Along with the UK, this will represent 87% of our global employee base.

Culture of Safe Working Practices

Tony Griffin is the nominated Director responsible for health, safety and environmental matters. 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 nurture the care and well-being of our employees and on-site 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 to the PLC Board meeting for discussion and review by the Directors.

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 was introduced and rolled out across Dechra Pharmaceuticals Manufacturing (DPM) in the 2017 financial year.

	2018	2017
Investigated Accidents (all)	43	69
Hazard Reports	1474	1706

For a number of years the Group has reported Lost Time Accident Frequency Rate (LTAFFR) as a non-financial key performance indicator (see page 29). A LTA is any 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. Any acquisitions during the year are included from the first full month that they become part of the Dechra Group. Over the course of the last 12 months the number of incidents has decreased from six to nil.

** 2018 UK National Average, medium sized businesses.

Lost Time Accidents and Proactive EHS

The Group has now achieved a year without a lost time accident, and this is particularly important within our manufacturing sites where historically the majority of the lost time accidents have occurred.

These results have arisen from placing a huge emphasis on creating an open safety culture of motivating people to report and discuss hazards and observations. Having this open safety culture provides us with the opportunities to fix problems before an accident can occur.

This has resulted in a total of over 1,400 hazard reports across all sites, with the Zagreb facility alone reporting almost 900 hazards within the year.

The year has seen a heavy investment in safety training. The Melbourne site has delivered safety training on a monthly basis and the Skipton site has delivered approximately 2,000 hours of safety training. This investment has resulted in a much more engaged and proactive workforce that are not only reporting problems but providing answers to fix them.

All sites have increased the focus on safety and building blocks have been put into place in order further to improve our safety performance. An audit programme has been launched which gives the business the ability to measure all areas against the agreed

Dechra standards, as well as the ability to use these findings to produce an action plan that will enable all areas to achieve standards of excellence.

The current round of safety audits provides all sites the opportunity to target key areas and enables us to invest in areas that will produce the best results to further enhance our safety performance.

We are all extremely proud of the progress our sites have made in health and safety thus far, but we are determined to push standards even further during the course of next year.



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.

Donations in Kind

Type of Charity	Charity	Jurisdiction	Description
Animal	Danish Cat Shelter	Denmark	Specific Cat Diets
Animal	AVA Association	France	100 Arthroquin units (£11,873)
Animal	KDPG	France	20 Bags of dog nutrition (£709)

DPM Volunteering

During the January 2018 team meeting in Melbourne, the DPM team as well as members of the DVP NA sales team participated in a CSR event at the Friends for Animals Sanctuary. The sanctuary was in the construction phase, so team members helped by moving debris, clearing walkways and fence lines. When completed the sanctuary

will provide a no-kill animal sanctuary for all types of domesticated animals, and offering the community the opportunity to experience the benefits of adopting and caring for these animals.



Corporate Social Responsibility

continued

Record-setting storms, earthquakes, wildfires, extreme flooding, and landslides devastated communities across North America in 2017. DVP NA team members responded with supplies and helpful hands.

Hurricane Harvey

On August 29, 2017, Hurricane Harvey hit the Texas Gulf Coast. Greater Houston was hit particularly hard with over 40 inches of rain and devastating floods resulting in over 20 Veterinary Hospitals temporarily closing in the area. DVP NA management coordinated the shipment of shampoos and sprays for the Disaster Relief Team at Texas A & M College of Veterinary Medicine & Biomedical Sciences who helped rescue and care for pets impacted by the disaster.

Alexis Hein, Territory Sales Manager – Houston, and her husband, collected donations of supplies, including Dechra products, for the Houston Pets Alive group where they volunteered their time supporting the organisation's efforts to rescue, treat, and reunite dogs with their owners. Alexis also delivered donations to a local veterinarian for people and pets sheltered at Houston's NRG stadium.



Alexis Hein and husband Kurt deliver donated Dechra products to Houston Pets Alive after Hurricane Harvey affected the Greater Houston Area in 2017.

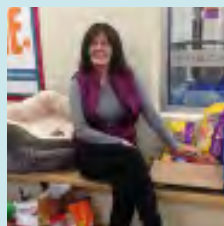
Hurricane Irma

Hurricane Irma hit North Florida in September 2017, some areas were without power for up to three weeks, multiple clinics were flooded, and homes completely destroyed. Blair Davies, the sales representative for the area, delivered Dechra donated products and offered assistance to clinics and hospitals in her area, helping to restore their facilities and get their businesses back up and running. Sandy Forehand, Territory Sales Manager – Eastern Florida, delivered Dechra donated products and offered her time to local rescue groups who were housing and caring for abandoned animals.

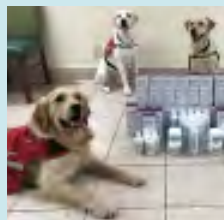
Bay Area California

Wildfires caused damaged in the Bay Area California as well as Santa Barbara and Ventura Counties, which also endured torrential rain falls causing mudslides. Jen Ball in the Bay Area and Brian Albertson in Santa Barbara and Ventura Counties, have devoted their efforts to supporting the veterinary communities in their territories with donations of fluids, medicine, and their time.

Other Non Financial Donations



In December 2017, Jennifer McGowan, Office Manager in Portland, led a drive to collect much needed supplies for the Animal Refuge League of Greater Portland's new 25,000 square foot facility.



On 6 June 2018, Dechra Canada donated water solutions, wipes, and shampoo to the Lions Foundation of Canada Dog Guides whose mission is to assist Canadians with a medical or physical disability by providing them Dog Guides at no cost.

Guide dogs of the Lions Foundation of Canada Dog Guides pose with Dechra donated products.



Financial Donations

This is the seventh 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, and each year the number of nominations received increases. This year we decided to increase the overall donation spend from £30,000 to £40,000, which was split equally between the following 20 charities:

Type of Charity	Charity	Country	Description
Animal	Cindy's Promise – Rescue and Rehab Inc.	Australia	Working to rescue and rehabilitate neglected and abandoned horses.
	Tacke Pomagacke	Slovenia	Provides animal assisted therapy, activity and education.
	Asociación BaasGalgo	Spain	Provides care to abandoned greyhounds across Spain.
	Smokey Paws	UK	Supplying specially designed animal oxygen masks to help save the lives of thousands of pets and wildlife caught up in fires or trapped in stressful situations.
	Animal Refuge League of Greater Portland	USA	Provides care and shelter for stray or abandoned animals.
	K9s on the Frontline	USA	Supplying fully trained service dogs at no cost to combat veterans suffering from post-traumatic stress disorder.
	S.N.I.P. (Spay Neuter Impact Project)	USA	Providing spay, neuter and vaccine clinics on the Pine Ridge Native American Reservation.
Environment	SeaWatchers (VLIZ)	Belgium	Assessing the impact of pollution, climate change and the exploitation of ocean resources.
	Promoter of the Conservation of Culture and the Environment AC	Mexico	Promoting the conservation of natural ecosystems.
People	Association Vestigium	Croatia	Helping the residents of Vrbani, one of Zagreb's newest neighbourhoods, with various community support projects.
	FB Humanitarians Zagreb	Croatia	Helping people in need meet their basic life needs with practical things such as food, hygiene supplies and medicines.
	New Future	Croatia	Ensuring children without adequate parental care can meet basic needs such as housing, nutrition, clothing, health care, education and leisure activities.
	Udruga OSIT	Croatia	Supporting mentally challenged people by organising workshops, projects, trips and excursions.
	Fußballverein Neufra / Do. e.V.	Germany	A registered football and sports club in Neufra on the Danube (Biberach district).
	Helferkreis Waldburg	Germany	Assisting refugees.
	Aquí Nadie se Rinde I.A.P.	Mexico	Supporting children who are fighting against cancer.
	Abirmeco	Mexico	Developing a digital educational programme for parents or guardians with the aim of improving the upbringing of children and eliminating school, intra-family and social violence.
	More Africa	Africa	Aiming to provide every child on the island of Zanzibar with an education, especially children with any kind of disability.
	Active Hope	UK	Supporting disadvantaged children in the Warrington area.
Cass County 4-H Dog Group	USA	Providing weekly training sessions to teach children about dogs.	

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 2018 financial year.

Business Unit	Jurisdiction	Amount	Description
Apex	Australia	£206	Donation to Cancer Research.
DPM Skipton	UK	£575	Donations to Yorkshire Cat Rescue, Pendle Dogs in Need, Moorland Rescue and Cancer Charity.
DVP Denmark	International	£1,376	Sponsoring the education of three children in India, Kenya and Philippines and Danish Cancer Society.
DVP EU	International	£46,713	Circle of Good: Donations to North Sea Foundation, Marine Conversation Society, Tour de Fundacja, The Ocean Clean Up and a study on the containment levels in fish.
DVP Germany	Germany	£682	Donations to Aulendorf Carnival, Veterinarians Without Borders, and Society for Cynological Research.
Genera	Croatia	£595	Donation to support young chemists meeting.
Genera	Slovenia	£320	Donation to the Slovenian beekeeping organisation.
PDRA	USA	£371	Donation to a project to develop an alternative to the veterinary fastidious medium.
Portland			

Corporate Social Responsibility

continued

Our Environment

Minimise our Environmental Footprint

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 at DPM

	Bladel		Florida		Skipton		Zagreb	
	2018	2017	2018	2017	2018	2017	2018	2017
Recovered, recycled and reused	100%*	100%*	32.0%	43.0%	83.5%	56.1%	95.8%	86.6%
Landfill	–	–	68.0%**	57.0%	–	20.4%	–	–
Waste & Controlled Drugs	–	–	–	–	16.5%	23.5%	4.2%	13.4%

* Recycled.

** The increase was a result of the hurricane damage to stock, which could not be 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.

Optimise the Energy Used

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 CO₂e per total £ million sales revenue' as the intensity ratio as this is a relevant indicator of the Group's growth.

	1 July 2017 to 30 June 2018	1 July 2016 to 30 June 2017	1 July 2015 to 30 June 2016
Scope 1	3,819	4,018	3,434
Scope 2	3,463	3,890	3,130
Vehicle emissions	1,703	1,618	1,511
Total Carbon Footprint (tonnes of CO ₂ e)	8,985	9,526	8,075
Intensity ratio (tonnes of CO ₂ e per £m)	22.1	26.5	32.6

As reported in last year's report, the main contributor to Scope 1 is the production of the nutrition supplement that is manufactured at Genera. This was explained in a case study in the 2016 Annual Report. This site has plans to reduce its carbon footprint by installing solar panels as detailed in the case study on the following page.

The intensity ratio has decreased by 4.4 tonnes of CO₂e 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. However the majority of the decrease was due to the reduction in the production of the nutrition supplement manufactured at Genera.

During the year, the Senior Executive Team (SET) agreed that it would adopt a policy of replacing all non-LED lighting to LED lighting over the next five years within its control. All of the lighting at the manufacturing facility in Florida and DSC are LED, and 70% of the Skipton site is covered by LED with the remainder due for completion in the 2019 financial year. A replacement programme is being undertaken at Bladel and Zagreb. During the year more than 100 bulbs were replaced with LED lighting in Zagreb, and phase one has been completed in Bladel, which covers the warehouse and the visual inspection room.

Case Study: Solar Renewable Energy Project supported by EU Funds

Our manufacturing facility in Zagreb has the opportunity to build a solar power plant on its site. The installation, costing £1.3 million, will be partially subsidised (60%) by EU funds. The Croatian Ministry of Environment and Energy has announced that this will be the largest solar renewable energy project in Croatia, with 5,540 photovoltaic (PV) panels being fitted onto the existing roof structures across the site.

Currently 100% of energy is sourced via the main grid. Energy costs in the EU are increasing and are predicted to continue to rise, coupled with the fact that it is planned that the Zagreb facility will increase its volume (number of packs) over the next five years, it is especially important from both a business and environmental perspective to utilise a renewable and sustainable energy source.

The implementation of this project is projected to reduce the site's CO₂ footprint by approximately 556 tonnes, which equates to 6.2% of the Company's total CO₂ emissions in 2018. It will also lower variable costs, mitigate the risks of electricity price fluctuations, and will have a direct impact on reducing the cost of goods sold.

Finally, the project will de-risk the site's energy supply by securing its own source of electricity via renewable sources.

The annualised level of electric power generation is expected to be approximately 1,545,000 kWh, which would provide nearly 30% of the site's electric power requirements and represents a yearly saving of £150,000.

Installation will start in October 2018 and is due to complete in June 2019.



Eco-friendly and Financially Cost-Effective Distribution Systems

The transportation of goods is the largest activity for DSC. On a yearly basis they handle approximately 45,000 deliveries to customers worldwide as well as receiving and storing approximately 1,300 full truck deliveries. Although the cost of transport is the predominant factor for choice of transportation, DSC has reviewed the method of transportation to find a form of transportation with the lowest carbon footprint.

The majority of the pharmaceutical products received by DSC are supplied from our manufacturing sites in Bladel, the Netherlands and Skipton, the UK. The products from Bladel are transported by road, whereas the products from UK are shipped by sea and road.

Products are shipped to our customers by road, air and sea. As the majority of the customers are based in Europe, road transportation is the main method. The following table shows the CO₂ emission for this form of transportation:

	2018	2017
Shipments	30,409	23,625
Total Weight (GRT)	16,665,247	25,060,715
CO ₂ Outlet (kg)	1,393,046	1,703,377
CO ₂ per kg	12.2	14.8

Sustainable Raw Materials in Our Nutrition Range

Since 2015, we have been reviewing the ingredients of our dry food to establish whether they can be obtained from a sustainable source. The raw materials are reviewed on a yearly basis for scarcity, and, if scarce, we endeavour to find an alternative raw material. Our focused action on the fish raw materials has resulted in the use of 100% certified fish in the dry cat diets from January 2018. Further information on how changes in our packaging have reduced our plastic usage and freight is provided in the Strategy in Action case study on pages 32 and 33.

SPECIFIC

IMPROVED SUSTAINABILITY

Reduced plastic usage • Reduced freight

CIRCLE of GOOD

Dechra

Corporate Social Responsibility

continued

Our Business

Improve the Knowledge and Skills of Veterinarians

Our relationship with veterinarians is key to our business and therefore, we provide added value services in the form of educational programmes focused on our key therapeutic sectors. We deliver this education through many channels including conferences and our digital e-learning environment, the Dechra Academy.

Dechra Academy

Dechra's dedication and commitment to enhancing the health of animals goes beyond the supply of high quality pharmaceuticals and includes vital education for animal health professionals. The Dechra Academy provides information that will help them better diagnose, monitor and treat conditions and aid the easy and convenient use of Dechra products.

Previously the Dechra Academy offer was mostly UK centred, it is now firmly internationally oriented and provides Continuous Professional Development (CPD) recognition by individual countries' authorities. There are 94 courses available in our Dechra Academy – a significant increase from a year ago – driven by making training available in multiple languages. The Dechra Academy offers 122 hours of accredited content across nine markets in eight languages. A number of new courses have also been created this year in the strategic therapy areas of Endocrinology and Dermatology.

On top of that, over 130 internal modules are available on Delta (our internal training resource) to enable Dechra employees to continue to be the best partners to the veterinary profession.

Earlier this year Dechra launched an email campaign across Europe, designed to drive professionals to the Dechra Academy. The successful campaign was a major contributor to almost 10,000 new user accounts this year alone that saw our user numbers grow 28% and triple in four years. The Dechra Academy was used in over 37,000 sessions with more than 6,000 users visiting the site more than once this year.

The updated Dechra Academy and internal Delta system are now working on the same platform. We will continue to update both, presenting relevant training and education in new ways to cater better for the changing requirements in an increasingly information-rich business environment.

As Dechra grows globally, more CPD content is becoming available to more countries all the time, with recognition approval currently in progress for the USA and Canada.

Collaboration with Industry

Dechra's Product Development team strategically looks for opportunities to involve its' team members with key professional and industry organisations. This has the benefits of directly increasing employees' scientific and regulatory knowledge, as well as the opportunity to develop leadership skills.

The University of Kansas has collaborated with industry and the FDA Center for Veterinary Medicine (CVM) to offer an ongoing seminar series covering topics that are key to veterinary drug development. Members of the Dechra Clinical Operations team have been speakers at two of these seminars. Karen Bond, Senior Clinical Trial Manager, presented on Data Quality from a study monitor's standpoint and Lisa Andreas, Senior Clinical Data Manager, presented on the importance of Data Management Plans in the conduct of clinical studies. Both presentations were extremely well received and sparked discussions within the industry on best practices.

Three of the members of the Clinical Operations team are actively involved in a cross functional working group that consists of a collaboration of three industry associations along with FDA CVM and is tasked with identifying best practices and optimal requirements for creation and submission of electronic data in both clinical and laboratory studies. This working group is about to release a white paper which will provide suggestions to FDA CVM regarding their policy on the issue.

Ben Moses, Clinical Operations Manager, regularly participates in the Society of Quality Assurance, the American Academy of Veterinary Pharmacology and Therapeutics, and the Generic Animal Drug Alliance (GADA). Ben is also the Chair of the Bioequivalence Subgroup at GADA, which provides excellent leadership opportunities and allows Dechra to help shape the evolving regulatory expectations related to the development of generic drugs.



Case Study: Academia and Industry Working together

The combination of the skills and expertise of our best academic organisations and industry leads to positive and practical outcomes. A good example of this type of collaboration was when Dechra, and the Biotechnology and Biological Sciences Research Council (BBSRC) funded a four year iCASE PhD programme at the Royal Veterinary College, University of London supervised by Prof. Ross Bond and Dr Anette Loeffler. Siân-Marie Frosini (née Clark) undertook the studies to support the use of topical therapy (medication that is applied directly on to the skin like a cream or gel rather than given as a tablet or injection) in the treatment of bacterial skin infections in dogs. In this era of growing awareness of antibiotic resistance, topical treatments are being seen as a better means for treating certain infections. This project generated three publications, five meeting abstracts at international conferences and resulted in the award of three prizes, with a number of manuscripts still in the pipeline for publication. Alongside traditional research, Siân-Marie undertook a six month placement at the DVP EU UK office where she worked alongside the dermatology product group, most notably creating a new Dechra Academy CPD module.

Overall, this collaboration has provided compelling evidence in support of topical therapy, and specifically fusidic acid, as an alternative to systemic antimicrobials, such as an injection or tablet, for the treatment of bacterial skin infections in dogs. Fusidic acid is one of the active ingredients contained in three of Dechra's leading products: *Isaderm*, *Isathal*, and *Canaural*.

Current guidelines encourage treatment using topical therapy in an effort to limit the spread of antimicrobial resistant bacteria and promote good antimicrobial stewardship. However, behaviour changes in veterinary practice are slow, and this project provides timely confirmation that concentrations of topically applied fusidic acid on the skin far exceed clinical resistance breakpoints, in other words the point at which the antibiotic defeats the bacteria. This excellent evidence helps to encourage veterinarians to change their prescribing habits and follow current recognised treatment guidelines for canine superficial pyoderma (bacterial skin infection).

Most strikingly, the novel methods developed during this project could help the microbiologists to determine resistance breakpoints specifically for topical therapies such as the fusidic acid contained in *Isaderm* gel. Currently, these breakpoints are based on systemic therapies, and are often misinterpreted for topical-only antimicrobials. Development of this novel method into a system to determine clinical breakpoints based on topical application of a drug would be a significant leap forward in the appropriate use of antimicrobials.

This project is an excellent example of science and academia working with industry to develop veterinary medicine for the benefit of pet health. Siân-Marie is also continuing to build on her collaborative start with Dechra and we are all grateful for the unique opportunity this project has given.

To Act with Honesty and Integrity

We are committed to acting responsibly and with integrity, respecting the laws, regulations, traditions and cultures of the countries within which we operate. This is reflected through our Values. We expect our third parties to trade with honesty and integrity, and therefore we have introduced a Third Party Code of Conduct, which communicates what we expect from our trading partners in relation to health, safety and environmental standards, internationally accepted standards of workers' rights, use of child and forced labour, ethical standards, anti-bribery and anti-corruption, and compliance with relevant laws and regulations.

ABC Training for Employees

During this financial year the Anti-Bribery and Anti-Corruption course on our e-learning platform (Delta) was completed by a further 381 employees as well as those employees from Dechra-Brovel, AST Farma and Let Vet. The course has been translated into nine languages, and it is an automatic mandatory course, within one month of commencement, for all new employees.

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.

Animal Welfare

It is our mission to develop products to improve animal welfare. We are committed to the responsible use and humane treatment of animals. We carefully consider the use of animals in research. However, occasionally it is necessary to conduct toxicology testing to achieve product registrations. The majority of the toxicology information can be derived from existing bibliographic data, when additional data is required by the regulators a third party Contract Research Organisation (CRO) will undertake the study on a minimum number of animals.

The following principles are applied in any trials which involve animals:

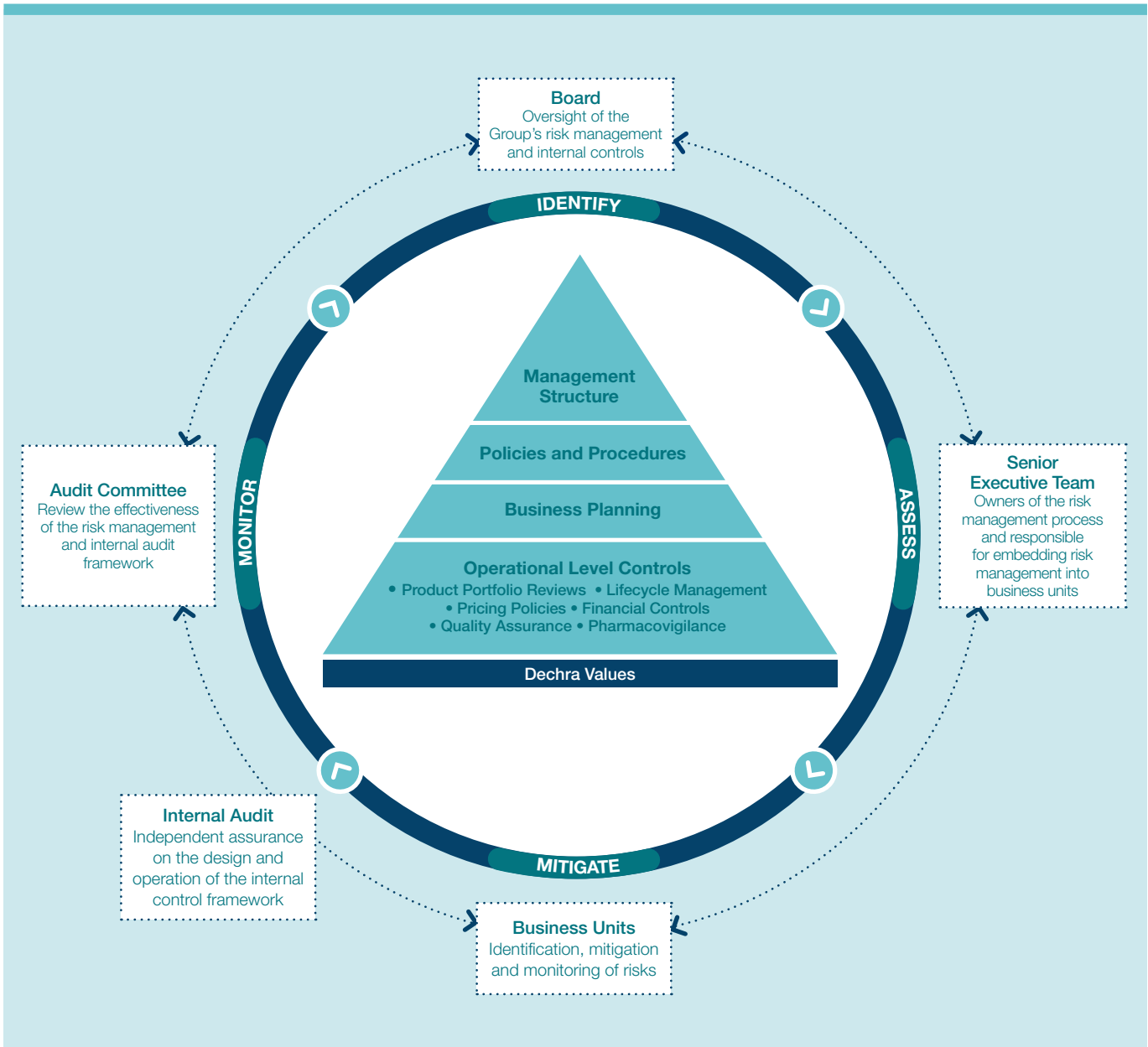
- animals should be treated humanely with greatest consideration given to their health and welfare and consistent with meeting the necessary scientific objectives.
- all animal studies should only be performed after considering whether the numbers of animals can be reduced, replaced or the procedures refined to minimise distress.



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 provide reasonable but not absolute assurance that the Group will be successful in delivering its objectives.



Risk Management Process

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

The Board oversees the risk management and internal control framework and the Audit Committee reviews the effectiveness of the risk management process and the internal control framework.

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

SET members present their risks, controls and mitigation plans to the Board for review on a rolling programme throughout the year.

Internal Audit co-ordinate the risk reporting process and provide independent assurance on the internal control framework.



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 into 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 and How to Raise a Concern;
- Delegation of Authorities;
- Dechra Finance Manual, including Tax and Treasury policies;
- Anti-Bribery and Anti-Corruption;
- Data Protection;
- Sanctions; and
- Charitable Donations.

Strategy and Business Planning

We have a five year strategic plan which is developed by the SET and endorsed 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.

Operational Controls

Our key operational control processes are as follows:

- **Product Pipeline Reviews:** We review our pipeline regularly to identify new product ideas and assess fit with our product portfolio, assess whether products in development are progressing according to schedule; and assess the expected commercial return on new products.
- **Lifecycle Management:** We manage and monitor lifecycle management activities for our key products to meet evolving customer needs.
- **Pricing Policies:** We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.
- **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.
- **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.

The key controls in place to manage our principal risks are described in further detail on pages 56 to 59.

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 2018

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

- our Group Code of Conduct and Third Party Code of Conduct have been developed to improve our ability to comply with existing and emerging legislation;
- a new Data Protection Policy and supporting procedures have been developed to support compliance with the EU General Data Protection Regulation (GDPR);
- we have made further enhancements to our manufacturing Quality Management Systems to continue to meet relevant regulatory standards; and
- our Tax and Treasury policies and procedures have been updated to comply with new tax regulations and to reflect a number of improvements in our Treasury processes, respectively.

Plans for 2019

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.

Understanding Our Key Risks

Dechra is one of only a handful of listed veterinary pharmaceutical 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 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, 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 pharmaceutical 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.

Emerging Risks

Given current geopolitical uncertainty we have identified three emerging risks as detailed below:

Taxation

The Group's effective tax rate (ETR) is subject to taxation policy in the territories in which it operates. The Group has benefited in the year from the reduction in corporate tax rate in the USA for the Tax Cuts and Jobs Act. We continue to monitor developments in the USA tax reform which may cause adverse movements in the Group's ETR.

The EU is currently challenging the legality of the UK Control Foreign Company (CFC) tax legislation from which the Group benefits. We continue to monitor developments.

The Group currently benefits from patent and innovation box tax incentives. The Group's ETR will increase as qualifying patents expire.

Brexit

The decision by the UK to leave the European Union (EU) has created volatility in markets and uncertainty about how future trading relationships, regulatory processes and supply chains will operate. Our priority is to maintain continuity of supply of our products to our customers in the UK and the EU. We have established a cross-functional team to assess and monitor the situation and determine which actions need to be taken.

Our primary focus is on addressing Brexit risk in our supply chain. This includes transferring UK registered Marketing Authorisations for products that are sold in the EU to an EU entity and duplication of product release testing for products that are transferred between the UK and the EU.

The Group has implemented a hard Brexit mitigation plan which will provide an EU based laboratory testing facility and staff for batch testing if this is required and the transfer of product registrations to an EU domiciled legal entity within the Group. This will entail an upfront investment of £0.2 million in capital and £1.0 million in one-off expenses. If EU batch testing and increased customs duties is required this will result in additional operating costs of approximately £0.8 million.

Our current view on the potential changes that may result from Brexit 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 economic uncertainty and exchange rate volatility; and
- we will monitor the impact on workforce and global mobility to maintain an effective system for resource planning.

The Board reviews the potential impact of Brexit as an integral part of the review of the Principal Risks, rather than as a stand alone risk. The Board will continue to assess the potential impacts of Brexit as the process evolves.

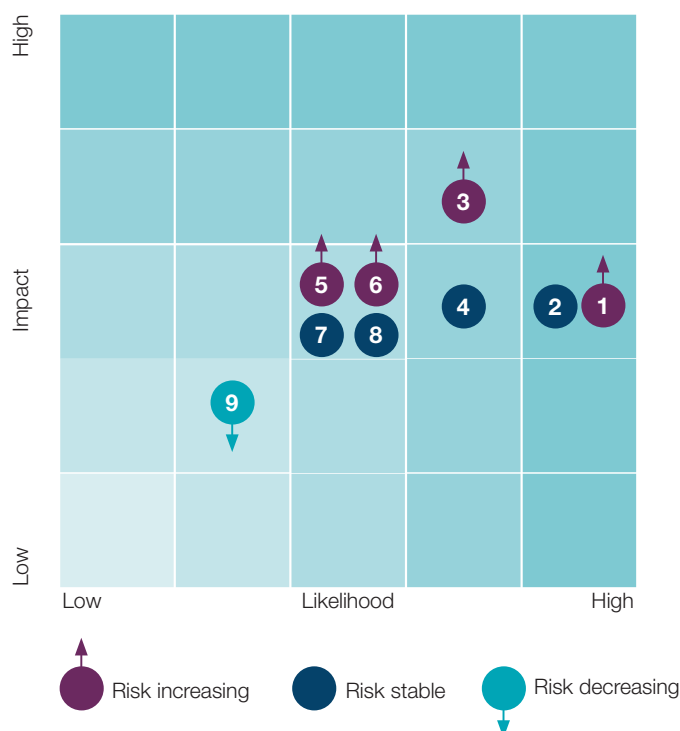
Iran

We continue to monitor the potential impact of US sanctions on our existing business with Iran, where we currently sell £1.3 million of products that are on the UN exempt sanctions list.

Principal Risks

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 risk profile below therefore details the nine principal risks that are specific to our business and provides information on:

- their prioritisation;
- 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

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
	<p>1 Market Risk: The emergence of veterinary buying groups and corporate customers.</p> <p>We sell and promote primarily to veterinary practices and distribute our products through wholesaler and distributor networks in most markets.</p> <p>In a number of mature markets, veterinarians are establishing buying groups to consolidate their purchasing, and corporate customers are also emerging.</p>	<p>The emergence of corporate customers and buying groups represents an opportunity to increase sales volumes and revenue but may result in reduced margins.</p>	<p>We manage and monitor our national and European pricing policies to deliver equitable pricing for each customer group.</p> <p>Our relationships with larger customers are managed by key account managers.</p> <p>Our marketing strategy is designed to support veterinarians in retaining customers by promoting the benefits of our product portfolio in our major therapeutic areas.</p>	<p>▲</p> <p>Continuing customer consolidation in USA and major EU markets</p>
 	<p>2 Regulatory Risk: Continuing pressure on reducing antibiotic use.</p> <p>The issue of the potential transfer of antibacterial resistance from food producing animals to humans is subject to regulatory discussions.</p> <p>In some countries this has led to government recommendations on reducing the use of antibiotics in food producing animals.</p>	<p>Reduction in sales of our antimicrobial product range.</p> <p>Our reputation could be adversely impacted if we do not respond appropriately to government recommendations.</p>	<p>Regular contact is maintained with relevant veterinary authorities to enable us to have a comprehensive understanding of regulatory changes.</p> <p>We strive to develop new products and minimise antimicrobial resistance concerns.</p>	<p>◀▶</p>
  	<p>3 Competitor Risk: Competitor products launched against one of our leading brands (e.g. generics or a superior product profile).</p> <p>We depend on data exclusivity periods or patents to have exclusive marketing rights for some of our products.</p> <p>Although we maintain a broad portfolio of products, our unique products like <i>Vetoryl</i> and <i>Felimazole</i> have built a market which may be attractive to competitors.</p>	<p>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.</p> <p>Costs may increase due to defensive marketing activity.</p>	<p>We focus on lifecycle management strategies for our key products to ensure they fulfil evolving customer requirements.</p> <p>Product patents are monitored and defensive strategies are developed towards the end of the patent life or the data exclusivity period.</p> <p>We monitor market activity prior to competitor products being launched, and develop a marketing response strategy to mitigate competitor impact.</p>	<p>▲</p> <p>Competitor product launches against some of our key products</p>
	<p>4 Product Development and Launch Risk: Failure to deliver major products either due to pipeline delays or newly launched products not meeting revenue expectations.</p> <p>The development of pharmaceutical products is a complex, risky and lengthy process involving significant financial, R&D and other resources.</p> <p>Products that initially appear promising may be delayed or fail to meet expected clinical or commercial expectations or face delays in regulatory approval.</p> <p>It can also be difficult to predict whether newly launched products will meet commercial expectations.</p>	<p>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.</p> <p>Our market position in key therapeutic areas could be affected, resulting in reduced revenues and profits.</p> <p>Where we are unable to recoup the costs incurred in developing and launching a product this would result in impairment of intangible assets.</p>	<p>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.</p> <p>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.</p> <p>Each development project is managed by co-project leaders who chair project team meetings.</p> <p>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.</p> <p>In respect of all new product launches a detailed marketing plan is established and progress against that plan is regularly monitored.</p> <p>The Group has a detailed market knowledge and retains close contact with customers through its management and sales teams which are trained to a high standard.</p>	<p>◀▶</p>

Understanding Our Key Risks



continued

Link to
Strategic
Growth
Driver and
Enabler


Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
  	<p>5 People Risk:</p> <p>Failure to resource the business to achieve our strategic ambitions, particularly on geographical expansion and acquisition.</p> <p>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.</p> <p>In the UK, the uncertainty created by Brexit could impact the hiring and retention of staff in some areas.</p>	<p>Failure to recruit or develop good quality people could result in:</p> <ul style="list-style-type: none"> • capability gaps in new markets; • challenges in integrating new acquisitions; or • overstretched resources. <p>This could delay implementation of our strategy and we may not meet shareholders' expectations.</p>	<p>The Group HR Director reviews the organisational structure with the SET and the Board 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.</p> <p>A development programme is in place to identify opportunities to recruit new talent and develop existing potential.</p>	 <p>Increasingly competitive labour market with particular challenges in recruiting quality and technical capabilities</p>
  	<p>6 Regulatory Risk:</p> <p>Failure to meet regulatory requirements.</p> <p>We conduct our business in a highly regulated environment, which is designed to ensure the safety, efficacy, quality, and ethical promotion of pharmaceutical products.</p> <p>Failure to adhere to regulatory standards or to implement changes in those standards could affect our ability to register, manufacture or promote our products.</p> <p>Brexit presents uncertainty regarding the regulatory standards and transitional arrangements between the UK and the EU.</p>	<p>Delays in regulatory reviews and approvals could impact the timing of a product launch and have a material effect on sales and margins.</p> <p>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.</p> <p>Brexit transition may result in additional regulatory and quality control requirements and associated costs.</p> <p>Non-compliance with regulatory requirements may result in delays to production or lost sales.</p>	<p>The Group strives to exceed regulatory requirements and ensure that its employees have detailed experience and knowledge of the regulations.</p> <p>Manufacturing and Regulatory have established quality systems and standard operating procedures in place.</p> <p>Regular contact is maintained with all relevant regulatory bodies in order to build and strengthen relationships and facilitate good communication lines.</p> <p>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.</p> <p>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.</p> <p>Work is in progress to transfer UK registered Marketing Authorisations for products sold in the EU to an EU entity and to establish duplicate product release testing for products transferred between the UK and the EU.</p> <p>External consultants are used to audit our manufacturing quality systems.</p>	 <p>Increasing regulatory standards and additional complexity due to Brexit</p>
	<p>7 Acquisition Risk:</p> <p>Identification of acquisition candidates and their potential integration.</p> <p>Identification of suitable candidates and securing a successful approach involves a high degree of uncertainty.</p> <p>Acquired products or businesses may fail to deliver expected returns due to over-valuation or integration challenges.</p>	<p>Failure to identify or secure suitable targets could slow the pace at which we can expand into new markets or grow our portfolio.</p> <p>Acquisitions could deliver lower profits than expected or result in intangible assets impairment.</p>	<p>We have defined criteria for screening acquisition targets and we conduct commercial, clinical, financial and legal due diligence.</p> <p>The Board reviews acquisition plans and progress regularly and approves all potential transactions.</p> <p>The SET manages post acquisition integration and monitors the delivery of benefits and returns.</p>	






Link to
Strategic
Growth
Driver and
Enabler

Enabler	Risk	Potential Impact	Control and Mitigating Actions	Trends
  	<p>8 Reliance on Third Parties Risk: A supply failure on a key product may affect our ability to develop, make, or sell our products.</p> <p>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.</p>	<p>Raw material supply failures may cause:</p> <ul style="list-style-type: none"> 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. <p>Shortages in manufactured products and third party supply failures on finished products may result in lost sales.</p>	<p>We monitor the performance of our key suppliers and act promptly to source from alternative suppliers where potential issues are identified.</p> <p>The top ten Group products are regularly reviewed in order to identify the key suppliers of materials or finished products.</p> <p>We maintain buffer stocks and/or dual sourcing arrangements of key products.</p> <p>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.</p> <p>We have recruited a dedicated team to manage our third party supplier network.</p>	
  	<p>9 People Risk: Failure to retain high calibre, talented senior managers and other key roles in the business.</p> <p>Our growth plans and future success are dependent on retaining knowledgeable and experienced senior managers and key staff.</p>	<p>Loss of key skills and experience could erode our competitive advantage and could have an adverse impact on results.</p> <p>Inability to attract and retain key personnel may weaken succession planning.</p>	<p>The Nomination Committee oversees succession planning for the Board and the SET.</p> <p>Succession plans are in place for the SET together with development plans for key senior managers. Key person insurance is in place where appropriate.</p> <p>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.</p>	 <p>Board and SET succession planning managed successfully</p>

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



Our Governance

Giving a clear understanding
of Dechra's governance.

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Read more on **Corporate Governance**
on pages 63 to 73





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 Governance report for the year ended 30 June 2018.

Values

Dechra established a Code of Conduct in August 2009, which set out the standards of conduct to be adopted by all employees. However, in light of recent acquisitions and the growth of the Group, it was agreed that the Code of Conduct would be updated and relaunched. During the year, the Board approved the revised Code of Conduct, which encompasses the Group's Values, the standards of conduct to be adopted by all Dechra businesses worldwide and an overview of how to raise a concern. For further details please refer to page 73.

Managing Governance

The Board recognises that excellence in corporate governance is important 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 no membership changes in the Board or Committees during the year.

The Senior Executive Team (SET) has the responsibility for the overall leadership of the Group, driving the successful implementation and execution of the strategy. Further details of the SET can be found on pages 64 to 66.

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 2018 financial year we undertook an external 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 dynamic and consistent with the organisational culture of openness. The findings from this evaluation are detailed on page 71.

During the year the Board formalised its policy on diversity. The Board is proud of the diversity within the Group and monitors and reviews our position in this area. Further details can be found in the Nomination Committee Report on pages 80 to 82.

Accountability

We are required by the Code to include an assessment of the viability of the Company. This is covered on page 72. Further details can be found in the Audit Committee Report on how the Audit Committee have assisted the Board in reviewing the financial reporting and internal financial control effectiveness, and managing the relationship with the external auditor.

Remuneration

Our Remuneration Policy is designed to promote the long term success of the Group and to reward the creation of long term value to shareholders. Further details can be found in the Directors' Remuneration Report on pages 83 to 98.

Relations with Shareholders

The Annual General Meeting will be held in London on 19 October 2018 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
3 September 2018

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 28 and 29.

Board Membership

Details of the Directors together with their biographical details can be found on pages 64 and 67.

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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 Dechra Veterinary Products (DVP) EU	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Provide independent and constructive challenge. • Represent a broad range of commercial and industry experience and independent judgement. • Evaluate strategy and risks.

Board of Directors

Executive Directors



Ian Page: Chief Executive Officer

Committee Membership: Disclosure (Chairman).

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 management buyout 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: None.

Pets: 



Richard Cotton: Chief Financial Officer

Committee Membership: Disclosure.

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.

Pets: 



Tony Griffin: Managing Director, Dechra Veterinary Products EU

Committee Membership: Not applicable.

Skills and Experience: Tony has over 30 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.

Pets: 

Senior Executive Team

The Senior Executive Team comprises the Executive Directors a



Dr Susan Longhofer: Business Development and Regulatory Affairs Group Director

Background: 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 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, USA.

Pets: 



Dr Anthony Lucas: Group Product Development Director

Background: 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 blackbelt. 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, USA.

Pets: 



Mike Eldred: President North America

Background: 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 US and Canadian team to 169 people and with a strong Dechra culture has grown sales revenue to £148.4 million. Mike has also been involved in several commercial agreements and acquisitions for the Group including Pharmaderm, DermaPet, Phycos Animal Health and Putney. Mike has a BA in Business, and an MBA. He is located in Kansas, USA.

Pets: 



Giles Coley: Dechra Veterinary Products International Group Director

Background: 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 Sansaw, UK.

Pets: 

and the following:



Katy Clough: Group HR Director

Background: 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 Software, 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.



Allen Mellor: Group IT Director

Background: Allen joined the 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.

Pets: 



Andrea Dodds: Group Marketing Director

Background: Andrea joined Dechra in October 2017 from Colgate-Palmolive, where she was Marketing Director for Regions in Latin America and Eurasia. She led the implementation of central marketing teams providing strategic and operational support to the regions' commercial teams.

Andrea brings extensive international experience gained in senior marketing roles including Colgate's Global Marketing in New York and Hill's Pet Nutrition in Europe and the USA. She developed and executed global product launch, branding and business development programmes. Prior to joining Colgate, she worked for Unilever and Beiersdorf and holds a BSc in Marketing, Engineering and IT. She is located in Sansaw, UK.

Pets: 



Melanie Hall: Company Secretary

Committee Membership: Disclosure

Background: Melanie joined Dechra in January 2010 as the Assistant Company Secretary, and was promoted to Deputy Company Secretary in May 2015 and Company Secretary in July 2017. Prior to joining Dechra she has gained over 25 years' experience in various company secretarial roles including at GKN plc, TRW Automotive Inc and Pendragon PLC. Melanie is a Fellow of the Institute of Chartered Secretaries and Administrators. She is located at the Head Office, Northwich, UK.

Pets: 

Non-Executive Directors



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 Managing Director 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.



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 Senior Independent Director at Bonmarche Holdings plc (appointed October 2013) and Non-Executive Director of Lloyd's Register Group Limited (appointed August 2018).

Pets: 



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 of the Royal Academy of Arts (appointed October 2012).

Pets: 



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.

Pets: 

Corporate 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	Bi-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 strategy, approval of acquisitions and business development proposals, the dividend policy, budget, internal controls and risk management and Group policies. Other matters have been delegated to the Board Committees, the SET and other committees such as the Data Protection Committee.

The schedule of matters are reviewed periodically and were last reviewed in July 2017 along with the Delegation of Authority Policy. The Delegation of Authority Policy defines who is authorised to make decisions on behalf of the Group and their authority limits for both monetary and non-monetary decisions.

Board Meetings

The Board is scheduled to meet eight times per year. During the year, four additional meetings were held in relation to the acquisition of AST Farma B.V. and Le Vet Beheer B.V. (the Acquisition). Attendance at the Board and Committee meetings during the year to 30 June 2018 is set out in the table below:

	Tony Rice	Ian Page	Richard Cotton	Tony Griffin†	Julian Heslop	Lawson Macartney	Ishbel Macpherson
Appointment Date	5 May 2016	13 June 1997	3 January 2017	1 November 2012	1 January 2013	1 December 2016	1 February 2013
Board Met 12 times							
Audit Committee Met 7 times ‡							
Disclosure Committee Met 2 times							
Nomination Committee Met 4 times							
Remuneration Committee Met 4 times							

 Meetings attended

† Tony Griffin did not attend an ad hoc Board meeting due to a prior commitment.

‡ The Audit Committee met seven times, three of these were additional meetings held in relation to the Acquisition.

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:

- Appointment of the Disclosure Committee;
- Nutrition Strategy;
- Acquisition of RxVet Limited;
- Acquisition of Ast Farma B.V. and Le Vet Beheer B.V., including the approval of the shareholder circular and the financial structure of the acquisition;
- Medium term loan of up to £350.0 million;
- Diversity Policy;
- FRC Consultation on the Code;
- Schedule of Matters and Delegated Authorities; and
- Code of Conduct.

Board Committees

The Board has formally delegated specific responsibilities to Committees, namely the Audit, Remuneration and Nomination Committees. In addition, during the year it approved the establishment of a Disclosure Committee, whose members are the Chief Executive Officer, the Chief Financial Officer and the Company Secretary. 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	Main Responsibilities	Committee Report on Pages
Audit	<ul style="list-style-type: none"> • To review and oversee the Group's financial and narrative reporting processes and to monitor the integrity of the financial statements, 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 and the work of the internal audit function. • 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. • To review and approve the significant accounting policies. 	74 to 79
Disclosure	<ul style="list-style-type: none"> • To develop and maintain adequate procedures, systems and controls to enable the Company to comply with its obligations regarding identification and disclosure of inside information. • To verify all significant regulatory announcements, the Annual Report and other documents issued by the Company comply with applicable requirements. 	
Remuneration	<ul style="list-style-type: none"> • 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. • To approve the design of any employee share schemes. 	83 to 98
Nomination	<ul style="list-style-type: none"> • To oversee the plans for management succession. • To recommend appointments to the Board. • To evaluate the effectiveness of the Non-Executive Directors. • To consider the structure, size and composition of the Board. 	80 and 82

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.

Corporate Governance

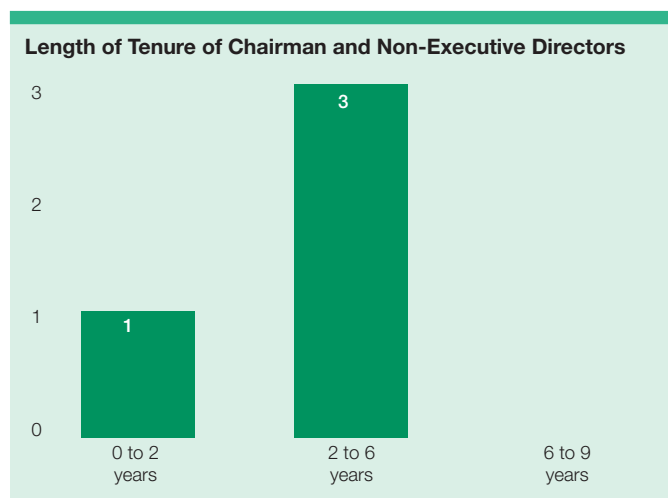
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Effectiveness

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 no changes at Board level over the past 12 months. The Nomination Committee has retained an independent recruitment consultant, Dzaleta Consulting, to assist in the appointment of a further Non-Executive Director and it is anticipated a suitable appointment will be made before the end of 2018 calendar year.

The Nomination Committee Report on pages 80 and 82 provides further information on the Non-Executive Director recruitment process, succession planning measures taken by the Company together with how we are developing the talent pool internally.



Conflicts of Interest and External Board Appointments

Under the Companies Act 2006 (the Act), 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. As permitted under the Act, 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.

The Board has established procedures for the disclosure by Directors of any such conflicts, and also for the consideration and authorisation of these conflicts. Directors are required to submit any actual or potential conflicts of interest they may have with the Company to the Board. The non-conflicted Directors are able to impose limits or conditions when giving or reviewing authorisation. The Board reviews the Conflicts of Interest register annually and on an ad hoc basis when necessary. Any potential conflicts of interest are considered by the Board prior to the appointments of new Directors. During the financial year under review no actual conflicts have arisen.

Ian Page was the Non-Executive Chairman of Sanford DeLand Asset Management Limited (Sanford) until October 2017, when he resigned. 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 was 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, a Board meeting was held at the AST Farma/Le Vet facilities in Oudewater, the Netherlands. This meeting provided the Board with an informal opportunity to meet with senior management based at this site, as well as senior managers from DVP EU corporate office and the Bladel Site Director.

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 continued his induction and has visited the Company's facilities and had meetings with the management teams at Sydney, Australia and Skipton, UK. He has also attended a field visit with a member of the UK Equine sales team, which provided an opportunity to observe the sales team's activity in the field and their day-to-day interaction with practicing veterinarians. An introduction to Remuneration Committee responsibilities was provided to Lawson by our remuneration advisors, Deloitte LLP.

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

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. 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 to ensure that they remain fit for purpose. The evaluation of the Board and its Committees, focuses 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 2017 Internal Board Evaluation

The findings of the internal evaluation were discussed at the July 2017 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
Executive Director Succession Planning	Succession planning for Executive Directors was reviewed at the February meeting of the Nomination Committee
Non-Executive Director Induction	The comments received have been fed into the Induction programme and any gaps in the last induction have been addressed
Concise Board Papers	Work is still to be undertaken with regards to ensuring all Board papers are executive summaries and focus the Board on key issues

- The 2018 External Board Evaluation
The last external evaluation was undertaken in 2014, however due to changes in the Board it was agreed to defer this until 2018. Independent Audit Limited (Independent Audit) was engaged to carry out an external evaluation of the Board and its Committees. The process undertaken by Independent Audit involved:

- a review of the Board and Committee minutes, agenda papers and ancillary documents;
- one to one meetings with each member of the Board, the Group HR Director, Head of Internal Audit and Assurance, and the Company Secretary. Prior to the meetings a list of 'focus items' was forwarded to each interviewee which included the role of the Board and its Committees, focus on strategic versus operational matters, the Chairman's leadership, relationships between Executive and Non-Executive Board members along with areas for discussion such as risk, Board composition and succession planning; and
- observing a Board meeting.

Following the interviews a comprehensive report was compiled for initial discussion with the Chairman, after which there was a presentation to the Board in relation to the various findings and suggested actions.

The findings were presented to the Board in May 2018, and were discussed further at the June 2018 meeting. Overall, the review indicated that the Board operates effectively, is robust and challenging but noted the following focus areas:

- Increase the diversity of the Board;
- Continue to develop the organisational design to meet future growth requirements;
- Concise Operational and Functional Board reports; and
- Bi-annual update on product pipeline and product development.

A report on the actions taken will be included in next year's Annual Report.

Independent Audit has performed no other services for the Board. The Board will perform a further external evaluation in three years' time. Internal evaluations will be completed during the intervening period.

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 101 and 104 to 110 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 2018 the Group had cash balances of £79.7 million and net borrowings of £211.4 million (2017: cash balances of £61.2 million and net borrowings of £120.0 million). Further information on available resources and committed bank facilities is provided in notes 18 and 21 to the financial statements.

As reported last year the Group 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). 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, the first of which was exercised in June 2018. The facility is now committed until July 2023.

In January 2018, the Group entered into a £350.0 million multi-currency term loan facility (Term Loan) with BNP Paribas Fortis SA/NV, Fifth Third Bank, HSBC Bank plc, Santander UK plc and Lloyds Bank plc, with the loans made or to be made under the Term Loan to be applied towards the acquisition of AST Farma and Le Vet and any other permitted acquisitions. All parties, terms and conditions are the same as the existing £235.0 million Facility Agreement. The maturity date on the Term Loan is 31 December 2020. The Term Loan had an initial drawdown period expiring on 30 June 2018, this has been subsequently extended to 31 December 2018.

Corporate Governance

continued

Assessment of Prospects

Dechra has consistently delivered on its strategic objectives resulting in a strong track record of growth. The Group's strategy remains unchanged and is set out on pages 12 and 13 of the Strategic Report. The key factors supporting the Group's prospects are explained throughout the Annual Report and are summarised below:

- a clear strategic focus;
- a growing global animal health market;
- a clear portfolio focus with strong market positions in a number of key therapeutic areas;
- a strong development pipeline and a track record of pipeline delivery;
- manufacturing flexibility, with a wide range of dosage forms, small and large scale production batches;
- an entrepreneurial and experienced management team;
- a recognised brand with a strong reputation for providing high quality products with technical support;
- an expanding international focus;
- talented people and expertise; and
- a sound track record of successful acquisitions to expand our product portfolio and geographic reach.

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.

The Assessment Process and Key Assumptions

The Group's prospects are assessed primarily through its strategic and financial planning processes over a five year time period. The strategic plan is supported by a five year financial plan, which are updated annually by the SET and reviewed by the Board. The Board also reviews the Group's principal risks on a rolling basis throughout the year, based on updates from SET members.

The planning process considers risks to sales and cost forecasts for each part of the Group, the Group's consolidated income and cash flow forecasts, and includes key assumptions to support longer term projections. The financial plans are reviewed to ensure that adequate financing facilities are in place for the period of the plan.

Progress against financial budgets, forecasts and key business objectives are reviewed through monthly business performance reviews at both Group and business unit levels. Mitigating actions are taken to address under performance.

The latest updates to the plans were reviewed in June 2018 and considered the Group's current position, its future prospects and reaffirmed the Group's stated strategy.

Assessment of Viability and Time Period

The Board has determined that a three year period to 30 June 2021 is an appropriate period over which to provide its viability statement. This time period 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. The viability assessment takes account of all the committed expenditure of the Group.

Although the output of the Group's strategic and financial planning processes reflects the Board's best estimate of the future prospects of the business, the Group has also conducted stress testing to assess the liquidity impact of a range of alternative scenarios.

These scenarios have been developed by considering those principal risks that could have a material impact on viability. The potential impact of each principal risk is described on pages 56 to 59 of the Strategic Report and can be summarised into two broad categories, namely loss of profits on key products and product pipeline delays. A number of severe but plausible stress tests have been conducted on these areas including a significant pipeline delay; significant profit reduction on top five manufactured products; significant decline in forecast antibiotic sales; loss of key purchased products and loss of key in-licensed products. A combination of the individual scenarios and an overall reverse stress test on the Group's borrowing facilities and covenant commitments have also been considered.

The Board believes the results of the stress testing demonstrate that the Group should be able to withstand the impact in each case due to its strong cash generation, strong balance sheet, and existing financing arrangements.

Viability Statement

Based on the results of this analysis and the assumptions used in the Group's planning process, 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 2018.

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 54 and 55.

Relations with Shareholders and Other Stakeholders

Dialogue with Institutional Shareholders

Relationships with shareholders receive high priority and a rolling programme of meetings between institutional shareholders and the Chief Executive Officer and Chief Financial Officer have been held throughout the year (a summary of the main events are shown below).

Investor Presentations

Full Year: London and Edinburgh	September 2017
Half Year: London and Edinburgh	February/March 2018

Investor Roadshows

US: New York	November 2017
France: Paris	November 2017
Germany: Dusseldorf and Frankfurt	December 2017
Switzerland: Zurich	December 2017

Investor Meetings and Calls

Acquisition and Placing	January 2018
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Investor Conferences

(Chief Financial Officer only)

UK	November 2017
UK	April 2018

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.

Feedback is collated by the Company's brokers after Investor 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.

Engagement with Other Stakeholders

Code of Conduct

The Company's Values and culture help drive the Group's success, encapsulate its business ethics and set the standards under which the Group operates. During the year the Board approved a refreshed Code of Conduct, which now provides an overview of all of the standards under which the business operates into one document.

Health and Safety

The Board attaches great importance to the health and safety of its employees. Twice a year a comprehensive health and safety report is provided to the Board for its review.

Employee Engagement

The Board believes that the Group's employees are its greatest asset. The results of the Group's first employee engagement survey was presented by the Group HR Director at the June meeting. During the forthcoming year, the Board will be kept informed of the progress made in relation to any focus areas identified.

The Board has considered how best to address the new Code's requirement for Board engagement with employees and is currently recruiting a further Non-Executive Director to fulfil this requirement.

Further information in relation to the Group's Code of Conduct, Health and Safety, employee engagement and engagement with its other stakeholders can be found in the Corporate Social Responsibility report on pages 42 to 53.

Tony Rice

Non-Executive Chairman
3 September 2018

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 (the Committee) report. During the year in addition to our regular duties, we focused on revising the non-audit fees policy and the proposed amendments to the risk reporting and viability statement following guidance from the Financial Reporting Council.

Non-Audit Services

For the first time in four years the level of non-audit fees exceeded 50% of the audit fee, which was wholly due to the engagement of PricewaterhouseCoopers LLP (PwC) as the reporting accountant for the circular to shareholders to approve the acquisition of AST Farma B.V. and Le Vet Beheer B.V. (the Acquisition), which completed in February 2018. The time to complete this assignment was extremely short as a result of the vendor requirements which gave the Company a limited period of exclusivity. The Committee consequently considered the proposal by management to use PwC who were best placed to meet the assignment timetable and exceptionally gave their approval for the engagement. In giving their approval the Committee noted that a team independent of the audit team would carry out the work, the absence of any remuneration payable to the audit partner or team as a result of the work, its consistency with the revised ethical standard published by the FRC, and the low level of non-audit fees over the previous three year period. It also made the decision not to use PwC in future for such work. It consequently concluded that this appointment would not adversely impact PwC's independence or integrity as auditor.

The Committee also agreed during the year that in addition to their policy of not using the external auditor where another professional firm can provide the same or similar service they would set an annual cap that non-audit fees would not exceed 30% of the annual audit fee in future years.

It is the Committee's expectation going forward that the result of this policy will be that, excluding the fee paid to the external auditor for their review of the interim accounts, other non audit fees will be minimal and related to work required by legislation of the countries in which the Group operates.

Annual Report 2018

The judgements and factors that the Committee considered in reviewing the Annual Report and Accounts for 2018 (Annual Report 2018) 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 how the Committee satisfied itself on the validity of the judgements made.

The Committee has reviewed the revised viability statement, which now clearly distinguishes the assessment of long term prospects from the viability assessment, with a five year time frame for long term prospects and a three year time frame for viability.

Finally, we specifically reviewed, at the request of the Board, whether the 2018 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
3 September 2018

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 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 page 67.

The Company Secretary attends each meeting and acts as its secretary assisting the Chairman in ensuring that all papers are provided prior to each meeting in a timely manner and providing advice 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 meets with the external and internal auditors without management being present, after each scheduled meeting, to discuss their respective areas and any issues arising from their audits.

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 November 2017 meeting and amended them to reflect the revised UK Corporate Governance Code and updated Financial Reporting Council (FRC) Guidance on Audit Committees.

Major Activities of the Committee during the Year

The Committee met seven times since the last Annual Report was issued. Four of the meetings were scheduled meetings, and these are generally timed to coincide with the financial reporting timetable of the Company. Three additional meetings were held to discuss the acquisition of AST Farma B.V. and Le Vet Beheer B.V. (the Acquisition). 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.

At each meeting the Committee reviews the following items routinely:

- status of statutory audits, global tax management and compliance support;
- non-audit fees (including actual and projected spend); and
- the internal audit progress and assurance report.

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

Meeting Date	Main Activities
30 November 2017	<ul style="list-style-type: none">• Review and approval of the annual internal audit plan• 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• Progress update on procedures to prevent tax evasion
20 December 2017	<ul style="list-style-type: none">• Review and approval of Non-Audit fees relating to the Acquisition
18 January 2018	<ul style="list-style-type: none">• Review of Historical Financial Information, Financial Reporting Procedures and Working Capital with respect to the Acquisition
23 January 2018	<ul style="list-style-type: none">• Review and approval of the Enlarged Group Working Capital
22 February 2018	<ul style="list-style-type: none">• 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• Review and approval of Internal Audit Charter• Review of the dividend policy and interim dividend proposal• Anti-Bribery and Anti-Corruption and Sanctions progress update
11 May 2018	<ul style="list-style-type: none">• 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, non-underlying items and new accounting standards• Review and approval of revisions to the non-audit fee policy• Review of tax strategy and policy framework• Review of draft viability statement• Review of treasury policy and practice• Review and approval of the amendments to How to Raise a Concern Procedure

Audit Committee Report

continued

Meeting Date	Main Activities
28 August 2018	<ul style="list-style-type: none"> Review of the Group's preliminary statement, draft Annual Report (including the Audit Committee Report) for the year ended 30 June 2018 and supporting papers, and the proposed final dividend Consideration of the Audit Memorandum prepared by the external auditor, including: <ul style="list-style-type: none"> 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 commend the going concern and viability statements Review and approval of the internal control and risk management statements Full year review of internal financial controls for the period ended 30 June 2018 Review of the external audit effectiveness, external auditor's independence and level of non-audit fees Fair, balanced and understandable recommendation of the Annual Report

Financial and Narrative Reporting

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 alternative 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 intangible assets and goodwill of £709.8 million, which represents 69.8% of total Group assets.	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment. It noted the significant headroom between the value in use and the carrying value of the goodwill.
Review of the remeasurement of the intangibles and associated contingent consideration for the Animal Ethics Pty Ltd and Kane Biotech Inc in-licensing transactions which were remeasured during the year.	The Committee reviewed the accounting basis of the adjustments which supported the remeasurement and considered the appropriateness of the accounting treatment.
Valuation of the acquired intangible assets and goodwill acquired during business combinations in the year, which total £362.5 million.	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.
Valuation and accounting for the acquired commercial licensing agreement intangibles of £8.7 million together with the related deferred consideration.	
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 -24.9% (20.5% 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 were not materially misstated. Areas where significant judgements such as uncertain tax positions had been applied were reviewed and challenged and external audit work and conclusions were considered.
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.	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.
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 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 71 and 72 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.

During the year, the Committee reviewed the changes to Dechra's risk reporting and viability statement following recent guidance from the FRC. The statement was revised to distinguish clearly the assessment of long term prospects from the viability assessment, with a five year time frame for long term prospects and a three year time frame for viability.

Fair, Balanced and Understandable Assessment of the Annual Report

At the request of the Board, the Committee considered whether the 2018 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance (pages 19 to 25), business model (page 8) and strategy (pages 12 and 13).

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 2018 was fair, balanced and understandable, which can be found on pages 104 to 110.

This assessment was carried out by the Committee on 28 August 2018, following which the Committee reported to the Board that it was satisfied that, taken as a whole, the Annual Report 2018 is fair, balanced and understandable.

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;
- a review of the going concern and viability statements together with the financial stress testing conducted to support these statements; and
- a review of baseline financial controls and management representations on their effectiveness across the Group.

Further details in respect of the Group's risk management and internal control processes are provided on pages 54 and 55 of the Strategic Report and the Board's statements on the effectiveness of these processes are provided on page 72 of the Corporate Governance Report.

Review of Policies and Procedures

During the year the Committee reviewed the following policies:

- Finance Policies
The Committee undertook the annual review of the Group Tax Policy and Strategy which had been amended to reference the Group's new policy on prevention of criminal facilitation of tax evasion. It also reviewed the Treasury Policy which has been amended to increase governance, monitoring and reporting on Treasury activities and compliance.
- Non-Audit Fees Policy
The Committee formalised the non-audit fees policy, further details of which can be found on page 79.
- Whistleblowing Policy (now referred to as How to Raise a Concern)
This policy was reviewed as part of the data privacy compliance work, the main changes included encouraging employees to raise an issue when it was a concern, an increase in the number of reporting channels, and an outline of how an investigation would be conducted and the reporting of the outcome.

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 worldwide geographies.

Internal Audit operates a three year assurance plan which seeks to provide balanced coverage of the Group's material financial, operational and compliance control processes. It consists of a rolling programme of core assurance activities together with initial controls reviews on new acquisitions and reviews of major business process and systems changes, including 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 June 2019 was approved by the Committee in May 2018.

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

During the year the Committee reviewed and approved an Internal Audit Charter, and concluded that Internal Audit continued to be effective.

Audit Committee Report

continued

External Auditor

Following a competitive tender in 2015, PwC were appointed as the Company's external auditor effective from 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 62.3% (2017: 8.5% 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 28 August 2018.

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 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 services 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.

For the first time in four years the level of non-audit fee paid to the external auditor exceeded 50%, which was wholly due to the engagement of PwC as the reporting accountant for the circular to shareholders to approve the Acquisition, which completed in February 2018. The time to complete this assignment was extremely short as a result of the vendor requirements which gave the Company a limited period of exclusivity. The Committee consequently considered the proposal by management to use PwC, who were best placed to meet the assignment timetable, and exceptionally gave their approval for the engagement. In giving their approval the Committee noted:

- the tight timescales;
- the fact that the audit team would not be compensated for work being assigned to PwC;
- consistency of the work to be done with the revised ethical standard issued by the FRC;
- that the proposed work had been internally approved by the PwC Ethics Partner; and
- PwC non-audit fees had been very low over the previous three years relative to the audit fee.

In May 2018 the Committee amended its policy for the use of the auditors, PwC, for non-audit work, by agreeing a cap of 30% for the ratio of non-audit fees to the audit fee and reconfirmed the underlying principle that the external auditor should never be used where another professional firm can provide the same or similar service. It is consequently expected, going forward, that the external auditor will continue to review the half-yearly accounts but will carry out little other work for the Company other than those situations where it is required to do so by legislation.

The Committee will continue to approve in advance any non-audit work carried out by the external auditor. In all instances the Committee will 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 and the audit work.

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 62.3% (2017: 8.5%) of the annual audit fee and half-yearly review fee. This fee is higher than in previous years, and is due to the external auditor providing the services of reporting accounting with respect to the Acquisition. The Committee fully considered this engagement and concluded that it did not consider that the performance of this non-audit work affected or impaired the external auditor's integrity for the reasons outlined above. The four year average of non-audit fees as a percentage of the audit fees to 30 June 2018 is 35.2%.

	2018 PwC	2017 PwC	2016 PwC	2015 KPMG
Audit fees including related assurance services (£m)	0.80	0.57	0.50	0.26
Non-audit fees (£m):				
Review of Half -Yearly Report	0.04	0.04	0.04	0.04
Other work	0.52	0.05	0.02	–
Ratio of non-audit fees to audit and Half-Yearly Report fees	62.3%	8.5%	3.9%	1.0%

Role of the Committee in the Acquisition

The Committee had responsibility for the review and recommendation to the Board of:

- the Enlarged Group Working Capital for inclusion in the circular, which was reviewed by KPMG;
- the Financial Reporting Procedures Report, which was reviewed by KPMG; and
- Historical Financial Information included in the circular, which was audited by PwC.

Julian Heslop

Audit Committee Chairman

3 September 2018

Nomination Committee Report



Tony Rice
Nomination Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present the Nomination Committee (the Committee) report.

During the year the Committee focused on the size and composition of the Board, which has led to the commencement of a recruitment process for an additional Non-Executive Director. The Committee believes that the appointment of an additional Non-Executive Director will strengthen the existing capability and good dynamics of the Board. The Committee believes that the Board continues to have the appropriate skills, knowledge and experience to oversee the effective delivery of our strategy. The Committee also oversaw the Senior Executive Team (SET) succession and emergency planning. As a result of this the Committee believes that the Company has an evolving and experienced SET to lead the development and implementation of this strategy.

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

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
3 September 2018

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.

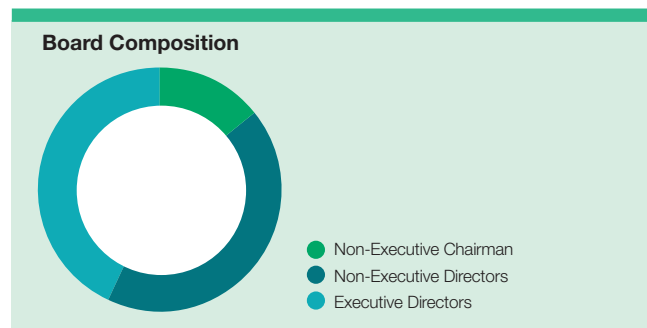
Role and Responsibilities

The 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 2018 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:

- **Board Structure, Size and Composition**

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. It 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.

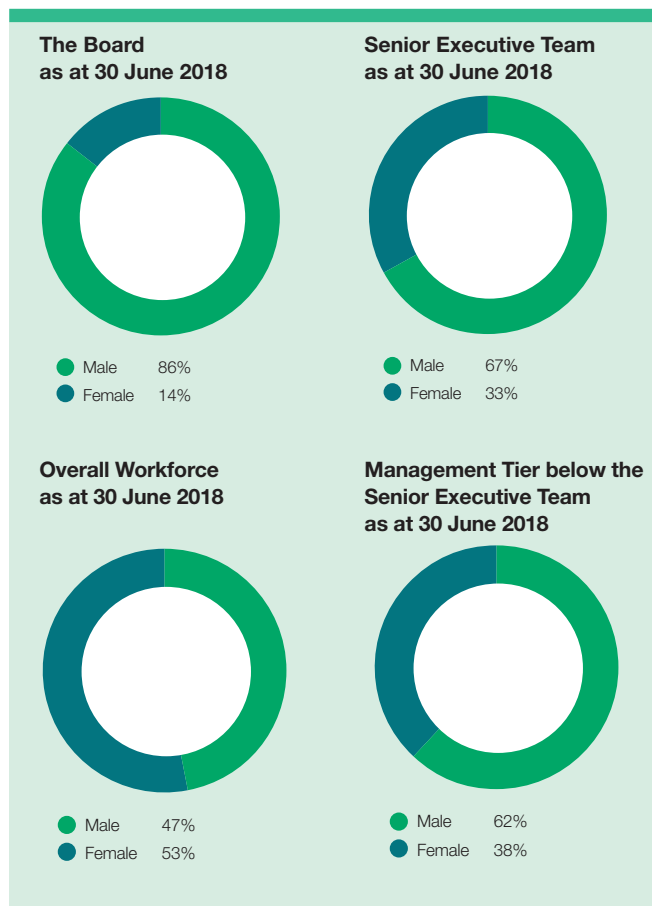


During the year, the Board formalised its policy on diversity. It believes that everyone should be recruited and promoted on the basis of their personal ability, contribution and potential. The Board is committed to ensure that a culture of fairness, respect and equal opportunity is promoted and supported across the Group. The policy and its implementation will be reviewed annually.



The Board is generally opposed to the idea of stated gender quotas, however it acknowledges that there is a current low representation of female Directors (14.3%) on the Board. This is not a true reflection of the Group as female representation below Board level is 33% of the Senior Executive Team and 53% of the overall workforce.

It is our intention to restore the balance and as such we have commenced the recruitment for a further Non-Executive Director (see below). This would take our female representation at Board level to above 20%.



• **Non-Executive Recruitment**

During the year, an independent recruitment consultancy, Dzaleta Consulting, was retained. Dzaleta Consulting was provided with a role description detailing the skills and experience required for the position of a Non-Executive Director. The Committee in drafting the role description took into account the challenges and opportunities facing the Group and what skills and expertise were needed on the Board in the future. In particular it was determined that the candidates should have a Human Resources background which would be beneficial in light of the new Corporate Governance requirements around engagement with the workforce and oversight of the wider Group remuneration principles by the Remuneration Committee. In addition, they were required to have a broad business experience and be a good fit with the culture of the Company. Other areas of expertise were also considered such as a good knowledge and experience of digital and technology developments and their impact and use in business. Dzaleta Consulting were previously retained in relation to the recruitment of the last two SET vacancies.

To assist Dzaleta Consulting with the understanding of the requirements of the role, they met with the Group HR Director, Chief Executive Officer and the Chairman, and a long list of candidates were identified for interview. All of the candidates had a broad range of experience from a wide range of different backgrounds including executives in blue chip FTSE organisations, partners in consulting firms and a number of candidates with an established portfolio career.

The long list of candidates was circulated to the Committee for comments before a short list was agreed. The first interviews were with the Chief Executive Officer and Group HR Director, the second interviews will be held with the Chairman, and successful interviewees will meet with the remaining Non-Executive Directors prior to appointment.

• **SET Succession Planning and Leadership Needs of the Group**

Two of our key risks are people focused and they are:

- the failure to retain high calibre, talented senior managers and other key roles in the business; and
- failure to recruit or develop the good quality people to achieve our strategic aims.

To assist with this, the Group HR Director regularly presents to the Committee on the Group's succession planning and talent development programme. A regular review of succession planning takes place across the Group, with a particular focus given to the SET succession. The process of documenting the Group's Talent Map supports the decisions about the organisation design and structure. The results of this review are incorporated into the succession planning process and the Committee discusses 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. For each SET member, we have either identified an internal candidate or have identified roles that would benefit from bringing new experience into the team. In addition the Committee has reviewed the emergency succession planning, which clearly identified individuals capable of covering key management roles on an interim basis whether this be due to an unanticipated absence or secondment of a key resource into a different role for a defined period. All these individuals will receive, or have received, the necessary coaching to assist them in obtaining the required skills to provide any critical support when needed.

Nomination Committee Report

continued

In addition to this, a forward looking review of the future anticipated shape of the organisation will be considered next year to identify any potential gaps that may emerge and work to ensure the organisation's design remains fit for purpose.

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. 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.

Through acquisitions, recruitment and internal promotion we now have an 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. During the year a Group Marketing Director, Andrea Dodds, was recruited to continue the evolution of the team. In addition to this the newly promoted Company Secretary, Melanie Hall, was appointed to the SET. Post year end the Group Manufacturing and Supply Director left the business and a recruitment process has been commenced.

- **Effectiveness of Committee and Directors**

The external evaluation, further details of which are provided on page 71 of the Corporate Governance Report, found that the Committee was operating effectively and was covering all areas within its remit. It recommended that a Board skills matrix was compiled to inform future discussion and this was presented to the Committee for its discussion at the June 2018 meeting.

Following the external evaluation, which concluded that the Board is dynamic, robust and challenging, the Committee has concluded that each of the Directors seeking re-election 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. At the forthcoming Annual General Meeting, all of the Directors will retire and offer themselves for re-election.

Tony Rice

Nomination Committee Chairman
3 September 2018

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 2018.

The report is divided into two sections: the Annual Report on Remuneration, followed by an abbreviated form of our Directors' Remuneration Policy (the full version can be found at www.dechra.com). The Annual Report on Remuneration provides details of the amounts earned in respect of the 2018 financial year and how the Directors' Remuneration Policy (the Policy) will be implemented in the 2019 financial year.

The Directors' Remuneration Report (excluding the Policy) will be subject to an advisory vote at the 2018 Annual General Meeting.

Our Directors' Remuneration Policy

The Policy was approved by shareholders at the Annual General Meeting on 20 October 2017, with 98.88% of all votes cast in favour, and will remain in force until 2020. We review the application of this Policy regularly, to ensure it remains appropriate, linked to strategy and reflective of developing market practices.

No changes to the Policy are proposed for 2019. The performance metrics for the bonus and LTIP awards for 2019 are set out on page 92. An annual review of Executive salaries is undertaken in September along with all employees. This allows us to optimise the link between performance and reward for all employees. It is our expectation that any increases to the Executive Directors' salaries will be in line with the range of increases for the wider workforce.

Incentive Outturns in 2018

As a result of the progress in our strategy, we have delivered underlying profit before tax during the year of £93.7 million, an improvement of 23.6% at constant exchange rates (21.7% 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 86, bonuses for the year equal to 76% of salary have been earned by Ian Page and Richard Cotton, and equal to 74% of salary by Tony Griffin.

LTIP awards were granted to Ian Page and Tony Griffin in September 2015 and are due to vest on 15 September 2018. The awards are scheduled to vest:

- as to 100% of the TSR element (50% of the total award) reflecting upper quartile performance; and
- as to 100% of the underlying diluted EPS element (50% of the total award) reflecting that the compound annual growth in the underlying diluted EPS at 24.2% was above the maximum threshold of 16.0%.

In aggregate, taking into account the ROCE underpin (reflecting that the ROCE at 15.4% had not fallen below 15.0%), the LTIP awards vested as to 100%.

As disclosed on page 87, the second of Richard Cotton's recruitment awards was subject to the same performance conditions and is scheduled to vest to the same extent.

Executive Director Remuneration Decisions in 2018

During the annual salary review cycle, Richard Cotton's and Tony Griffin's salary were increased by 2.5% in respect of the 2018 financial year, broadly in line with the average range of increases awarded to employees throughout the Group. Ian Page notified the Remuneration Committee (the Committee) that he did not wish to be considered for a salary increase in 2018 and, accordingly, his salary for 2018 was not increased.

We granted LTIP awards in March 2018 subject to TSR and EPS performance conditions (applying to one third and two thirds of the awards, respectively) with the EPS target for maximum vesting increased for these awards to 18% CAGR from the initial proposal included in the Directors' Remuneration Report for the 2017 financial year of 15.5%, which takes into account the acquisition of AST Farma B.V. and Le Vet Beheer B.V. (the Acquisition). A ROCE underpin continues to apply to each element. Details of the awards are set out on page 90.

We also amended the EPS growth targets for the LTIP awards granted in respect of the 2017 financial year (performance period 1 July 2016 to 30 June 2019) to take account of the Acquisition, increasing the EPS target for maximum vesting to 25% CAGR from the original target of 20%.

Both the bonus opportunity and LTIP awards of the Executives are subject to malus and clawback. During the year we made a minor change to the malus and clawback provisions, broadening the circumstances in which they can be operated to take account of changes in best practice.

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.

Letter from the Remuneration Committee Chairman

continued

Remuneration Element	Strategic Growth Driver and Enabler	Link to our Key Performance Indicators
<p>Annual Bonus</p> <p>Our annual bonus incentivises the delivery of the long term strategy through the achievement of short term objectives.</p> <p>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.</p> <p>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.</p>		<ul style="list-style-type: none"> • Sales Growth Strong sales performance is required to maximise profit • New Product Sales This measure encourages innovation, growth and sustainability
<p>Long Term Incentive Plan</p> <p>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 on growth in EPS and the delivery of shareholder returns. For the 2018 and 2019 financial year awards, the weightings are two third EPS and one third total shareholder return.</p> <p>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.</p> <p>The introduction of a post vesting holding period aligns management with the long term interests of shareholders and the delivery of sustained performance.</p>		<ul style="list-style-type: none"> • Underlying Diluted EPS Growth • Return on Capital Employed • New Product Sales This measure encourages innovation, growth and sustainability
<p>Generation of Long Term Value for Shareholders/Alignment of Interests</p> <p>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.</p> <p>The interests of shareholders and executives are aligned by the post vesting holding period which applies to LTIP awards granted from 2018 onwards, and 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.</p>		
<p>Forward Looking</p> <p>During the 2019 financial year, as well as the Committee's more regular work, we will consider how we best respond to the Companies (Miscellaneous Reporting) Regulations which introduce a range of new corporate governance reporting requirements as they apply to the work of this Committee.</p> <p>The Committee recognises the benefits of employee share ownership and the existing Dechra UK Save As You Earn (SAYE) scheme which has been in place since 2001 has proved both a popular benefit to our UK employees (the November 2017 grant had an uptake of 51%) and a helpful retention tool.</p> <p>As Dechra continues to expand internationally we receive regular feedback and requests from employees and managers who want to be able to enjoy the benefits of participation in a share save scheme. We have therefore agreed, subject to shareholder approval, to offer a SAYE internationally on as close a basis as possible to its operation in the UK, and in the USA to offer an Employee Stock Purchase Plan (ESPP). This will enable the majority of our existing employee base the opportunity to benefit from share ownership which will, in turn, ensure a more equitable approach to our global reward schemes.</p> <p>The current SAYE scheme rules are due for renewal in October 2020. However, in view of the above, it is proposed to ask for shareholder approval of new UK rules along with an International Plan at the forthcoming Annual General Meeting in October 2018 and to authorise the Directors to adopt ESPP as a sub-plan of the International SAYE. More information is included in the Notice of Annual General Meeting.</p> <p>Initially the offer will be limited to our larger territories and it is hoped that we will be able to launch it in October 2019.</p>	<p>Shareholder Views</p> <p>We consult with shareholders on policy and on any significant events and take shareholders' views into account before finalising our proposals. In 2018, we consulted with shareholders in relation to the approach to LTIP targets taking into account the Acquisition. 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.</p> <p>Ishbel Macpherson Remuneration Committee Chairman 3 September 2018</p>	

Directors' Remuneration Report

2018 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 20 October 2017, along with details of how the Policy will be applied in the 2019 financial year. PricewaterhouseCoopers LLP (PwC) have audited pages 85 to 93 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 2018. The table shows the remuneration for each such person in respect of the year ended 30 June 2018 and the year ended 30 June 2017:

	Salaries & Fees £000 ¹		Benefits £000 ²		Annual Bonus £000 ³		Long Term Incentives £000 ⁴		Pension £000 ⁵		Total £000	
	2018	2017	2018	2017	2018	2017	2018	2017 ⁶	2018	2017	2018	2017
Ian Page	500	490	65	54	380	451	2,514	2,357	77	68	3,536	3,420
Richard Cotton ⁷	356	175	29	20	272	161	1,404	—	40	25	2,101	381
Tony Griffin ⁸	303	285	10	19	223	256	627	612	32	39	1,195	1,211
Tony Rice ⁹	126	102	—	—	—	—	—	—	—	—	126	102
Ishbel Macpherson	58	58	—	—	—	—	—	—	—	—	58	58
Julian Heslop	55	55	—	—	—	—	—	—	—	—	55	55
Lawson Macartney ¹⁰	50	29	—	—	—	—	—	—	—	—	50	29
Total	1,448	1,262	104	93	875	868	4,545	2,577	149	136	7,121	5,256

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

- Salaries & Fees – this is the cash paid or received in respect of the relevant period.
- 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 in 2017 includes a one-off relocation allowance of £15,000. SAYE options granted in the year have also been included in the benefits column. These have been valued using the fair value as per note 28 to the Group's financial statements.
- Annual Bonus – this is the amount of cash bonus paid in respect of the financial year.
- Long Term Incentives – this is the value of any long term incentives vesting where the performance period ended in the relevant period.
- 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.
- The 2017 value assigned to the long term incentives for Ian Page and Tony Griffin was shown in last year's Annual Report as an estimate, with the value determined by reference to a share price of £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). This has been restated to show the actual value determined by reference to a price of £20.44 (being the market value of a share on 15 September 2017, the date of vesting).
- Richard Cotton was appointed on 3 January 2017.
- 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 1.1681 for 2017 and 1.1286 for 2018. His salary was €341,144 for 2018 (reflecting two months at a salary of €334,182 and ten months at a salary of €342,537) and €332,560 for 2017 (reflecting two months at a salary of €324,449 and ten months at a salary of €334,182).
- Tony Rice was appointed to the Board on 5 May 2016 and to the office of Chairman on 21 October 2016.
- 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 2017 Annual Report, the Executive Directors' base salaries were reviewed in September 2017 in order that the review is aligned with the performance development review calendar to provide a clearer link between performance and reward. Ian Page notified the Committee that he did not wish to be considered for a salary increase in 2018.

Following that review, Richard Cotton's and Tony Griffin's salaries were increased by 2.5%, to £358,750 and €342,537 respectively, with effect from 1 September 2017, broadly in line with the average range of increases awarded to employees in the wider Group.

The Committee's approach to Executive Directors' salaries for the year ending 30 June 2019 is summarised on page 92.

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 2017 Annual Report, no changes were made to any of the fees for the year ended 30 June 2018. Accordingly, the fees for the year ended 30 June 2018 were the same for the year ended 30 June 2017, as follows:

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

The approach to the Chairman's and Non-Executive Directors' fees for the year ending 30 June 2019 is summarised on page 92.

Directors' Remuneration Report

continued

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 2018 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 2018 against targets for the 2018 financial year is as follows:

2018 Financial Year Targets	Amount Achieved for the Year Ended 30 June 2018
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 £87.8 million (at CER). Actual underlying profit before tax was £93.7 million, resulting in a payment worth 66% of salary ¹ .
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 or 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 ² .
Total Annual Bonus Earned for the Year Ended 30 June 2018	76% of salary for Ian Page and Richard Cotton and 74% for Tony Griffin.

¹ The Committee considered the effect of the financing of the acquisition of AST Farma B.V. and Le Vet Beheer B.V. (the Acquisition), including in particular the impact on the underlying profit before tax if the Acquisition had been purely financed by cash rather than 25% in equity and 75% in cash, as well as taking into account that that £102.3 million of the cash was obtained via the placing of shares. The Committee concluded that if the Acquisition had been funded solely by cash, the interest associated with the debt financing would have made a minimal impact on the underlying profit before tax figure and it would not have affected the resulting payment of 66% of salary.

² The Committee considers that the objectives for the forthcoming financial year (2019) are commercially sensitive as they give our competitors insight into our business plans and therefore are not detailed in this report. They will be disclosed in the 2019 Annual Report & Accounts.

The personal objectives of each Executive Director for the year ended 30 June 2018 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	Acquisition	Acquisition of RxVet Limited, AST Farma B.V. and Le Vet Beheer B.V.
	Pipeline Delivery	In-licensing deals with Premune, Kane Biotech and Bioveta
	People	Recruited and onboarded the Group Marketing Director
	Organisation	Continued evolution of organisational structure through centralisation of core services
Richard Cotton	Financing	Complete refinancing of facility agreement and term loan
	Technology	Implementation of Hyperion Financial Management and Treasury management systems. Oversaw Oracle Steering Committee
	Financial Reporting	Evolved cyclical reporting to enable clear oversight and accountability of business results and shortened reporting cycles
Tony Griffin	Technology	Implemented the delayed Oracle finance project for DVP EU
	Geographic Expansion	Integration of AST Farma B.V. and Le Vet Beheer B.V.
	Portfolio Focus	Implemented market penetration plan for endocrinology and cardiology increasing market share. Delivered portfolio growth above the market in key territories and accelerated sales growth in Nutrition.

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 2019 is summarised on page 92.

LTIP Awards Vesting in Respect of the Year Ended 30 June 2018

The LTIP awards granted on 15 September 2015 are due to vest on 15 September 2018. Ian Page and Tony Griffin were granted LTIP Awards on 15 September 2015, 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 (CAGR)	Vesting Percentage
<8% CAGR	0%
8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 16%	Pro rata vesting between 25% and 100%
>16% CAGR*	100% of the EPS portion will vest

* This reflects the EPS performance requirement for maximum vesting as increased by the Committee, from the original level of 13%, to reflect the acquisition of Putney, as disclosed in the Directors' Remuneration Report for the 2016 financial year.

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 185.6% compared with a 51.1% 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 24.2%. Accordingly, 100% of the EPS element will vest. Overall, taking into account that ROCE performance for 2018 was 15.4%, the LTIP awards will vest as to 100% of maximum opportunity. In the single figure table on page 85, 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 £27.707 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2018).

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, 7 March 2017.

The vesting of the first of those awards was subject to a performance condition based on the Chief Executive Officer's assessment of his performance during the first year of his appointment (3 January 2017 to 3 January 2018). Based on the Chief Executive Officer's assessment of his performance over this period, the award vested as to 100% on 3 January 2018. In the single figure table on page 85 the value attributable to this award is calculated by multiplying the number of shares in respect of which the award vested (21,033) by £20.64 (being the mid market value of a share on 3 January 2018).

The vesting of the second award was subject to the same performance conditions as those applying to the LTIP awards granted on 15 September 2015, as detailed above. Therefore this second award vested as to 100% on 28 August 2018. In the single figure table on page 85 the value attributable to this award is calculated by multiplying the number of shares in respect of which the award vested by £27.707 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2018).

The details of the LTIP awards granted during the year ended 30 June 2018 are set out on page 90. The Committee's approach to Executive Directors' LTIP awards for the year ending 30 June 2019 is summarised on page 92.

SAYE Exercised During the Year Ended 30 June 2018

	Date of grant	Number of options	Option price	Exercise date
Ian Page	13 October 2014	1,465	£6.14	2 March 2018

The aggregate gain made by the Executive Directors on share options and LTIP awards exercised during 2018 was £3,497,837 (2017: £2,872,032).

Directors' Remuneration Report

continued

Pension

Ian Page and Richard Cotton were both members of the Dechra Pharmaceuticals PLC Group Stakeholder personal pension scheme throughout the year. 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.

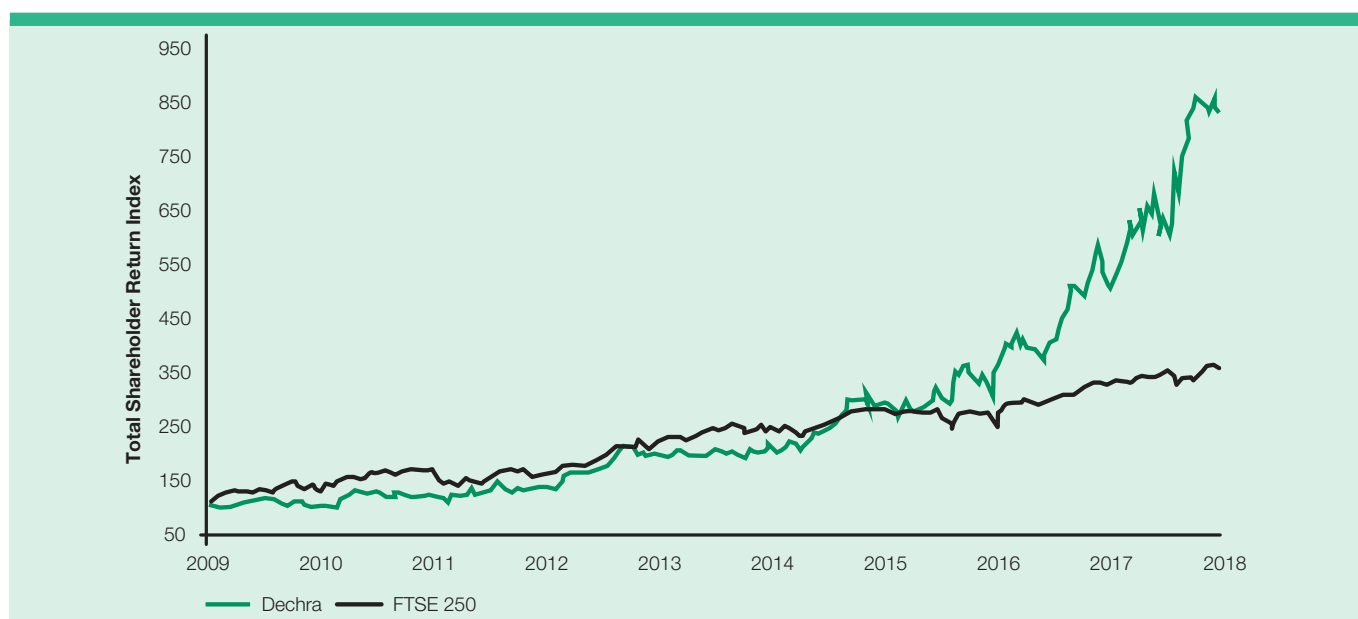
Tony Griffin is a member of the Basispensioen, a defined benefit pension plan established in the Netherlands. The table below sets out the arrangements for Tony Griffin for the period under review.

Accrued benefit at 1 July 2017	€9,861
Increase in accrued benefit excluding inflation allowance	€9,861
Increase in accrued benefit including inflation allowance	€10,157
Transfer value of benefit accrued during the period less member contributions	€19,000
Transfer value at 1 July 2017	€253,000
Transfer value at 30 June 2018	€274,000
Increase in transfer value over the period after member contribution	€21,000

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.

TSR Graph

The graph below shows the TSR performance of the Company over the past nine financial years compared with the TSR over the same period for the FTSE 250 Total Return Index. Throughout the financial year ended 30 June 2018 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 Nine Previous Years

Year ended	Total single figure remuneration £000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
30 June 2018	3,536	76	100.0
30 June 2017	3,420	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 2017 and the year ended 30 June 2018. 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		
	2018 £000	2017 £000	(Decrease)/ increase %	2018 £000	2017 £000	Increase %
Salary ¹	500	490	2.0	37.4	35.6	2.8
Taxable benefits ²	59	54	9.3	2.4	1.7	41.2
Annual bonus	380	451	(15.7)	4.7	3.0	56.7

1. Ian Page notified the Committee that he did not wish to be considered for a salary increase in 2018, and accordingly, his salary for 2018 was not increased. The increase in the table above reflects that the 2017 salary increase was in effect from 1 September 2016.

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 2017 and the year ended 30 June 2018.

	Year ended 30 June 2018 £000	Year ended 30 June 2017 £000	% change
Distributions to shareholders by way of dividend and share buyback	21,810	19,973	9.2
Overall expenditure on pay	86,834	76,117	14.1

Directors' Remuneration Report

continued

Long Term Incentive Arrangements and Share Schemes:

LTIP Awards Made During the Year Ended 30 June 2018

Awards were granted to the Executive Directors on 2 March 2018, as set out in the table below. These awards were deferred from September 2017 due to the acquisition of AST Farma B.V. and Le Vet Beheer B.V. (the Acquisition):

	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	39,904	£999,994	25%	1 July 2017 – 30 June 2020
Richard Cotton²	Nil cost option under the LTIP	150% of salary	21,473	£538,113	25%	1 July 2017 – 30 June 2020
Tony Griffin³	Conditional award under the LTIP	100% of salary	12,099	£303,201	25%	1 July 2017 – 30 June 2020

- For these purposes, the face value of the award is calculated by multiplying the number of shares by £25.06 (being the average share price used to determine the number of shares comprised in the awards).
- Each of Ian Page and Richard Cotton has also been granted a tax qualifying option over 1,197 shares at an exercise price of £25.06 as part of their LTIP award. These tax qualifying options are linked to the nil cost option such that, at the time of exercise, to the extent that there is a gain in the tax qualifying option, the nil cost option will be forfeited to the value of that gain, to ensure that the pre-tax value of the LTIP award is not increased by the grant of the tax qualifying option.
- The exchange rate used for this purpose was 1.1297 (the exchange rate at grant).

One third 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

Two thirds 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 2017 Annual Report, the EPS growth target required for maximum vesting was proposed to be 15.5%, however following the Acquisition it was agreed to increase this, recognising the additional earnings forecasted, to 18% 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 18%	Pro rata vesting between 25% and 100%
>18% 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.

Each award is subject to a two year holding period. Other than shares sold to satisfy tax liabilities arising in connection with the acquisition of shares or to fund the exercise price of the tax qualifying option, no shares acquired may be sold before the second anniversary of vesting.

SAYE Options Granted in the Year

The following SAYE options were granted during the year ended 30 June 2018.

	Date of grant	Number of options	Option price	Exercise date
Ian Page	12 October 2017	1,093	£16.46	December 2020
Richard Cotton	12 October 2017	1,093	£16.46	December 2020

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 2018, the Company's shareholding guidelines required Executive Directors to have acquired and retained 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. Unvested share based incentives will not be allowed to count towards the holding requirements. Shares which are vested, but which remain subject to a holding period and/or clawback, may count towards the holding requirement on a net of assumed tax basis.

The holdings of each person who served as an Executive Director during the period ended 30 June 2018 and their families as at 30 June 2018 are as follows:

Name	Appointment date	Ordinary shares Number	Ordinary shares £000*	% of salary
Ian Page	13 June 1997	738,697	20,551	4,110.1
Richard Cotton	3 January 2017	42,351	1,178	328.4
Tony Griffin	1 November 2012	64,320	1,789	592.0

* Calculated using the share price as at 30 June 2018.

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 2018 are as follows:

Name	Appointment date	Ordinary shares number	Ordinary shares £000*	% of base fee
Tony Rice	5 May 2016	40,000	1,113	883.2
Ishbel Macpherson	1 February 2013	5,848	163	325.4
Julian Heslop	1 January 2013	10,000	278	556.4
Lawson Macartney	1 December 2016	5,880	164	327.2

* Calculated using the share price as at 30 June 2018.

There have been no changes in the holdings of the Directors between 30 June and 3 September 2018.

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 during the year ended 30 June 2018 are as follows:

	Award date	Number of shares at 30 June 2017	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 30 June 2018	Status	Performance period
Ian Page	15 September 2014	115,334	—	—	(115,334)	—	Vested and exercised in the year	2014-2017
	15 September 2015	90,721	—	—	—	90,721	Unvested ¹	2014-2017
	19 September 2016	73,260	—	—	—	73,260	Unvested	2015-2018
	2 March 2018 ²	—	39,904	—	—	39,904	Unvested	2016-2019
Richard Cotton	7 March 2017 ³	21,033	—	—	(21,033)	—	Vested and exercised in the year	2017-2018
	7 March 2017 ³	21,033	—	—	—	21,033	Unvested ⁴	2015-2018
	2 March 2018 ²	—	21,473	—	—	21,473	Unvested	2016-2019
Tony Griffin	15 September 2014	29,937	—	—	(29,937)	—	Vested and exercised in the year	2013-2016
	15 September 2015	22,641	—	—	—	22,641	Unvested ¹	2014-2017
	19 September 2016	20,858	—	—	—	20,858	Unvested	2015-2018
	2 March 2018	—	12,099	—	—	12,099	Unvested	2016-2019

1. Will vest on 15 September 2018 as to 100%.

2. Each of Ian Page and Richard Cotton has also been granted a tax qualifying option over 1,197 shares at an exercise price of £25.06 as part of their LTIP award. These tax qualifying options are linked to the nil cost option such that, at the time of exercise, to the extent that there is a gain in the tax qualifying option, the nil cost option will be forfeited to the value of that gain.

3. These awards are Recruitment Awards granted to Richard Cotton as referred to on page 87. They were granted outside the rules of the LTIP.

4. Vested on 28 August 2018 as to 100%.

Directors' Remuneration Report

continued

SAYE Scheme

The only options held under the SAYE Scheme by any person who served as a Director during the year ended 30 June 2018 are those granted on 12 October 2017 shown in the table on page 90 .

Implementation of the Directors' Remuneration Policy in the Year Ending 30 June 2019 (Unaudited):

The Directors' Remuneration Policy outlined on pages 94 to 98 will be implemented in the year ending 30 June 2019, as set out below.

Salary and Fees

The next review of Executive Directors' salaries will be undertaken in September 2018. It is planned that the Executive Directors' salaries for 2018 will increase in line with the range of increases proposed for the wider workforce.

Following a review of the Non-Executive Directors' base and additional fees, it was agreed that no changes will be made to the base fee for the Chairman and Non-Executive Directors for the year ending 30 June 2019. With regards to the additional fees, it was agreed to increase the fees as follows:

Office	2018 Fee £000	2019 Fee £000
Remuneration Committee Chairmanship additional fee	5	8
Audit Committee Chairmanship additional fee	5	10
Nomination Committee Chairmanship additional fee	—	5
Senior Independent Director additional fee	3	5

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 2019, on the same basis as for the year ended 30 June 2018. Details of the bonus structure can be found on page 86. 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 page 86 in respect of bonuses for the Group's 2018 financial year.

LTIP

The Committee proposes that LTIP awards for the year ending 30 June 2019 (the 2019 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 remain as per the grant of LTIP awards made on 2 March 2018, details of which can be found on page 90. In setting the EPS growth targets for the 2019 Grant, the Committee had regard to the Acquisition. The Committee concluded that maintaining the same growth targets appropriately balanced the required level of stretch with incentivisation. The Committee will consider the targets again in advance of the grants in respect of the awards for the year ending 30 June 2020, recognising that the base year for those awards will include a full year of AS Farma and Le Vet.

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 2018 financial year this review took place at the June 2018 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.

Name	Commencement date	Director	Notice Period	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.

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 who held an external appointment was Ian Page. He was Non-Executive Chairman of Sanford DeLand Asset Management Limited, a position which he resigned from in October 2017. 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 £13,000 for the year ended 30 June 2018. 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. During the year Deloitte also performed global tax compliance work for Dechra.

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 20 October 2017:

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
To approve Remuneration Report	66,111,495	94.18	4,086,647	5.82	3,567,113
To approve Remuneration Policy	72,932,631	98.88	823,955	1.12	8,619
To approve the new LTIP	70,433,043	95.49	3,328,963	4.51	3,199

Ishbel Macpherson

Remuneration Committee Chairman
3 September 2018

Directors' Remuneration Report

continued

Directors' Remuneration Policy

The Remuneration Policy was approved by Shareholders at the Annual General Meeting held on 20 October 2017 and became effective from this date. The full Remuneration Policy as approved by shareholders is available in the Directors' Remuneration Report included in the financial year 2017 Annual Report and Accounts at www.dechra.com.

We have set out below those parts of the Remuneration Policy which we consider shareholders will find most useful.

Policy Table for Executive Directors:

Element: Base Salary	
Purpose and link to strategy Core element of fixed remuneration reflecting the individual's role and experience.	
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: <ul style="list-style-type: none">• pay increases within the Group more generally; and• Group organisation, profitability and prevailing market conditions.	Performance measure While no formal performance conditions apply, an individual's performance in role is taken into account in determining any salary increase.
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: <ul style="list-style-type: none">• 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.	



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.	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.
Maximum opportunity The maximum bonus opportunity for Executive Directors is 100% of base salary.	

Directors' Remuneration Report

continued

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

The Committee intends to make long term incentive awards under the LTIP approved 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.

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.

Performance measure

Not subject to performance conditions in line with typical market practice.

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.	<p>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.</p> <p>Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes.</p> <p>Non-Executive Directors may be eligible to receive benefits such as travel and other reasonable expenses.</p>	<p>Fees are set taking into account the responsibilities of the role and expected time commitment.</p> <p>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.</p> <p>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.</p>

Directors' Remuneration Report

continued

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 93.

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 after the initial 12 months of employment.

Ishbel Macpherson

Remuneration Committee Chairman
3 September 2018

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 2018. 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 59 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;
- Details of acquisitions and disposals during the year;
- Going concern and viability statements;
- Approach to 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 note 24 to the Financial Statements.

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 71, 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 change of control provisions. 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 subsidiaries Genera d.d., has established branches in Bosnia-Herzegovina and Serbia, and Apex Laboratories Pty Limited in New Zealand.

Political Donations and Expenditure

No political donations were made during the year ended 30 June 2018 (2017: 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 38 and 39. The expense on this activity for the year ended 30 June 2018 was £18.3 million (2017: £15.0 million) and a further £1.7 million (2017: £1.2 million) was capitalised as development costs.

Results and Dividends

The results for the year and financial position at 30 June 2018 are shown in the Consolidated Income Statement on page 111 and Consolidated Statement of Financial Position on page 113. The Directors are recommending the payment of a final dividend of 18.17 pence per share which, if approved by shareholders, will be paid on 16 November 2018 to shareholders registered at 26 October 2018. The shares will become ex-dividend on 25 October 2018. An interim dividend of 7.33 pence per share was paid on 6 April 2018, making a total dividend for the year of 25.50 pence per share (2017: 21.44 pence per share). The total dividend payment is £26.1 million (2017: £20.0 million).

Directors' Report – Other Disclosures

continued

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 102,329,635 fully paid ordinary shares were in issue, which included 358,302 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes. 5,121,952 new ordinary shares were offered by way of a placing at an issue price of 2050 pence per share, raising approximately £102.3 million (net of underwriting commission). The placing price of 2050 pence per share was a 0.6% discount to the closing mid-market price per ordinary share on 24 January 2018, being the last practical date prior to the announcement of the placing. These new ordinary shares were issued on 30 January 2018 fully paid and rank pari passu in all respects with the existing ordinary shares. 3,670,625 new ordinary shares were issued to the sellers of AST Farma B.V. and Le Vet Beheer B.V. at an issue price of 2031 pence per share. The issue price was the average of the middle market closing price of an ordinary share for the 30 days up to and including 24 January 2018, being the last practical date prior to the announcement of the acquisition. These new ordinary were issued on 13 February 2018 fully paid and rank pari passu in all respects with the existing ordinary shares.

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 21,033 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 20 October 2017, the Company was authorised to purchase up to 9,318,140 of its ordinary shares, representing 10% of the issued share capital of the Company as at 8 September 2017. 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 2017 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2018 Annual General Meeting.

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 2018		14 August 2018	
	Aggregate voting rights	Percentage	Aggregate voting rights	Percentage
Fidelity Management & Research	9,798,363	9.58	10,343,626	10.11
Standard Life Aberdeen	8,075,151	7.89	7,959,701	7.78
BlackRock Inc	6,153,098	6.01	6,161,565	6.02
Rabobank	3,972,240	3.88	3,845,724	3.76
Aviva plc	3,527,876	3.45	3,495,786	3.42
AEGON	3,348,201	3.27	3,369,664	3.29
The Capital Group Companies, Inc	3,260,018	3.19	3,069,955	3.00
Legal & General Group	3,145,648	3.07	3,102,491	3.03

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
3 September 2018

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and 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 the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Company Financial Statements in accordance with United Kingdom (UK) Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 '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 the profit or loss of the Group and Company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then 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 the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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 keeping adequate accounting records that are sufficient to show and explain the Group 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 the 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 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.

Each of the Directors as at the date of the Annual Report, whose names and functions are set out on pages 64 and 67, confirm that to the best of their 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 IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the 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 it faces.

Approved by the Board and signed on its behalf by:

Ian Page

Chief Executive Officer
3 September 2018

Richard Cotton

Chief Financial Officer
3 September 2018

Our Financials

Giving a clear understanding
of Dechra's financials.

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 Read more on **Financial Statements** on
pages 111 to 165





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 2018 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 2018; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows; the Consolidated and Company Statements of Changes in Shareholders' 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 2017 to 30 June 2018.

Our Audit Approach

Overview



- Overall Group materiality: £2.3 million (2017: £2.6 million).
- In determining overall Group 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 £2.3 million.
- Overall Company materiality: £2.4 million (2017: £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 22 reporting units.
- 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 91% of Group revenue and 73% of Group 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.

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 Le Vet Beheer B.V. and AST Farma B.V.
- Impairment of intangible assets – assessment of the carrying value of acquired intangible assets and other relevant assets.
- Licensing agreements – recognition and subsequent remeasurement of acquired intangible assets in respect of licensing agreements.
- Taxation – assessment of uncertain tax provisions.



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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with and reports to the regulators, review of correspondence with legal advisers, enquiries of management, review of significant component auditors' work and review of internal audit reports. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and 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

Business combinations – assessment of the acquisition accounting in respect of Le Vet Beheer B.V. and AST Farma B.V.

Refer to the Audit Committee Report on page 75, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 116, and note 32 (Acquisitions).

The Group completed the acquisition of Le Vet Beheer B.V. ("Le Vet") and AST Farma B.V. ("AST Farma") on 13 February 2018.

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 Le Vet and AST Farma, significant value has been attributed to the developed technology, brand, the non-compete agreement, right of first refusal to future products developed externally and in process research and development, 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.

How our audit addressed the key audit matter

We reviewed management's assessment of the acquired assets and liabilities to ensure that the identification process was complete and accurate.

We obtained the cash flow forecasts supporting the valuation of those intangible assets identified and agreed that these were consistent with those approved by the Board as part of the acquisition process. In addition, we performed look-back tests to assess the accuracy of the Group's forecasts and assumptions, and performed sensitivity analysis over the key assumptions to determine if they could have a significant impact over the value recorded. 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 confirmed that the methodology used to value each intangible asset is in line with expectation. They 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, geographical spread and within the relevant industry.

For the remaining fair values of other assets and liabilities acquired, we performed substantive testing to verify the existence, accuracy and completeness of material assets and liabilities.

Additionally, we reviewed the disclosure note associated with the acquisition and confirmed that this was appropriate.

We recalculated the deferred tax liabilities arising on the acquired intangibles assets and agreed that relevant tax rates have been used.

Independent Auditor's Report to the Members of Dechra Pharmaceuticals PLC

continued

Key audit matter

Impairment of intangible assets - assessment of the carrying value of acquired intangible assets and other relevant assets.

Refer to the Audit Committee Report on page 75, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 116, 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 intangible 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 is deemed to be the most significant in these forecasts is in respect of the future performance of products. The long term growth and discount rate are also considered to be subjective.

Licensing agreements – recognition and subsequent remeasurement of acquired intangible assets in respect of licensing agreements.

Refer to the Audit Committee Report on page 75, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 116, and note 12 (Intangible assets).

New in-licensing agreements

On 31 March 2018, an exclusive licence and distribution agreement to market and supply a number of equine vaccines within the Group's European territories was acquired.

The in-licensing agreement has been recorded at cost and will be amortised on a straight line basis over 8 to 10 years, dependent upon the first product launch in accordance with the terms of the contract.

On 1 June 2018, a licence distribution agreement for an injectable solution was acquired.

The in-licensing agreement has been recorded at cost and will be amortised straight line over the period of the contract of 15 years from the date of FDA approval.

The milestone and other payments of each contract are forecast to reflect the probability of successful product launch and subsequent performance under the contractual terms of each agreement. The future payments are contingent on these factors and therefore represent an area of judgement.

Remeasurement of existing agreements

During the year related liabilities in respect of the exclusive distribution agreement for StrixNB and DispersinB with Kane Biotech Inc. and the in-licensing agreement with Animal Ethics Pty Ltd for Tri-Solfen® were reassessed for the timing and quantum of future contingent cash flows. The variability of the timing and quantum of the future cashflows represents an area of judgement.

How our audit addressed the key audit matter

We reviewed the recent financial performance of individual products and held discussions with management in respect of future market conditions to identify any potential indicators of impairment.

We reviewed management's impairment model and reperformed all calculations within the discounted cash flow. We agreed that the current and future revenue forecasts used as the basis of the model are consistent with previous performance. Valuation specialists were utilised to benchmark, within a reasonable range, the growth and discount rate assumptions to economic and industry averages and the cost of capital for other comparable companies respectively. We assessed the sufficiency of headroom through the performance of sensitivity analysis on key assumptions, confirming that an impairment is not reasonably possible.

- *New in-licensing agreements* - We obtained management's model and reperformed the calculations forming the basis of the valuation.

We have performed sensitivities on the expected timing of contractual milestones and agreed that those adopted are consistent with those approved by the Board. Through the performance of sensitivity analysis, we have confirmed that a material misstatement is not reasonably possible.

Our valuation specialists also agreed that the discount rate was consistent to those applied by other companies of comparable size, geographical spread and within the relevant industry.

- *Remeasurement of existing agreements* - We have assessed the changes made to the assumptions underpinning the in-licensing agreements with Kane Biotech Inc. and Animal Ethics Pty Ltd. In doing so we corroborated the revised cash flow assumptions to updated forecasts and performed sensitivity analysis to take into consideration reasonably possible alternatives.

**Key audit matter***Taxation - assessment of uncertain tax provisions.*

Refer to the Audit Committee Report on page 75, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 116, and note 9 (Income Tax Expenses).

The Group operates in a complex multi-national tax environment and there are open tax matters and areas of judgement with various overseas tax authorities. In addition, from time to time the Group enters into commercial transactions with complicated accounting and tax consequences.

Judgement is required in assessing the level of provisions required in respect of uncertain tax provisions.

How our audit addressed the key audit matter

In conjunction with our UK, US and international tax specialists, we evaluated and challenged management's judgements in respect of estimates of tax exposures and contingencies in order to assess the adequacy of the Group's tax provisions. This included obtaining and evaluating certain third party tax advice that the Group has obtained to assess the appropriateness of any assumptions used.

In understanding and evaluating management's judgements, we considered the status of recent and current tax authority audits and enquiries, the outcome of previous claims, judgemental positions taken in tax returns and current year end estimates and developments in the tax environment. We noted that due to the varying assumptions and judgements that are required to formulate the provisions there are a number of possible outcomes. However, based on the evidence obtained, we consider the level of provisioning and related disclosure to be acceptable in the context of the Group Financial Statements taken as a whole.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

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 54 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 54 active reporting units we identified 22 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 91% of Group revenue and 73% of adjusted profit before tax. Of these reporting units, 20 were considered to be significant components due to their size or risk characteristics, being those units located in the UK, the USA, Denmark and the Netherlands.

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 any unusual transactions. The Company was also subject to a full scope audit.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting component units. As a result, all overseas significant components in the USA, Denmark and the Netherlands were visited by senior members of the Group audit team, whilst the Group engagement team were responsible for the audit of all in scope UK reporting units. In addition, the Group audit team were 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	£2.3 million (2017: £2.6 million).	£2.4 million (2017: £1.2 million).
How we determined it	In determining overall Group 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 overall Group materiality to be £2.3 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 £0.015 million and £1.9 million. Certain balances within the Company were within the scope for the Group audit and audited to a lower component materiality, whilst the Company's financial statements as a whole were audited to a materiality of £2.4 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (Group audit) (2017: £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 12 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 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 2018 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 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 63 to 73) 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 63 to 73) 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 pages 71 to 72 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 pages 71 to 72 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 enquiries 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 76 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 101, 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/auditorsresponsibilities. 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 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 three years, covering the years ended 30 June 2016 to 30 June 2018.

Andrew Hammond (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
3 September 2018

- 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 2018

		2018			2017		
		Underlying	Non-underlying*	Total	Underlying	Non-underlying*	Total
	Note	£m	(notes 4 & 5) £m	£m	£m	(notes 4 & 5) £m	£m
Revenue	2	407.1	—	407.1	359.3	—	359.3
Cost of sales		(179.6)	(5.1)	(184.7)	(163.4)	(4.2)	(167.6)
Gross profit		227.5	(5.1)	222.4	195.9	(4.2)	191.7
Selling, general and administrative expenses		(110.0)	(52.0)	(162.0)	(99.6)	(32.5)	(132.1)
Research and development expenses		(18.3)	(8.0)	(26.3)	(15.0)	(11.4)	(26.4)
Operating profit	2	99.2	(65.1)	34.1	81.3	(48.1)	33.2
Finance income	3	1.5	—	1.5	0.8	—	0.8
Finance expense	4	(6.9)	0.5	(6.4)	(5.1)	(0.2)	(5.3)
Share of loss of investments accounted for using the equity method	6	(0.1)	(0.2)	(0.3)	—	(0.1)	(0.1)
Profit before taxation	7	93.7	(64.8)	28.9	77.0	(48.4)	28.6
Income taxes	9	(19.2)	26.4	7.2	(16.9)	14.4	(2.5)
Profit for the year		74.5	(38.4)	36.1	60.1	(34.0)	26.1
Attributable to:							
Owners of the parent		74.5	(38.4)	36.1	60.1	(34.0)	26.1
Non-controlling interests	27	—	—	—	—	—	—
Profit for the year		74.5	(38.4)	36.1	60.1	(34.0)	26.1
Earnings per share							
Basic	11			37.24p			28.09p
Diluted	11			37.04p			27.93p
Dividend per share (interim paid and final proposed for the year)	10			25.50p			21.44p

* Non-underlying items comprise items associated with areas such as amortisation and related costs of acquired intangibles, impairment of investments, remeasurement and other movements on deferred and contingent consideration, non-cash inventory adjustments, rationalisation of manufacturing organisation costs, rationalisation and acquisition expenses, loss on extinguishment of debt and fair value and taxation credits.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2018

	2018 £m	2017 £m
Profit for the year	36.1	26.1
Other comprehensive income/(expense):		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit pension scheme	—	2.1
Income tax relating to components of other comprehensive income/(expense)	—	(0.5)
	—	1.6
Items that may be reclassified subsequently to profit or loss:		
Recycle of profit arising on available for sale financial assets	—	0.3
Foreign currency translation differences for foreign operations	(0.4)	12.9
Income tax relating to components of other comprehensive income	—	—
	(0.4)	13.2
Total comprehensive income for the period	35.7	40.9
Attributable to:		
Owners of the parent	35.7	40.7
Non-controlling interests	—	0.2
	35.7	40.9

Consolidated Statement of Financial Position

At 30 June 2018

	Note	2018 £m	2017 £m
ASSETS			
Non-current assets			
Intangible assets	12	709.8	396.3
Property, plant and equipment	13	45.3	45.2
Investments	6	10.5	10.8
Deferred tax assets	15	3.8	0.8
Total non-current assets		769.4	453.1
Current assets			
Inventories	16	86.6	56.5
Trade and other receivables	17	81.6	67.3
Cash and cash equivalents	18	79.7	61.2
Total current assets		247.9	185.0
Total assets		1,017.3	638.1
LIABILITIES			
Current liabilities			
Borrowings	21	(1.2)	(1.0)
Trade and other payables	19	(75.7)	(61.3)
Deferred and contingent consideration	33	(8.8)	(1.6)
Current tax liabilities	20	(5.9)	(2.5)
Total current liabilities		(91.6)	(66.4)
Non-current liabilities			
Borrowings	21	(289.9)	(180.2)
Deferred income		(0.2)	—
Deferred and contingent consideration	33	(28.0)	(33.4)
Employee benefit obligations	23	(3.0)	(3.0)
Provisions	22	(2.8)	(3.2)
Deferred tax liabilities	15	(96.8)	(49.3)
Total non-current liabilities		(420.7)	(269.1)
Total liabilities		(512.3)	(335.5)
Net assets		505.0	302.6
EQUITY			
Issued share capital	25	1.0	0.9
Share premium account		359.3	173.4
Own shares	26	(0.4)	(0.7)
Foreign currency translation reserve		17.8	18.2
Merger reserve		1.8	1.8
Retained earnings		125.5	107.4
Total equity attributable to equity holders of the parent		505.0	301.0
Non-controlling interests	27	—	1.6
Total equity		505.0	302.6

The financial statements were approved by the Board of Directors on 3 September 2018 and are signed on its behalf by:

Ian Page

Chief Executive Officer
3 September 2018

Richard Cotton

Chief Financial Officer
3 September 2018

Company number: 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2018

	Attributable to owners of the parent						Total £m	Non- controlling interests £m	Total equity £m
	Issued share capital £m	Share premium account £m	Own shares £m	Foreign currency translation reserve £m	Merger reserve £m	Retained earnings £m			
Year ended 30 June 2017									
At 1 July 2016	0.9	172.5	(0.1)	5.5	1.8	94.0	274.6	2.0	276.6
Profit for the period	—	—	—	—	—	26.1	26.1	—	26.1
Recycle of losses arising on available for sale financial assets	—	—	—	—	—	0.3	0.3	—	0.3
Foreign currency translation differences for foreign operations, net of tax	—	—	—	12.7	—	—	12.7	0.2	12.9
Remeasurement of defined benefit pension scheme, net of tax	—	—	—	—	—	1.6	1.6	—	1.6
Total comprehensive income	—	—	—	12.7	—	28.0	40.7	0.2	40.9
Transactions with owners:									
Dividends paid	—	—	—	—	—	(17.7)	(17.7)	—	(17.7)
Share-based payments	—	—	—	—	—	3.1	3.1	—	3.1
Shares issued	—	0.9	—	—	—	—	0.9	—	0.9
Acquisition of non-controlling interests	—	—	—	—	—	—	—	(0.6)	(0.6)
Own shares purchased	—	—	(0.6)	—	—	—	(0.6)	—	(0.6)
Total contributions by and distributions to owners	—	0.9	(0.6)	—	—	(14.6)	(14.3)	(0.6)	(14.9)
At 30 June 2017	0.9	173.4	(0.7)	18.2	1.8	107.4	301.0	1.6	302.6
Year ended 30 June 2018									
At 1 July 2017	0.9	173.4	(0.7)	18.2	1.8	107.4	301.0	1.6	302.6
Profit for the period	—	—	—	—	—	36.1	36.1	—	36.1
Foreign currency translation differences for foreign operations, net of tax	—	—	—	(0.4)	—	—	(0.4)	—	(0.4)
Total comprehensive income	—	—	—	(0.4)	—	36.1	35.7	—	35.7
Transactions with owners:									
Dividends paid	—	—	—	—	—	(21.8)	(21.8)	—	(21.8)
Share-based payments	—	—	—	—	—	4.3	4.3	—	4.3
Shares issued	0.1	185.9	—	—	—	—	186.0	—	186.0
Recycle of own shares to retained earnings	—	—	0.3	—	—	(0.3)	—	—	—
Acquisition of non-controlling interests	—	—	—	—	—	(0.2)	(0.2)	(1.6)	(1.8)
Total contributions by and distributions to owners	0.1	185.9	0.3	—	—	(18.0)	168.3	(1.6)	166.7
At 30 June 2018	1.0	359.3	(0.4)	17.8	1.8	125.5	505.0	—	505.0

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 2018

	Note	2018 £m	2017 £m
Cash flows from operating activities			
Operating profit		34.1	33.2
Non-underlying items		65.1	48.1
Underlying operating profit		99.2	81.3
Adjustments for:			
Depreciation	13	4.8	4.9
Amortisation and impairment	12	2.6	2.0
Loss on disposal of intangible assets	7	—	0.3
Loss on disposal of tangible assets	7	—	0.2
Equity settled share-based payment expense	28	2.4	2.3
Underlying operating cash flow before changes in working capital		109.0	91.0
Increase in inventories		(22.5)	(1.6)
(Increase)/decrease in trade and other receivables		(9.5)	6.4
Increase in trade and other payables		8.6	2.1
Cash generated from operating activities before interest, taxation and non-underlying items		85.6	97.9
Cash outflows in respect of non-underlying items		(4.4)	(3.7)
Cash generated from operating activities before interest and taxation		81.2	94.2
Interest paid		(5.7)	(4.8)
Income taxes paid		(11.5)	(12.0)
Net cash inflow from operating activities		64.0	77.4
Cash flows from investing activities			
Acquisition of subsidiaries (net of cash acquired)		(227.3)	(35.0)
Acquisition of non-controlling interests	27	(1.8)	(0.6)
Acquisition of investments in associates	6	—	(11.0)
Purchase of property, plant and equipment	13	(4.9)	(4.2)
Capitalised development expenditure	12	(1.3)	(1.2)
Purchase of other intangible non-current assets	12	(6.4)	(5.2)
Net cash outflow from investing activities		(241.7)	(57.2)
Cash flows from financing activities			
Proceeds from the issue of share capital	25	103.3	0.9
Own shares purchased	26	—	(0.6)
New borrowings		133.4	25.0
Expenses of raising borrowing facilities		(3.9)	(0.1)
Repayment of borrowings		(17.2)	(5.9)
Dividends paid	10	(21.8)	(17.7)
Net cash inflow from financing activities		193.8	1.6
Net increase in cash and cash equivalents		16.1	21.8
Cash and cash equivalents at start of period		61.2	39.1
Exchange differences on cash and cash equivalents		2.4	0.3
Cash and cash equivalents at end of period	18	79.7	61.2
Reconciliation of net cash flow to movement in net borrowings			
Net increase in cash and cash equivalents		16.1	21.8
New borrowings		(133.4)	(25.0)
Repayment of borrowings		17.2	5.9
Expenses of raising borrowing facilities		3.9	0.1
Exchange differences on cash and cash equivalents		2.4	0.3
Retranslation of foreign borrowings		3.3	(6.3)
Other non-cash changes		(0.9)	(0.2)
Movement in net borrowings in the period		(91.4)	(3.4)
Net borrowings at start of period		(120.0)	(116.6)
Net borrowings at end of period	29	(211.4)	(120.0)

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 156 to 164.

(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 59. 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 71 for details.

The consolidated financial statements are presented in Sterling, rounded to the nearest hundred thousand. 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.

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 estimate 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.

At 30 June 2018 the Group held a current provision of £2.6 million (2017: £2.4 million) in respect of uncertain tax provisions. Liabilities relating to these open and judgemental matters are based on an assessment as to whether additional taxes will be due, after taking into account external advice where appropriate. The resolution of these tax matters may take many years. The Group does not expect to materially increase its uncertain tax provision in the next 12 months.

(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 rationalisation, acquisition and disposal related expenses and income (including amortisation and impairment on acquired intangibles, non-cash inventory adjustments, and the remeasurement and other movements on deferred and contingent consideration), debt refinancing including any loss on extinguishment of debt, impairment of investments and the rationalisation of the manufacturing organisation and taxation credits. 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 do not relate to the sales and profit from ongoing trading activities.



1. Accounting Policies continued

(b) Basis of Preparation continued

(iv) Business Combinations

The 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

The following standards, amendments to standards or interpretations are mandatory for the first time for the years ended after 30 June 2018, which have had a material impact on the financial statements.

- IFRS 15 'Revenue from contracts with customers'; is effective for accounting periods beginning on or after 1 January 2018 and will replace existing accounting standards. It provides a single, principles-based approach to the recognition of revenue from all contracts with customers, reflecting the transfer of goods and services at a value that the Company expects to be entitled to receive. The new Standard is not expected to have a material impact on the amount or timing of recognition of reported revenue. The Group will retrospectively apply the standard, recognising a cumulative adjustment to decrease equity at 1 July 2018 by approximately £6.5 million. This represents the earlier recognition of rebates and discounts based on a probability of occurrence basis of calculation. The impact of this change on the income statement for the year ended 30 June 2018 would have been to reduce net revenue by £1.1 million. There is no impact on the cash flow as a result of the implementation of this change in accounting policy. In accordance with the Standard requirements, where the modified retrospective approach is applied, prior year results will not be restated.
- IFRS 9 'Financial Instruments'; is effective for accounting periods on or after 1 January 2018 and will replace existing accounting standards. The Standard introduces changes to the classification, measurement and de-recognition of financial assets and financial liabilities, provides a new impairment model for financial assets based on expected losses and stipulates a new hedge accounting model. The new Standard is not expected to have a material impact on reported results. The Group will retrospectively apply the standard from 1 July 2018 recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings.
- IFRS 16 'Leases'; is effective for accounting periods on or after 1 January 2019 and will replace existing accounting standards. The Standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of £12.6 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

New Standards and Interpretations not yet Adopted

There are no 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 investors' 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.

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued

(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 hundred 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.

(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.



1. Accounting Policies continued

(e) Accounting for Financial Assets and Liabilities, Derivative Financial Instruments and Hedging Activities continued

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.

(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.

Notes to the Consolidated Financial Statements

continued

1. Accounting Policies continued

(g) Intangible Assets 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.

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 and capitalised developed technology from the acquisitions of Putney Inc. and AST Farma B.V. and Le Vet Beheer B.V. respectively are 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. All amortisation on a reducing balance methodology is recognised within selling and general administrative expenses with the exception of that in respect of the pharmacological process which is recognised within research and development expenses.

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.

When considering the basis of amortisation for our acquired intangibles, we consider a number of factors: the different market conditions which surround the intangible, the age of the products within developed technology and their corresponding place within the life cycle of the product.

(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.



1. Accounting Policies continued

(j) Impairment continued

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.

(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.

Notes to the Consolidated Financial Statements

continued

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) Contingent Consideration

The Group had adopted the financial liability model when accounting for the contingent consideration of an asset. The estimated future amounts payable for contingent consideration are recorded on initial recognition of the asset, together with a corresponding liability. Any subsequent downward remeasurement of the related liability is adjusted against the intangible, with any excess recognised in the Income Statement. Any subsequent upward remeasurement of the related liability is adjusted against the intangible.



1. Accounting Policies continued

(q) 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.

(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 IFRS is given in the Financial Review on page 20. A breakdown of the non-underlying items 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, Dechra Veterinary Products International and Dechra Pharmaceuticals Manufacturing. This Segment operates internationally and manufactures and markets Companion Animal, Equine, Food producing Animal Products and Nutrition. This Segment also includes third party manufacturing and other non-core activities sales. The Segment expanded during the year with the acquisition of RxVet Limited, AST Farma B.V. and Le Vet Beheer B.V.

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:

	2018 £m	2017 £m
Revenue by segment		
European Pharmaceuticals — total	258.7	226.9
NA Pharmaceuticals — total	148.4	132.4
	407.1	359.3
Operating profit/(loss) by segment		
European Pharmaceuticals	77.0	60.7
NA Pharmaceuticals	48.3	43.2
Pharmaceuticals Research and Development	(18.3)	(15.0)
Segment operating profit	107.0	88.9
Corporate and other unallocated costs	(7.8)	(7.6)
Underlying operating profit	99.2	81.3
Amortisation of acquired intangibles	(54.1)	(40.4)
Remeasurement of contingent consideration	0.1	—
Impairment of assets available for sale	—	(0.6)
Fair value uplift of inventory acquired through business combinations	(5.1)	(4.2)
Rationalisation costs on business acquisitions	—	(0.8)
Rationalisation of manufacturing organisation	(2.9)	—
Expenses relating to acquisition activities	(3.1)	(2.1)
Total operating profit	34.1	33.2
Finance income	1.5	0.8
Finance expense	(6.4)	(5.3)
Share of losses in investment accounted for using the equity method	(0.3)	(0.1)
Profit before taxation	28.9	28.6
Total liabilities by segment		
European Pharmaceuticals	(79.6)	(73.7)
NA Pharmaceuticals	(31.0)	(20.2)
Pharmaceuticals Research and Development	(1.4)	(0.4)
Segment liabilities	(112.0)	(94.3)
Corporate loans and revolving credit facility	(291.1)	(181.2)
Corporate accruals and other payables	(6.5)	(8.2)
Current and deferred tax liabilities	(102.7)	(51.8)
	(512.3)	(335.5)
Revenue by product category		
CAP	266.7	223.8
Equine	34.4	27.2
FAP	48.7	47.3
Nutrition	29.4	27.5
Other	27.9	33.5
	407.1	359.3
Additions to intangible non-current assets by segment (including through business combinations)		
European Pharmaceuticals	370.2	64.5
NA Pharmaceuticals	6.9	4.4
Pharmaceuticals Research and Development	0.4	1.4
Corporate and central costs	0.5	0.1
	378.0	70.4



2. Operating Segments continued

	2018 £m	2017 £m
Additions to Property, Plant and Equipment by segment (including through business combinations)		
European Pharmaceuticals	4.9	10.1
NA Pharmaceuticals	0.2	0.5
Pharmaceuticals Research and Development	0.2	0.1
Corporate and central costs	0.2	—
	5.5	10.7
Depreciation and amortisation by segment		
European Pharmaceuticals	40.9	22.7
NA Pharmaceuticals	18.6	23.4
Pharmaceuticals Research and Development	0.5	0.5
Corporate and central costs	1.5	0.7
	61.5	47.3
The total depreciation, amortisation and impairment charge is made up of the following:		
Non-underlying		
Amortisation — selling, general and administrative expenses	46.1	29.0
Amortisation — research and development expenditure	8.0	11.4
	54.1	40.4
Underlying		
Amortisation and impairment	2.6	2.0
Depreciation	4.8	4.9
	7.4	6.9

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:

	2018 Revenue £m	2018 Non- current assets £m	2017 Revenue £m	2017 Non- current assets £m
UK	56.1	18.9	56.3	15.6
Germany	40.4	2.4	37.4	2.4
Rest of Europe	138.3	493.9	113.1	192.4
USA	139.8	180.1	124.1	193.2
Rest of World	32.5	74.1	28.4	49.5
	407.1	769.4	359.3	453.1

3. Finance Income

	2018 £m	2017 £m
Finance income arising from:		
— Cash and cash equivalents	0.2	0.2
— Foreign exchange gains	1.3	0.6
	1.5	0.8

Notes to the Consolidated Financial Statements

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4. Finance Expense

	2018 £m	2017 £m
Underlying		
Finance expense arising from:		
– Financial liabilities at amortised cost	6.8	5.0
– Net Interest on net defined benefit obligations	0.1	0.1
Underlying finance expense	6.9	5.1
Non-underlying		
Loss on extinguishment of debt (note 21)	0.4	–
Fair value and other movements on deferred and contingent consideration	(0.9)	0.2
Non-underlying finance (income)/expense	(0.5)	0.2
Total finance expense	6.4	5.3

5. Non-underlying Items

Non-underlying items charged to operating profit comprise:

	2018 £m	2017 £m
Amortisation of acquired intangibles		
– classified within selling, general and administrative expenses	46.1	29.0
– classified within research and development expenses	8.0	11.4
Impairment of assets available for sale	–	0.6
Remeasurement of contingent consideration	(0.1)	–
Fair value uplift of inventory acquired through business combinations	5.1	4.2
Rationalisation costs	–	0.8
Expenses relating to acquisition activities	3.1	2.1
Rationalisation of manufacturing organisation	2.9	–
	65.1	48.1

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.

The remeasurement of the contingent consideration balance relates to the net credit to the income statement on the reassessment of future milestone and royalty payments on a licensing agreement.

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.

Expenses relating to acquisition activities includes legal and professional fees incurred during the acquisitions of AST Farma and Le Vet (£2.8 million) and Other (£0.3 million). Other is offset with the profit on the sale of human marketing authorisations acquired from previous acquisitions of £0.4 million.

Rationalisation of manufacturing organisation relates to the cost associated with this strategic programme.

Impairment of assets available for sale in the prior year relates to the impairment of the investment in Jaguar Animal Health Inc.

Rationalisation costs relate to the integration and restructuring programmes implemented subsequent to acquisitions.

6. Interests in Associate

(a) Losses in Associate

Set out below is the summarised financial information of Medical Ethics Pty Ltd for the year ended 30 June 2018 (2017: period 30 March 2017 to 30 June 2017), which is accounted for using the equity method. This is not Dechra Pharmaceuticals PLC's share of the results.

	2018 £m	2017 £m
Revenue	0.8	1.6
Pre-tax loss from continuing operations	(0.1)	(0.1)
Post-tax loss from continuing operations	(0.1)	(0.3)
	2018 £m	2017 £m
Non-current assets	1.9	—
Current assets	5.2	5.5
	7.1	5.5
Non-current liabilities	—	—
Current liabilities	(0.4)	(0.5)
	(0.4)	(0.5)
Net assets of associate	6.7	5.0

(b) Interest in Associate

	£m	£m
1 July 2017	10.8	—
Additions	—	11.0
Share of underlying loss after tax	(0.1)	(0.1)
Share of amortisation of intangible asset identified on acquisition	(0.2)	(0.1)
30 June 2018	10.5	10.8

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 are no contingent liabilities relating to the Group's interest in the associate.

Following the acquisition of Medical Ethics Pty Ltd, the disclosure of the final fair values of the assets and liabilities acquired were included in the financial statements for the year ended 30 June 2017. The Group's share of the loss arising from its investment in Medical Ethics 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

	2018 £m
Opening interest in associate	2.2
Fair value of associate acquired	—
Post-tax loss from continuing operations	(0.1)
Amortisation of notional intangible asset recognised on acquisition	(0.2)
Interest in associate	1.9
Goodwill	8.6
Carrying value of investment in associate	10.5

Notes to the Consolidated Financial Statements

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7. Profit Before Taxation

The following items have been included in arriving at profit before taxation of continuing operations:

	2018 £m	2017 £m
Cost of inventories recognised as an expense	140.4	147.7
Impairment of inventories included in above figure	2.0	0.9
Depreciation of property, plant and equipment — owned assets	4.8	4.9
Amortisation of intangible assets	56.6	42.4
Loss on disposal of property, plant and equipment	—	0.2
Loss on disposal of intangible assets	—	0.3
Impairment of intangible assets — underlying	0.1	—
(Release)/recognition of impairment of receivables	(0.1)	0.4
Operating lease rentals payable	2.8	3.0
Research and development expenditure as incurred	18.3	15.0
Auditors' remuneration	1.4	0.7
Analysis of total fees paid to the Auditors:		
Audit of these financial statements	0.4	0.2
Audit of financial statements of subsidiaries pursuant to legislation	0.5	0.4
Other assurance services - transaction services	0.5	0.1
Total fees paid to Auditors	1.4	0.7

Included within research and development expenditure is £0.25 million to secure the worldwide rights for an equine gastro intestinal formulation from NewMarket Pharmaceuticals LLC which we plan to develop to registration through our R&D team.

8. Employees

The average numbers of staff employed by the Group during the year, which includes Directors, were:

	2018 Number	2017 Number
Manufacturing	480	486
Distribution	128	109
Administration	829	743
Total	1,437	1,338

The costs incurred in respect of these employees were:

	2018 £m	2017 £m
Wages and salaries	72.0	60.9
Social security costs	9.2	8.0
Other pension costs	3.7	4.4
Share-based payments charge (see note 28)	3.3	2.8
Total	88.2	76.1

Related party transactions — the remuneration of key management was as follows:

	2018 £m	2017 £m
Short term employee benefits	5.5	5.1
Post-employment benefits	0.3	0.2
Share-based payments charge	1.6	1.7
	7.4	7.0

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 83 to 98.

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 £3.7 million (2017: £4.4 million). Contributions to defined benefit pension schemes included in the above figures total £0.7 million (2017: £0.7 million).

9. Income Tax Expense

	2018 £m	2017 £m
Current tax		
— UK corporation tax	2.3	4.5
— overseas tax at prevailing local rates	11.5	7.8
— adjustment in respect of prior years	(0.4)	(0.9)
Total current tax expense	13.4	11.4
Deferred tax		
— origination and reversal of temporary differences	(9.2)	(9.5)
— adjustment in respect of tax rates	(11.2)	—
— adjustment in respect of prior years	(0.2)	0.6
Total deferred tax credit	(20.6)	(8.9)
Total income tax (income)/expense in the Consolidated Income Statement	(7.2)	2.5

The tax on the Group's profit before taxation differs from the standard rate of UK corporation tax of 19.00% (2017: 19.75%). The differences to this rate are explained below:

	2018 £m	2017 £m
Profit before taxation	28.9	28.6
Tax at 19.00% (2017: 19.75%)	5.5	5.6
Effect of:		
— expenses not deductible	0.5	0.2
— acquisition expenses	0.7	0.6
— research and development related tax credits	(0.1)	(0.1)
— patent box tax credits	(2.6)	(2.1)
— impact of financing (income not taxable)	(0.5)	(0.7)
— effects of overseas tax rates	1.0	(0.7)
— movement in unrecognised deferred tax	0.1	—
— adjustment in respect of prior years	(0.6)	(0.3)
— change in tax rates	(11.2)	—
Total income tax (income)/expense in the Consolidated Income Statement	(7.2)	2.5

Recurring items in the tax reconciliation include: research and development related tax credits and patent box incentives; expenses not deductible; and the impact of financing. The effective tax rate is -24.9% (excluding non-underlying items the effective tax rate is 20.5%).

Tax Credit/(Charge) Recognised Directly in Equity

	2018 £m	2017 £m
Deferred tax on employee benefit obligations	—	(0.5)
Tax recognised in Consolidated Statement of Comprehensive Income	—	(0.5)
Corporation tax on equity settled transactions	1.0	0.7
Deferred tax on equity settled transactions	0.9	0.1
Total tax recognised in Equity	1.9	0.8

The UK current tax rate used for the period is 19.00% which is the enacted rate from 1 April 2017. Finance Act 2016 which was substantively enacted in September 2016 included provisions to reduce the rate of corporation tax to 17% with effect from 1 April 2020. Deferred tax has been calculated using the rate of 19% and 17% based on the timing of when each individual deferred tax balance is expected to reverse in the future. Similarly, deferred tax arising in overseas jurisdiction has been based on the enacted rate.

US Tax Reform and EU CFC Challenge

The United States Tax Cuts and Jobs Act was signed on 22 December 2017 and included a broad range of tax reform measures including a reduction in the Federal rate of corporate income tax from 35% to 21% (effective 1 January 2018) as well as significant changes to business deductions and other international tax provisions including changes to the rules governing interest deductibility. In the results to 30 June 2018 US tax reform gave rise to a transitional one-off non-underlying non-cash tax credit of £10.0 million primarily due to the revaluation of the Group's aggregate US deferred tax assets and deferred tax liabilities following the reduction in the US Federal rate from 35% to 21%.

Finance arrangements are in place to fund the acquisition of business operations in overseas territories. This finance is provided primarily to US operations through intragroup loans which provide a benefit to the Group effective tax rate. In addition, the Group claims a partial exemption under the UK Controlled Foreign Companies legislation for profits from 'qualifying loan relationships'. The Group is monitoring the developments in relation to EU state aid investigations into this exemption, noting that at this stage the final outcome of any investigation is not certain. As such, no quantification of the potential tax liability has been calculated, as the basis for this calculation is currently unclear.

Future Tax Charge

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, and changes in applicable tax rates and legislation in the territories in which it operates.

Notes to the Consolidated Financial Statements

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10. Dividends

	2018 £m	2017 £m
Final dividend paid in respect of prior year but not recognised as a liability in that year: 15.33 pence per share (2017: 12.91 pence per share)	14.3	12.0
Interim dividend paid: 7.33 pence per share (2017: 6.11 pence per share)	7.5	5.7
Total dividend 22.66 pence per share (2017: 19.02 pence per share) recognised as distributions to equity holders in the period	21.8	17.7
Proposed final dividend for the year ended 30 June 2018: 18.17 pence per share (2017: 15.33 pence per share)	18.6	14.3
Total dividend paid and proposed for the year ended 30 June 2018: 25.50 pence per share (2017: 21.44 pence per share)	26.1	20.0

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2018 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 2019. There are no income tax consequences. The final dividend for the year ended 30 June 2017 is shown as a deduction from equity in the year ended 30 June 2018.

At 30 June 2018, the distributable reserves of Dechra Pharmaceuticals PLC as determined under UK company law is £120.4 million (2017: £66.4 million).

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.

	2018 Pence	2017 Pence
Basic earnings per share		
— Underlying*	76.85	64.68
— Basic	37.24	28.09
Diluted earnings per share		
— Underlying*	76.45	64.33
— Diluted	37.04	27.93

The calculations of basic and diluted earnings per share are based upon:

	2018 £m	2017 £m
Earnings for underlying basic and underlying diluted earnings per share	74.5	60.1
Earnings for basic and diluted earnings per share	36.1	26.1

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	96,942,002	92,962,967
Impact of share options	509,209	516,032
Weighted average number of ordinary shares for diluted earnings per share	97,451,211	93,478,999

* Underlying measures exclude non-underlying items as defined in the Consolidated Income Statement on page 111.

At 30 June 2018, there are 231,551 options (2017: 294,848) 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 £m	Software £m	Development costs £m	Patent rights £m	Marketing authorisations £m	Acquired intangibles £m	Total £m
Cost							
At 1 July 2016	113.2	9.2	10.3	5.0	0.8	340.2	478.7
Additions	—	3.2	1.2	0.3	0.2	34.2	39.1
Acquisitions through business combinations	9.9	0.1	—	—	—	21.3	31.3
Disposals	—	(0.1)	(0.3)	—	—	—	(0.4)
Foreign exchange adjustments	5.0	0.3	0.5	—	—	13.7	19.5
At 30 June 2017 and 1 July 2017	128.1	12.7	11.7	5.3	1.0	409.4	568.2
Additions	—	4.2	1.7	0.9	—	8.7	15.5
Acquisitions through business combinations	102.3	—	—	(2.1)	—	262.3	362.5
Remeasurement	—	—	—	—	—	(3.1)	(3.1)
Disposals	—	—	(0.2)	(0.2)	—	—	(0.4)
Foreign exchange adjustments	(1.1)	(0.2)	—	—	(0.1)	(3.3)	(4.7)
At 30 June 2018	229.3	16.7	13.2	3.9	0.9	674.0	938.0
Accumulated Amortisation							
At 1 July 2016	—	2.5	5.1	2.6	—	113.2	123.4
Charge for the year	—	0.5	1.0	0.5	—	40.4	42.4
Disposals	—	(0.1)	—	—	—	—	(0.1)
Foreign exchange adjustments	—	—	—	—	—	6.2	6.2
At 30 June 2017 and 1 July 2017	—	2.9	6.1	3.1	—	159.8	171.9
Charge for the year	—	0.8	1.2	0.5	—	54.1	56.6
Acquisitions through business combinations	—	—	—	(0.4)	—	—	(0.4)
Impairment	—	0.1	—	—	—	—	0.1
Disposals	—	—	(0.2)	(0.2)	—	—	(0.4)
Foreign exchange adjustments	—	(0.1)	—	—	—	0.5	0.4
At 30 June 2018	—	3.7	7.1	3.0	—	214.4	228.2
Net book value							
At 30 June 2018	229.3	13.0	6.1	0.9	0.9	459.6	709.8
At 30 June 2017	128.1	9.8	5.6	2.2	1.0	249.6	396.3
						2018	2017
						£m	£m
Software assets in the course of construction included above						—	9.4

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 2018 was £0.1 million with a remaining amortisation period of 0.5 years. The rights to Equidone, which was launched in the US during 2011, has a carrying value of £0.3 million with a remaining amortisation period of 3 years. The in-licensed products within Canada acquired in 2016 had a carrying value of £0.3 million and had a remaining amortisation periods of 8.5 years. During the year, £0.9 million was added to patent rights within EU from Le Vet B.V. On acquisition of Le Vet during the year this and previously acquired patent rights from Le Vet were reclassified to acquired intangibles (£1.7 million).

£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.

During the year, the contingent consideration in relation to development milestones and sales milestones of the acquired intangibles has been remeasured and to the extent possible remeasured against the intangibles.

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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 £m	Pharmacological process £m	Brand £m	Capitalised development costs £m	Product rights £m	Total £m
Cost						
At 1 July 2016	1.6	48.8	12.4	93.1	184.3	340.2
Additions	—	—	—	—	34.2	34.2
Acquisitions through business combinations	—	—	0.4	17.9	3.0	21.3
Foreign exchange adjustments	0.1	1.7	0.5	3.5	7.9	13.7
At 30 June 2017 and 1 July 2017	1.7	50.5	13.3	114.5	229.4	409.4
Additions	—	—	—	—	8.7	8.7
Acquisitions through business combinations	4.9	—	2.4	255.0	—	262.3
Remeasurement	—	—	—	—	(3.1)	(3.1)
Foreign exchange adjustments	0.1	(0.9)	(0.3)	(2.2)	—	(3.3)
At 30 June 2018	6.7	49.6	15.4	367.3	235.0	674.0
Accumulated Amortisation						
At 1 July 2016	0.2	0.8	0.3	10.7	101.2	113.2
Charge for the year	0.4	11.4	2.0	9.1	17.5	40.4
Foreign exchange adjustments	—	—	—	0.6	5.6	6.2
At 30 June 2017 and 1 July 2017	0.6	12.2	2.3	20.4	124.3	159.8
Charge for the year	0.7	8.0	2.1	26.9	16.4	54.1
Foreign exchange adjustments	—	—	—	0.1	0.4	0.5
At 30 June 2018	1.3	20.2	4.4	47.4	141.1	214.4
Net book value						
At 30 June 2018	5.4	29.4	11.0	319.9	93.9	459.6
At 30 June 2017	1.1	38.3	11.0	94.1	105.1	249.6



12. Intangible Assets continued

The table below provides further detail on the acquired intangibles and their remaining amortisation period.

Significant assets	Description	Carrying value £m	Sub-Total carrying value £m	Remaining amortisation period
Intangible assets arising from the acquisition of Dermapet	Product, marketing and distribution rights	22.7	22.7	7 ½ years
Intangible assets arising from the acquisition of Genetrix	Product, marketing and distribution rights	1.4	1.4	2 ½ years
Intangible assets arising from the acquisition of Eurovet	Technology, product, marketing and distribution rights	33.5	33.5	4 years
Intangible assets arising from the acquisition of PSPC Inc	Product, marketing and distribution rights	3.9	3.9	6 years
Intangible asset acquired from Pharmaderm Animal Health	Marketing and distribution rights	0.7	0.7	4 years
HY-50 intangible asset acquired from Bexinc Limited	Marketing and distribution rights	1.8	1.8	3 ½ years
Intangible assets arising from the acquisition of Genera	Product, brand, technology, marketing and distribution rights	1.1		4 ½ years
		0.4		7 ½ years
		8.0		12 ½ years
			9.5	Genera – total
Intangible assets arising from the acquisition of Putney	Product, brand, technology, pharmacological process, marketing and distribution rights	8.2		8 years
		29.7		8 years
		50.3		10 years
			88.2	Putney – total
Intangible asset arising from the acquisition of Apex	Product and technology	14.5		15 years
		2.4		12 years
		0.2		3 years
			17.1	Apex – total
Intangible asset related to Animal Ethics	Marketing and distribution rights	28.2	28.2	10 years
Intangible assets related to a US dental licensing agreement	Marketing and distribution rights	1.0	1.0	9 years
Intangible asset related to Bioveta	Marketing and distribution rights	2.0	2.0	10 years
Intangible asset related to an injectable solution licensing agreement	Marketing and distribution rights	6.5	6.5	10 years
Intangible assets related to RxVet	Brand	0.2	0.2	1 ½ years
Intangible assets arising from the acquisition of AST Farma and Le Vet	Product, brand, technology, marketing and distribution rights	86.2		9 ½ years
		136.6		8 ½ years
		15.6		10 years
		2.2		2 ½ years
		2.2		4 ½ years
			242.8	AST Farma and Le Vet – total
Intangible asset related to Premune	Product	0.1	0.1	3 years
			459.6	

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13. Property, Plant and Equipment

	Freehold land and buildings £m	Short leasehold buildings £m	Motor vehicles £m	Plant and fixtures £m	Total £m
Cost					
At 1 July 2016	33.5	4.4	0.3	29.1	67.3
Additions	0.2	—	—	4.0	4.2
Acquired through business combinations	3.4	—	0.1	3.0	6.5
Disposals	—	—	—	(0.9)	(0.9)
Foreign exchange adjustments	2.1	—	—	1.2	3.3
At 30 June 2017 and 1 July 2017	39.2	4.4	0.4	36.4	80.4
Additions	0.1	—	0.1	5.2	5.4
Acquired through business combinations	—	—	—	0.1	0.1
Disposals	—	(0.2)	—	(1.7)	(1.9)
Foreign exchange adjustments	0.1	—	—	—	0.1
At 30 June 2018	39.4	4.2	0.5	40.0	84.1
Accumulated Depreciation					
At 1 July 2016	10.7	2.4	0.1	16.3	29.5
Charge for the year	0.6	0.3	0.1	3.9	4.9
Disposals	—	—	—	(0.7)	(0.7)
Foreign exchange adjustments	0.8	—	—	0.7	1.5
At 30 June 2017 and 1 July 2017	12.1	2.7	0.2	20.2	35.2
Charge for the year	1.2	0.3	0.1	3.2	4.8
Disposals	(0.2)	(0.3)	—	(1.4)	(1.9)
Foreign exchange adjustments	0.1	—	—	0.6	0.7
At 30 June 2017	13.2	2.7	0.3	22.6	38.8
Net book value					
At 30 June 2018	26.2	1.5	0.2	17.4	45.3
At 30 June 2017	27.1	1.7	0.2	16.2	45.2
				2018	2017
				£m	£m
Contracted capital commitments				1.5	4.2
Assets in the course of construction included above				0.2	0.3

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% (2017: 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% (2017: 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 2018 for the following assets:

Cash generating unit	2018			
	Goodwill carrying value £m	Indefinite life assets carrying value £m	Total value £m	Pre-tax discount rate %
Dechra Veterinary Products EU	167.5	0.9	168.4	11.6
Dechra Veterinary Products NA	52.9	—	52.9	11.2
Dechra Veterinary Products International	8.9	—	8.9	14.7
	229.3	0.9	230.2	

Cash generating unit	2017			
	Goodwill carrying value £m	Indefinite life assets carrying value £m	Total value £m	Pre-tax discount rate %
Dechra Veterinary Products EU	72.3	1.0	73.3	11.7
Dechra Veterinary Products NA	53.6	—	53.6	14.5
Dechra Pharmaceuticals Manufacturing — Skipton	2.2	—	2.2	13.2
	128.1	1.0	129.1	

Note: Dechra Pharmaceuticals Manufacturing – Skipton is not a separate CGU in the current year as it forms part of Dechra Veterinary Products EU. This change was triggered by the manufacturing organisation. During the year, Dechra Veterinary Products International was created as a separate business and consequently is now classified as a separate CGU.

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 to 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.

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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	
	2018 £m	2017 £m	2018 £m	2017 £m	2018 £m	2017 £m
Intangible assets	—	—	(98.4)	(61.3)	(98.4)	(61.3)
Property, plant and equipment	—	—	(3.4)	(3.8)	(3.4)	(3.8)
Inventories	0.9	0.8	—	—	0.9	0.8
Receivables/payables	1.2	3.5	—	—	1.2	3.5
Share-based payments	2.4	1.6	—	—	2.4	1.6
Losses	2.1	8.4	—	—	2.1	8.4
R&D tax credits	1.2	1.3	—	—	1.2	1.3
Employee benefit obligations	1.0	1.0	—	—	1.0	1.0
	8.8	16.6	(101.8)	(65.1)	(93.0)	(48.5)

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 £1.8 million (2017: £1.5 million). The estimated unprovided deferred tax liability in relation to these temporary differences is £0.1 million (2017: £0.1 million).

Deferred tax assets in relation to losses amounting to £0.9 million (2017: £1.1 million) have not been recognised due to uncertainty over their recoverability. Included within unrecognised losses are £0.7 million of losses which expire prior to 2030. Other losses may be carried forward indefinitely.

(c) Movements during the Year

	Balance at 1 July 2016 £m	Recognised in income £m	Acquired through business combinations £m	Recognised in equity/OCI £m	Foreign exchange adjustments £m	Balance at 30 June 2017 £m
Intangible assets	(63.7)	11.1	(6.4)	—	(2.3)	(61.3)
Property, plant and equipment	(3.8)	(0.1)	—	—	0.1	(3.8)
Inventories	(0.1)	1.3	(0.3)	—	(0.1)	0.8
Receivables/payables	1.6	1.9	—	—	—	3.5
Share-based payments	1.4	0.1	—	0.1	—	1.6
Losses	14.0	(6.2)	—	—	0.6	8.4
R&D tax credits	0.9	0.5	—	—	(0.1)	1.3
Employee benefit obligations	1.2	0.3	—	(0.5)	—	1.0
	(48.5)	8.9	(6.7)	(0.4)	(1.8)	(48.5)

	Balance at 1 July 2017 £m	Recognised in income £m	Acquired through business combinations £m	Recognised in equity/OCI £m	Foreign exchange adjustments £m	Balance at 30 June 2018 £m
Intangible assets	(61.3)	26.6	(64.6)	—	0.9	(98.4)
Property, plant and equipment	(3.8)	0.4	—	—	—	(3.4)
Inventories	0.8	2.0	(2.0)	—	0.1	0.9
Receivables/payables	3.5	(2.3)	—	—	—	1.2
Share-based payments	1.6	(0.1)	—	0.9	—	2.4
Losses	8.4	(6.1)	—	—	(0.2)	2.1
R&D tax credits	1.3	0.1	—	—	(0.2)	1.2
Employee benefit obligations	1.0	—	—	—	—	1.0
	(48.5)	20.6	(66.6)	0.9	0.6	(93.0)



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:

	2018 £m	2017 £m
Deferred tax assets	3.8	0.8
Deferred tax liabilities	(96.8)	(49.3)
	(93.0)	(48.5)

16. Inventories

	2018 £m	2017 £m
Raw materials and consumables	18.0	15.6
Work in progress	6.1	3.9
Finished goods and goods for resale	62.5	37.0
	86.6	56.5

Included in finished goods and goods for resale is £5.2 million (2017: £nil) of inventory held at net realisable value having been acquired through business combinations.

17. Trade and Other Receivables

	2018 £m	2017 £m
Trade receivables	76.0	59.7
Other receivables	3.0	5.5
Prepayments and accrued income	2.6	2.1
	81.6	67.3

18. Cash and Cash Equivalents

	2018 £m	2017 £m
Cash at bank and in hand	79.7	61.2

19. Trade and Other Payables

	2018 £m	2017 £m
Trade payables	33.0	21.4
Other payables	12.3	18.7
Other taxation and social security	4.4	4.8
Accruals	26.0	16.4
	75.7	61.3

20. Current Tax Liabilities

	2018 £m	2017 £m
Corporation tax payable	5.9	2.5

Notes to the Consolidated Financial Statements

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21. Borrowings

	2018 £m	2017 £m
Current liabilities:		
Bank loans	1.2	1.0
	1.2	1.0
Non-current liabilities:		
Bank loans	293.3	180.6
Arrangement fees netted off	(3.4)	(0.4)
	289.9	180.2
Total borrowings	291.1	181.2

In July 2017 the Group replaced its existing facility of £205.0 million with a multi-currency revolving credit facility of £235.0 million, with an accordion of £125.0 million until 2022. During the year the termination date was extended to 2023 with the possibility of further extending to 2024. At the year end £157.7 million was drawn down against this facility. The 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 a minimum of 1.3% over LIBOR and at a maximum of 2.2% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. At 30 June 2018, interest being charged on this facility is 1.5% above LIBOR. All covenants were met during the year ended 30 June 2018. On replacement of the existing facility, arrangement fees of £0.4 million were written off as non-underlying in relation to this facility.

In January 2018 the Group entered into a new multi-currency Term Loan facility of £350.0 million until 31 December 2020. At the year end £132.9 million was drawn against this facility. The 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 a minimum of 1.1% over LIBOR and at a maximum of 2.0% over LIBOR, dependent upon the Leverage (the ratio of Total Net Debt to Adjusted EBITDA) of the Group. At 30 June 2018, interest being charged on this facility is 1.5% above LIBOR. All covenants were met during the year ended 30 June 2018. Arrangement fees of £3.9 million were incurred on the new facilities during the year, these are being released to the income statement over the life of the facilities.

Genera also has borrowing facilities of £6.9 million, of which £3.9 million was drawn down at 30 June 2018. Interest is fixed at 3.1%.

The maturity of the bank loans and overdrafts is as follows:

	2018 £m	2017 £m
Payable:		
Within one year	1.2	1.0
Between one and two years	1.3	1.2
Between two and five years	292.0	179.4
	294.5	181.6

Further information on the interest profile of borrowings is shown in note 24.

22. Provisions

	Deferred Rent £m	Provision for PPE grant £m	Environmental Health & Safety £m	Total £m
At start of period	(0.5)	(2.3)	(0.4)	(3.2)
Provision recognised	—	—	—	—
Provision utilised	—	0.5	—	0.5
Foreign exchange differences	—	—	(0.1)	(0.1)
At end of period	(0.5)	(1.8)	(0.5)	(2.8)

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 (PPE grant) 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 established 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 £0.1 million (2017: £0.2 million) for employees in the Netherlands are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2018.

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:

	2018	2017
Discount rate	1.90%	2.10%
Inflation assumption	1.90%	1.80%
Salary growth	2.40%	2.30%
Rate of increase in accrued pensions of active members	0.34%	0.80%
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 2018 and 30 June 2017, mortality assumptions have been made as indicated below.

The mortality assumption follows the Prognosetafel AG2016 (2017: Prognosetafel AG2016) 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 68)	18.8	21.0
Retiring in 20 years (age 48)	21.0	23.3

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.

	2018 £m	2017 £m
Present value of funded defined benefit obligations	(20.3)	(17.9)
Fair value of scheme assets	17.3	14.9
Net pension scheme deficit	(3.0)	(3.0)

Notes to the Consolidated Financial Statements

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23. Employee Benefit Obligations continued

Movements in Present Value of Defined Benefit Obligations

	2018 £m	2017 £m
Defined benefit obligation at beginning of the period	17.9	17.4
Service cost	0.6	1.6
Interest cost	0.4	0.3
Employee contributions	0.2	0.2
Benefits paid	—	—
Remeasurements:		
— Loss/(gain) from change in financial assumptions	0.6	(3.5)
— Loss from change in demographic assumptions	—	0.1
— Experience losses	0.6	0.7
Foreign exchange difference on translation	—	1.1
Defined benefit obligations at end of the period	20.3	17.9

Movements in Fair Value of Scheme Assets

	2018 £m	2017 £m
Fair value of scheme assets at beginning of the period	14.9	13.6
Interest income	0.3	0.2
Additional charges	(0.1)	(0.1)
Employer contributions	0.7	0.7
Employee contributions	0.2	0.2
Benefits paid	—	—
Remeasurements:		
— Premium adjustment	0.3	0.5
— Return on plan assets	0.9	(1.1)
Foreign exchange difference on translation	0.1	0.9
Fair value of scheme assets at end of the period	17.3	14.9

Analysis of the Amount Charged to the Income Statement

	2018 £m	2017 £m
Service cost	0.6	1.6
Net interest cost	0.1	0.1
Additional charges	0.1	0.1
Net pension expense	0.8	1.8

Cumulative Analysis of the Amount Charged to the Other Statement of Consolidated Income

	2018 £m	2017 £m
Amounts charged in previous periods	0.5	2.6
Actuarial (gain)/loss on defined benefit pension scheme	—	(2.1)
Net pension expense	0.5	0.5

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:

	2018 £m	2017 £m
Total fair value of assets	17.3	14.9
Actual return on scheme assets	1.5	0.2
Discount rate used to value assets	1.90%	2.10%

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 £0.7 million (2017: £0.7 million).

History of Amounts in the Current Period

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Present value of funded defined benefit obligations	(20.3)	(17.9)	(17.4)	(7.2)	(6.0)
Fair value of scheme assets	17.3	14.9	13.6	5.9	4.9
Deficit in the scheme	(3.0)	(3.0)	(3.8)	(1.3)	(1.1)

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 6.7%	Increase by 7.3%
Salary growth rate	0.25%	Increase by 0.5%	Decrease by 0.6%
Inflation rate	0.25%	Increase by 0.3%	Decrease by 0.4%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 2.9%	Decrease by 2.9%

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.

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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 change to financing 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 2018, net borrowing was £211.4 million (2017: net borrowing was £120.0 million), whilst shareholders' equity was £505.0 million (2017: £302.6 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 2018 and 2017.

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 half yearly. 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:

- £235.0 million multi-currency revolving credit facility, with an accordion of £125.0 million;
- £350.0 million Term Loan facility;
- £6.9 million bank loans; and
- various finance leases.

The Group's revised borrowing facilities at 30 June 2018 are detailed in note 21.



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.

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. The Group has designated a US Dollar loan of \$97.0 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 £79.0 million (2017: £65.2 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 21.2% of gross trade receivables at 30 June 2018 (2017: 15.4%). This customer accounted for 19.8% (2017: 18.5%) of total Group revenues. One other customer accounted for more than 10% of total Group revenues (2017: one).

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 2018 and 30 June 2017. 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

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24. Financial Instruments and Related Disclosures continued

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows:

	2018		2017	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and cash equivalents	79.7	79.7	61.2	61.2
Loans and receivables	79.7	79.7	61.2	61.2
— trade receivables	76.0	76.0	59.7	59.7
— other receivables	3.0	3.0	5.5	5.5
Total financial assets	158.7	158.7	126.4	126.4
Financial liabilities				
Bank loans and overdrafts	(294.5)	(294.5)	(181.5)	(181.5)
Finance lease liabilities	—	—	—	—
Trade payables	(33.0)	(33.0)	(21.4)	(21.4)
Other payables	(12.3)	(12.3)	(18.7)	(18.7)
Accruals	(26.0)	(26.0)	(16.4)	(16.4)
Deferred and contingent consideration	(36.8)	(36.8)	(35.0)	(35.0)
Total financial liabilities	(402.6)	(402.6)	(273.0)	(273.0)
Net financial liabilities	(243.9)	(243.9)	(146.6)	(146.6)

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.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
30 June 2018				
Available for sale financial instruments	—	—	—	—
Derivative financial liabilities	—	—	—	—
Deferred and contingent consideration for business combinations	—	—	(36.8)	(36.8)
Total	—	—	(36.8)	(36.8)
30 June 2017				
Available for sale financial instruments	—	—	—	—
Derivative financial liabilities	—	—	—	—
Deferred and contingent consideration for business combinations	—	—	(35.0)	(35.0)
Total	—	—	(35.0)	(35.0)

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 2018. Refer to note 4 for amounts recognised in the Consolidated Income Statement in the year.

24. Financial Instruments and Related Disclosures continued

Credit Risk — Overdue Financial Assets

The following table shows financial assets which are overdue and for which no impairment provision has been made:

	2018 £m	2017 £m
Overdue by:		
Up to one month	6.7	2.9
Between one and two months	0.7	0.6
Between two and three months	0.8	0.2
Over three months	—	0.6
	8.2	4.3

The movement in the impairment provision was as follows:

	2018 £m	2017 £m
At start of period	3.2	2.9
Impairment provision recognised/(released)	(0.1)	0.4
Acquired through business combinations	—	—
Foreign exchange differences	—	0.2
Impairment provision utilised	(2.5)	(0.3)
At end of period	0.6	3.2

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 2018 and 30 June 2017. Where interest is at floating rates, the future interest payments have been estimated using current interest rates:

	Deferred and contingent consideration £m	Bank loans and overdrafts £m	Finance leases £m	Trade and other payables £m	Total £m
At 30 June 2018					
Carrying value	(36.8)	(294.5)	—	(45.3)	(376.6)
Arrangement fees netted off	—	3.4	—	—	3.4
Future interest	(25.2)	(1.4)	—	—	(26.6)
Total committed cash flow	(62.0)	(292.5)	—	(45.3)	(399.8)
Payable:					
Within 6 months	(5.0)	(1.4)	—	(43.2)	(49.6)
Between 6 months and 1 year	(4.2)	(0.2)	—	(2.1)	(6.5)
Between 1 and 2 years	(4.7)	(0.5)	—	—	(5.2)
Between 2 and 3 years	(9.4)	(133.5)	—	—	(142.9)
Between 3 and 4 years	(3.0)	0.8	—	—	(2.2)
Between 4 and 5 years	(3.9)	(157.7)	—	—	(161.6)
Over 5 years	(31.8)	—	—	—	(31.8)
	(62.0)	(292.5)	—	(45.3)	(399.8)
At 30 June 2017					
Carrying value	(35.0)	(181.6)	—	(40.1)	(256.7)
Arrangement fees netted off	—	0.4	—	—	0.4
Future interest	(26.8)	(0.4)	—	—	(27.2)
Total committed cash flow	(61.8)	(181.6)	—	(40.1)	(283.5)
Payable:					
Within 6 months	(0.8)	(0.6)	—	(38.4)	(39.8)
Between 6 months and 1 year	(0.9)	(0.5)	—	(1.7)	(3.1)
Between 1 and 2 years	(3.4)	(1.3)	—	—	(4.7)
Between 2 and 3 years	(7.0)	(177.7)	—	—	(184.7)
Between 3 and 4 years	(6.4)	(1.2)	—	—	(7.6)
Between 4 and 5 years	(3.3)	(0.3)	—	—	(3.6)
Over 5 years	(40.0)	—	—	—	(40.0)
	(61.8)	(181.6)	—	(40.1)	(283.5)

Notes to the Consolidated Financial Statements

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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 2018 and 30 June 2017 were:

	Danish Krone £m	Euro £m	US Dollar £m	Other £m
At 30 June 2018				
Financial assets				
Trade receivables	1.6	3.9	1.1	0.1
Other receivables	—	—	0.4	0.2
Cash balances	1.3	1.5	10.3	4.8
	2.9	5.4	11.8	5.1
Financial liabilities				
Bank loans and overdrafts	—	(7.6)	(107.9)	—
Trade payables	—	(5.8)	(0.2)	(0.3)
Other payables	—	—	—	—
Finance lease	—	—	—	—
	—	(13.4)	(108.1)	(0.3)
Net balance sheet exposure	2.9	(8.0)	(96.3)	4.8
At 30 June 2017				
Financial assets				
Trade receivables	0.9	7.6	1.1	0.4
Other receivables	—	0.1	—	—
Cash balances	—	—	5.8	5.7
	0.9	7.7	6.9	6.1
Financial liabilities				
Bank loans and overdrafts	(13.0)	(7.9)	(127.1)	—
Trade payables	—	(7.0)	(1.1)	—
Other payables	—	(0.5)	—	(0.4)
Derivatives	—	—	—	—
	(13.0)	(15.4)	(128.2)	(0.4)
Net balance sheet exposure	(12.1)	(7.7)	(121.3)	5.7

Sensitivity Analysis

Interest Rate Risk

A 2.0% increase in annual interest rates compared to those ruling at 30 June 2018 would reduce Group profit before taxation and equity by £4.4 million (2017: £3.6 million).

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.

During 2018, we have been exposed to transactional and translational currency risk. In addition to the one-off transactional gain of £1.3 million being recognised in the Consolidated Income Statement, £0.4 million foreign exchange loss translational impact was recognised in the Consolidated Statement of Comprehensive Income in the year.

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.

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 balance 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 £m
Danish Krone	0.3
US Dollar	(2.0)
Euro	(0.7)

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 1 pence each			
	2018		2017	
	£m	Number	£m	Number
Allotted, called up and fully paid at start of year	0.9	93,178,756	0.9	92,746,998
New shares issued	0.1	9,150,879	—	431,758
Allotted, called up and fully paid at end of year	1.0	102,329,635	0.9	93,178,756

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, 358,302 new ordinary shares of 1 pence each (2017: 431,758 new ordinary shares of 1 pence each) were issued following the exercise of options under the Long Term Incentive Plan, the Approved, the Unapproved and the SAYE share option schemes. The consideration received was £1,026,837 (2017: £931,342). 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.

The Company issued 5,121,952 shares of 1 pence each by way of a placing at an issue price of 2050 pence per share on 30 January 2018. The placing generated net proceeds of £102.3 million after costs of £2.7 million. The placing price of 2050 pence per share was a 0.6% discount to the closing mid-market price per ordinary share on 24 January 2018, being the last practical date prior to the announcement of the placing.

The Company issued 3,670,625 shares of 1 pence each to the sellers of AST Farma B.V. and Le Vet Beheer B.V. at an issue price of 2031 pence per share on 13 February 2018. The issue price of 2031 pence per share was the average of the middle market closing price of an ordinary share for the 30 days up to and including 24 January 2018 (being the last business day prior to the announcement of the acquisition), as derived from the Daily Official List.

26. Own Shares

	2018 £m	2017 £m
At start of the period	0.7	0.1
Recycled to retained earnings	(0.3)	—
Purchase of own shares	—	0.6
At end of period	0.4	0.7

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 2018 was 21,033 (2017: 42,066).

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:

	2018 £m	2017 £m
At start of period	1.6	2.0
Additional consideration paid to non-controlling interests	(1.8)	(0.6)
Loss on acquisition of remaining non-controlling interests	0.2	—
Profit/(loss) for the period	—	—
Foreign exchange differences	—	0.2
At end of period	—	1.6

On 1 February 2018, the Group completed the buy-out of the remaining minority interest (4.87% of the voting shares) in Genera for HRK14.8 million (£1.8 million).

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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 2008

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.

Long Term Incentive Plan 2017

(a) Long Term Incentive Plan Awards

Vesting is dependent on three 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. One third of each award is subject to a performance condition based on the Company's TSR performance over the performance period relative to an appropriate comparator over the performance period. Two thirds of each award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period. 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. For the purposes of this note they are detailed under the heading Long Term Incentive Plan.

(b) Qualifying LTIP Awards

In addition, awards can be structured as Qualifying LTIP Awards, consisting of a Company Share Option Plan (CSOP) option and a 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. The Qualifying LTIP Awards are granted to UK Senior Executive Team which includes the UK resident Executive Directors. The performance conditions are the same as those attached to the awards granted under Approved Share Option Schemes and Long Term Incentives Plan 2017. For the purposes of this note they are detailed under the heading Long Term Incentive Plan (Qualifying LTIP Awards).

(c) Market Value Options

Market value options may be granted under the LTIP 2017 as tax-advantaged CSOP options and as Unapproved share options. These 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. For the purposes of this note they are detailed under the headings Unapproved and Approved Share Option Schemes.

28. Share-based Payments continued
Year ended 30 June 2018

	Exercise Period	Exercise price per share Pence	At 1 July 2017 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2018 Number
Unapproved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	3,266	(3,266)	—	—	—
10 October 2008†*	2011–2018	364.63	2,722	—	—	—	2,722
30 March 2009†*	2012–2019	381.15	8,709	—	—	—	8,709
1 March 2010†*	2013–2020	418.81	2,177	—	—	—	2,177
28 February 2011†*	2014–2021	461.97	3,221	—	—	—	3,221
10 September 2012†	2015–2022	541.00	26,000	(13,000)	—	—	13,000
16 September 2013†	2016–2023	721.00	17,765	(11,000)	—	—	6,765
11 September 2014†	2017–2024	763.00	44,009	(25,668)	—	(4,000)	14,341
15 September 2015	2018–2025	975.00	48,060	(2,000)	—	(4,805)	41,255
18 March 2016	2019–2026	1118.00	950	—	—	—	950
19 September 2016	2019–2026	1369.00	88,852	—	—	(10,500)	78,352
2 March 2018	2020–2028	2506.00	—	—	114,113	(1,803)	112,310
			245,731	(54,934)	114,113	(21,108)	283,802
Approved Share Option Scheme							
2 April 2008†*	2011–2018	336.15	1,088	(1,088)	—	—	—
1 March 2010†*	2013–2020	418.81	466	(466)	—	—	—
28 February 2011†*	2014–2021	461.97	44	(44)	—	—	—
16 September 2013†	2016–2023	721.00	3,249	(2,749)	—	—	500
11 September 2014†	2017–2024	763.00	10,991	(6,332)	—	—	4,659
15 September 2015	2018–2025	975.00	13,440	—	—	—	13,440
18 March 2016	2019–2026	1118.00	5,050	—	—	—	5,050
19 September 2016	2019–2026	1369.00	9,148	—	—	—	9,148
2 March 2018	2021–2028	2506.00	—	—	10,387	(1,197)	9,190
			43,476	(10,679)	10,387	(1,197)	41,987
Long Term Incentive Plan							
15 September 2014	2017–2018	—	195,258	(195,258)	—	—	—
15 September 2015	2018–2019	—	155,834	—	—	—	155,834
22 March 2016	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	—	21,033	(21,033)	—	—	—
7 March 2017	2019	—	21,033	—	—	—	21,033
2 March 2018	2020–2021	—	—	—	28,240	—	28,240
			556,726	(216,291)	28,240	—	368,675
Long Term Incentive Plan (Qualifying LTIP Awards)							
2 March 2018	2021–2028	2506.00	—	—	7,530	—	7,530
2 March 2018	2020–2021	—	—	—	74,281	—	74,281
			—	—	81,811	—	81,811
SAYE Option Scheme							
13 December 2010*	2013–2017	375.64	4,542	(4,542)	—	—	—
16 October 2012	2015–2018	471.00	7,576	(7,576)	—	—	—
7 April 2014	2017–2019	552.00	22,383	(2,282)	—	—	20,101
13 October 2014	2017–2020	614.00	100,129	(82,034)	—	(1,717)	16,378
12 October 2015	2018–2021	792.00	82,804	(997)	—	(2,046)	79,761
13 October 2016	2019–2022	1095.00	49,429	—	—	(6,945)	42,484
12 October 2017	2020–2023	1646.00	—	—	73,108	(3,560)	69,548
			266,863	(97,431)	73,108	(14,268)	228,272
Total			1,112,796	(379,335)	307,659	(36,573)	1,004,547
Weighted average exercise price*			430.64p	270.69p	1405.23p	1251.43p	759.65

* 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 2018 are 56,094.

Notes to the Consolidated Financial Statements

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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	461.97	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*	2014–2017	365.54	6,326	(6,326)	—	—	—
16 October 2012	2015–2018	471.00	7,576	—	—	—	7,576
7 April 2014	2017–2019	552.00	95,043	(69,726)	—	(2,934)	22,383
13 October 2014	2017–2020	614.00	106,577	(1,482)	—	(4,966)	100,129
12 October 2015	2018–2021	792.00	92,162	—	—	(9,358)	82,804
13 October 2016	2019–2022	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.

The weighted average exercise price of options eligible to be exercised at 30 June 2018 was 596.85p (2017: 470.86p). For options exercised during the year, the weighted average market price at the date of exercise was 2,142.35p (2017: 1,415p). The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was 3.8 years (2017: 3.3 years).

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2017 were exercisable at 30 June 2018. No options issued under SAYE plans were exercisable at 30 June 2018 (2017: nil).

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	19/09/16	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			19/09/16	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

Long Term Incentive Plan 2017

Valuation date					02/03/18
Award date					02/03/18
Vesting date					30/09/20
Expected exercise					30/09/20

Type of awards	Nil-cost options (CSOP linked)		Conditional share awards		Nil-cost options (CSOP linked and standalone options)		Market value options
Holding period restriction	2 years		2 years		N/A		N/A
Number of awards at grant	20,459	40,918	4,033	8,066	9,682	19,363	114,113
Share price at date of grant	2506p	2506p	2506p	2506p	2506p	2506p	2506p
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	years	years	years	years	years	years	years
Risk-free rate	0.82%	0.82%	0.82%	0.82%	0.82%	0.82%	1.20%
Volatility	23.21%	23.21%	23.21%	23.21%	23.21%	23.21%	23.21%
Dividend yield	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%	1.91%
Fair value per share	1979p	22.50p	19.79p	22.50p	21.33p	24.25p	522p

Notes to the Consolidated Financial Statements

continued

28. Share-based Payments continued

Save As You Earn Option Scheme

Date of grant	12/10/17	13/10/16	12/10/15
Number of shares awarded	73,108	52,877	101,513
Share price at date of grant	2175p	1370p	930p
Exercise price	1646p	1095p	792p
Expected life			
– three year scheme	3.25 years	3.25 years	3.25 years
– five year scheme	5.25 years	5.25 years	5.25 years
Risk-free rate			
– three year scheme	0.54%	0.22%	0.83%
– five year scheme	0.79%	0.44%	1.17%
Volatility			
– three year scheme	21.6%	22%	22%
– five year scheme	22.2%	24%	26%
Dividend yield	1.91%	1.51%	0.53%
Fair value per share			
– three year scheme	551p	302p	215p
– five year scheme	587p	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 2018 of £1.4 million (2017: £1.0 million), of which £0.2 million (2017: £0.1 million) related to vested options. The total charge to the Consolidated Income Statement in respect of share-based payments was:

	2018	2017
	£m	£m
Equity settled share-based transactions	2.4	2.3
Cash settled share-based transactions	0.9	0.5
	3.3	2.8

The above charge to the Consolidated Income Statement is included within administrative expenses.

29. Analysis of Net Borrowings

	2018	2017
	£m	£m
Bank loans	(291.1)	(181.2)
Finance leases and hire purchase contracts	—	—
Cash and cash equivalents	79.7	61.2
Net borrowings	(211.4)	(120.0)

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	
	2018	2017	2018	2017	2018	2017
	£m	£m	£m	£m	£m	£m
Within one year	1.4	1.4	1.8	1.9	3.2	3.3
Between one and five years	4.1	4.2	2.5	2.4	6.6	6.6
In five years or more	2.8	2.8	—	—	2.8	2.8
	8.3	8.4	4.3	4.3	12.6	12.7

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 2017	Closing rate at 30 June 2017	Average rate for 2018	Closing rate at 30 June 2018
Danish Krone	8.6901	8.4571	8.4010	8.4109
Euro	1.1681	1.1372	1.1286	1.1286
US Dollar	1.2735	1.2978	1.3465	1.3157

32. Acquisitions

Acquisition of AST Farma and Le Vet

On 13 February 2018, Dechra acquired 100% of the share capital of AST Farma B.V. (AST Farma) and Le Vet Beheer B.V. (Le Vet), developers of generic, generic plus and niche animal pharmaceutical products predominately for companion animals. Both companies are based in the Netherlands. The Group paid £229.0 million (€257.5 million) consideration in cash and £82.7 million (€ 92.9 million) consideration in shares.

	Fair value £m		
	AST Farma B.V.	Le Vet Beheer B.V.	Total £m
Recognised amounts of identifiable assets acquired and liabilities assumed			
Identifiable assets			
Property, plant and equipment	0.1	—	0.1
Inventories	9.9	2.3	12.2
Trade and other receivables	0.9	3.0	3.9
Trade and other payables	(0.9)	(1.4)	(2.3)
Intangible assets	62.7	197.7	260.4
Deferred income	—	(0.2)	(0.2)
Cash and cash equivalents	0.4	2.9	3.3
Current tax liability	—	(2.5)	(2.5)
Net deferred tax liability	(17.4)	(49.2)	(66.6)
Net identifiable assets	55.7	152.6	208.3
Goodwill			102.3
Total consideration			310.6
Satisfied by:			
Cash			229.0
Settlement of balances with owners			(1.1)
Shares (note 25)			82.7
Total consideration transferred			310.6
Net cash outflow arising on acquisition			
Cash consideration			229.0
Less cash and cash equivalents			(3.3)
Net cash outflow arising on acquisition			225.7

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.

The goodwill of £102.3 million arising from the acquisition consists of future sales growth expected to be achieved, continued geographical expansion in the Netherlands, and the technical expertise of the assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs (included in operating expenses) amounted to £2.8 million. AST Farma and Le Vet's results are reported within the EU Pharmaceuticals Segment.

AST Farma and Le Vet contributed £14.5 million revenue and an underlying operating profit of £7.4 million to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date. If the acquisition had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £44.9 million and the Group underlying operating profit would have been £17.3 million.

Notes to the Consolidated Financial Statements

continued

32. Acquisitions continued

Acquisition of RxVet

On 13 December 2017, Dechra acquired 100% of the share capital of RxVet Limited (RxVet), a veterinary pharmaceuticals company based in New Zealand. The Group paid £0.3 million (NZ\$0.6 million) consideration in cash, with a further NZ\$0.04 million deferred payment.

	Fair value £m
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable intangible assets	0.3
Inventories	0.2
Trade and other payables	(0.2)
Net identifiable assets	0.3
Goodwill	—
Total consideration	0.3
Satisfied by:	
Cash	0.3
Deferred consideration	—
Total consideration transferred	0.3
Net cash outflow arising on acquisition	
Cash consideration	0.3
	0.3

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.

Acquisition related costs (included in operating expenses) amounted to £25,000. RxVet's results are reported within the EU Pharmaceuticals Segment.

RxVet contributed £0.5 million revenue and underlying operating profit of £11,000 to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date. If the acquisition of RxVet had been completed on the first date of the financial year, the contribution to Group revenues for the period would have been £0.9 million and the Group underlying operating profit would have been £0.1 million.

Prior Year Acquisitions

Following the acquisition of Apex in October 2016, the disclosure of the final fair values of the assets and liabilities acquired has been included in the financial statements for the year ended 30 June 2017.



33. Deferred and Contingent Consideration Liabilities

	2018 £m	2017 £m
Deferred consideration – less than one year	1.8	—
Deferred consideration – more than one year	—	2.3
	1.8	2.3
Contingent consideration – less than one year	7.0	1.6
Contingent consideration – more than one year	28.0	31.1
	35.0	32.7
	36.8	35.0

The consideration for certain acquisitions and licensing agreements includes amounts contingent on future events such as development milestones or sales performance. The Group has provided for the fair value of this contingent consideration as follows:

	Tri-Solfen®	StrixNB & DispersinB	Injectable Solution	Phycox	Other	Total
As at 1 July 2016	—	—	—	3.0	0.6	3.6
Additions	26.4	3.6	—	—	—	30.0
Cash payments: investing activities	—	—	—	(0.5)	—	(0.5)
Finance expense	—	—	—	0.5	(0.1)	0.4
Foreign exchange adjustments	(0.9)	—	—	0.1	—	(0.8)
At 30 June 2017	25.5	3.6	—	3.1	0.5	32.7
Additions	—	—	6.5	—	2.4	8.9
Remeasurement through intangibles	(0.9)	(2.2)	—	—	—	(3.1)
Remeasurement through income statement	—	(0.1)	—	—	—	(0.1)
Cash payments: investing activities	—	—	—	(0.6)	(1.1)	(1.7)
Finance expense	—	—	—	0.4	0.2	0.6
Foreign exchange adjustments	(1.8)	(0.2)	0.1	(0.1)	—	(2.0)
Other movements	—	—	—	—	(0.3)	(0.3)
At 30 June 2018	22.8	1.1	6.6	2.8	1.7	35.0

The consideration payable for Tri-Solfen® is expected to be payable over a number of years, and relates to development milestones and sales performance. During the year, the development milestones have been remeasured and consequently are now expected to happen later than initially anticipated.

The consideration payable for StrixNB and Dispersin B is expected to be payable over a number of years, and relates to developments milestones and sales performance. During the year the contingent consideration has been remeasured and consequently one of the development milestones is no longer expected to be achieved. To the extent possible this has been remeasured through intangibles with the excess being credited to the income statement, and treated as non-underlying.

The consideration for a new licensing agreement for an injectable solution relates to development milestones, and Phycox relates to sales performance.

Where a liability is expected to be payable over a number of years the total estimated liability are discounted to their present values.

34. 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 163 and 164.

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 83 to 98. 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.

35. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

Company Statement of Financial Position

At 30 June 2018

	Note	2018 £m	2017 £m
Non-current assets			
Investments	iv	647.2	447.5
Intangible assets	v	9.7	7.7
Tangible assets	vi	0.2	0.1
		657.1	455.3
Current assets			
Trade and other receivables (includes amounts falling due after more than one year of £2.1 million (2017: £1.4 million))	vii	11.5	15.1
Cash at bank and in hand		—	—
		11.5	15.1
Borrowings	ix	(1.3)	(11.3)
Trade and other payables	viii	(56.4)	(66.1)
Net current liabilities		(46.2)	(62.3)
Total assets less current liabilities		610.9	393.0
Non-current liabilities			
Borrowings	ix	(129.6)	(151.7)
Net assets		481.3	241.3
Equity			
Called up share capital	xi	1.0	0.9
Share premium account		359.3	173.4
Foreign currency translation reserve		0.6	0.6
Hedging reserve		—	—
<i>At 1 July</i>		66.4	68.8
<i>Profit for the year attributable to the owners</i>		71.5	11.9
<i>Other changes in retained earnings</i>		(17.5)	(14.3)
Retained earnings		120.4	66.4
Total equity shareholders' funds		481.3	241.3

The financial statements were approved by the Board of Directors on 3 September 2018 and are signed on its behalf by:

Ian Page

Chief Executive Officer
3 September 2018

Richard Cotton

Chief Financial Officer
3 September 2018

Company number: 3369634

Company Statement of Changes in Shareholders' Equity

For the year ended 30 June 2018

	Attributable to owners of the parent				Total shareholders' funds £m
	Called up share capital £m	Share premium account £m	Foreign currency translation reserve £m	Retained earnings £m	
Year ended 30 June 2017					
At 1 July 2016	0.9	172.5	0.6	68.8	242.8
Profit for the period	—	—	—	11.9	11.9
Recycle of losses on available for sale financial assets	—	—	—	0.3	0.3
Total comprehensive income	—	—	—	12.2	12.2
Transactions with owners					
Dividends paid	—	—	—	(17.7)	(17.7)
Share-based payment charge	—	—	—	3.1	3.1
Shares issued	—	0.9	—	—	0.9
Total contributions by and distributions to owners	—	0.9	—	(14.6)	(13.7)
At 30 June 2017	0.9	173.4	0.6	66.4	241.3
Year ended 30 June 2018					
At 1 July 2017	0.9	173.4	0.6	66.4	241.3
Profit for the period	—	—	—	71.5	71.5
Total comprehensive income	—	—	—	71.5	71.5
Transactions with owners					
Dividends paid	—	—	—	(21.8)	(21.8)
Share-based payment charge	—	—	—	4.3	4.3
Shares issued	0.1	185.9	—	—	186.0
Total contributions by and distributions to owners	0.1	185.9	—	(17.5)	168.5
At 30 June 2018	1.0	359.3	0.6	120.4	481.3

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 £71.5 million (2017: £11.9 million).

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).

(e) Exemption from disclosure

Under FRS 101, the Company has taken advantage of the requirements of Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors'.

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

Intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the income statement on a straight line basis over the estimated useful economic life of the asset. The estimated useful lives are:

- product rights 10 to 15 years
- software 5 to 7 years

Tangible Assets

Tangible assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is charged to the income statement on a straight line basis over the estimated useful economic life of the asset. The estimated useful lives are:

- plant and fixtures 3 to 15 years

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 34 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 Long Term Incentive Plans 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 £7.1 million (2017: £5.3 million). Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 83 to 98. 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 1.1286 (2017: 1.1681).

	2018 Number	2017 Number
Administration	33	31
Total	33	31

The costs incurred in respect of these employees were:

	2018 £m	2017 £m
Wages and salaries	4.5	4.3
Social security costs	0.7	0.6
Other pension costs	0.2	0.1
Share-based payments charge (see note 28)	3.3	2.8
Total	8.7	7.8

Related party transactions — the remuneration of key management was as follows:

	2018 £m	2017 £m
Short term employee benefits	4.4	3.6
Post-employment benefits	0.2	0.2
Share-based payments charge	1.5	1.4
	6.1	5.2

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 £0.2 million (2017: £0.1 million).

(iii) Profit/(loss) Before Taxation

The following items have been included in arriving at profit/(loss) before taxation of continuing operations:

	2018 £m	2017 £m
Depreciation of property, plant and equipment		
— owned assets	0.1	0.1
Amortisation of intangible assets	0.9	0.6
Operating lease rentals payable	0.2	0.1
Auditor's remuneration — audit of these financial statements	0.1	0.1

(iv) Investments

	Shares in subsidiary undertakings £m
Cost	
At 1 July 2017	459.7
Additions	199.7
At 30 June 2018	659.4
Impairment	
At 1 July 2017	12.2
Charge for the period	—
At 30 June 2018	12.2
Net book value	
At 30 June 2018	647.2
At 30 June 2017	447.5

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 £m	Software £m	Total Intangible assets £m
Cost			
At 1 July 2017	5.1	5.5	10.6
Additions	—	3.0	3.0
At 30 June 2018	5.1	8.5	13.6
Accumulated Amortisation			
At 30 June 2017	2.8	0.1	2.9
Charge for the year	0.5	0.4	0.9
Impairment	—	0.1	0.1
At 30 June 2018	3.3	0.6	3.9
Net book value			
At 30 June 2018	1.8	7.9	9.7
At 30 June 2017	2.3	5.4	7.7
		2018	2017
		£m	£m
Software assets in the course of construction included above		—	4.7

(vi) Tangible Assets

	Tangible assets £m
Cost	
At 1 July 2017	0.4
Additions	0.2
At 30 June 2018	0.6
Accumulated Depreciation	
At 1 July 2017	0.3
Charge for the year	0.1
At 30 June 2018	0.4
Net book value	
At 30 June 2018	0.2
At 30 June 2017	0.1

(vii) Trade and Other Receivables

	2018 £m	2017 £m
Amounts owed by subsidiary undertakings	8.1	10.1
Group relief receivable	—	3.2
Deferred taxation (see note (x))	2.1	1.4
Other receivables	1.0	0.3
Prepayments and accrued income	0.3	0.1
	11.5	15.1

Included in debtors are amounts of £2.1 million (2017: £1.4 million) 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 (2017: £nil).

(viii) Trade and Other Payables

	2018 £m	2017 £m
Trade payables	1.0	0.8
Other payables	1.0	0.2
Amounts due to subsidiary undertakings	47.2	61.5
Group relief payable	1.6	—
Current tax liabilities	0.3	0.3
Other taxation and social security	0.2	0.2
Accruals and deferred income	5.1	3.1
	56.4	66.1

In accordance with IAS 10 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2018 of 18.17 pence per share (2017: 15.33 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 2019. The total cost of the proposed final dividend is £18.6 million (2017: £14.3 million).

Notes to the Company Financial Statements

continued

(ix) Borrowings

	2018 £m	2017 £m
Borrowings due within one year		
Bank overdraft	1.3	11.3
Borrowings due after more than one year		
Aggregate bank loan instalments repayable:		
— between two and five years	132.9	152.1
Arrangement fees netted off	(3.3)	(0.4)
	129.6	151.7
Total borrowings	130.9	163.0

In July 2017 the Group replaced its existing facility of £205.0 million with a multi-currency revolving credit facility of £235.0 million, with an accordion of £125.0 million until 2022. During the year the termination date was extended to 2023 with the possibility of further extending to 2024. At 30 June 2018, £132.9 million was drawn down against this facility in the Company. Interest will be charged at a minimum of 1.30% over LIBOR and at a maximum of 2.20% over LIBOR, dependent upon the Leverage (the ration of Total Net Debt to Adjusted EBITDA) of the Group. At 30 June 2018, interest being charged on this facility is 1.50% above LIBOR.

In January 2018 the Group entered into a new Term Loan facility of £350.0 million until 31 December 2020. At 30 June 2018, £nil was drawn against this facility in the Company. Interest will be charged at a minimum of 1.10% over LIBOR and at a maximum of 2.00% over LIBOR, dependent upon the Leverage (the ration of Total Net Debt to Adjusted EBITDA) of the Group.

Arrangement fees of £3.9 million were incurred on the new facilities during the year, these are being released to the income statement over the life of the facility.

No interest has been capitalised during the year (2017: £nil).

The Company guarantees certain borrowings of other Group companies under the above facilities, which at 30 June 2018 amounted to £151.6 million (2017: £29.5 million).

(x) Deferred Tax

	£m
At 1 July 2017 (included in trade and other receivables)	1.4
Additions to the income statement	(0.2)
Additions to statement of changes in equity	0.9
At 30 June 2018 (included in trade and other receivables)	2.1

Deferred tax has been calculated using the rate of 19% or 17% based on the timing of when each individual deferred tax balance is expected to reverse in the future as follows (2017: 18%):

	2018 £m	2017 £m
Short term timing differences	2.5	1.6
Accelerated capital allowances	(0.4)	(0.2)
	2.1	1.4

Deferred tax assets in relation to losses amounting to £0.2 million have not been recognised due to uncertainty over their recoverability.

(xi) Called up Share Capital

	Ordinary shares of 1p each	
	£m	Number
Issued share capital		
Allotted, called up and fully paid at 1 July 2017	0.9	93,178,756
New shares issued	0.1	9,150,879
Allotted, called up and fully paid at 30 June 2018	1.0	102,329,635

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 1 pence at 30 June 2018 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
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
AST Farma B.V.	The Netherlands	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
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 Limited
Dechra Finance B.V.	The Netherlands	Financial services and holding company	Pettelaarpark 38, 5216PD 's-Hertogenbosch, The Netherlands	Dechra Pharmaceuticals PLC
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	Financial services and 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 GmbH	Austria	Marketer of veterinary pharmaceuticals and pet diets	Hintere Achmehlerstrasse 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, 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 A/S	Denmark	Marketer of veterinary pharmaceuticals and pet diets	Mekuvej 9, DK-7171 Uldum, Denmark	Dechra Pharmaceuticals PLC
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 Oy	Finland	Marketer of veterinary pharmaceuticals and pet diets	Erottajankatu 9 B 3, 00130 Helsinki, Finland	Dechra Veterinary Products A/S
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 Deutschland GmbH (formerly known as Albrecht GmbH)	Germany	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Hauptstr. 6-8, Aulendorf, Germany	Eurovet Animal Health B.V.
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 B.V.	Netherlands	Marketer of veterinary pharmaceuticals and pet diets	Handelsweg 25, 5531AE Bladel, The Netherlands	Dechra Veterinary Products A/S
Dechra Veterinary Products NZ Limited (formerly known as RxVet Limited)	New Zealand	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment	Level 12, 55 Shortland Street, Auckland, 1010, New Zealand	Dechra Holding Australia Pty 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 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, 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 Holdings 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, The Netherlands	Dechra Pharmaceuticals PLC
Genera d.d.	Croatia	Holding company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals and crop protection	Svetonedejska cesta 2, Kalinovica, 10436 Rakov Potok , Croatia	Eurovet Animal Health B.V.
Genera d.o.o Sarajevo	Bosnia and Herzegovina	Marketer of veterinary pharmaceuticals	Hamdije Cemerica 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 SI d.o.o	Slovenia	Marketer of veterinary pharmaceuticals	Parmova Ulica, Ljubljana, Slovenia	Genera d.d.
Le Vet. Beheer B.V.	The Netherlands	Holding company	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Dechra Finance B.V.
Le Vet. B.V.	The Netherlands	Marketer of veterinary pharmaceuticals	Wilgenweg 7, 3421TV Oudewater, The Netherlands	Le Vet. Beheer B.V.
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

Other subsidiaries

Name	Country of Incorporation	Principal Activity	Registered Address	Shareholder
Apex Laboratories N.Z. 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, The Netherlands	Eurovet Animal Health B.V.
Scanimalhealth ApS (in liquidation)	Denmark	Marketer of veterinary pharmaceuticals	Radhustorvet 5 2, 3520 Farum, Denmark	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

Financial History

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Consolidated Income Statement					
Revenue	407.1	359.3	247.6	203.5	193.6
Underlying operating profit	99.2	81.3	52.9	44.4	42.2
Underlying profit after taxation	74.5	60.1	38.4	35.3	31.8
Underlying earnings per share					
– basic (pence)	76.85	64.68	42.95	40.17	37.61
– diluted (pence)	76.45	64.33	42.65	39.90	37.48
Continuing underlying earnings per share					
– basic (pence)	76.85	64.68	42.95	40.17	36.45
– diluted (pence)	76.45	64.33	42.65	39.90	36.32
Dividend per share (pence)	25.50	21.44	18.46	16.94	15.40
Operating profit	34.1	33.2	19.5	26.0	25.0
Profit after taxation	36.1	26.1	12.5	19.5	19.4
Earnings per share					
– basic (pence)	37.24	28.09	14.00	22.14	67.57
– diluted (pence)	37.04	27.93	13.90	21.99	67.33
Continuing earnings per share					
– basic (pence)	37.24	28.09	14.00	22.14	22.22
– diluted (pence)	37.04	27.93	13.90	21.99	22.14
Consolidated Statement of Financial Position					
Non-current assets	769.4	453.1	393.4	184.9	214.4
Current assets	247.9	185.0	162.4	108.6	86.3
Current liabilities	(91.6)	(66.4)	(66.0)	(44.1)	(35.7)
Non-current liabilities	(420.7)	(269.1)	(213.2)	(54.9)	(60.3)
Net assets held for sale	–	–	–	–	–
Shareholders' funds	505.0	302.6	276.6	194.5	204.8
Consolidated Statement of Cash Flows					
Net cash inflow from operating activities	64.0	77.4	43.6	41.0	11.5
Net cash (outflow)/inflow from investing activities	(241.7)	(57.2)	(174.0)	(4.7)	76.6
Net cash inflow/(outflow) from financing activities	193.8	1.6	125.3	(14.8)	(92.1)

Shareholder Information

Providing shareholders with information on how to manage their shareholdings and remain informed about Dechra.

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Advisers	IBC





Glossary

The following is a glossary of a number of the terms and acronyms which can be found within this document:

ABC

Anti-Bribery and Anti-Corruption

Adriatic region

Croatia, Bosnia-Herzegovina, Serbia and Slovenia

AER

Actual Exchange Rate

API

Active Pharmaceutical Ingredient

APM

Alternative Performance Measures

BBSRC

Biotechnology and Biological Sciences Research Council

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

Capex

Capital Expenditure

CER

Constant Exchange Rate

CPD

Continuing Professional Development

CRO

Contract Research Organisation

CSOP

Company Share Option Plan

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

EHS

Environment, Health and Safety

EPS

Earnings Per Share

ERP

Enterprise Resource Planning

ESPP

Employee Stock Purchase Plan

ETR

Effective Tax Rate

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

FTSE 100 Index

An index comprising the 1st to 100th largest companies listed on the London Stock Exchange in terms of their market capitalisation

FTSE 250/350 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

GDPR

General Data Protection Regulation

**GHG**

Greenhouse Gas

GRT

Gross Registered Tonnage

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

LTA

Lost Time Accident

LTAFR

Lost Time Accident Frequency Rate

LTIP

Long Term Incentive Plan

M&A

Mergers and Acquisitions

MAT

Moving Annual Total

MHRA

Medicines and Healthcare products Regulatory Agency; an executive agency of the Department of Health in the UK

MSC

Marine Stewardship Council

Non-Executive Directors

The Non-Executive Directors of the Company, currently Tony Rice, Julian Heslop, Lawson Macartney and Ishbel Macpherson

NA Pharmaceuticals

North American Pharmaceuticals Segment comprising DVP US, 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

PDRA

Dechra's Product Development and Regulatory Affairs team

PEA

Palmitoylethanolamide

POMs

Prescription Only Medicines

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

TSR

Total Shareholder Return

VMD

Veterinary Medicines Directorate

Shareholder Information

Financial Calendar

Interim Management Statement	19 October 2018
2018 Annual General Meeting	19 October 2018
Final Dividend Ex-Dividend Date	25 October 2018
Final Dividend Record Date	26 October 2018
Final Dividend Payment Date	16 November 2018

Annual General Meeting

The 2018 Annual General Meeting of the Company will be held at 10.30 am on 19 October 2018 at the offices of DLA Piper UK LLP, 160 Aldersgate Street, London, EC1A 4HT. 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 a placing at an issue price of £11.00 per share.

On 30 January 2018, 5,121,952 ordinary shares were offered by way of a placing at an issue price of £25.50 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.

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%	1.9%
Balance over £50,000	0.25%	0.25%	1.9%
Minimum charge	£60.00	£45.00	£70.00
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

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount or offers of free Company Annual Reports. If you receive any unsolicited investment advice, whether over the telephone, through the post or by email:

- make sure you get the name of the person and organisation;
- check that they are properly authorised by the FCA before getting involved by visiting <https://register.fca.org.uk/>; and
- report the matter to the FCA by calling 0800 111 6768 or by completing the online form at www.fca.org.uk/consumers/report-scam-unauthorised-firm.

More detailed information and guidance is available on the shareholder information pages of our website.

Additionally, feel free to report and/or discuss any shareholder security matters with the Company. To do this, please call +44 (0)1606 814 730 and ask to be put through to a member of the Company Secretarial department.

Advisers

Auditor

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Stockbroker & Financial Advisers

Investec Bank plc
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London
EC2V 7QN

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Registrars

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BN99 6DA

Financial PR

TooleyStreet Communications
Regency Court
68 Caroline Street
Birmingham
B3 1UG

Principal Bankers

Bank of Ireland (UK) plc
40 Mespil Road
Dublin
Ireland
B3 2QZ

BNP Paribas, London Branch
3rd Floor
10 Harewood Avenue
London
NW1 6AA

Fifth Third Bank
38 Fountain Square Plaza
Cincinnati
Ohio 45263
USA

Principal Bankers continued

HSBC Bank plc
Midlands Corporate Banking Centre
4th Floor
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