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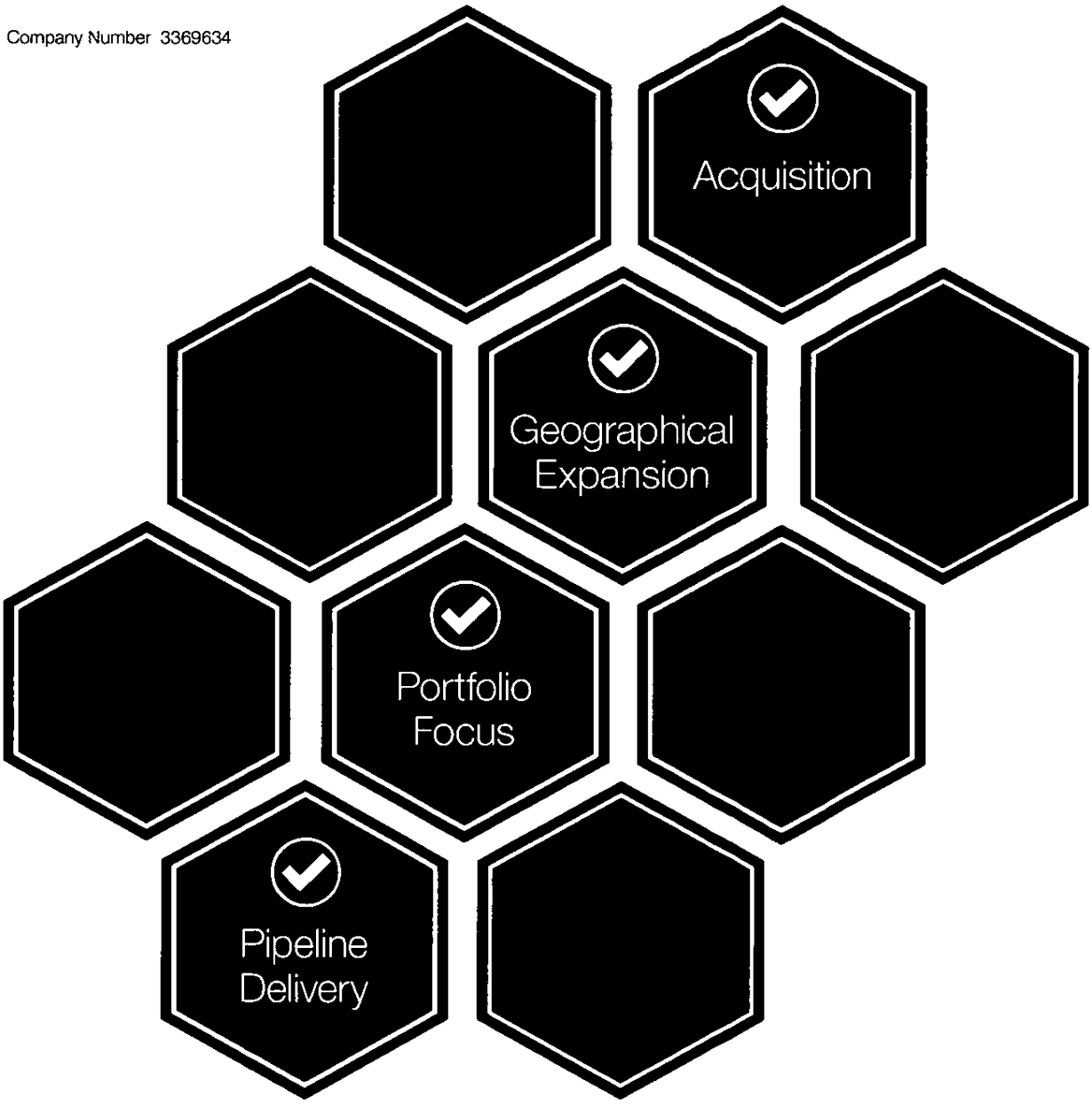
Dechra

Pharmaceuticals PLC

Annual Report and Accounts

for the year ended 30 June 2016

Company Number 3369634



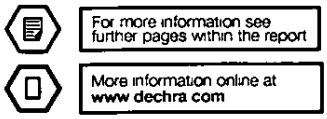
Accelerating

our global growth strategy

Welcome to Dechra Pharmaceuticals PLC

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

Getting Around the Report
Below is a selection of icons you will see used within this report



Icons are used within this report to assist the reader to identify links to other relevant sections of interest

Glossary
Terms used within this section

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

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

Online Report
Visit our online annual report at
dechra annualreport2016 com

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

Financial Highlights

Total Revenue

£247.6m

2015 £203 5m
CER* Up 21 7% £ Up 21 7%

Underlying Operating Profit

£52.9m

2015 £44 4m
CER* Up 20 9% £ Up 19 1%

Underlying Diluted Earnings per Share

42.65p

2015 39 90p
CER* Up 8 9% £ Up 6 9%

Dividend per Share

18.46p

2015 16 94p
CER* Up 9 0% £ Up 9 0%

Reported Operating Profit

£19.5m

2015 £26 0m
CER* Down (17 3%) £ Down (25 0%)

Diluted Reported Earnings per Share

13.90p

2015 21 99p
CER* Down (28 9%) £ Down (36 8%)

* 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 38

† Non-underlying items comprise amortisation and impairment of acquired intangibles, acquisition expenses fair value of uplift of inventory acquired through business combinations rationalisation costs loss on extinguishment of debt and reversal of fair value and other movements on deferred and contingent consideration

Operational Highlights

Strong financial performance:

- Revenue growth in our existing EU Pharmaceuticals Segment was 5 7% (at CER) driven by solid performance in Companion Animal Products (CAP) and return to growth of Food producing Animal Products (FAP)
- Continued excellent performance in our existing NA Pharmaceuticals Segment, with revenue increased by 37 9% (at CER), all core therapeutic sectors performing well
- Consolidated revenue increased by 21 7% (at CER)
- Cash generation of 106 8% allowed us to absorb the costs associated with the acquisitions whilst maintaining a prudent cash position

Strategic progress made:

- Three value added acquisitions completed
- Product development pipeline continues to deliver results recently launched products *Osphos®* and *Zycortal®* gaining good market penetration
- Geographical expansion enhancing revenue growth with good performance in Poland and Canada and new-start up in Austria

Navigating this Report

D edication

E njoyment

C ourage

H onesty

R elationships

A mbition

Read our Corporate Social Responsibility Report on pages 48 to 53

To continue to develop our position as an international, high margin, cash generative, specialist veterinary pharmaceuticals and related products business with a clear focus on key therapeutic areas dermatology, ophthalmology, equine medicine, anaesthesia and analgesia, endocrinology, cardiovascular disease, food producing animal antimicrobials, poultry vaccines, pet diets and complementary generics through

Pipeline Delivery

Portfolio Focus

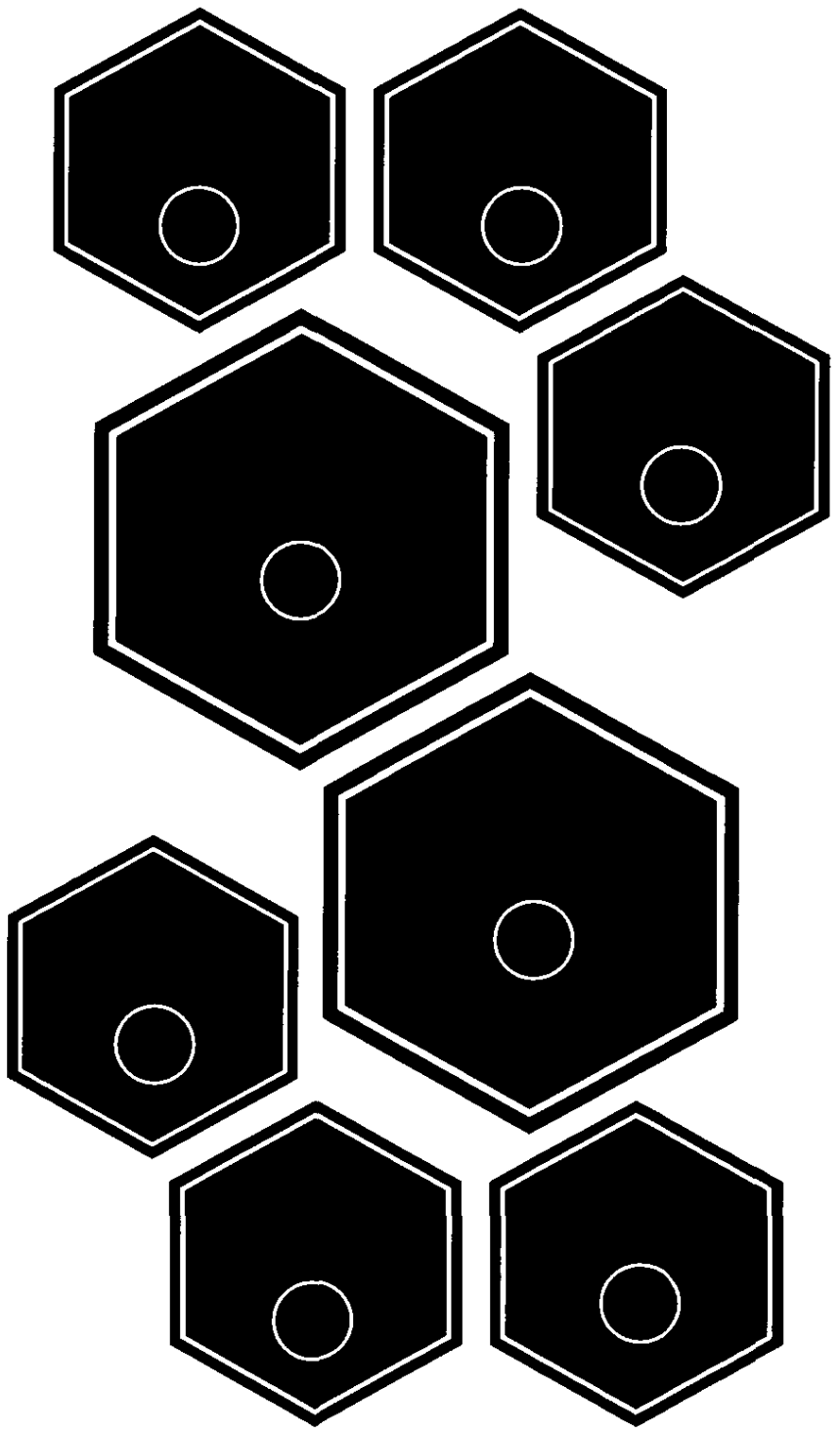
Geographical Expansion

Acquisition

Read Delivering Our Strategy on pages 13 to 15

- Create long term value by
  - innovating and generating sustainable profit growth through pipeline delivery
  - maintaining market leadership in defined therapeutic areas and improving returns through portfolio focus
  - seizing growth opportunities in new markets through geographical expansion
  - delivering incremental sales and earnings growth through value enhancing strategic acquisitions
- Maintain strong cash generation

See our Financial History on page 161



IFC Welcome to Dechra Pharmaceuticals PLC
01 Financial and Operational Highlights
02 Navigating this Report

Strategic Report

06 Group at a Glance
08 Chairman's and Chief Executive Officer's Statement
13 Delivering Our Strategy
16 Strategy in Action
23 Q&A with Ian Page
24 Our Business Model
25 Our Business Model Explained
27 Creating Value
27 Our Geographical Footprint
28 Our Marketplace
30 Our Key Products
34 International Footprint
36 Product Development
38 Financial Review
44 Key Performance Indicators
46 Corporate Social Responsibility
54 How the Business Manages Risk
56 Understanding Our Key Risks

Our Governance

62 Board of Directors
64 Corporate Governance
72 Audit Committee Report
77 Nomination Committee Report
79 Directors' Remuneration Report
92 Directors' Report – Other Disclosures
97 Statement of Directors' Responsibilities

Our Financials

100 Independent Auditor's Report
107 Consolidated Income Statement
108 Consolidated Statement of Comprehensive Income
109 Consolidated Statement of Financial Position
110 Consolidated Statement of Changes in Shareholders' Equity
111 Consolidated Statement of Cash Flows
112 Notes to the Consolidated Financial Statements
150 Company Statement of Financial Position
151 Statement of Changes in Shareholders' Equity
152 Notes to the Company Financial Statements
161 Financial History

Company Information

164 Glossary
166 Shareholder Information
168 Advisers

Strategic Report

06 Group at a Glance
08 Chairman's and Chief Executive Officer's Statement
13 Delivering Our Strategy
16 Strategy in Action
23 Q&A with Ian Page
24 Our Business Model
25 Our Business Model Explained
27 Creating Value
27 Our Geographical Footprint
28 Our Marketplace
30 Our Key Products
34 International Footprint
36 Product Development
38 Financial Review
44 Key Performance Indicators
46 Corporate Social Responsibility
54 How the Business Manages Risk
56 Understanding our Key Risks

Group at a Glance

EU Pharmaceuticals

Revenue for the EU Pharmaceuticals Segment

Profit Evolution for EU Pharmaceuticals Segment

■ CAP 46 1% ■ Diets 12 9%
■ Equine 7 9% Other 13 7%
■ FAP 19 4%

All figures are at AER

Dechra Veterinary Products EU (DVP EU)

DVP EU markets and sells Dechra's products throughout Europe and exports to over 40 countries The business has an operating board of eight senior managers, and is managed from Den Bosch, the Netherlands, Sansaw, UK, and Uldum, Denmark In total, DVP EU employs 386 people Inventory is managed through a central distribution centre in Uldum

DVP EU has sales operations in 15 countries Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Portugal, Spain, Sweden and the UK, each run by a Country Manager DVP EU also exports to other European countries as well as other territories including Australia, Brazil, the Middle East and the Far East

The key products in the DVP EU portfolio are predominantly Companion Animal Products (CAP), Equine medicines and Food producing Animal Products (FAP) DVP EU also markets a range of specialist, therapeutic and maintenance pet diets, branded *Specific*™

Genera

In October 2015, Dechra acquired Genera d d , which has sales operations in four markets, namely Croatia, Bosnia-Herzegovina, Serbia and Slovenia Genera markets a range of FAP, agrochemicals and feed additives It also develops and sells a range of poultry vaccines Genera employs 120 people (excluding Manufacturing and Product Development and Regulatory Affairs (PDRA))

506
Employees

19
Countries

Dechra Pharmaceuticals Manufacturing (DPM)

DPM produces the majority of Dechra's pharmaceuticals and manufactures for third parties on a contract basis The objectives are to produce Dechra's product range efficiently to the highest quality standards, to maintain a reliable supply chain and to contribute profit to the business through third party manufacturing

Skipton, UK

The site at Skipton employs 232 people It offers a comprehensive range of manufacturing and packing services, principally for CAP It is dual-licensed to produce both veterinary and human products The site includes Pharmaceutical Development, Quality Control (QC) and Stability Testing and Validation Laboratories

Bladel, the Netherlands

The site at Bladel employs 126 people and manufactures products for food producing animals in large-scale batches It also has an aseptic manufacturing facility to produce sterile injections, an important competence in DPM's manufacturing portfolio As in Skipton, the site includes QC and Development Laboratories

Zagreb, Croatia

The Genera site in Zagreb, Croatia employs 97 people It has a poultry vaccine manufacturing facility, a liquids facility and a solid dose suite which is EU approved In addition, it has a feed additive facility which is solely used for third party manufacturing

507
Employees*

5
Manufacturing Sites*

* includes Melbourne, Florida and Brovel, Mexico City

North America Pharmaceuticals

Revenue for NA Pharmaceuticals Segment

Profit Evolution for NA Pharmaceuticals Segment

172
Employees*

3
Countries

■ CAP 86 1% ■ Other 1 8%
■ Equine 9 6%
■ FAP 2 5%

All figures are at AER

* Excludes Manufacturing at Melbourne, Florida and Brovel, Mexico City and PDRA at Portland Maine

Dechra Veterinary Products North America (DVP NA) markets and sells Dechra's veterinary products across Canada (DVP Canada), Mexico (Dechra-Brovel) and the US (DVP US), the latter being the world's largest animal health market

The US business is strategically located in Kansas City, at the heart of the 'Animal Health Corridor', an area recognised globally for its concentration of animal health businesses Led by an operating board of five senior managers, DVP US has 85 employees, who consist of field-based sales representatives, marketing professionals, in-house veterinarians, field veterinarians, technical support staff and a customer service team DVP US currently markets CAP and Equine medicines

In addition there is a manufacturing site at Melbourne, Florida which employs 16 people, and currently manufactures *Phycox*®

DVP Canada was established in January 2015 and currently employs 10 people The office is located in Montreal DVP Canada markets CAP and Equine medicines

Putney
Acquired in April 2016, Putney develops and markets a range of generic CAP It is based in Portland, Maine Significant progress has been made on the integration of Putney's commercial teams into the DVP US structure, strengthening our US expertise Excluding PDRA, it employs 28 people

Mexico
Brovel a small family owned business, was acquired in January 2016 It manufactures and sells a diverse range of products for dogs, horses and cattle, mainly in Mexico and also exports to Central American countries Excluding manufacturing, it employs 38 people

Product Development and Regulatory Affairs

Development Spend

92
Employees

6
Locations

All figures are at AER

The Product Development team develops Dechra's own branded veterinary product portfolio of novel and generic pharmaceuticals The Regulatory Affairs team obtains licences for our products, manages post approval adverse event reporting, periodic product renewals and other activities required to maintain the product licences

A total of 92 people work across European and US Regulatory Affairs, Pharmaceutical Development and Product Development They work at four existing locations in Overland Park, USA, Sansaw, England, Skipton, England, and Bladel, the Netherlands Three new teams were added with our recent acquisitions based in Portland, USA, Zagreb, Croatia, and Mexico City, Mexico

The team includes highly qualified academics, veterinarians, formulation chemists, pharmacists, analysts, clinical trial managers and product development managers

Chairman's and Chief Executive Officer's Statement

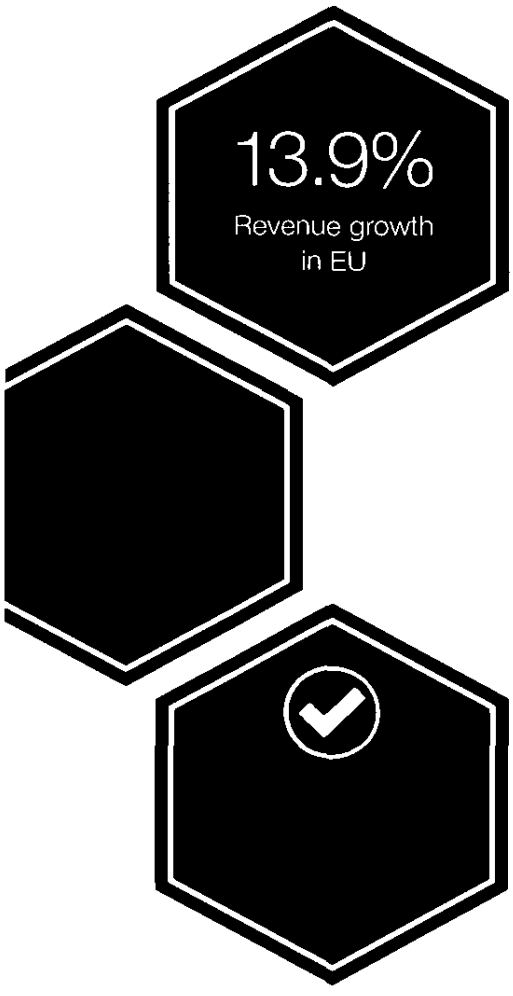
"With three acquisitions, pipeline product launches, successful trading in our new subsidiaries and solid growth in our focus portfolio, Dechra has delivered another strong performance in the 2016 financial year"

Read the **Financial Review** on pages 38 to 43

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

Michael Redmond
Non Executive Chairman

Ian Page
Chief Executive Officer



We are pleased to report that the Group has delivered a strong financial performance, has continued to implement its strategic objectives and has invested in its infrastructure, people, product development and acquisitions to further its future objectives Progress has been made in all aspects of our key strategic growth drivers

- **Portfolio Focus** we continue to outperform in the majority of therapeutic areas and markets in which we trade, significantly so within the US,
- ***Pipeline Delivery*** *our product* development pipeline has delivered two novel global products and several regional and national registrations in the period,
- **Geographical Expansion** we benefited from a solid performance in territories established in the previous financial year and have established positions in Austria, the Adriatic region and Mexico within the financial year,
- **Acquisitions** three acquisitions have been made in the year, providing *critical mass and an enhanced product* development pipeline in the US market, poultry vaccine development capabilities to broaden our EU Food producing Animal Products (FAP) business and a marketing and registration platform for Dechra's portfolio in Mexico

Portfolio Focus
Dechra Veterinary Products Europe (DVP EU)
Growth in the existing DVP EU business during the year was modest at 5 7% at CER Including the eight months contribution from Genera, it was 13 9% at CER

Our Companion Animal Product (CAP) sales were driven predominantly by strong performance in endocrinology, and anaesthetics and analgesics Within endocrinology, *Vetoryl®* continues to grow in all major territories and the launch of *Zycortal* into 14 countries has strengthened our position in this key therapeutic sector Our equine portfolio has also performed well *Osphos* has been launched across all major territories and is performing to our expectations We are also re-positioning *Equipalazone®* following palatability trials

The recovery in FAP that was reported in the first half has continued in the remainder of the financial year The decline in antibiotic sales in Germany has slowed and after several years of decline in the Netherlands we are now seeing sales flatten Against this background, overall growth has been achieved by increasing market penetration in Poland and in countries where we had a lower market share historically, such as the UK, France, Italy and Spain We have also launched *Solamocta®*, a new antibiotic lifecycle improvement which will be key to our recovery in Germany Other new product registrations have been received within FAP and are being prepared for imminent launch in Europe which should ensure that we continue to see positive momentum within this important therapeutic sector

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

DVP North America (DVP NA)
Performance within our existing North American business remains exceptional with revenue growth of 37 9% at CER Including Putney and Brovel since acquisition it was 59 5% at CER The US has driven the majority of this growth as we continue to gain strong market penetration in our key focus areas of dermatology and endocrinology This growth has been enhanced by a good performance from *Phycox*, strong growth and traction with *Osphos* and the successful launch of *Zycortal* in March 2016 Furthermore, our biggest product, *Vetoryl* capsules, delivered double digit growth as we have maintained our educational and marketing campaign and introduced a low dose 5mg capsule to increase flexibility on dosing options DVP Canada delivered a good performance across the portfolio which was also enhanced by the launch of *Osphos* and *Zycortal* The business has also benefited from the acquisition and launch of *HY-50®* in the territory, a product which we have marketed in Europe since its acquisition in January 2012

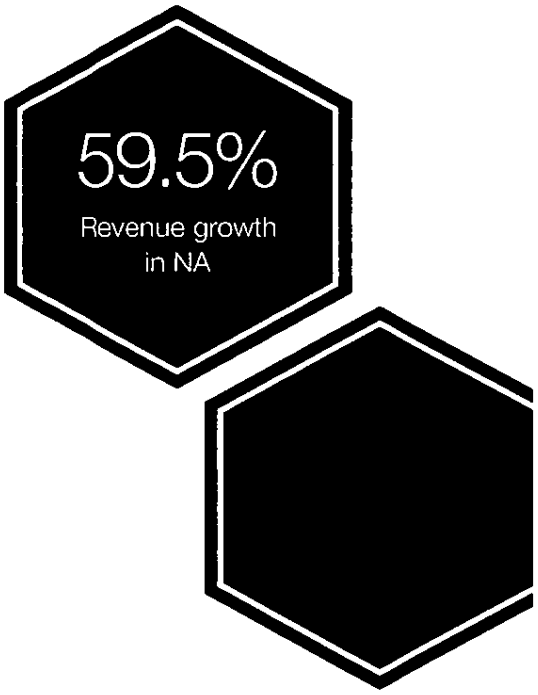
The primary focus of the management team towards the end of the trading period was to integrate the commercial team from the recent acquisition of Putney The enlarged team will give Dechra improved penetration and more direct contact with US veterinary practices to enhance sales of the Dechra and Putney range of veterinary pharmaceuticals Brovel, the newly acquired Mexican business, is managed by an internally promoted Country Manager, Arturo Bravo, and a newly appointed Finance Director, Rocio Aguirre, and reports under our DVP NA segment

Pipeline Delivery
Team Integration
Following the acquisition of Putney and the assessment of the drivers behind the team's success, we have promoted its Director and Head of the Development function, Dr Anthony Lucas, to lead the enlarged Group's product development teams Dr Anthony Lucas will retain his current regulatory team at Putney and will work closely with Dr Susan Longhofer to ensure effective utilisation of the Group's resources

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

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

We have also had numerous successes in our FAP portfolio in Europe two new water soluble antibiotics, *Solamocta* and *Phenocillin®* have been approved in 17 member states, a liquid antibiotic, Metaxol, was approved in 18 member states, and our existing antibiotic aerosol, *Cyclospray®*, was extended into 12 new territories



Glossary
Terms used within this section

CAP
Companion Animal Products

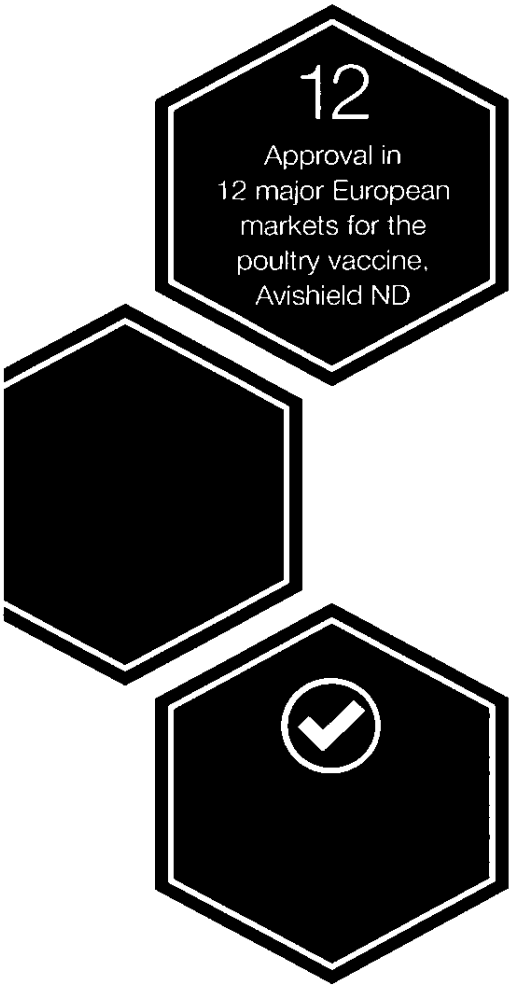
FAP
Food producing Animal Products

CER
Constant Exchange Rate

DVP EU
Dechra Veterinary Products Europe

DVP NA
Dechra Veterinary Products North America

Chairman's and Chief Executive Officer's Statement
continued



Read **Strategy in Action Pipeline Delivery** on pages 16 and 17

Read **Strategy in Action Portfolio Focus** on pages 18 and 19

Read **Strategy in Action Geographical Expansion and Acquisition** on pages 20 to 22

View further content on our website **www dechra com**

Our new Croatian facility has achieved approval for a poultry vaccine, *Avishield* ND, to treat Newcastle disease in 12 major European markets and has also achieved a number of other national registrations including Egypt and Ukraine

We continue to gain international approvals to enhance our geographical expansion and have received several registrations in both established and developing markets around the globe

Pipeline Progress
In the period, we have terminated an early stage project for canine ophthalmology and a canine cardiology project We have, however, initiated eight new projects across both FAP and CAP Furthermore, successful development has continued on the Genera vaccines and Putney generics since acquisition with significant filings being made from both locations To facilitate the increased number of projects we have created a third pharmaceutical development laboratory in Zagreb, Croatia, staffed with five scientists who will expand our formulation and analytical development capabilities

Geographical Expansion
Geographical expansion is progressing well In addition to the acquisition of Brovel, which creates a foothold and an opportunity to develop a presence in the significant Mexican market, the acquisition of Genera provides access to the smaller markets of Croatia, Bosnia-Herzegovina, Serbia and Slovenia

A greenfield start-up subsidiary has been established in Austria which commenced trading in January 2016 Initial sales are progressing well Our subsidiaries in Canada and Poland, established in the prior financial year, are performing well, with Poland being above our expectations

Acquisitions
Genera
In October 2015 Dechra acquired a controlling interest in the shares of Genera d d for €36 6 million (£26 8 million) which was funded from existing cash and revolving debt facilities The objective of the acquisition was to broaden our EU FAP business by entering into the fast growing poultry vaccines market The business also provides us with a variety of dose form manufacturing and technical know-how in a low cost environment and extends our geographical reach into the Adriatic region We have successfully completed the first major steps of integration Following consultation with the Croatian authorities and trade unions, we have rationalised the business to improve efficiency and effectiveness and have integrated the commercial, manufacturing and product development teams into our global operations Additional focus has been provided to the poultry vaccines unit which historically sold products solely into less regulated developing markets It is now pleasing to report that they have received their first approval for an EU registered vaccine Whilst one vaccine on its own will not be commercially significant, it does demonstrate that we have the correct quality and regulatory capabilities in place to register the core range necessary to market poultry vaccines in Europe and other important world markets

Brovel
In January 2016, Dechra acquired 100% of the share capital of Laboratorios Brovel S A de C V (Brovel), a veterinary pharmaceuticals company based in Mexico City The Group paid US$5 0 million (£3 3 million) consideration in cash on completion and a further US$1 0 million (£0 6 million) is contingent upon Brovel reaching successful registration milestones for Dechra's products in Mexico Brovel was a family owned business with more than 52 years' experience in the production and distribution of pharmaceutical veterinary products It has a diverse product portfolio with a turnover of MxP$66 2 million (£2 6 million) The Board believes this acquisition will help open the significant Mexican animal health market to Dechra as well as offer the potential to access other Latin American markets in the future The primary objective of this acquisition is to use it as a platform to register and market Dechra's product portfolio Several of our products have been identified as suitable for the Mexican market and the registration process with the authorities has commenced

Putney
In April 2016, Dechra acquired Putney Inc for US$200 0 million (£134 2 million) which was funded by the refinancing of the existing debt facilities and a placing of new shares of approximately 5% of the Group's issued share capital The acquisition was the most complementary US opportunity we had identified and provides significant scale and access to a strong drug pipeline in the key North American market The business, which had a turnover of US$49 6 million in the year ended December 2015, markets 11 approved products and has a further 10 generic products in its pipeline which are expected to be launched over the next five years Since acquisition we have started to deliver synergies with the rationalisation of duplicated functions and the integration of our commercial teams The product development team, who have successfully registered 43 0% of all generic CAP approvals in the US since 2012, are a key resource for Dechra

Strategic Enablers

People

Our people remain the most important enabler to deliver success to the Group We have continued throughout the year to invest in performance and talent management systems and have also recently implemented a new Oracle-based integrated HR system in 16 countries enabling us to better standardise and monitor performance and reward packages throughout the organisation The HR team have also been heavily engaged in our recent acquisition activity in the due diligence, communication, consultation and restructuring of the businesses

We are currently undergoing significant change in our Board and Senior Executive Team (SET) The current Chairman, Michael Redmond, will step down from the Board in October 2016 at our Annual General Meeting We have recruited his successor, Tony Rice, who has been appointed to the Board as a Non-Executive Director and will be appointed as Chairman with effect from the conclusion of the Company's Annual General Meeting, subject to his election Chris Richards stepped down from the Board as a Non-Executive Director after almost six years of service with the Company to further other opportunities We are currently engaged in the recruitment process to add additional expertise to the Non-Executive Directors on the Board Anne-Francoise Nesmes, the Chief Financial Officer during the 2016 financial year, who supported significant changes for Dechra over the last three years, has also resigned from the Board She left the Company at the end of July 2016 to take up a role as Chief Financial Officer with a FTSE 100 business As announced on 17 August 2016, Richard Cotton is expected to join the Company in January 2017 as Chief Financial Officer As outlined earlier in this report, the SET is also being strengthened with the promotion of Dr Anthony Lucas to head up the Group's product development teams, and the appointment of a new Group Manufacturing and Logistics Director, Greig Rooney

Technology

Oracle Roll Out

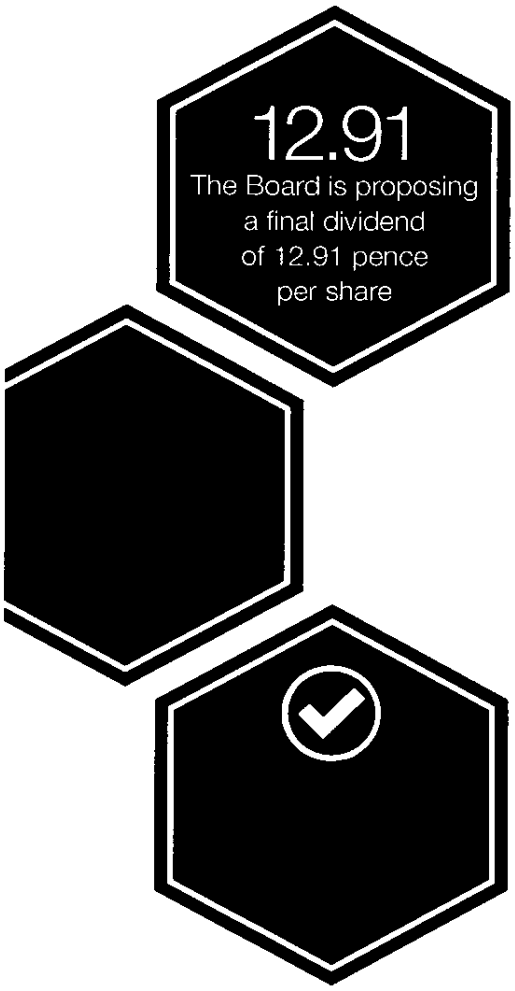
The roll out of the Oracle ERP system continues to be one of the primary operational objectives of the business In April 2016 the core Oracle solution was successfully implemented into DVP US Following our go-live for the Oracle Group Financial Consolidation solution in June 2015, the full Oracle roll out programme continues We are currently targeting a roll out to most sites in 2017 followed by an upgrade to the current Manufacturing Oracle system

Technology Upgrades

We have commenced Windows 10 deployment across all Group devices and utilising Surface Pro 4 devices as standard laptops for all personnel New firewall security models have been implemented and new cyber security initiatives have been taken to enhance system security and improve user awareness The Group now operates on an MPLS network across all major sites

> “Our people remain the most important enabler to deliver success to the Group ”

Chairman's and Chief Executive Officer's Statement
continued



following the transition of DVP NA early in the financial year Work has begun to bring the recently acquired businesses onto the Group's standardised systems

Communication Tools
We have developed and launched a Group Learning Management System, Delta, enabling us to train employees across the globe in a structured and standardised way Initial modules focus on policies such as Anti-Bribery and Anti-Corruption and also, from a commercial perspective, on sales team training and the key technical and unique selling points of our major products The Dechra Academy, which provides online certified training for veterinarians and veterinary nurses in our key therapeutic sectors, has been enhanced and is well received by veterinary professionals We are also developing social media marketing tools with regular communications to our customers across several media platforms The Group intranet is also undergoing complete redevelopment to provide improved capabilities for internal communication

Manufacturing
People
Mike Annice, our Group Manufacturing Director, retired in July of this year following 25 years with the Group In preparation for his retirement we have recruited his successor, Greig Rooney, who has extensive experience in the pharmaceutical, automotive and food industries Greig will operate out of our Head Office site in Northwich and will have responsibilities for all our global manufacturing sites, Group logistics and supply chain management To assist Greig we have appointed a new Manufacturing Finance Director, Milton McCann, who commenced his role with the Group in January 2016 We have also promoted Andrew Parkinson to Group Quality Director and have appointed Chris Ashcroft as the Skipton Site Director

Efficiency Improvements
In our previous financial year we made an investment to upgrade the pre-mix department in Bladel to increase batch sizes and reduce the cost of goods This department is now fully commissioned and product transfer to the new lines is under way We have also invested in a new tablet and capsule blister packaging line in Skipton which will increase volumes and speed, therefore improving efficiency This is currently being commissioned and it is anticipated it will be effective from the beginning of our new financial year Other initiatives to reduce the cost of goods and improve efficiencies have been implemented, resulting in raw material price reductions, predominantly for our FAP We have also seen a small reduction in material wastage rates and batch reject rates are lower than the previous year

Contract Manufacturing
Manufacturing volumes have increased overall due to internal sales increasing, however, like-for-like external sales have decreased by 4 8% at CER due to reduced volume with some customers Overall contract manufacturing has increased following the Genera acquisition Contract manufacturing assists the Group in utilising capacity and contributes to fixed overheads, thereby improving the unit cost of goods for all products, including Dechra's own products Service to customers has increased with on-time delivery ahead of internal targets and the previous year

Dividend
The Board is proposing a final dividend of 12 91 pence per share (2015 11 82 pence per share) Added to the interim dividend of 5 55 pence per share, this brings the total dividend for the financial year ended 30 June 2016 to 18 46 pence per share, representing 9 0% growth over the previous year

Subject to shareholder approval at the Annual General Meeting to be held on 21 October 2016, the final dividend will be paid on 18 November 2016 to shareholders on the Register at 28 October 2016 The shares will be become ex-dividend on 27 October 2016

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

Good progress has been made on the integration of the acquisitions Our pipeline has also been strengthened through both new internally generated ideas and the integration of acquired development programmes We have continued to invest in people and the infrastructure to ensure we maximise revenues and execute our strategy successfully

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

The Strategic Report has been approved by the Board and signed on its behalf by

Michael Redmond
Non-Executive Chairman
5 September 2016

Ian Page
Chief Executive Officer
5 September 2016

Delivering Our Strategy

Read the Chairman's and Chief Executive Officer's Statement on pages 8 to 12

See Key Performance Indicators on pages 44 and 45

Read about Our Marketplace on pages 28 and 29

Read How the Business Manages Risk on pages 54 and 55

Delivering Our Strategy
continued

Our Strategic Priorities	Our Progress in 2016
Pipeline Delivery **We must deliver our pipeline on time, at the right costs and with the expected returns It is also important that we refill the pipeline so that we get a constant flow of novel products in future years**	• *Zycortal* approved and launched in the US in March 2016 and in 14 European markets • Following successful US and UK launches last year, *Osphos* launched in 17 additional European countries • Several FAP approved, notably *Phenocillin* and *Solamocta* (for turkeys and ducks) launched in Q4 2016 in Germany and is due to be launched in 17 other territories • Pipeline prioritised and consolidated following our acquisitions of Genera and Putney
Portfolio Focus **We are a specialist veterinary pharmaceuticals business focused on CAP, Equine, FAP and Diets. We look to maximise our revenue by focusing on clearly defined therapeutic sectors**	• Double digit growth in key therapeutic areas with CAP growing by 19 4% and FAP by 43 2% at CER • Roll out of digital technologies is progressing to plan, with the implementation of our Learning Management System, Delta, which enables product training to be disseminated to our sales representatives
Geographical Expansion **We have identified a number of markets that present both volume and profit opportunities in the medium to long term. Our entry strategies will vary dependent on the local market dynamics**	• Double digit growth in DVP NA (59 5% growth in revenue) at CER • Austria started trading on 1 January 2016 and is trading in line with expectations • Regulatory approvals were obtained in several countries such as Brazil, Egypt and Sri Lanka • New Rest of the World organisation structure in place to drive focus
Acquisition **Our priority is to target strategic acquisitions that will expand our geographical footprint and/or enhance our product portfolio Acquisitions can accelerate our expansion by providing entry into new geographies**	• Three acquisitions completed Genera, Brovel and Putney • Putney integration helps strengthen our US presence • Genera integration on plan, new business structure defined • Registration process of Dechra products commenced in Mexico
Strategic Enablers **Our strategic enablers, Manufacturing and Supply Chain, People, and Technology, support the execution of our strategy**	• Good progress in our Oracle roll out with DVP US live in April 2016 • Commencement of a new Group Intranet platform for improved communication and information sharing with all employees • HR Cloud based IT system implemented in 16 countries • Sales and Operations Planning (S&OP) process implemented in DVP EU and DPM • Restructuring programmes for Genera and Putney led successfully

Key Challenges in 2016	Our Performance in 2016	Future Priorities
• Results for the product from Jaguar Animal Health, Inc have not met our expectations • Terminated one canine ophthalmology project in the Feasibility phase • Terminated one canine cardiology project	• **New product revenue 14 4% of total revenue** • **12 new products launched**	• Continue to identify new opportunities by being innovative and promoting new product technologies and ideas • Build on the acquisition of Genera to develop a vaccines pipeline • Expand our formulation and analytical capabilities with the new development laboratory in Zagreb, Croatia • Explore and negotiate in-licensing deals • Ensure Putney pipeline is delivered
• Diets sales have not returned to growth due to challenging trading conditions in Scandinavia and palatability issues • Continued emergence of Corporates and buying groups, putting some pressure on margins • Slowdown in German FAP antibiotics sales	• **Revenue of £247 6 million** • **Underlying EPS 42 65p** • **ROCE 16 1%**	• Deliver CAP and FAP sales targets through technical expertise and marketing campaigns • Ensure opportunities for lifecycle management are identified early • Continue to drive sales force effectiveness
• Continued to build a significant presence in the Rest of World markets	• **One new subsidiary opened** • **Italy, Canada and Poland delivering to or above expectations**	• Obtain regulatory product approvals in defined markets, including launching existing Dechra products in Mexico through the newly acquired subsidiary, Brovel • Identify opportunities to enter relevant target markets • Seize opportunities arising from our recent acquisitions
• M&A market in animal health has been active and transaction multiples can be high • The execution of M&A transactions and integrating new entities is time consuming for employees	• **£21 7 million revenue from acquired businesses** • **£164 9 million spend on acquisitions**	• Deliver the value of our recent acquisitions • Continue to explore potential acquisitions to find those which align with our strategic goals
• Complexity of inducting 419 new employees through recruitment and acquisitions	• **5 quality audits passed successfully** • **13 1% employee turnover**	• Support new product launches and gain further FDA approval in our manufacturing network as pipeline demands • Manage efficiently our increasingly complex manufacturing network • Continue to improve leadership effectiveness and quality of talent in an expanded workforce • Align compensation and reward system • Continue to implement Oracle across the Group • Develop solutions to support the mobile workforce

Read the Chairman s and Chief Executive Officer's Statement on pages 8 to 12

Read our Strategy in Action on pages 16 to 22

See Key Performance Indicators on pages 44 and 45

Strategy in Action:
Pipeline Delivery

From conception to marketing – Zycortal 'making a difference'

Dechra has specialised over the years in treating companion animal endocrine disorders through our key brands of *Vetoryl, Forthyron®* and *Felimazole®*

Identifying an Opportunity to Treat Addison's Disease

We identified an opportunity to develop a product, Zycortal, for another endocrine disorder, hypoadrenocorticism, better known as Addison's disease Addison's disease is a relatively rare and under diagnosed condition with complex and often confusing symptoms Fundamentally the dog is simply not well, off colour and they look depressed and lack energy Given that the disease is more commonly found in young to middle aged dogs, we recognised that a well-supported, efficacious product would be of high value for veterinarians in delivering solutions to concerned pet owners

There were no approved products in the major European markets and, in the US, there was only one veterinary licensed product

Developing the Product

The development team reviewed the potential product options and decided to work with one of our current active pharmaceutical ingredient suppliers to synthesize the complex DOCP (desoxycortone pivalate) molecule Our formulation chemists were challenged with developing a superior product to the one currently licensed in the US We developed a more user friendly product with a subcutaneous injection and flexible duration between dose administration

Not everything went to plan as a major challenge occurred when our selected contract manufacturing site closed This meant a delay in the process while we reviewed alternative options We decided to upgrade our own facility in Skipton to manufacture the product and seek FDA approval for the terminally sterilised injections suite The investment in this solution also minimises potential supply risks

Preparing for the Product Launch

In parallel to the development process, the central technical and marketing teams worked on the launch, utilising the expertise of key opinion leaders and experienced colleagues from across a wide range of markets

A proposition encouraging veterinarians to 'look beyond the obvious' was developed as a means to raise awareness and educate them about Addison's disease This basic premise was backed up by some striking imagery delivered across support materials ranging from diagnostic brochures and product support pieces to pet owners' leaflets and case studies

A key part of a successful launch plan is the training of Dechra sales teams A two day seminar with sessions on sales, marketing and technical training was organised, attended by representatives from all countries

The product had its first public showing at VetMadrid 2016 – AMVAC (Asociación Madrileña de Veterinarios de Animales de Compañia) in early March and BSAVA 2016 (British Small Animal Veterinary Association) in early April Several months on, the product has been launched in the US and most of our EU markets, it is being well received by our veterinary customers and pet owners and is making a difference to canine health

Strategy in Action:
Portfolio Focus

Increasing our focus on FAP to drive performance

We set up a dedicated FAP Business Unit (BU) to identify growth opportunities stem the previous year's decline and coordinate our response to a tough competitive environment

Our FAP Portfolio
Dechra supplies pig and poultry antibiotics that can be administered to the animals through drinking water Along with our recognised range of products, we also support our customers by providing in-depth knowledge and education which helps veterinarians and farmers manage their livestock in an efficient and correct manner Our products, marketed under the *Solustab*® brand, are highly soluble and stable, which ensures animals are treated with the correct dose without causing disruption to the drinking water systems In addition to the pig and poultry range, Dechra markets a broad range of cattle products, including two premium standard wound sprays

Adapting Our Organisational Structure
Between 2012 and 2015, Dechra faced a decline in the sales of our FAP in our main markets in the EU, as a result of the reduction in the use of antibiotics in the veterinary market due to concerns about increasing resistance in human health

To stop the decline and return the range back to growth, a FAP BU was created in 2015 Our aim was to improve our focus on this important part of our Group revenue

The central FAP BU consists of a mix of commercial, technical and marketing employees It is working closely with the local key account managers and customers in the main European markets and with our distributors worldwide

A Successful Turnaround
Since its inception, the BU has started a number of initiatives to accelerate the turnaround of the FAP sales There have been four elements to our approach

- accelerate growth in markets where, until now, we have had a lower share of the FAP business,
- support the business by developing marketing tools which will help slow down the decline in the existing markets and drive growth in the new markets,
- work closely with the product development team to ensure new and improved products are delivered to market in a timely fashion, and
- prepare the business for the launch of the first poultry vaccines which are coming through registration following the recent acquisition of Genera

The FAP BU has delivered immediate success with sales increasing for the first time in our recent history Our future goal is to increase market share by ensuring that Dechra is seen as the specialist and preferred partner, by offering a wide range of high quality products as well as technical knowledge and professional support

Strategy in Action:
Geographical Expansion and Acquisition

Genera

A Croatian Listed Business
On 21 October 2015 Dechra acquired Genera d d , the oldest and largest manufacturer of animal health products in Croatia with a strong market share in its local market and neighbouring countries It operates in a broad range of segments veterinary pharmaceuticals and vaccines, agrochemicals, human pharmaceuticals, disinfectants, and feed additives, and over the last few years it had invested significantly in its poultry vaccines capabilities Genera has sales forces in Croatia, Slovenia, Bosnia-Herzegovina and Serbia, and a network of distributors worldwide The turnover at the time the of acquisition was €28 4 million, with 270 employees

Broadening our FAP Portfolio and Entering the Vaccines Market
The strategic rationale for this acquisition was threefold

- to enter the important vaccines segment, with production and development capabilities,
- to broaden our FAP portfolio, enhancing our ability to develop our presence in emerging markets, and
- to add four new sales territories and strengthen our manufacturing capabilities with a GMP approved pharmaceutical production facility in a low cost environment

Our Ambition and Priorities
We believe this opportunity represents an attractive entry strategy to the poultry vaccine market with the potential to explore vaccines for other species in the long term Vaccines is the fastest growing segment in animal health as the market is increasingly moving towards preventative medicines The market for poultry vaccines was $1 3 billion in 2013, representing 22% of the vaccines market, and is projected to grow at a CAGR of 7 8% until 2020

Mitigating Risks
Although the transaction is expected to be earnings neutral in the first two years, it offers great opportunities for our long term ambitions and success will depend on our ability to register the poultry vaccines in Western Europe and key world markets We have created a dedicated integrated vaccines business unit to maintain the focus on the delivery of the vaccines registrations and the development of the future pipeline The first vaccine approval was obtained in the EU during the period

Our Integration Progress So Far
Given the complexity of the integration, we appointed an Integration Manager as CEO of Genera to lead the project and a cross-functional team was established The first few months after the acquisition were spent improving our understanding of the business, establishing good relationships with key members of Genera, and analysing the business segments With a good understanding of the acquired operations, we formulated and executed a clear integration plan to

- continue the core business activities of veterinary pharmaceuticals sales and production and the agrochemical business,
- invest in vaccines and establish a dedicated business unit,
- divest the human pharmaceuticals and disinfectants businesses,
- reduce the cost base through a redundancy programme, and
- implement a new organisation structure aligned with our strategy

We are pleased with the progress of the integration and look forward to gaining approval for the poultry vaccine range in the EU and targeted emerging markets

Strategy in Action:
Geographical Expansion and Acquisition

Brovel

A Mexican Family Owned Business
On 13 January 2016, Dechra acquired 100% of the share capital of Laboratorios Brovel S A de C V, a family owned veterinary pharmaceutical company located in Mexico City, Mexico Brovel has been operating in Mexico for over 52 years and manufactures and sells quality veterinary pharmaceuticals for dogs, horses and cattle It has a diverse product portfolio with a turnover of MxP$ 66 2 million (£2 6 million)

Geographic Expansion into Mexico and Latin America
The acquisition of Brovel will help open the significant Mexican animal health market to Dechra as well as offer the potential to access other Latin American markets in the future

The initial focus will be to achieve registration of several existing Dechra products in the market

Our Ambition and Priorities
Dechra will be investing in the registration process to ensure new products are approved by the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA)

Through the guidance and support provided by Dechra Veterinary Products NA, we hope Brovel can become a valued and trusted partner to veterinarians in the fields of dermatology, endocrinology and equine medicine

Mitigating Risks
As we enter new territories, we take potential reputation risk very seriously We rolled out our Anti-Bribery and Anti-Corruption policy immediately, and are putting in place a new control framework, such as our Group Delegation of Authorities

The key to success in Mexico will be to establish a strong management team who understands Dechra's values and ways of working We are also providing full oversight to ensure that manufacturing quality and product development processes are in line with our standards

Our Integration Progress So Far
Based on the established market presence and the associated value of the Brovel name, we decided in the immediate future to trade under Dechra-Brovel, which will create brand awareness for Dechra whilst maintaining the current well-known company name

Putting the right organisational structure in place is critical to the success of the integration We appointed a new Country Manager and have recently hired a new Finance Director We have also restructured the sales organisation in order to gain efficiencies and increase productivity

Dechra is working diligently with SAGARPA to register many of the US topical dermatology products acquired in the Dermapet acquisition, as well as *Osphos*, *Vetoryl*, *Canaural*® and other strategic products We have submitted the necessary documentation and expect first approvals in the next couple of years

Strategy in Action:
Geographical Expansion and Acquisition

Putney

A US Generic Products Business
On 22 April 2016, Dechra acquired 100% of the share capital of Putney Inc , a leading developer of FDA approved CAP in the US located in Portland, Maine Putney has been operating in Maine for over ten years and is the leading provider of high quality, bioequivalent, FDA approved, specialty drugs supporting the US veterinary community It has a diverse product portfolio with annual turnover of $49 6 million

Accelerating Dechra's North American Strategy
The acquisition of Putney adds critical mass to Dechra in the world's largest companion animal market, by providing immediate access to a high quality product range that complements our existing therapeutic focus areas as well as adding a robust new product pipeline and the expertise to deliver that pipeline Both our distribution partnerships and veterinarians will benefit as we add new products to help grow their practices

Our Ambition and Priorities
Dechra will be investing in the product development process to ensure the robust pipeline continues its successful history of gaining approval by the FDA Putney has achieved 43 0% of all US generic CAP approvals from the FDA since 2012 We will leverage our combined sales and marketing teams and distribution channels, as well as share best practices in the areas of product development and regulation

Mitigating Risks
Since Putney does not have its own manufacturing facilities, it relies heavily on third party manufacturing There are opportunities in the medium to long term to leverage our existing manufacturing capabilities with both existing and future products that could mitigate supply risk

As always there is an inherent risk in developing new products We have retained a majority of the R&D team who know the projects well They will continue to progress the five product registration filings that were already under way and continue the development work for the other projects

Our Integration Progress So Far
Having identified the synergies early during the integration planning, we were able to move forward with the team in Portland The teams are now working together to drive several initiatives such as

- building a telesales team with Putney's experienced inside sales team which complements to Dechra's existing outside sales team,
- integrating the Dechra business to the Salesforce Customer Relationship Management (CRM) platform used by Putney to enhance our ability to penetrate the market by leveraging sales analytics, and
- integrating the product development resources and prioritising the combined product pipeline

Q&A with Ian Page

It has been yet another good year for Dechra, what have been the key drivers behind the success?	Quite simply it has been the delivery of our strategy All four key growth drivers have delivered We have had good organic growth within Europe and exceptional organic growth within the US which has been enhanced by new product launches, particularly *Osphos* and *Zycortal*, geographical expansion is progressing well, we have launched in a number of new territories over the last few years Italy, Canada, Poland and, more recently, Austria have all contributed towards growth and are all performing to our expectations Finally, we have had a good contribution from the three acquisitions we have made within the period
Can you tell us a little more about the acquisitions?	It has been an unusual year first of all with three acquisitions, but each one of them is strategically important Taking them in turn first of all Genera is a business based in Croatia that predominantly focuses on manufacturing and developing poultry vaccines It is at an early stage of development for European registrations, so this is really one for the future What it will do is it will give us more products to sell into our farm animal sector, particularly poultry vaccines to sell alongside our successful antibiotic franchise and it will also help us to develop sales in the rest of the world Poultry is one of the fastest growing consumed meats within the world and it is an important sector for us Secondly Brovel Brovel was a family owned Mexican business that we acquired at a relatively low cost This really is about just a platform to register our own products They also have reach from a sales and marketing perspective into the Mexican market and it accelerates our geographical expansion The third and most important acquisition within the period was Putney Putney was our absolute number one acquisition target and has been for some time There are very few decent assets available within the US market and Putney really adds to the critical mass that we require to be successful in the most important animal health market in the world It adds a portfolio of new products into the Group, but also just as importantly it adds a pipeline With all three acquisitions we have done a very good job in integrating them very quickly and rationalising the businesses into the Dechra Group and they will all deliver results in the future and will provide a platform to add to our growth in future years
You have started up in a number of new countries in the last two years, where is next?	Italy, Poland and Canada have all been successful and are performing to our expectations and more recently we have launched in Austria which is also performing well They were the obvious territories for us to start trading in over the last couple of years because we had already got a certain level of sales through marketing partners There is no obvious next step that is a simple process that we can do organically like that, but what we are now doing is spending more money on registering in new territories to hopefully create that critical mass in future The other way to obviously expand geographically is as we have in Mexico with the acquisition of Brovel We do have a number of opportunities in a number of countries that we would hope to pursue over the next couple of years
There seems to have been a number of management changes lately, is there an underlying reason?	There is no one reason First of all if we start with the PLC Board and the Non-Executive team The Chairman has to step down after nine years (he has actually done 14), that is recommendations on corporate governance about independence, so he will step down from the business in October of this year at the AGM Mike has been replaced by Tony Rice who is an industrialist with a huge amount of experience and I look forward to working with him I would also like to take this opportunity to thank Mike Redmond for the huge contribution he has made towards the Group through his tenure and he is a great supporter of myself and the management team Looking also at the PLC level, but from an Executive perspective, Anne-Francoise as the CFO has also left the Group Anne was always ambitious and has moved into a FTSE 100 company Anne has done a great job in improving the infrastructure within the organisation over her period and I would to like to thank her for that also Looking at the Senior Executive Team (SET), we have now made another two appointments onto that team Greig Rooney, who has a lot of experience in manufacturing and supply chain management, has joined the SET and we have also appointed a new head of product development, Anthony Lucas, who has joined us from the Putney group So, all the changes have been made either because of corporate governance regulations or to strengthen the Group, so I do believe that we have now got an excellent management team that will take us forward for the next few years of our growth
So you remain confident about Dechra's future?	I remain very confident about Dechra's future We have had a very successful history, but we also look forward to the future with optimism We have introduced a lot of new products, we are trading in a lot of new countries, we have got a very strong management team, we are still getting good growth from a number of our older products and, finally, we have got a lot of growth to come from the acquisitions that we have just made The animal health market in the world continues to grow from both a companion animal and a farm animal perspective, so all in all we are in good shape, we're in a good market and we have got a good management team

Watch the full interview with Ian Page at dechra.annualreport2016.com

Our Business Model

Dechra has a clear business model for delivering value to all our stakeholders

- Our market knowledge, regulatory expertise, strong reputation and management experience help us identify potential product development targets, in-licensing deals and acquisition opportunities
- Our skilled Product Development and Regulatory Affairs teams develop new products to meet customers' needs and achieve international approvals and registrations
- Manufacturing, which plays an integral part in the development of the formulation and dosage form, manufactures products as effectively and efficiently as possible to the highest standards of quality
- Our Supply Chain aims to provide the best service possible to our customers through effective supplier partnerships and integrated planning between the Manufacturing and Commercial teams
- Following registration and manufacture of our products, experienced sales and marketing teams in the EU and NA market our products directly to veterinary practices and indirectly through export partners
- This integrated approach of development, manufacturing, supply chain, and sales and marketing creates value for the business and our stakeholders

Our Business Model Explained

Product Development and Regulatory Affairs

Our integrated and entrepreneurial approach to product development aims to deliver new products successfully and efficiently in the shortest practical time frame

Two Skilled Teams
The Product Development and Regulatory Affairs teams include skilled people with the expertise and experience to navigate the hurdles of the development process Across six locations, project teams manage the wide range of projects Investment in formulation laboratories in Bladel, Skipton, and Zagreb, each with their respective dosage form expertise, provides the resources required to develop novel and generic products cost-effectively

Delivering the Pipeline
Our product pipeline is critical to our future success Our novel and generics projects are very diverse, with the majority building on our key therapy areas We invest when we can identify growth opportunities with a clear financial return and competitive advantage, focusing on novel therapies to treat unmet needs with intellectual property protection

Our approach aims to ensure we create sustainable growth throughout our targeted global markets

Read about **Product Development** and our **Product Pipeline** pages 36 and 37

Regulatory Environment
Our Regulatory team understands the different regulatory environments in which we operate, specifically the US and Europe as well as other international regulators As the regulatory hurdles are increasing, we aim to ensure that our staff are updated and have detailed knowledge of current legislation We strive to anticipate regulatory requirements to avoid delays to product launches or disruption to production

Manufacturing

Our manufacturing facilities provide a wide range of services which delivers the flexibility that the veterinary market requires We also provide a complete range of products and services (i e a one-stop shop) for external customers

One-Stop Shop
DPM offers an end-to-end service formulation, method validation, stability testing, licensing support, flexibility in scale of production and packaging options to take products to market The supply chain for the majority of products is short and we offer reliable high service levels Our objective is to deliver exceptional quality control throughout

Product Development
The Pharmaceutical Development Laboratories are integrated with our production capabilities The primary objective is to formulate and validate products for our in-house pipeline, which is a major benefit to the Group in order to shorten the time to get a product to market Our technical expertise and development capabilities are also available to third party customers which helps to secure new business

Other Manufacturing
In addition to manufacturing our own products, Skipton, Bladel and Zagreb generate income through third party manufacturing Although the clear focus is on Group manufacturing, third party manufacturing adds value by making full use of our unique capabilities and our installed capacity

The external offering includes product development, formulation, trial manufacturing, validation, production and packaging for both human and veterinary pharmaceuticals

Supply Chain and Partnerships

Dechra has grown significantly over the past few years, both through organic growth and acquisition It has developed a number of different supply chain models to best serve our customers with pharmaceutical, care and diets products in worldwide markets

In-house and outsourced manufacturing facilities deliver a range of different product types including solid dose, liquid and sterile injectables Finished goods are stored and delivered to customers using modern warehousing facilities utilising the latest store, pick and pack technology and processes

Effective internal ways of working and strong external partnerships are key to the successful operation of our supply chains and is supported by our Dechra Values

Our ambition is to continue to develop and grow scalable supply chain business models to meet the needs of our dynamic business Our priority in the short term is to continue with the implementation of a global Sales and Operations Planning process across Dechra to integrate our business and optimise supply chain performance

See our **Group at a Glance** on pages 6 and 7

DVP EU

DVP EU is committed to marketing products that support the work of veterinarians in many species and which make a difference to the veterinarians, their patients and their customers

We are expanding the Dechra brand through newly established subsidiaries within the EU and we will continue to develop our international presence through strong relationships with key partners

Our Expertise
We have identified nine core therapeutic sectors where we leverage our expertise dermatology, ophthalmology, equine medicine, anaesthesia and analgesia, endocrinology, cardiovascular disease, food producing animal antimicrobials, poultry vaccines, and therapeutic and maintenance pet diets

In order to forge relationships with customers, technical meetings and seminars are held to provide a face-to-face programme to educate veterinarians on our key therapeutic sectors Key opinion leaders, at both local and international levels, are recruited for seminars and presentations, additionally, webinars and online interactive educational tools are available on the DVP EU website

Routes to Market
Our customers are principally veterinarians, however, in most territories the route to market is through wholesalers and, in a small number of markets, also through pharmacies Our products are distributed through a combination of channels including direct sales, wholesalers and national distributor channels

DVP NA

DVP NA markets, in the US and Canada, Dechra products for the companion animal and equine sectors that solve clinical problems and help veterinarians treat medical conditions It also sells Brovel products in Mexico

Our Expertise
Our Dechra brand has gained momentum in the US and in Canada, building on our strong reputation for customer service, the quality of an expanding product portfolio, further education programmes on our key areas of specialisation and high quality technical support We currently focus on the following core therapeutic sectors dermatology, endocrinology, ophthalmology, equine medicine and pain management

Routes to Market
Our customers are primarily small animal and equine veterinarians, of which there are approximately 90,000, working in 26,000 clinics across the US In Canada, there are approximately 5,000 veterinarians and 3,400 clinics

In the US and Canada, veterinarians and clinics are primarily supplied through distributors Our sales representatives promote products directly, and also visit clinics together with these distributors In Mexico, we sell through numerous local wholesalers

Distribution

We employ experienced qualified sales representatives in all the countries where we have a sales office They are highly trained professionals who visit veterinarians to explain the technical aspects of our products Given the specialised nature of some of our products, the sales representatives engage with veterinarians and discuss how to best treat a disease or a condition

In most countries, veterinarians order the products they need from a local or national wholesaler of their choice Wholesalers are independent and order veterinary products from all animal health manufacturers, as required, to meet the demand of their customers, the veterinarians In the majority of Europe, Dechra supplies the wholesalers from our distribution centre in Uldum, Denmark Occasionally Dechra sells directly to veterinarians, for instance in Germany

In the countries where we do not have a subsidiary and thus a direct sales presence, we trade through third party partners Our selected partners market, sell and distribute Dechra's products and retain part of the margins

Creating Value by:

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

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

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

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

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

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

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

Expanding International Focus
In line with our strategy we are focused on extending the Dechra brand into new countries We are also increasing distribution of our products on a global basis with selected partners, currently into over 40 countries

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

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

See our International Footprint on pages 34 and 35

Our Marketplace

"The global animal health market was valued at $30 billion* in 2015, a growth of 7%* over 2014 (at CER) "

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

Read about **Our Business Model** on pages 24 to 27

Read about our **International Footprint** on pages 34 and 35

Dechra's International Footprint (sales by territory at AER)

The Global Market
The global animal health market was valued at $30 billion* in 2015, a growth of 7%* over 2014 (at constant currency) The market is made up of two distinct segments, Food producing Animal Products (FAP) (i e livestock) and Companion Animal Products (CAP) (i e pets), which have different financial profiles

The FAP market is generally based on large volumes with pressure on margins due to high levels of competition, whereas the CAP market delivers higher added value especially with specialist or niche products Animal health customers' needs vary across the world due to factors such as standards of living, disposable income, cultural differences (including dietary preferences for animal protein), pet ownership, pet care standards and veterinarians' capabilities

Food Producing Animal Products Market
Market Size
This segment covers products or services targeted at reducing the incidence and spread of disease in livestock The global medicines and vaccines market for FAP grew by 7%* (at constant currency) in 2015 and represented 67%* of the overall market

Growth Opportunities
The growth in this segment has been driven by the rising demand for animal protein due to the increase in the global population and the need for greater farming productivity to maximise the use of limited agricultural resources

There is, however, downward pressure in this sector in recent years as regulators have increasingly focused on reducing the use of antibiotics due to the potential risk of cross-over resistance in humans In particular, the EU has taken actions to reduce the intensive use of broad spectrum antibiotics in farm animals The US also issued guidance in April 2012 to phase out the use of 'medically important' antibiotics as growth promoters In the Rest of the World, the focus remains on increasing food safety, meat quality and improving farming efficiency

Customers
The primary customers are veterinarians, farmers and other major livestock integrators Products are sold either directly to large integrators or through veterinarians, wholesalers and distributors

Dechra in the Marketplace
FAP represented 15 4% of our turnover with sales in EU and emerging markets Our range of antimicrobial water soluble powders and injectables, targeted mainly at swine and poultry, supports the prudent use of antibiotics The acquisition of Genera in this financial year provides an entry into the

poultry vaccines market, one of the fastest growing sectors of the global animal health market in the last five years*

Our key account managers have an in-depth knowledge of the market and our customers Our existing business is small but represents a good base from which we can either increase market share or enter into new territories

Companion Animal Products Market
Market Size
The worldwide medicines and vaccines market for CAP grew by 7%* in 2015 (at constant currency) and represented 33%* of the overall market Product categories in this market are anti-parasiticides (i e products against ticks, fleas, worms), vaccines, antimicrobials and other pharmaceuticals

Growth Opportunities
Spending on companion animals is growing globally and pet ownership is increasing in both developed and emerging markets Advances in diagnostics, greater emphasis on prevention and wellness by veterinarians, improved nutrition and the increase in treatment of chronic diseases contribute to an ageing pet population which consumes more medication and veterinary services

Customers
Veterinarians prescribe and generally dispense drugs themselves In the US alone, approximately two-thirds of companion animal health prescriptions are fulfilled by veterinarians in their practices Products are sold to veterinarians mainly through wholesalers and distributors

Dechra in the Marketplace
We offer a broad range of specialised pharmaceutical products We do not, at this time, compete in the anti-parasiticides and vaccines markets for companion animals We continue to grow our established brands through frequent interaction with our customers, up-to-date marketing campaigns and technical support We are also positioning ourselves to capture the growth opportunities in emerging markets where pet ownership is increasing

Geographical Split
North America and Western Europe account for about half of the global animal health market sales* However, other regions are growing rapidly, notably

- growth in Eastern Europe is fuelled by the increase in demand for meat, in particular poultry, and
- sales in the Rest of the World continue to increase due to economic growth and the increased use of vaccines

Dechra's International Footprint
Dechra competes in the two largest animal health markets over 72 8% of our sales are in Europe, 21 8% in the US with 5 4% being in the Rest of the World We aim to expand our geographical footprint either organically or through acquisition In the last few years we opened several subsidiaries in new territories In the 2016 financial year, we completed two acquisitions that open access to new geographies for Dechra, including Latin America and Eastern Europe

* Source Vetnosis

Market Trends

"We aim to expand our geographical footprint either organically or through acquisitions "

Our Key Products

Why we focus on this specialist area	Key products	Animal	Use
Endocrinology			
Endocrine disease stems from imbalance in hormone levels, affecting cats or dogs in many ways, often requiring lifetime medical attention Many endocrine disorders are fatal if not diagnosed and treated Veterinarians place a high importance on quality of life and often see endocrinology as a challenging and interesting discipline	***Felimazole***	Cats	For the stabilisation of hyperthyroidism in cats prior to surgical thyroidectomy and the long term treatment of feline hyperthyroidism
	Forthyron/ Thyforon®	Dogs	For the treatment of hypothyroidism
	Vetoryl	Dogs	For the treatment of pituitary-dependent and adrenal-dependent hyperadrenocorticism (Cushing's disease and syndrome)
	Zycortal	Dogs	For use as replacement therapy for mineralocorticoid deficiency in dogs with primary hypoadrenocorticism (Addison's disease)
Dermatology and Care			
Dermatology represents approximately 20% of veterinarians' clinical time and is a major focus area for the industry Dechra's range of topical products support a holistic approach in the control and maintenance of dermatological disease Topical therapy ensures that the correct concentrations of antibiotics are delivered to the site of the infection thereby minimising the use of antibiotics Dechra's range of licenced and non-licenced topical products help veterinarians address the development of antimicrobial resistance, in line with best practice	**Animax®**	Cats Dogs	For the treatment of skin conditions It is only approved in the United States The marketing rights for this product were acquired in May 2007
	Canaural	Cats Dogs	For the treatment of otitis externa including the ear mite, Otodectes cynotis
	CleanAural®	Cats Dogs	A pH balanced routine ear cleaner For the removal of moderate ear wax and debris where the ear drum is intact
	***DermaPet®* Products**	Cats Dogs	For the treatment of numerous skin and ear conditions
	Isaderm®	Dogs	For the topical treatment of surface pyoderma in the dog such as acute moist dermatitis (hot spots) and intertrigo (skin fold dermatitis)
	Malaseb	Cats Dogs	**Cats** Medicated shampoo to aid the control and treatment of ringworm due to Microsporum canis in conjunction with griseofulvin **Dogs** Medicated shampoo for the treatment and control of seborrhoeic dermatitis associated with Malassezia pachydermatis and Staphylococcus intermedius

Why we focus on this specialist area	Key products	Animal	Use
Anaesthesia and Analgesia			
Perioperative sedation and pain management are challenging but critical for all patients and form a fundamental part of animal welfare A comprehensive range of analgesic and anaesthetic products allows veterinarians to adapt their protocols to the individual pet based on their level of discomfort, whilst providing flexible anaesthetic procedures	**Alvegesic®**	Cats Dogs Horses	For the relief of moderate pain and as a sedative in combination with other products
	Atipam®	Cats Dogs	Reverses the sedative effects of medetomidine and demedetomidine
	Buprenodale®	Cats Dogs Horses	For post-operative analgesia for dogs and cats and for post-operative analgesia in combination with sedation for horses
	Comfortan®	Cats Dogs	Analgesia Pre-medication for general anaesthesia or neuroleptanalgesia in combination with a neuroleptic drug
	Phycox	Dogs Horses	Reduces joint discomfort and swelling
	Sedator®	Cats Dogs	For restraint and sedation
	Vetivex®	Cattle Cats Dogs Horses	These products are administered by intravenous infusion for the treatment of dehydration and metabolic acidosis They may be used to correct volume depletion (hypovolaemia) resulting from gastrointestinal disease or shock
Cardiovascular Disease			
As pets increasingly live longer, managing heart disease efficiently is critical This is our only major product in this category	***Cardisure®***	Dogs	For the treatment of congestive heart failure originating from valvular insufficiency (mitral and/or tricuspid regurgitation) or dilated cardiomyopathy
Ophthalmology			
Eye conditions are very common and can result in severe complications Recent evidence suggests that 7% of kittens, 2% to 3% of adult cats and 2% to 4% of dogs are presented to veterinarians with ocular inflammation	***Isathal®***	Cats Dogs Rabbits	For the topical treatment of conjunctivitis associated with staphylococcal infections
	Lubrithal®	Cats Dogs	Soothes and moisturises the eye
	Vetropolycin® and ***Vetropolycin® HC***	Cats Dogs	For the treatment of superficial bacterial infections of the eyelid and conjunctiva when due to organisms susceptible to the antibiotics contained in the ointment

Our Key Products
continued

Why we focus on this specialist area	Key products	Animal	Use
Equine Medicine			
This is a sector in which few animal health companies specialise We target both performance horses and hobby horses and have developed a comprehensive range of medically necessary products that give us access to equine veterinarians	***Equipalazone***	Horses	For the treatment of musculoskeletal disorders in horses and ponies where the anti-inflammatory and analgesic properties of phenylbutazone can offer relief, such as lameness associated with osteoarthritic conditions, acute and chronic laminitis, bursitis and carpitis, and in the reduction of post-surgical soft tissue reaction
	Domidine®	Cattle Horses	For the sedation and slight analgesia of horses and cattle, to facilitate physical examinations and treatments, such as minor surgical interventions
	HY-50	Horses	For intra-articular and intravenous treatment of lameness caused by joint dysfunction associated with non-infectious synovitis
	Osphos	Horses	For the control of clinical signs associated with the bone resorptive processes of navicular syndrome
	Somulose®	Cats Cattle Dogs Horses	The product is indicated for euthanasia in dogs, cats, horses and cattle
Food producing Animal Products			
FAP is the largest segment of the global animal health market accounting for over 60% of sales While there is pressure on antibiotic prescribing in the EU and the US, the increased demand for high quality protein in the Rest of the World continues to drive the demand for antibiotics	***Cyclospray***	Cattle Pigs Sheep	Prevention of infections of superficial traumatic or surgical wounds caused by micro-organisms sensitive to chlortetracycline The product can be used as part of a treatment for superficial claw/ hoof infections, in particular interdigital dermatitis (foot rot) in sheep and digital dermatitis in cattle
	Methoxasol®	Broilers Pigs	**Broilers** Treatment and prevention of respiratory infections caused by Escherichia coli susceptible to trimethoprim and sulfamethoxazole where the disease has been diagnosed in the flock **Pigs** Treatment and prevention of respiratory infections caused by Actinobacillus pleuropneumoniae susceptible to trimethoprim and sulfamethoxazole where the disease has been diagnosed in the herd
	Octacillin®	Chickens Pigs	Treatment of infections caused by bactena susceptible to amoxicillin
	Rapidexon®	Cats Cattle Dogs Horses Pigs	Dexamethasone may be used for the treatment of inflammatory or allergic conditions
	Soludox®	Chickens Pigs Turkeys	For respiratory disease in pigs, chickens and turkeys

Why we focus on this specialist area	Key products	Animal	Use
Pet Diets			
Quality nutrition leads to a better quality of life for pets and veterinarians and veterinary nurses are best placed to offer nutritional advice With our range of nutritional products, along with licenced and non-licenced medicines, we are able to offer holistic solutions to veterinarians to manage their patients in the most appropriate manner	***Specific™***	Cats Dogs	Balanced high quality pet diets for therapeutic use and life stage maintenance diets
Poultry Vaccines			
Prevention is increasingly the preferred standard of care in modern animal husbandry With pressure on reducing antibiotic usage, providing customers with products to prevent rather than treat disease is critical Worldwide, there is an increasing demand for poultry meat and, as a consequence, the poultry vaccines market is growing	***Avishield***	Chickens Turkeys	Vaccination of poultry by water, eye drop or spray administration with a range of high quality live vaccines, providing immunisation against the most important viral diseases that threaten poultry health, like Newcastle disease, infectious bronchitis and infectious Bursal disease (Gumboro)

International Footprint

We currently have our own sales and marketing organisations in 19 European countries and in the US, Canada and Mexico We also market products in over 40 countries worldwide through distributors and marketing partners 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	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Ireland	Italy	Mexico	N'lands	Norway	Poland	Portugal	Spain	Sweden	UK	US
Felimazole		●	●	●	●	●	●	●	●	●		●	●		●	●	●	●	●
Forthyron/Thyforon		●	●		●	●	●	●	●	●		●	●		●	●	●	●	
Vetoryl		●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●
Zycortal		●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●

Dermatology and Care

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

Anaesthesia and Analgesia

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

Cardiovascular

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

Ophthalmology

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

Equine Medicine

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

Food producing Animal Products

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

Pet Diets

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

Vaccines

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

Dechra-Brovel

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

Genera

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

Putney

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

Product Development

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

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

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

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

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

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

From beginning to end, the development process can take between three and ten years before **Launch**

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 exploratory to development to market or as projects are terminated For competitive reasons, exact project details are not disclosed

Financial Review

"Group underlying operating profit growth was 20 9% at CER for 2016 This pleasing growth has been delivered whilst continuing to invest in our existing business, integrating three strategic acquisitions, establishing new subsidiaries and continued product launches "

Ian Page
Chief Executive Officer

Overview of Reported Financial Results

During the 2016 financial year, Dechra made three acquisitions To assist with the understanding of our financial results, we have shown in the table below the performance of the existing Dechra business separately from the performance of the acquired entities In the current year, the acquisitions profit after tax has reflected the cost of acquisition related restructuring programmes and fair value inventory adjustments

Including non-underlying items, the Group's reported profit after tax of £12 5 million decreased by 27 7% at CER (35 9% at AER), due primarily to the one-off acquisition costs Dechra's existing business grew by 5 1% at CER (declined by 1 0% at AER), with reported profit after tax of £19 3 million (growth was adversely impacted by foreign exchange losses of £0 8 million in the year compared to foreign exchange gains of £2 2 million in 2015)

As Reported	2016 Existing £m	2016 Acquisition £m	2016 Consolidated £m	2015 £m	Growth % at AER Existing	Growth % at AER Consolidated	Growth % at CER Existing	Growth % at CER Consolidated
Revenue	**225 9**	**21 7**	**247.6**	203 5	11 0%	21 7%	11 2%	21 7%
Gross profit	**129 9**	**2 5**	**132 4**	116 1	11 9%	14 0%	12 7%	15 2%
Gross profit %	**57.5%**	**11 5%**	**53.4%**	57 1%				
Operating profit/(loss)	**29 4**	**(9 9)**	**19 5**	26 0	13 1%	(25 0%)	18 1%	(17 3%)
EBIT %	**13 0%**	**(45 6%)**	**7 9%**	12 8%				
Profit/(loss) after tax	**19 3**	**(6.8)**	**12 5**	19 5	(1 0%)	(35 9%)	5 1%	(27 7%)
Diluted EPS (p)			**13 90**	21 99		(36 8%)		(28 9%)

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 the amortisation and write off of acquired intangibles, non-underlying charges and other non-underlying items as defined on page 112 A reconciliation of underlying results to reported results as at 30 June 2016 is shown in the table below

		Non-underlying items				
	2016 Underlying results £m	**Non-cash uplift on acquired inventory £m**	**Amortisation and related costs of acquired intangibles £m**	**Acquisition and restructuring costs £m**	**Finance expenses £m**	**2016 Total reported results £m**
Revenue	**247 6**					**247 6**
Gross profit	**138 5**	**(6 1)**				**132 4**
Selling, General and Administrative Expenses	**(75 3)**		**(21 8)**	**(5 5)**		**(102 6)**
R&D expenses	**(10 3)**					**(10 3)**
Operating profit	**52.9**	**(6 1)**	**(21 8)**	**(5 5)**		**19 5**
Net finance costs	**(3.2)**				**(1 8)**	**(5 0)**
Profit before tax	**49 7**	**(6 1)**	**(21 8)**	**(5 5)**	**(1 8)**	**14 5**
Taxation	**(11 3)**	**1 7**	**5 7**	**1 4**	**0 5**	**(2 0)**
Profit after tax	**38 4**	**(4 4)**	**(16 1)**	**(4 1)**	**(1 3)**	**12 5**
Diluted EPS (p)	**42 65**					**13 90**

We delivered underlying operating profit of £52 9 million, representing a growth of 20 9% compared to the previous year This was achieved through a solid trading performance in our existing business, growing at 17 8%, together with a small benefit from the acquisitions made in the year

Underlying	**2016 Existing £m**	**2016 Acquisition £m**	**2016 Consolidated £m**	2015 £m	**Growth % at AER** **Existing**	**Consolidated**	Growth % at CER Existing	Consolidated
Revenue	**225 9**	**21.7**	**247 6**	203 5	**11 0%**	**21 7%**	11 2%	21 7%
Gross profit	**129 9**	**8 6**	**138 5**	116 1	**11 9%**	**19 3%**	12 7%	20 0%
Gross profit %	**57 5%**	**39 6%**	**55 9%**	57 1%				
Underlying Operating profit	**51 6**	**1 3**	**52.9**	44 4	**16 2%**	**19 1%**	17 8%	20 9%
Underlying EBIT %	**22 8%**	**6 0%**	**21 4%**	21 8%				
Underlying EBITDA	**55 9**	**2 1**	**58 0**	48 0	**16 5%**	**20 8%**	18 3%	22 7%
Underlying diluted EPS (p)			**42 65**	39 90		**6 9%**		8 9%
Dividend per Share			**18 46**	16 94		**9 0%**		9 0%

Revenue
Total revenue grew by 21 7% to £247 6 million Growth in the sales force together with the launch of new products and sales from our new operations in Canada and Poland led to revenue growth in our existing business of 11 2%

Revenue by Segment
European Pharmaceuticals Segment revenue grew by 13 9% to £188 9 million This was due to strong performances in key markets such as the UK and France, the impact of new subsidiaries, Poland and Austria, and the additional revenue contributed by Genera during the year This offsets lower revenue in Germany, which, whilst the decline due to the reduced use of antibiotics has slowed over the course of the year, continues to impact negatively on the FAP revenues In addition, growing momentum in some key Rest of World territories has contributed to continued growth in the existing business and allows us to maintain focus on developing this key strategic area

Revenue in our North American Pharmaceuticals Segment grew by 59 5% to £58 7 million The sales force, which has seen significant investment, continues to drive revenue in key therapeutic areas and, combined with the full year impact of our Canadian subsidiary (which started trading in January 2015), and the acquisition of both Brovel and Putney during the year have resulted in the continued growth of this Segment

Overall, the three acquisitions contributed £21 7 million to our revenue

Revenue by Categories
All our revenue streams performed well, except for Diets which showed a small decline

CAP sales grew by 19 4% fuelled by momentum in our key therapeutic areas of endocrinology, dermatology, cardiovascular disease, and analgesia and anaesthesia in the EU and US Notably, *Vetoryl* grew by 25 4% globally and our dermatology range, *DermaPet*, in the US by 32 4% *Cardisure* grew by 47 7%, and our analgesia and anaesthesia therapeutic area also performed well in Europe

Equine revenue has grown by 19 4% following the launch of *Osphos*

For the first time after several years of decline, FAP grew by 43 2%, due to the growth in our newly established Polish business, market share gain in countries where previously we had a smaller presence, the slowdown of the decline in Germany, and the Netherlands returning incrementally to growth The integration of Genera also contributed to the FAP revenue growth Excluding the sales from the new acquisitions, FAP revenue in the existing business grew by 13 6% compared to the previous year

Unfortunately, our sales of Diets did not recover as expected with a sales decline of 1 2% Whilst we are experiencing growth in a number of key markets, this was offset by the loss of a large corporate account in Scandinavia and palatability issues for some of the cats diet products

Other sales, which include third party manufacturing and other non-core businesses in Genera, increased by 36 5% reflecting the increased capabilities and non-core activities acquired as part of Genera This offset lower third party revenues in the existing business which arose due to an increased focus on own manufactured products during the period

All growth rates for both underlying and reported financial results included in this review are at constant exchange rates (CER) unless otherwise stated This shows the year-on-year growth as if exchange rates had remained the same as in the previous year

Financial Review
continued

Revenue by Product Category (at AER)

	2016 £m	2015 £m	Actual exchange rate	Constant exchange rate
CAP	**137 7**	113 9	20 9%	19 4%
Equine	**20 5**	17 0	20 6%	19 4%
FAP	**38.1**	27 3	39 6%	43 2%
Subtotal Pharma	**196 3**	158 2	24 1%	23 5%
Diets	**24 4**	25 6	(4 7%)	(1 2%)
Other	**26 9**	19 7	36 5%	36 5%
Total	**247 6**	203 5	21 7%	21 7%

Gross Profit
Gross margins for the existing business increased to 57 5% from 57 1% This growth in margin reflects the changing product mix and improved manufacturing efficiencies within the business

It is also important to note that the recent acquisitions have a dilutive effect on gross margin moving from 57 5% for the existing business to 55 9% for the consolidated business, as expected at the time of the deal announcements

Selling, General and Administrative Expenses (SG&A)
Underlying SG&A expenses grew by 19 3% to £75 3 million as we continued to invest in supporting the future growth of the Group and incorporate the costs of the acquired companies

Whilst increases in prior year infrastructure functions have had a full year impact in 2016, during the year we further invested in the sales organisation in DVP US Additionally we made selected investments in DVP EU, such as setting up a FAP Business Unit to drive growth

Research and Development Expenses (R&D)
Our R&D spend in the 2016 financial year was £10 3 million This is commensurate with our pipeline progress It also reflects the addition of Genera and Putney pipelines, which have resulted in much larger R&D and regulatory teams to support our expanded pipeline of new products

Non-Underlying Items
Non-underlying items incurred during the year relate to the following

- Non-Cash Inventory Adjustment
  The non-cash inventory adjustment, which increases the value of stock by £6 1 million relates to the acquisition of Brovel, Putney and Genera It is the result of the fair value exercise carried out in accordance with IFRS 3 'Business Combinations' on acquisition
- Amortisation and Related Costs of Acquired Intangibles
  This includes the amortisation of the acquired intangible assets and the write-off relating to existing intangibles and related deferred consideration following the acquisition of Putney, where it was decided to suspend development of a US generic pharmaceutical product (£1 1 million) We also impaired an acquired intangible due to a competitor registration in the US (£0 6 million)
- Acquisition and Rationalisation Costs
  This includes the transaction costs associated with acquiring Genera, Brovel and Putney and other costs related to the integration and restructuring programmes
- Finance Expenses
  This includes the extinguishment expense related to the refinancing of the debt facility to fund the Putney acquisition as well as the unwind of discount on the deferred consideration balances relating to previous acquisitions

Non-underlying items of £35 1 million before taxation are £15 8 million above the previous year due to acquisition costs and higher acquired intangible amortisation Full details are shown in notes 4 and 5 on pages 122 and 123

Glossary
Terms used within this section

IFRS
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

Segmental Profit
Operating leverage (EBIT %) has reduced as the Group has experienced the dilutive effect of the acquisitions made during the year with EU and NA at 27 4% and 29 8% respectively

Operating Segment (Pharmaceuticals)
The full segmental analysis can be found in note 2 on pages 120 to 122

During 2016, following the three acquisitions and reflecting the way we manage the Group and meeting the criteria defined under IFRS 8, the Board reviewed our reporting Segments and concluded that the North American Pharmaceuticals Segment should be expanded to include Putney and Brovel and that Genera should be included within the European Pharmaceuticals Segment

	2016 £m	2015 £m	Actual exchange rate	Constant exchange rate
Revenue	**247 6**	203 5	21 7%	21 7%
— EU	**188 9**	168 7	12 0%	13 9%
— North America	**58 7**	34 8	68 7%	59 5%
Operating Profit				
— EU	**51 7**	48 0	7 7%	11 0%
— North America	**17 5**	10 6	65 1%	57 5%
EBIT %				
— EU	**27 4%**	28 5%		
— North America	**29 8%**	30 5%		

Earnings per Share and Dividends
Underlying diluted EPS for the year was 42 65 pence, 8 9% growth versus last year

The increase in interest payments following the additional borrowings, together with the share dilution impact of the equity placing for the Putney acquisition, impacted negatively on the reported EPS growth We benefited last year from the positive impact of transactional exchange gains of £2 2 million, whereas in 2016 this is a loss of £0 8 million, which contributed a reduction of 0 90 pence to the EPS (2015 positive impact of 2 12 pence)

The reported diluted EPS for the year was 13 90 pence (2015 21 99 pence)

The Board is proposing a final dividend of 12 91 pence per share (2015 11 82 pence) Added to the interim dividend of 5 55 pence, it brings the total dividend per share for the year to 18 46 pence, representing 9 0% growth over the previous year Dividend cover based on underlying diluted EPS is 2 3 times

Net Debt Position
During the year we increased our Revolving Credit Facility to £150 0 million to fund the Putney acquisition, whilst retaining the accordion facility of £30 0 million As a result, we ended the year in a net debt position of £116 6 million, representing a Net Debt/ Underlying EBITDA ratio of 2 0 times

Whilst the exchange rate volatility in the last week of June adversely impacted the translation of our Euro and US Dollar borrowings, we met the covenants on our loan facilities throughout the full year

Integration and Financial Impact of the Acquisitions
During the period, we completed three acquisitions Genera, Brovel and Putney In all of the acquisitions, there were immediate portfolio benefits which can be seen in the revenue growth within the Group In addition, as part of each acquisition, we undertook a review of the newly acquired operations to ensure that they were aligned with the Dechra strategic pillars and enablers

This review resulted in rationalisation programmes in Genera and Putney which reduced headcount and reorganised the business to reflect the increased focus on activities which are core to Dechra's strategy We have also put in place plans to exit some non-core activities In Brovel, the focus on registering Dechra s own products remains the key long term driver of expected growth

In the period since acquisition, the three entities generated revenue of £21 7 million and underlying operating profit of £1 3 million A summary of the income statement is shown on page 107

Following a detailed valuation review conducted by an independent third party, we capitalised £122 9 million in intangible assets and £56 4 million of goodwill

The acquisitions were financed by cash for Brovel, a combination of available cash and debt for Genera, and debt and equity placing for Putney As a result, our borrowings have increased by £123 2 million compared to last year We also raised £47 0 million (net of expenses) from the issue of 4 4 million shares

Underlying Diluted Earnings per Share

42.65p

2015 39 90p

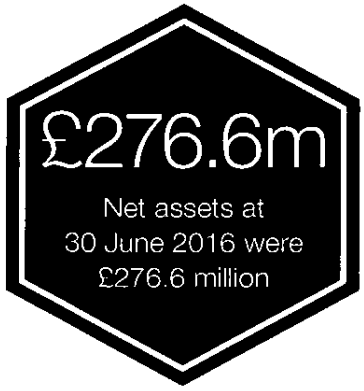
Dividend per Share

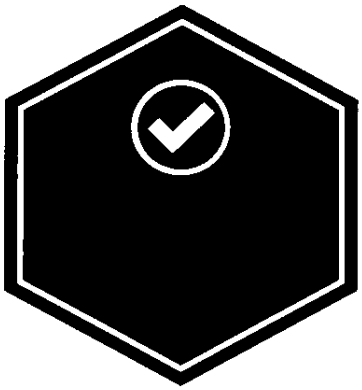
18.46p

2015 16 94p

Read **Strategy in Action Geographical Expansion and Acquisition** on pages 20 to 22

Financial Review
continued





Read the **Chairman's and Chief Executive Officer's Statement** on pages 8 to 12

See **Our Financials** on pages 100 to 161

Balance Sheet
Net assets at 30 June 2016 were £276 6 million, a £82 1 million increase compared to 2015 During 2016 the shape of the balance sheet has changed to reflect the significant increases in non-current assets of £214 6 million and related deferred tax liabilities of £32 3 million which have originated from the new acquisitions and the associated increase in debt to fund some of these acquisitions In addition to these non-recurring changes, the ongoing shift in exchange rates year on year has resulted in a net assets increase which is reflective of the significant amount of Group assets being held in Eurozone countries

	2016 £m	2015 £m
Total non-current assets (excluding deferred tax assets)	**398 1**	183 5
Working capital	**63 1**	31 7
Net (debt)/cash	**(116 6)**	13 4
Corporate and deferred tax	**(57 3)**	(25 0)
Other liabilities	**(10 7)**	(9 1)
Total net assets	**276 6**	194 5
Cash conversion	**142 4%**	107 1%

Total non-current assets (excluding deferred tax assets) include intangibles which amounted to £360 4 million (2015 £166 7 million) as at 30 June 2016

Total working capital increased during the year from £31 7 million to £63 1 million The increase in working capital within the existing business is driven by the expansion and growth plans during the year As expected, the three acquisitions are also capital intensive, with a one-off increase in working capital at acquisition of £25 8 million Combined, the new acquisitions accounted for £20 9 million of the working capital at the year end

Return on Capital Employed (ROCE)
Following the increase in net assets from the acquisitions during the year, which without the full year impact of the additional profitability significant dilutes the ROCE performance, ROCE for the Group was 16 1% for 2016 Whilst this has decreased from 20 0% in 2015 it has still met our target key performance indicator of 15 0% Refer to page 44 for details of the calculation

Currency Risk
During 2016, we have been exposed to transactional and translational currency risk In addition to the one-off transactional loss of £0 8 million being recognised in the Consolidated Income Statement, £32 1 million foreign exchange gain translational impact was recognised in the Consolidated Statement of Comprehensive Income in 2016

As part of our acquisition strategy, we seek to balance the foreign exchange debt and related interest payable risk associated with non Sterling acquisitions with the underlying related income and assets in foreign currencies As we move forward

and our business continues to be more diversified, our exposure to currency volatility, in particular in terms of the Euro and the US Dollar, is expected to become more balanced

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

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

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

Summary
We have delivered another set of strong financial results in the 2016 financial year Our existing business is showing good organic growth and momentum, with investments made in prior years driving growth and allowing us to continue to invest for the future through acquisitions and pipeline development

The strategic acquisitions made during the year support our medium to long term ambitions In the short term, as we build the businesses we acknowledge that they are dilutive to our gross margin, ROCE and impact our operating leverage

With the enlarged Group, we can leverage economies of scale as we integrate the various R&D teams and prioritise a broader combined product pipeline with projects from the existing business and the three acquired entities

Finally we have achieved our results by maintaining sound financial discipline and balance sheet management, which will help in a more volatile macroeconomic environment

Ian Page
Chief Executive Officer
5 September 2016

Glossary
Terms used within this section

EPS
Earnings per Share

SG&A
Selling, General and Administrative Expenses

R&D
Research and Development

ROCE
Return on Capital Employed

EBIT
Earnings Before Interest and Tax

"We have delivered another set of strong financial results in the 2016 financial year"

Key Performance Indicators

The Group utilises the following Key Performance Indicators (KPIs) to assess our progress against our strategic, financial and operational objectives Their relevance to our strategy and their definitions are explained below

Some KPIs are also used as a measure in the long term incentive arrangements for the remuneration of the Executives These are identified with the symbol

KPI	Definition	Relevance to Strategy	Performance	Link to Strategic Pillar and Enabler
Sales Growth 11 2%	Year-on-year sales growth including new products but excluding revenue from acquired businesses in the year of acquisition	A key driver of our strategy is to deliver sustainable sales growth through delivering our pipeline maximising our existing portfolio and expanding geographically	Sales increased by 11 2% at CER (11 0% at AER) This positive trend was driven by continued organic growth, our geographical expansion and new product launches	
Underlying Diluted EPS Growth 8 9%	Underlying profit after tax divided by the diluted average number of shares, calculated on the same basis as note 10 to the Accounts	Underlying EPS is a key indicator of our performance and the return we generate for our shareholders It is one of the performance conditions of the Long Term Incentive Plan (LTIP)	EPS increased by 8 9% at CER (6 9% at AER) Organic and acquisition growth were offset by lower finance income and higher finance expense reflecting increased acquisition debt and movement in exchange gains and losses together with a higher tax rate	
Return on Capital Employed 16 1%	Underlying operating profit expressed as a percentage of the average of the opening and closing operating assets (excluding cash/debt and net tax liabilities)	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 LTIPs	ROCE has reduced to 16 1% from 20 0% The reduction is due to the increased assets acquired during the year This still exceeds our target of 15 0% during the year, without the corresponding increase in the underlying operating profit in the period	

Key to Strategic Pillars:

- Pipeline Delivery
- Portfolio Focus
- Geographical Expansion
- Acquisition

Key to Strategic Enablers:

- Manufacturing and Supply Chain
- Technology
- People

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

Read **How the Business Manages Risk** on pages 54 and 55

Read the **Directors Remuneration Report** on pages 79 to 93

KPI	Definition	Relevance to Strategy	Performance	Link to Strategic Pillar and Enabler
Underlying Cash Conversion 106 8%	Cash generated from operations before tax and interest payments as a percentage of underlying operating profit	Our stated aim is to be a cash generative business	Underlying cash conversion of 106 8% in 2016 reflected strong growth in profits offset by the investment in acquisitions resulting in a lower profit base	
New Product Sales 14 4%	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	This measure shows the delivery of sales 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	Sales for new products continue to grow, with 14 4% revenue coming from new products which are either novel, generic or in-licensed	
Lost Time Accident Frequency Rate (LTAFR)	All accidents resulting in the absence or inability of employees to conduct the full range of their normal working activities for a period of more than three working days after the day when the incident occurred, normalised per 100,000 hours worked * including acquisitions	The safety of our employees is core to everything we do We are committed to a strong culture of safety in all our workplaces	The LTAFR, including the acquisitions, increased from 0 07 to 0 35 and excluding the acquisitions it increased to 0 19 None of these incidents resulted in a work-related fatality or disability	
Employee Turnover 13 1%	Number of leavers during the period as a percentage of the average total number of employees in the period * excluding acquisitions	Attracting and retaining the best employees is critical to the successful execution of our strategy	There has been a slight increase in employee turnover during the period, predominantly this has been within the manufacturing business The impact of the acquisitions, and subsequent restructuring, has been excluded from the figures	

Corporate Social Responsibility

Glossary
Terms used within this section

DVP EU
Dechra Veterinary Products Europe

HCM
Human Capital Management

LTAFR
Lost Time Accident Frequency Rate

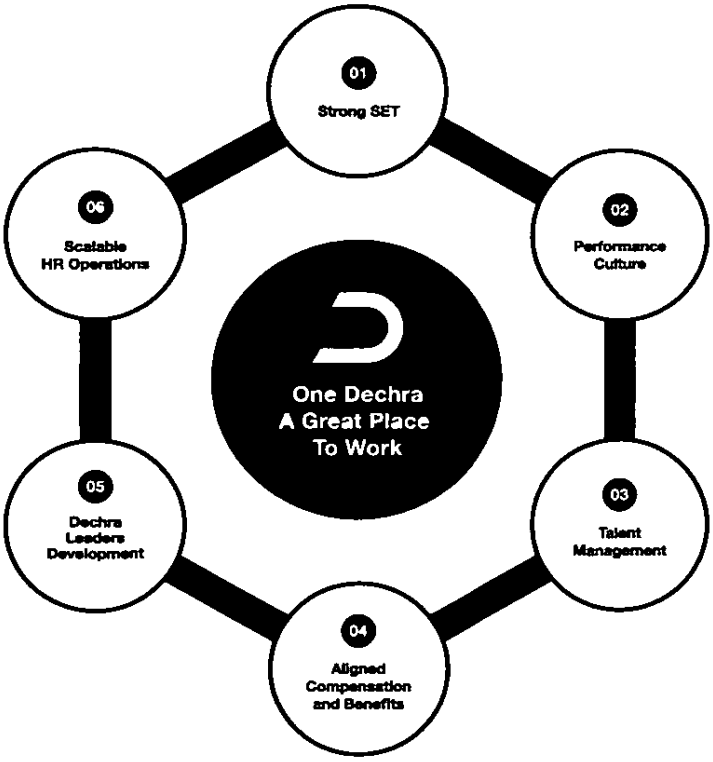
MAT
Moving Annual Total

SET
Senior Executive Team

Tony Griffin
Managing Director Dechra Veterinary Products EU

Katy Clough
Group HR Director

Our People Plan is designed to enable the Group to drive innovation, customer and shareholder value, accountability, and success through



01
Develop the SET to provide world class leadership to the Group

02
Align employee efforts and improve execution through effective goal setting linked to reward

03
Attract, retain and develop the right talent in the right place at the right time

04
Develop equitable reward systems that drive accountability and reward high performance

05
Identify succession plans and create development plans to secure the future talent pipeline

06
Create simplified access to data and reduce manual effort

A responsible approach to our stakeholders and the wider community is considered by the Board to be important to the business Our Corporate Social Responsibility strategy has three pillars Our People, Our Community and Our Environment The conduct of the business towards social, environmental, ethical and health and safety issues is recognised to have an impact on our reputation and therefore the implementation and improvement of policies and systems are an ongoing priority within the business

Our central logistics hub for Europe (Dechra Service Center) based in Uldum, Denmark, has published its first Corporate Social Responsibility Report building on its history of sustainability reporting in Denmark In this first report it has focused on organising and coordinating its CSR activities throughout all departments within the Dechra Service Center (DSC)

Tony Griffin is the nominated Director responsible for health, safety and environmental matters However, the Board takes ultimate responsibility for Corporate Social Responsibility and is committed to developing and implementing appropriate

policies that create and maintain long term value for all stakeholders Sound business ethics help to minimise risk, ensure legal compliance and enhance Company efficiency

Our People
There has been significant progress made during the year on the People Plan

- **One Dechra – A Great Place to Work**
  During the year our employee base has expanded significantly from 869 to 1,288 following the acquisitions of Genera, Brovel and Putney Our people integration plans have been underpinned by the roll out of the Dechra Values A Group-wide intranet is under development which will be available to all staff in a number of different languages
- **Strong Senior Executive Team (SET)**
  The SET has responsibility for the overall leadership of the Group, driving the successful implementation and execution of the strategy and enabling cohesion and co-operation between the various business units, as well as setting the Dechra Values so that these are embraced at every level of the business

  During the 2016 financial year there have been a number of changes In November 2015, Suzana Cross joined as General Counsel and Company Secretary, as a result of a restructuring after the acquisition of Putney in April 2016, Dr Anthony Lucas was appointed to lead Product Development across the Group In readiness of the planned retirement of Mike Annice, a recruitment process commenced and Greig Rooney joined in July 2016 as Group Manufacturing and Logistics Director

  The SET comprises Ian Page, Chief Executive Officer, the Chief Financial Officer, Tony Griffin, Managing Director DVP EU, Suzana Cross, General Counsel and Company Secretary, Dr Susan Longhofer, Regulatory Affairs and Business Development Group Director, Dr Anthony Lucas, Group Product Development Director, Mike Eldred, President North America, Greig Rooney, Group Manufacturing and Logistics Director, Allen Mellor, Group IT Director, Katy Clough, Group HR Director and Giles Coley, Marketing Director DVP EU

  During the year, the SET met seven times and a significant proportion of time has been spent on the implementation and execution of the strategy
- **Performance Culture**
  The updated Performance Development Review (PDR) process was rolled out across the Group during the summer of 2014, with all employees being set objectives that link to the overall Company strategy During the year a Human Capital Management (HCM) system has been implemented across the Group and automation of goal setting and PDRs is being rolled out to support managers by reducing administration, providing timely reminders and enabling sharing of goals across teams and departments
- **Talent Management**
  As Dechra continues to grow, attracting and selecting top talent is an important priority With this in mind, a new careers website was launched in July 2015 which has helped to support the attraction of candidates to Dechra We have also invested in the development of our social presence via LinkedIn, a business oriented social networking tool

  The talent pool of the Group has increased through our acquisitions and during the year there have been many opportunities to develop the skills of our existing employees identified on our succession plans through their involvement in the integration of our new teams
- **Aligned Compensation and Benefits**
  Planned tactical work has been undertaken to understand external benchmarks for senior managers and roles that have been identified as key to retain, together with an audit of existing benefits and compensation practices across the Group Further alignment of compensation and benefits has taken place in our acquired businesses and there have been planned enhancements to benefits in some of our territories
- **Dechra Leaders' Development**
  We want to ensure that we retain our talented people and develop their skills in both functional and people management, which is key to supporting our continued growth Over the course of the last financial year, Leadership Development Programmes have continued to be delivered in the Manufacturing, European and Product Development teams
- **Scalable HR**
  During the year a project was undertaken to implement the HCM system (for further information see Our People Case Study overleaf)

Employees by Business Unit

Employees by Country

Corporate Social Responsibility
continued

Case Study:
Our People HR System Implementation, 'Diamond'

A number of options have been considered over the last few years in various parts of the business to purchase and implement an HCM system, to provide

- the underlying database and functionality to enable us to manage our people assets,
- a single point for all employee related data, automating key processes such as recruitment, compensation reviews and performance management,
- support for managing international policies, employees' roles and benefits, and
- tools and reporting capabilities to manage talent and succession within the organisation

In September 2015 our Global HR team commenced building the framework for our new HR system, the 'Dechra Diamond Project' The project team has been led by Katy Rawlinson, Group HR Business Partner, and forms part of the Group-wide Oracle project The core HR project team comprised Alison Yeomans (UK), Marie Le-Masney (UK), Eva Søndergaard (Denmark), Annemette Sønderskov (Denmark), Marie-Helene Ariens (the Netherlands), Eline Quist (the Netherlands), Stefan van der Linden (the Netherlands), and Chris Huettner (US) They worked together to collate employee data from a number of sources across the Group to populate the new HR system and provide the basis for comprehensive Group HR reporting

After a successful period of user acceptance testing, a number of months of system configuration and a training session, Phase I of the new system went live at the end of February 2016

The new system implementation will deliver benefits across the Group including

- **Consistency and Clarity** – allowing process standardisation resulting in comparable and consistent ways of working across the Group,
- **Stable Analytics** – standard HR data recording and reporting across the Group resulting in clear information being held about all Dechra's employees which will ultimately assist in understanding and better advising our people strategy, and
- **Modern, Reliable and Flexible Technology** – the system is the latest in Cloud technology and will allow employees and managers greater flexibility in, for example, booking and requesting holidays, completing performance appraisals, and changing personal details

The system has subsequently been rolled out globally with employees and managers experiencing the benefits of self-service and the autonomy and flexibility this creates

The project team are getting ready to launch Phase II, the Talent and Performance Management modules, which will be operational from the start of our 2017 financial year, performance reviews and the objective setting stage Phase III will look at how we align various time and attendance and payroll systems to work with Oracle, particularly within our Manufacturing business units, and how we integrate our newly acquired companies

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

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

The Group's target is to maintain employee turnover (Moving Annual Turnover (MAT)) at or below 15% During the 2016 financial year this was 13 1% (2015 12 2%), which represents an increase of 0 9% This excludes the employees from Genera, Brovel and Putney

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

Informing and engaging our employees through internal channels of communication is of utmost importance to the Company 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 results and the year end results), intranets, management and team meetings at the respective business units These ensure that our employees are informed of the financial performance of the Group, as well as the sharing of updates which are relevant to all Group employees such as the introduction of new technology, any management changes or restructuring, updates on corporate social responsibility activities, and progress in relation to our strategic objectives

Business Ethics
The Board expects all of the Group's business activities to be conducted in accordance with the highest ethical standards and in full compliance with

all applicable national and international legislation, in doing so we aim to maintain a reputation for acting responsibly and with integrity The Board has formalised these expectations into a policy known as the Code of Business Conduct (the Code) which applies throughout the Group This Code was translated and circulated around the business together with the Anti-Bribery and Anti-Corruption Policy

This Anti-Bribery and Anti-Corruption Policy was launched in the 2014 financial year (previously included in the Code of Business Conduct) The policy, training documents and guidance have been translated and rolled out across all of the Dechra territories The e-learning platform, Delta, has been developed and the Anti-Bribery and Anti-Corruption course is the first mandatory company-wide training programme to be launched on this platform All new relevant employees will be required to complete this course and existing relevant employees will be required to undertake regular refreshes of the course

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

Human Rights

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

Modern Slavery

Our Modern Slavery Act disclosure will be published on our website within six months of the date of this report

Health and Safety Policy

The Group attaches great importance to the health and safety of its employees and the public Management is responsible for and committed to the maintenance, monitoring and promotion of a policy of health and safety at work to ensure the care and well-being of its 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 at each of the business unit senior management meetings and subsequently reported to the PLC Board meeting the following month for discussion and review by the Directors

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

Our manufacturing site in Skipton, UK operates a Health and Safety Management system closely aligned to the requirements of OHSAS 18001 2007, which is the British Standard for occupational health and safety management best practice It is anticipated that the formal accreditation will be applied for in the forthcoming financial year

For a number of years the Group has reported Lost Time Accident Frequency Rate (LTAFR) as a non-financial key performance indicator (see page 45)

Number of Lost Time Accidents

LTAFR

Corporate Social Responsibility
continued

The LTAFR is a calculation of all injuries that are statutorily reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR), normalised per 100,000 hours worked This measure provides information to help monitor and control accidents and injuries to the workforce and is widely used as a key performance indicator throughout industry The Company reports LTAFR on the same basis as in previous years, that is absence or the inability of workers to conduct their full range of their normal working activities for a period of more than three working days after the day when the incident occurred The acquired businesses, Genera, Brovel and Putney, 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 increased from one to seven, of these, four occurred in the acquired businesses None of these incidents resulted in a work-related fatality or disability

Our Community

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

This is the fifth year in which the Group has operated a Donations Policy All employees within the Group are entitled to nominate a charity or a non-commercial organisation This year £20,000 was allocated, split among the following charities

Type of Charity	Charity	Jurisdiction	Description
	Viljandi Varjupaik	Estonia	Viljandi is a non-profit organisation providing animal shelters in Estonia It employs three people who in 2014 dealt with 120 dogs and 432 cats
	Vogel revalidatiecentrum Zundert	Netherlands	The PRC Zundert is an animal shelter providing a refuge for birds, which are released into the wild once treated They also provide environmental education and awareness, working with schools, companies and environmental organisations
	Sebastian County Humane Society	USA	The Sebastian County Humane Society purpose is the prevention of cruelty to animals, the relief of suffering among animals, placement of animals in responsible homes, and the extension of humane education
Environmental	The Ocean Cleanup	International	Ocean Cleanup intends to test, further develop, and roll out a technique to clean the oceans of plastic A feasibility study and proof of concept have already been carried out successfully Currently a large scale study to measure the amount of plastic in the oceans is being undertaken This will be followed by a large scale pilot study near Japan
Other	Birmingham Children's Hospital Charity	UK	The Birmingham Children's Hospital Charity supports every area of the Birmingham Children's hospital
	Himmunitas	Belgium	Himmunitas is a non-profit organisation which treats people who have diseases like autoimmune diseases, Lyme disease, multiple sclerosis or chronically exhaustion syndrome
	Operation Smile	International	Operation Smile is an international children's medical charity that performs safe, effective cleft lip and cleft palate surgery and delivers postoperative and ongoing medical therapies to children in low and middle income countries
	Gilchrist Services Hospice Care	USA	Gilchrist ensures that individuals with a life limiting illness, and their loved ones, receive the specialised physical, emotional, and spiritual care and support they need
	Ty Hafon	UK	A charity which tries to ensure that every life limited child and young person in Wales lives a full family life This involves offering a wide range of free care and support at its hospice and in the community for all the family They also offer short break care to children and young people at the hospice so families can take time out from their caring duties
	EASI (Equines Assisting Special Individuals)	USA	EASI is a non-profit organisation that offers equine therapeutic riding and equine assisted activities for people with disabilities or special needs Their programme provides opportunities for growth and development through therapeutic, educational and recreational activities
	RFV- Zollenreute e v	Germany	RFV-Zollenreute is a small, non-profit riding club which offers therapeutic riding to children from socially disadvantaged families

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 2016 financial year

Donations in Kind

Type of Charity	Charity	Jurisdiction	Description
Animal	Help Street Animals of Morocco (HSAM)	Morocco	DVP UK continued to provide assistance to HSAM by providing supplies in 2016 of Alvegesic, *Atipam* and *Sedator*
Animal	The Humane Society of Greater Kansas City & Great Plains SPCA	USA	PDRA US donated glucose testing equipment
Other	The humanitarian organisation "Bread of Saint Ante"	Croatia	Donation of disinfectants

Financial Donations

Business Unit	Jurisdiction	Amount	Description
DPM Skipton	UK	£601	Donations to Children in Need and Petal Cancer Research for Children
DVP Canada	Canada	£1,783	Refer to case study Our Community below
DVP EU	Denmark	£240	Donations to community projects and the Danish Cancer Foundation
DVP EU	International	£809	Continued sponsorship of three children through SOS Children's Villages
DVP EU	International	£31,830	Refer to case study Our Environment – Circle of Good
DVP EU	Germany	£687	Donations to various animal charities and a local community project
Genera	Croatia	£7,876	Scholarships of high performing students without adequate parental care or with financial difficulties
PLC	UK	£1,000*	Donation to Different Strokes

* Donation made for the year ended 30 June 2016 but paid after the year end

Case Study:

Our Community

In May 2016, wild fires raged through Fort McMurray, Canada causing serious damages to homes and the local environment As a result hundreds of horses in the area were displaced The Alberta Sales Manager, Nicole Dievert, wanting to help, worked with the local community to organise a hay and feed collection for the displaced horses She also raised a cash donation of CAD 340, which was supplemented by a donation by DVP Canada bring the funds to CAD 3840

Hay and feed were purchased, and with the help of a local haulage company, Nicole and volunteers drove four hours to a location selected by the Alberta Equestrian Foundation 28 volunteers helped unload the hay working tirelessly over three hours With energy and compassion, Nicole and a team of volunteers saved over 100 horses displaced from the fire

Corporate Social Responsibility
continued

Case Study:

Our Environment – Circle of Good

The Circle of Good was developed as a positioning for the *Specific* brand of pet food because we believe pets deserve quality nutrition to support a healthy and happy life The manufacture a quality diet requires quality ingredients that need to come from a healthy and sustainable environment The main source of protein in our *Specific* range is fish

To support this position, during 2015 financial year, DVP EU, out of the profit from the sales of *Specific*, committed to making donations to good causes that champion a healthy environment As part of this commitment the Dutch and Belgian teams joined forces to look for a good cause that fitted with the philosophy of the Circle of Good They chose the North Sea Foundation (NSF), as both teams have a similar vision, a willingness to share knowledge and collaborate This resulted in an agreement between the two organisations for three years where Dechra has committed to financially and promotionally support their activities

The mission of the NSF is to protect the North Sea and to use the sea's resources sustainably With Specific containing a high proportion of fish by-products we are keen on organisations who have sustainable fishing practices at the heart of their mission The NSF has been in operation for over 35 years and since 2013, they have undertaken a Beach Cleanup Tour, where each year the foundation clean up the entire coast of the Netherlands in several stages during one month This has become their most visible achievement to the general public and has been a great success, with lots of people volunteering to help collect rubbish and debris washed up from sea

Both the Dutch and Belgian sales teams actively participated in beach clean-ups in August 2016, encouraging veterinarians and pet owners to join them – a true collaboration for the benefit of many

The table below provides a summary of the financial contributions to the various charities, which were chosen by the respective teams

Country	Charity	Amount
Belgium and the Netherlands	NSF	£11,167
Finland	WWF*	£670
France	WWF	£18,612
Norway	WWF	£401
Sweden	WWF	£980

* World Wide Fund for Nature

Our Environment
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

Our Manufacturing site in Skipton (DPM, Skipton) has maintained its accreditation audit for BS EN ISO 14001 2004 International Environmental Management standard This standard requires organisations to have an environmental policy and an action plan for managing their impact on the environment The business sets environmental objectives and targets to ensure that they continually improve their environmental performance relative to business efficiency and minimising the impact on their activities on the wider environmental media DPM Skipton has

- since 1 April 2016 become a 0% waste to landfill site Previous landfill waste is now processed for energy recovery,
- improved significantly their waste recovery, reuse and recycling processes,
- implemented active energy efficiency programmes such as replacing non energy efficient lighting with industry best practice LED lighting, and
- investigated new technologies with a view to replacing or reducing energy consumption from the national energy supply networks

DPM Skipton Annual Waste Disposal Performance (Monthly Averages)

Average Waste Volumes in tonnes	Year Ending 30 June 2015	Year Ending 30 June 2016	%Variance over previous year	Target expectation
Recovered, Recycled & Reused volumes	**8 7**	**11 59**	+33 22%	+10% (Exceeded)
Landfill Volumes	**8.83**	**5 95**	- 32 62%	-10% (Exceeded)
Contaminated Waste & Controlled Drugs	**6.84**	**5 49**	-19 74%	-5% (Exceeded)
Total Waste Produced	**25.85**	**24 01**	- 7 12%	-5% (Exceeded)

The Skipton facility continues to comply with effluent discharge standards into local water supplies, which is subject to random monitoring by Yorkshire Water Authority Standard operating procedures are in place to ensure that all contaminated waste is disposed of under strict controls Furthermore, all exhaust air is fully filtered from the manufacturing unit before discharge into the environment

Our service centre in Denmark (DSC) is constantly monitoring and optimising its energy resources, and has implemented the most energy efficient equipment possible whenever it has been both practically and financially viable It is currently changing

all of its lighting to LED lighting, which is calculated to provide a return on investment within two years, providing an estimated service life of 50,000 hours (or 12 years) DSC is also investigating a system to monitor the use of its electricity, heat and water on a daily basis to enable it reduce consumption in specific areas and time slots

DSC has continued with its annual contribution of DKK15,000 to Energreen ApS for the construction of new green energy production facilities within Denmark

Greenhouse Gas Emissions
This is third year that Dechra has collated and reported on its Greenhouse Gas Emissions

Methodology
In order to determine our carbon emissions, we have used the GHG Protocol Corporate Accounting and Reporting Standard and have reported on Greenhouse Gas Emissions arising from those sources over which we have operational control 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**

UK Government's Conversion factors for Company Reporting 2015 have been used to convert Dechra's usage into a carbon dioxide equivalent, and Dechra has selected 'Tonnes of CO_2e per total £ million sales revenue' as the intensity ratio as this is a relevant indicator of the Group's growth

	1 July 2015 to 30 June 2016 (Acquired businesses)	1 July 2015 to 30 June 2016 (Existing business)	1 July 2015 to 30 June 2016 (Total)	1 July 2014 to 30 June 2015	1 July 2013 to 30 June 2014 restated*
Scope 1	**2,800**	**634**	**3,434**	636	613
Scope 2	**1,212**	**1,918**	**3,130**	1,740	1,712
Vehicle emissions	**136**	**1,375**	**1,511**	1,241	1,165
Total Carbon Footprint (tonnes of CO_2e)	**4,148**	**3,927**	**8,075**	3,617	3,490
Intensity ratio (tonnes of CO_2e per £m)	**191.2**	**17 4**	**32.6**	17 8	18 0

* Figures stated to take into account corrections made to our carbon footprint calculations as well as the inclusion of new business

The intensity ratio has increased by 14 8 tonnes of CO_2e per total £ million sales revenue, from the table above it can be seen that the increase is attributable to the acquisitions and in the main this is due to the production of a nutrition supplement that is manufactured at Genera Please refer to case study below

Case Study:

Our Environment – Special Nutrition Supplement Production

The production of the nutrition supplement, a pellet based feed, uses approximately 80% of the natural gas and approximately 40% of the electricity consumption at the Genera site The equipment required for the production of this supplement operates 24 hours a day, 7 days a week, 11 months of the year

The production process involves pellets being loaded into a coater unit and being tumbled on a rotating drum whilst a coating liquid sprays through nozzles onto their surface Hot drying air is used to evaporate the solvent leaving behind a layer of coating

The heating process utilises steam produced by the central boilers, whereas electricity is used for the coating of the pellets and the supply of compressed air The compressed air is used in the manufacturing processes throughout the site

Once the pellets have sufficient coating they are discharged from the machine and any moisture evaporated from the product is exhausted with the drying air and recycled and heated for re-use

The coating spray solution is ethanol based, and on completion of the coating, the ethanol vapour is extracted into a recovery plant which recycles 95% of the ethanol back into the production process To meet environmental legislation, the site has an ethanol recycling unit which alone consumes approximately 60% of the energy utilised in this production area

How the Business Manages Risk

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

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

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

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

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

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

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

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

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

Internal Control Framework
Our internal control framework is designed to ensure

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

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

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

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

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

  The product pipeline is reviewed regularly to

  - assess whether products in development are progressing according to schedule,
  - identify new product ideas and assess fit with our product portfolio, and
  - assess the expected commercial return on new products

- **Policies and Procedures**
  Our key financial, legal and compliance policies that apply across the Group are

  - Code of Business Conduct,
  - Delegation of Authorities,
  - Anti-Bribery and Anti-Corruption,
  - Whistleblowing,
  - Sanctions, and
  - Charitable Donations

- **Operational Controls**
  Our key operational control processes are as follows

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

Improvements in 2016
In September 2014, the Financial Reporting Council issued a revised UK Corporate Governance Code (the Code) which introduced additional disclosure requirements on risk management and internal controls

The Group's existing risk management and internal control processes met many of the requirements of this revised Code The following changes have been implemented to meet the requirements fully

The key changes that have been implemented are the

- identification of material internal controls and key monitoring processes in more detail,
- assessment of the effectiveness of these internal control processes,
- introduction of a rolling programme of risk control reviews by the Board with each SET member, and
- stress testing of the Group's cashflow forecasts to assess the impact of a number of downside risk scenarios in order to support the viability statement, which can be found on page 70

In addition, an internal audit programme has been established to provide independent assurance on material financial, operational and compliance controls over a three year cycle

Plans for 2017
We plan to continue to refine and strengthen our internal control framework where required within our core business and in recently acquired businesses

The implementation of Oracle is expected to deliver improvements in our control framework through standardisation of business processes and greater automation of transactional level and period end control processes

Understanding Our Key Risks

Dechra is the only veterinary pharmaceuticals company in the FTSE 350 We therefore believe it is important to summarise the key distinctions between the animal and human pharmaceutical industries in order to provide a better understanding of our risk profile

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

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

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

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

Key:

No change Increased risk Decreased risk

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

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

Understanding Our Key Risks
continued

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

Link to Strategic Pillar and Enabler	Risk	Potential Impact	Controls and Mitigating Actions	Trend
	Reliance on Third Parties Risk. Loss of key third party manufacturing customers from DPM Other sales, relating to third party manufacturing and other non-core activities, represents approximately 14% of Group revenues	Loss of a key customer can impact manufacturing revenues and lead to an increase in the cost of goods of the remaining portfolio	The DPM Sales Manager maintains relationships with key customers and we have an experienced sales team which focuses on bringing in new customers Robust supply agreements are in place with each of our key customers and are regularly reviewed Monthly customer service level monitoring and reporting is in place	
	People Risk Failure to retain high calibre, talented senior managers and other key roles in the business Our growth plans and future success are dependent on retaining knowledgeable and experienced senior managers and key staff	Loss of key skills and experience could erode our competitive advantage and could have an adverse impact on results Inability to attract and retain key personnel may weaken succession planning	The Nomination Committee oversees succession planning for the Board and the SET Succession plans are in place for the SET together with development plans for key senior managers Key person insurance is in place where appropriate Remuneration packages are reviewed on an annual basis in order to help ensure that the Group can continue to retain, incentivise and motivate its employees	
	People Risk Failure to resource the business to achieve our strategic ambitions, particularly on geographical expansion and acquisition As Dechra expands into new markets and acquires new businesses or science we recognise that we may need new people with different skills, experience and cultural knowledge to execute our strategy successfully in those markets and business areas	Failure to recruit or develop good quality people could result in • capability gaps in new markets, • challenges in integrating new acquisitions, or • overstretched resources This could delay implementation of our strategy and we may not meet shareholders' expectations	The Group HR Director reviews the organisational structure with the SET twice a year to aim to ensure that the organisation is fit for purpose and to assess the resourcing implications of planned changes or strategic imperatives A development programme is in place to identify opportunities to recruit new talent and develop existing potential	

Key to Strategic Pillars:

Pipeline Delivery

Portfolio Focus

Geographical Expansion

Acquisition

Key to Strategic Enablers:

Manufacturing and Supply Chain

Technology

People

Read Delivering Our Strategy on pages 13 to 15

Governance

62 Board of Directors
64 Corporate Governance
72 Audit Committee Report
77 Nomination Committee Report
79 Directors' Remuneration Report
94 Directors' Report – Other Disclosures
97 Statement of Directors' Responsibilities

Board of Directors

(N*) (R)

Michael Redmond
Non Executive Chairman

Committee Membership
Nomination (Chairman), Remuneration

Skills and Experience
Michael has extensive board level international pharmaceutical experience, having held Non-Executive Director and Chairman roles in a number of healthcare related companies both private and public in the UK, Germany and Canada Furthermore, as a result of Michael's tenure with the Company, he has a detailed knowledge and understanding of Dechra

Background
Michael joined the Company as a Non-Executive Director in April 2001, and was appointed Chairman in July 2002 He began his pharmaceutical career with Glaxo and went on to hold a number of senior positions within Schering Plough Corporation In 1991 he joined Fisons plc and in 1993 was appointed to the Board as Managing Director of their pharmaceuticals division Michael left Fisons in 1996 following its takeover by RPR He also held the position of Chairman of Abcam PLC from February 2009 to November 2014

External Appointments
None

Ian Page
Chief Executive Officer

Committee Membership
Not applicable

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

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

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

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Tony Griffin
Managing Director
Dechra Veterinary Products EU

Committee Membership
Not applicable

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

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

External Appointments
None

(A) (N) (R*)

Ishbel Macpherson
Senior Independent
Non-Executive Director

Committee Membership
Audit, Nomination, Remuneration (Chairman)

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

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

External Appointments
Ishbel is a Non-Executive Director at Galliford Try plc (appointed February 2014) and Senior Independent Director at Bonmarche Holdings plc (appointed October 2013)

(A) Audit (N) Nomination (R) Remuneration (★) Chairman

(A*) (N) (R)

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 Revolymer PLC (appointed July 2012) and is their Audit Committee Chairman He is also a Director, and Chairman of the Audit Committee, of the Royal Academy of Arts (appointed October 2012)

(A) (N) (R)

Tony Rice
Non-Executive Director

Committee Membership
Audit, Nomination, 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 He served as Chief Executive Officer at Cable & Wireless and Tunstall Holdings, and prior to that held various roles at BAE Systems including Managing Director of Commercial Aircraft and Group MD of Business Development He has also served as a Non Executive Director at Punch Taverns, Spirit Pub Company Cable & Wireless Telewest Communications and Saab Technologies and Chairman of Alexander Mann Solutions

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

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Suzana Cross
General Counsel and Company Secretary

Committee Membership
Not applicable

Skills and Experience
Suzana has over 19 years experience as a solicitor having held positions both in private practice and in house

Background
Suzana was appointed as General Counsel and Company Secretary in November 2015 Prior to her appointment she was General Counsel and Company Secretary for Victrex plc from April 2012 to November 2015 General Counsel and Company Secretary for Speedy Hire plc from July 2009 to March 2012 and Senior Legal Adviser at United Utilities Group PLC from 2003 to 2008 Suzana has a corporate and commercial law background having worked as a corporate lawyer at Herbert Smith in London and at DLA Phillips Fox in Sydney Australia

External Appointments
None

Anne-Francoise Nesmes
Chief Financial Officer

Committee Membership
Not applicable

Skills and Experience
Anne-Francoise has considerable experience in the pharmaceutical industry covering all finance activities including R&D manufacturing commercial and corporate finance

Background
Anne-Francoise was appointed Chief Financial Officer in April 2013 Prior to joining the Group, Anne-Francoise worked at GlaxoSmithKline PLC for over 15 years, where she held a number of finance roles including Senior Vice-President Finance, of the global vaccines business unit based in Belgium Prior to this, she held finance roles with John Crane, Tetra Pak, ADP and Caterpillar UK

External Appointments
None

Anne Francoise resigned on 31 July 2016

Letter from the Chairman on Governance

Dear Shareholder

On behalf of the Board I am pleased to present Dechra's Corporate Governance Report for the year ended 30 June 2016

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

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

Leadership
We have a strong and balanced Board with a range of complementary skills to support the strategic and operational direction of the Group There were several changes to the composition of the Board during the past year Chris Richards stood down in April 2016, after almost six years as a Non-Executive Director and as the Company's Remuneration Committee Chairman Ishbel Macpherson was appointed as the Remuneration Committee Chairman on Chris Richards' departure Anne-Francoise Nesmes stood down in July 2016, after more than three years' service to the Company as the Chief Financial Officer As announced on 17 August 2016, we are delighted to confirm that Richard Cotton has been appointed as her replacement and he is expected to join the Board in January 2017 We wish Chris and Anne-Francoise well for the future and thank them for their extensive contribution to the Board and the Group

We also welcomed Tony Rice to the Board as an independent Non-Executive Director Tony's biographical details can be found on page 63 As you will be aware, I will be standing down as Chairman in October 2016 following our Annual General Meeting and, subject to his election as a Director of the Company at that meeting, Tony will replace me as the Chairman With his wealth of experience, Tony is the ideal person to work with the management team on the next phase of the Group's development

Michael Redmond
Non Executive Chairman

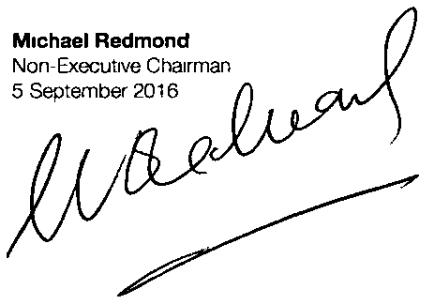
Board Effectiveness
As Chairman, I am responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role During the 2016 financial year we undertook an internal evaluation of the Board, its committees and individual Directors I am delighted to report that the overall outcome from the evaluation was that the Board and its individual Directors are performing effectively, and that the Board is well supported and presents an open forum for debate The findings from this evaluation are found on page 69

Accountability
We are now required by the Code to include an assessment of the viability of the Company This is covered on page 70

Relations with Shareholders
The Annual General Meeting will be held in London on 21 October 2016 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

Michael Redmond
Non-Executive Chairman
5 September 2016



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

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 pillars 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 pillars Further details are provided on pages 44 and 45

Board Membership and Responsibilities

Details of the Directors together with their biographical details can be found on pages 62 and 63

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 Ishbel led the recruitment process for the Chairman's successor (further details are provided in the Nomination Committee Report on page 77)

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

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	Annual strategy review Strategic decisions are made after reports and recommendations are received from management on markets, potential growth areas including acquisitions, product development, 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 results report
Governance	Receive governance reviews from external advisers, Company Secretary and internal audit Review of Board skills, performance, composition and succession planning

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

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

Board Meetings
The Board is routinely scheduled to meet nine times per year Attendance at the Board and Committee meetings during the year to 30 June 2016 is set out in the table below

	Mike Redmond†	Ian Page	Anne-Francoise Nesmes	Tony Griffin	Ishbel Macpherson	Dr Chris Richards*	Julian Heslop	Tony Rice‡
Appointment Date	19 April 2001	13 June 1997	22 April 2013	1 November 2012	1 February 2013	1 December 2010	1 January 2013	5 May 2016
Board Met 9 times	9	9	9	9	9	7	9	2
Audit Committee Met 4 times	n/a	n/a	n/a	n/a	4	3	4	0
Nomination Committee Met 7 times	6	n/a	n/a	n/a	7	6	7	0
Remuneration Committee Met 4 times	4	n/a	n/a	n/a	4	3	4	1

◯ Meetings attended

* Chris Richards did not attend one Nomination Committee meeting prior to his resignation He attended all Board Remuneration and Audit Committee meetings prior to his resignation on 8 April 2016
† Mike Redmond did not attend one Nomination Committee meeting as it dealt with the appointment of his successor
‡ Tony Rice has attended all meetings since his appointment

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

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

- Sanctions Policy,
- Pipeline Delivery,
- Tax Management Base erosion and profit sharing,
- Integration of Genera, Brovel and Putney,
- Global Supply Chain initiatives,
- Cash management and corporate credit cards,
- Review of material internal controls and viability statement stress testing results,
- Impact of the resignation of the Chief Financial Officer, and
- Appointments of Non-Executive Chairman, the Chairman of the Remuneration Committee and the Company Secretary

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

Committee	Role and Terms of Reference	Committee Report on Pages
Audit	The main responsibilities are • to monitor the integrity of the financial statements of the Group and assist the Board in ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable, • to review the effectiveness of the Group's internal financial control systems as described on page 75, • to oversee the relationship with and review the effectiveness of the external auditor, monitor their independence and objectivity, and set the policy for non-audit work, and • to review and approve the significant accounting policies	72 to 76
Remuneration	The main responsibilities are • to determine the remuneration, bonuses, long term incentive arrangements, contract terms and other benefits in respect of the Executive Directors and the Chairman, • to oversee any major changes in employee benefit structures, and • to approve the design of any employee share schemes	79 to 93
Nomination	The main responsibilities are • to oversee the plans for management succession, • to recommend appointments to the Board, • to evaluate the effectiveness of the Non-Executive Directors, and • to consider the structure, size and composition of the Board	77 and 78

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
continued

Effectiveness

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

Board Balance and Independence

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

- Chris Richards (Non-Executive Director) resigned on 8 April 2016,
- Tony Rice (Non-Executive Director) was appointed on 5 May 2016, and
- Anne-Francoise Nesmes (Executive Director) resigned on 31 July 2016

The following changes are expected to take place in the next 12 months

- Michael Redmond will retire at the 2016 Annual General Meeting,
- Tony Rice will be appointed as Chairman with effect from the conclusion of the Company's forthcoming Annual General Meeting, subject to his election as a Director of the Company at that meeting, and
- Richard Cotton (Executive Director) is expected to join the Board in January 2017

The Nomination Committee has retained an independent recruitment consultancy, Odgers Berndtson, 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 the 2016 calendar year

The Nomination Committee Report on pages 77 and 78 provides further information on the recruitment process undertaken during the year, succession planning measures taken by the Company together with how we are developing the talent pool internally

Length of Tenure of Chairman and Non-Executive Directors as at 5 September 2016

Board Composition and Gender Diversity

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

Board Composition as at 5 September 2016

The Board does not have a formal diversity policy and is generally opposed to the idea of stated quotas for females The Board believes that appointments should be made solely on merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board The Board has 17% female representation Female representation below Board level is 30% of the SET and 53% of the overall workforce

Gender Diversity as at 5 September 2016

Senior Executive Team as at 30 June 2016

Overall Workforce as at 30 June 2016

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

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

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

Any newly appointed Directors are provided with comprehensive documentation in relation to the remit and obligations of the role, current areas under consideration for the Board and the latest equity research reports New Directors visit the various business units in order to allow them to meet with the executive teams and to be shown around the operations Tony Rice has visited the Company's facilities and had meetings with the management teams at Skipton and Sansaw in the UK and Den Bosch in the Netherlands
In addition, meetings were arranged with the Group HR Director, Group IT Director, Company Secretary, Head of Internal Audit and Risk Assurance, Group Financial Controller, Group Treasurer and the Group Supply Chain Director

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

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

Board Evaluation and Effectiveness
The effectiveness of the Board is important to the success of the Group and the Board undertakes an annual evaluation of its performance and that of its Committees, focusing on the following areas (i) Board composition, (ii) strategy review and delivery process, (iii) the format of Board meetings and the decision process, (iv) training and development, (v) the performance of the Board and the individual Directors, (vi) Corporate Governance, (vii) leadership and culture, and (viii) risk assessment One to one meetings were held by the Chairman with each of the Executive and Non-Executive Directors and Company Secretary

- The 2015 Internal Board Evaluation
  The findings of the internal evaluation were discussed at the September 2015 Board meeting Overall, the review indicated that the Board operated effectively but noted the following focus areas
  - ensure that an overview of FAP remains a priority, and
  - ensure that strategy is the first item on the Board's agendas

  Both of these actions have been addressed during the financial year
- The 2016 Internal Board Evaluation
  The findings of the internal evaluation were discussed at the July 2016 Board meeting Overall, the review once again indicated that the Board operates effectively but noted the following focus areas
  - acquisition integration,
  - bi-annual strategy review, and
  - succession planning

The last external evaluation was done in 2014 Due to the recent changes in the Board a decision as to when the next external evaluation will take place will be taken during the forthcoming year However, we anticipate that sufficient time should lapse to enable the transition to the new Chairman

Appointment and Re-election of Directors
On appointment, Directors are required to seek election at their first Annual General Meeting following appointment At the forthcoming Annual General Meeting, Tony Rice, who was appointed to the Board on 5 May 2016, will offer himself for election All of the remaining Directors will retire and offer themselves for re-election excluding Michael Redmond Each of the Directors has been subject to a formal evaluation by the Nomination Committee and it is considered that each Director continues to perform effectively and demonstrate commitment, not only in respect of their roles and responsibilities, but also in relation to the Group and its shareholders The Board, therefore, recommends that shareholders vote in favour of their respective re-elections and the election of Tony Rice

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 97 and 100 to 106 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 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 their obligations as they fall due

As at 30 June 2016 the Group had cash balances of £39 1 million and net borrowings of £116 6 million (2015 cash balances of £45 9 million and net cash of £13 4 million) Further information on available resources and committed bank facilities is provided in notes 17 and 20 to the financial statements

Viability Statement
In accordance with the Code, the Board has determined that a three year period to 30 June 2019 is an appropriate period over which to provide its viability statement This is supported by the Group's budget process which includes detailed projections for the next two financial years and broader projections from the third year of the five year strategic planning process The Board believes this provides a sound framework for providing reasonable assurance on the Group's viability given the inherent uncertainty associated with longer term forecasts

The Board's assessment has been made with due regard to the Group's current position, its future prospects, the strategic plan and the management of the Group's principal risks as detailed on pages 56 to 59 of the Strategic Report The assessment is based on the assumption that the Group will be able to refinance its borrowing facilities which are currently committed until September 2019

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

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

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

Based on the results of this analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period from 30 June 2016

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

Dialogue with Institutional Shareholders

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

The Company organises site visits on a periodic basis Feedback is collated by the Company's brokers after such presentations The feedback is then circulated to the Board for review and consideration In addition, the Board is provided with a monthly market summary report which reports on 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

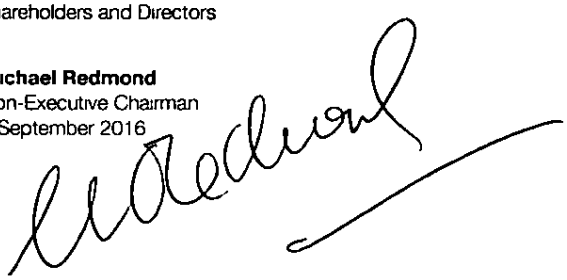
During the 2016 financial year, an investor perceptions survey was undertaken by Edison Investment Research Limited which confirmed that Dechra's strategy was clearly defined and understood by our shareholders

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

Michael Redmond
Non-Executive Chairman
5 September 2016



Letter from the Audit Committee Chairman

Dear Shareholder

On behalf of the Board, I am pleased to present this year's Audit Committee Report During the year we have focused on the key issues in relation to the Group's financial reporting, including key accounting judgements and the ongoing quality of related disclosures We have also covered other important areas, including the changes made to the Group's risk management processes, the assessment of material control processes and the development of the viability statement and related financial stress testing in order to meet the requirements of the revised UK Corporate Governance Code

Committee Membership
It has also been a year of change for the Audit Committee (the Committee) We have welcomed Tony Rice to the Committee and look forward to the fresh perspective he will bring given his strong FTSE background and diverse experience We were sorry to lose Chris Richards from the Committee and thank him for his valuable contribution over the past six years

External Auditor
Following the tender for the external audit and the appointment of PricewaterhouseCoopers LLP (PwC) as reported last year, the Committee has overseen a smooth transition from the former auditor to PwC, ensuring the continued effectiveness of the external audit In this respect, the Committee has paid particular focus to reviewing and approving the plan for the external audit considering the reports from the external auditor on accounting and control matters, and engaging with them on significant judgements

Julian Heslop
Audit Committee Chairman

Internal Audit and Risk Assurance
The Committee has overseen the continued establishment of the internal audit function under the leadership of the Head of Internal Audit and Risk Assurance, John Wilson, following his appointment in 2015 Audit planning and risk management have both been enhanced, and greater rigour has been introduced to the methodology used in both areas Carefully directed use of external expertise is in place to ensure that appropriate skills are deployed in audits of technical areas Good progress is being made in developing the internal control framework to strengthen controls around each of our principal risks Further details of the Group's risk management and internal control processes are provided on pages 75

Annual Report 2016
Finally, we specifically reviewed, at the request of the Board, whether the 2016 Annual Report was fair, balanced and understandable and concluded that it was The basis supporting our conclusion is set out on page 75

Julian Heslop
Audit Committee Chairman
5 September 2016

Audit Committee Report

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

Purpose

The Committee's key aim 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 67 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 66 of the Corporate Governance Report Chris Richards resigned in April 2016 and the Committee is pleased to welcome Tony Rice as its most recent member Tony will, subject to the appointment of an additional Non-Executive Director, resign from the Committee on his election as a Director and his subsequent appointment as Chairman of the Company at the forthcoming Annual General Meeting

The Board considers that all members of the Committee are independent Julian Heslop has recent and relevant financial experience as a result of his financial background and qualification Ishbel Macpherson and Tony Rice provide different but relevant skills and experience which support the Committee in meeting its objectives The biographies of all Committee members are detailed on pages 62 and 63

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

Other members of the Board normally attend each meeting together with the Lead Audit Partner and the Head of Internal Audit and Risk Assurance

The Committee has discussions at least twice a year with the external auditor without management being present, including the meeting which reviews and endorses the annual results

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

Role and Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference which are available on the Company website at www.dechra.com The Board reviewed the Committee's terms of reference at the December meeting and no changes were made

Major Activities of the Committee during the Year

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

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

Meeting Date	Main Activities
3 December 2015	• Consideration of the proposed changes on risk management and internal controls • Review and approval of the internal audit plan • Review and approval of PricewaterhouseCoopers LLP (PwC) handover and Half-Yearly review plan • Review of the Committee's terms of reference • Anti-Bribery and Anti-Corruption and sanctions update • Review of global tax management and compliance support • Review of non-audit fees (including actual and projected spend)
17 February 2016	• Review of the Group's Half-Yearly report • Consideration of the Half-Year Review Memorandum prepared by the external auditor • Half year review of internal financial controls • Review of the internal audit report • Review of the dividend policy • Review of non-audit fees (including actual and projected spend) • Review of reverse stress testing to support the viability statement • Meeting with the external auditor without management present
5 May 2016	• Review and approval of the 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 Intangible R&D Asset Capitalisation Policy • Review of the internal audit work plan to the end of the 2016 financial year • Review of non-audit fees (including actual and projected spend) • Consideration of specific stress testing scenarios and relevant time period for the viability statement • Discussion of the programme of business for the 2017 financial year

30 August 2016	• Review of fair value accounting of acquisitions during the year
	• Review of the Group's preliminary statement and draft Annual Report (including the Audit Committee Report) for the year ended 30 June 2016 and recommend the final dividend
	• Consideration of the Audit Memorandum prepared by the external auditor, including
	  • review of accounting treatment of non-underlying items
	  • assessment of acquired intangible assets and goodwill
	  • commentary on the general control environment across the Group
	• Review and approval of the going concern and viability statements
	• Review of the internal audit report
	• Full year review of internal financial controls
	• Review of the external audit effectiveness, external auditor's independence and level of non-audit fees
	• Meeting with the external auditor without management present
	• Fair, balanced and understandable recommendation of the Annual Report

Audit Committee Report
continued

All significant matters under consideration 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-yearly and the annual financial statements This process included an analysis by management of key judgements made in determining the results over matters such as the carrying value of intangible assets 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 adjusted numbers were provided to enhance investors' understanding of the underlying performance These matters were well supported by briefing papers provided by management and were specifically reviewed and agreed by the external auditor, PwC, in their reports to the Committee and in related discussions

The key matters reviewed are shown in the table below

Significant risk considered by the Committee in relation to the financial statements	**Corresponding actions taken by the Committee to address the issues**
Review of the carrying value of acquired intangible assets and goodwill of £345 3 million, which represents 124 8% of Group net assets	The Committee reviewed management's process for reviewing and testing goodwill and other intangible assets for potential impairment It endorsed management's assessment that an impairment to acquired intangible assets of £3 9 million was required
Valuation of the intangible assets acquired during business combinations in the year, which total £179 4 million	The Committee reviewed the calculations and assumptions provided by management and third party experts which support the valuation of these acquired intangible assets and these valuations were assessed for completeness The Committee reviewed the useful economic lives of the identifiable intangible assets and the future growth rate assumptions applied in the valuations
Significant judgements considered by the Committee in relation to the financial statements	**Corresponding actions taken by the Committee to address the issues**
Review of the corporate tax rate for the year of 14 0% (22 7% on underlying operations)	The Committee discussed the key risks in respect of corporate tax and reviewed that appropriate controls were in place to ensure that taxation calculations are not materially misstated Areas where significant judgements such as uncertain tax positions have been applied are reviewed and challenged and external audit work and conclusions are considered
In order to assist investors with a better understanding of the underlying performance of the business, management present within the financial statements figures for underlying profit and earnings This is reconciled to the figures provided in the financial statements and excludes matters such as impairment and amortisation of acquired intangible assets and related deferred consideration, acquisition related restructuring costs, and the fair value uplift on inventory acquired through business combinations	The Committee reviewed the basis for calculating the underlying figures and its consistency with previous year's figures It also sought confirmation from the external auditor, PwC, that they were satisfied with the accuracy and consistency of these figures 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 page 70 of the Corporate Governance Report In considering the viability statement the Committee paid particular attention to the time period to be used and the robustness of the stress testing scenarios The external auditor reviewed management's assessment and discussed this review with the Committee

- **Fair, Balanced and Understandable Assessment of the Annual Report**
  At the request of the Board, the Committee considered whether the 2016 Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Company's performance (pages 38 to 43), business model (page 24) and strategy (pages 13 to 15)

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

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

  The external auditor confirmed that in their opinion the Annual Report 2016 was fair, balanced and understandable, which can be found on pages 100 to 106

  This assessment was carried out by the Committee on 30 August 2016, following which the Committee reported to the Board that it was satisfied that, taken as a whole, the Annual Report 2016 is fair, balanced and understandable

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

  - Accounting Policies
    The Committee reviewed the Intangible R&D Asset Capitalisation policy and the annual review of the tax policy
  - Anti-Bribery and Anti-Corruption
    The Committee reviewed the revised third party due diligence procedures and Code of Conduct The Company Secretary and the Head of Internal Audit and Risk Assurance ensure that the Committee is updated on a regular basis in respect of the training and monitoring of the policies across the Group An online training solution (Delta) has been developed to assist with the ongoing training requirements of the Group
  - Dividend
    The dividend policy was reviewed by the Committee and was recommended to the Board for approval

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

The Committee has also reviewed the changes made to the Group's risk management and internal control processes in order to meet the requirements of the Corporate Governance Code These changes include the

- identification of material internal controls and key monitoring processes,
- assessment of the effectiveness of these internal control processes by the SET,
- introduction of a rolling programme of risk and control reviews by the Board, and
- implementation of stress testing of the Group's cash flow forecasts to assess the impact of a number of downside risk scenarios in order to support the viability statement

Following an independent review, the Group has completed the implementation of the recommendations made by Deloitte LLP (Deloitte) to strengthen the risk management and internal control processes The Committee reviewed the assessment of the Group's internal financial controls at its meeting on 30 August 2016 It concluded that there was reasonable assurance that the controls operated effectively

Further details in respect of the Group's risk management and internal control processes are provided on pages 54 to 55 of the Strategic Report and the Board's statements on the effectiveness of these processes are provided on page 70 of the Corporate Governance Report

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

Internal Audit have developed a three year plan which seeks to provide balanced assurance coverage of the Group's material financial, operational and compliance control processes The plan was approved by the Committee in December 2015 It sets out a rolling programme of core assurance activities together with a significant focus on the implementation of the Oracle ERP system

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

Audit Committee Report
continued

External Auditor
Following a competitive tender in 2015, PwC were appointed as the Company's external auditor for the 2016 audit, replacing KPMG who had been the Company's external auditor since its formation in 1997

During the year the FRC'S Audit Quality Review team reviewed KMPG's audit of the Company's Financial Statements for the year ended 30 June 2015 The Committee discussed the results of this review

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 3 8% (2015 3 1% in relation to services rendered by KPMG)

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 30 August 2016

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 Directors 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 Director Rotation
In line with the ethical standards of the Audit Practices Board, the Lead Audit Partner will be rotated every five years

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

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

The Committee firmly believes that there are certain non-audit services where it is appropriate for the Group to engage the external auditor In such cases safeguards are in place to ensure continued external auditor independence, including the use of separate teams to undertake the non-audit work separately from the audit work During the year, the external auditor provided assurance in relation to the Oracle control framework The Committee did not consider that the performance of this non-audit work would affect or impair the external auditor's integrity This is consistent with the ethical standard published by the Accounting Practices Board

The results of this policy are that

(i) Deloitte undertake global tax compliance work,

(ii) KPMG support internal audit, and

(iii) during the course of the year Deloitte, Ernst & Young LLP, KPMG, Smith & Williamson LLP and Grant Thornton UK LLP have provided advice on global mobility matters, related tax advice, company reorganisation, acquisition valuation support and due diligence

A summary of audit and non-audit fees in relation to the year is provided in note 6 to the Group's financial statements This shows that non-audit work carried out by the external auditor represented 3 8% (2015 3 1% in relation to services rendered by KPMG) of the annual audit fee and half-yearly review fee, and reflects the policy set out above

Julian Heslop
Audit Committee Chairman
5 September 2016

Nomination Committee Report

Dear Shareholder

On behalf of the Board, I am pleased to present the report of the Nomination Committee (the Committee) The 2016 financial year has been a busy year for the Committee in light of recent changes to the Board and the Senior Executive Team (SET), and the acquisitions completed since the last report which have brought in an increased talent pool

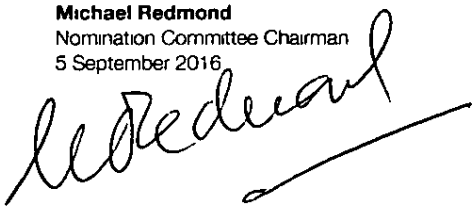
There were five additional meetings during the year, which mainly dealt with the succession planning for the role of Chairman Ishbel Macpherson, the Senior Independent Director, led the comprehensive recruitment process which I am pleased to report resulted in the appointment of my successor, Tony Rice, subject to his election at the forthcoming Annual General Meeting The Committee has also continued with its focus on succession planning, leadership development and talent management

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

Dechra's stance in relation to diversity is detailed in the Corporate Governance Report on page 68

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

Michael Redmond
Nomination Committee Chairman
5 September 2016



Michael Redmond
Nomination Committee Chairman

Committee Membership and Attendance

The membership of the Committee, together with appointment dates and attendance at meetings during the year, is set out on pages 62 and 63, and 66 of the Corporate Governance Report Other attendees at the meetings include the Chief Executive Officer, the Group HR Director and the Company Secretary (who acts as secretary to the Committee)

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

Role and Responsibilities

The main role and responsibilities of the Committee are set out in the written terms of reference, which are available on the Company website at www dechra com The Committee's terms of reference are reviewed on an annual basis and during the 2016 financial year this took place at the January meeting An overview of the terms of reference is detailed on page 67 of the Corporate Governance Report

Principal activities of the Committee during the year included

- **Appointment of Chairman**
  As reported in last year's Nomination Committee Report, the recruitment process for my successor commenced in the 2015 financial year An independent recruitment consultancy, JCA Group (JCA), was retained to assist in the recruitment and was provided with a role description detailing the skills and experience required for the position of Chairman of the Board To assist JCA with their understanding of the requirements of the role, they met with the Chief Executive Officer, Chief Financial Officer and members of the Committee during the previous financial year Following a rigorous recruitment process, which was led by Ishbel Macpherson, Tony Rice was appointed to the Board on 5 May 2016 and, subject to his election at the forthcoming Annual General Meeting, he will be appointed as Chairman of the Company Tony Rice has extensive board level experience across a range of sectors Further details relating to his background and experience can be found on page 63
- **Recruitment of Chief Financial Officer and Non-Executive Director**
  Following the resignation of Chris Richards in April 2016, an independent recruitment consultancy, Odgers Berndtson (Odgers), has been retained to assist in the recruitment of a Non-Executive Director At the commencement of the recruitment process, a role description was defined and agreed by the Committee detailing the skills and experience required for the position of Non-Executive Director To assist Odgers with the understanding of the requirements of the role, they

Nomination Committee Report
continued

met with the Chief Executive Officer, the Managing Director of DVP EU and the Chairman A long list of candidates has been identified for interview

Anne-Francoise Nesmes resigned as Executive Director and Chief Financial Officer on 31 July 2016 Odgers were also retained to assist with the recruitment of her replacement At the commencement of this recruitment Odgers met individually the Chief Executive Officer, Chief Financial Officer, Company Secretary, Group HR Director, the Audit Committee Chairman and the Chairman Following these meetings a brief was established and a short list of candidates were interviewed by the Chief Executive Officer, Group HR Director, the Chairman and the Audit Committee Chairman As announced on 17 August 2016, this has resulted in the appointment of Richard Cotton It is anticipated that he will commence working with Dechra in January 2017

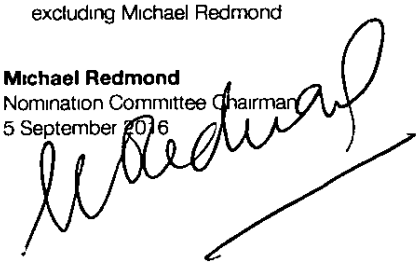
- **Recruitment of Company Secretary**
  During the year, the Board approved the appointment of a new General Counsel and Company Secretary, Suzana Cross, who joined in November 2015 Suzana has extensive experience as a General Counsel and Company Secretary across a range of organisations Further details of which are disclosed on page 63
- **Non-Executive Directors and Senior Executive Team (SET) Succession Planning**
  There have been a number of changes at Board level, as described above, and within the SET with the addition of Suzana Cross and the retirement of Mike Annice, the Group Manufacturing Director, who retired on 31 July 2016 Odgers were appointed to assist with the recruitment process for the latter role A field of candidates were identified for interview, which resulted in the successful recruitment of Greig Rooney as Group Manufacturing and Logistics Director Greig commenced employment on 4 July 2016, which permitted a successful handover with the outgoing post holder, Mike Annice Dr Anthony Lucas, the Group's Product Development Director, was also promoted to the SET

  Further details in relation to the changes to the SET can be found in the Corporate Social Responsibility Report on page 47 The succession planning review which was undertaken in the 2015 financial year will be updated to reflect these changes
- **Leadership Needs of the Group**
  During this financial year, the SET worked with an external partner to identify key areas to optimise their effectiveness In light of the recent acquisitions and changes to the SET membership, we will continue to build on this work

  In addition, during the year a number of leadership development programmes have been initiated within key areas of the Group to ensure that the Company has strong internal candidates for key leadership positions Further details can be found in the Corporate Social Responsibility Report

  The three acquisitions, further details of which can be found in the Strategic Report, have added significantly to the overall talent pool and a Group-wide review of talent and succession is scheduled to take place during the 2017 financial year This will be supported by the new Human Capital Management (HCM) system The details relating to the implementation of the HCM system can be found in the Corporate Social Responsibility Report on page 48
- **Appraisal Process and Re-appointment of Directors**
  Following an internal evaluation, further details of which are provided on page 69 of the Corporate Governance Report, the Committee has concluded that each of the Directors seeking re-election continues to be an effective member of the Board At the forthcoming Annual General Meeting Tony Rice, who was appointed to the Board on 5 May 2016, will offer himself for election, and all of the remaining Directors will retire and offer themselves for re-election, excluding Michael Redmond

Michael Redmond
Nomination Committee Chairman
5 September 2016



Letter from the Remuneration Committee Chairman

Dear Shareholder

Following Chris Richards' resignation on 8 April 2016, I agreed to accept the position of Chairman of the Remuneration Committee (the Committee), and I am pleased on behalf of the Board to present the Directors' Remuneration Report for the year ended 30 June 2016

The Directors' Remuneration Report is divided into two sections the Annual Report on Remuneration, followed by an abbreviated form of the Directors' Remuneration Policy The Annual Report on Remuneration provides details of the amounts earned in respect of the year ended 30 June 2016 and how the Directors' Remuneration Policy (the Policy) will be implemented in the year commenced 1 July 2016 The Directors' Remuneration Report (excluding the Policy) will be subject to an advisory vote at the 2016 Annual General Meeting

Ishbel Macpherson
Remuneration Committee Chairman

Our Directors' Remuneration Policy
The Policy was approved by shareholders at the Annual General Meeting held on 24 October 2014, with 98 32% of all votes cast in favour, and will remain in force until 2017 We review the application of the Policy regularly, to ensure it remains appropriate, linked to strategy and reflective of developing market practices There have been no changes to the Policy since its approval

The performance metrics for the bonus and LTIP Awards for 2016 are set out on pages 83 and 84 An annual review of Executive Directors' salaries is undertaken in September along with all employees This allows us to optimise the link between performance and reward for all employees Ian Page's salary has not been increased since January 2014, and as part of the annual review we will consider whether any increase should be made to reflect the exceptional change in size and complexity of the Group since that date It is our expectation that any increase to Tony Griffin's salary will be in line with the range of increases for the wider workforce

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 Pillar and Enabler	Link to our Key Performance Indicators
Annual Bonus Our annual bonus rewards key executives by reference to financial metrics (based on profit) measured over one financial year and personal objectives, which are designed to incentivise the delivery of the long term strategy through the short term objectives The use of a profit measure in the annual bonus focuses executives on the delivery of strong financial performance to generate the profit growth which is a key strategic priority of our pipeline delivery and portfolio focus The annual bonus has a stretching profit target which requires performance above budget and market expectations to trigger the payment of a maximum bonus Part of the bonus is based on the achievement of personal objectives These personal objectives are set at the beginning of each financial year and reflect the corporate, financial, strategic and other non-financial priorities of the business, achievement of which is necessary to deliver the longer term strategy During the year, the Executive Directors were set a number of personal objectives which were linked to the delivery of the four strategic pillars together with the development of the supply chain and business and acquisition integration Dechra further recognises the importance of being a responsible business leader, with the health and safety of our employees being central to everything we do Therefore the Committee has discretion to amend any bonus payout to take into account wider business considerations including the achievement of the highest standards in respect of our health and safety procedures		• **Sales Growth** Strong sales performance is required to maximise profit • **Cash Conversion** Strong cash conversion reduces liquidity risk
Long Term Incentive Plan The LTIP is designed to reward the generation of long term value for shareholders and to aid the retention of key executives recognising the importance of attracting, retaining and developing a management team of the appropriate calibre Performance measures are set that reflect our long term objectives including sustainable profit growth and the enhancement of shareholder value LTIP Awards are based 50% on the delivery of stretching growth in EPS linking the incentive reward opportunity to the longer term profitability of the business, which should encourage innovation, launch of new products and commercial focus The other 50% relates to the delivery of superior shareholder returns compared to companies of a similar size to Dechra, linking the reward opportunity for executives to the generation of long term value for shareholders The application of an underpin to LTIP Awards based on return on capital employed (ROCE) ensures that our 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		• **Underlying Diluted EPS Growth** • **Return on Capital Employed** • **New Product Sales** This measure encourages innovation, growth and sustainability
All Employee Share Plans All UK employees, including UK Executive Directors, may participate in the SAYE Scheme that encourages share ownership and rewards employees in a way which is linked to the increase in shareholder value The SAYE Scheme also aids retention, recognising the need to retain and develop the right talent at all levels to facilitate the high performance culture and stability required to deliver the longer term strategy		• **Employee Turnover** Retention of skilled employees will help grow the business
Generation of Long Term Value for Shareholders/Alignment of Interests The Policy is designed to promote long term Group success and to reward the generation of shareholder value In this regard, a significant proportion of the remuneration opportunity is linked to the achievement of stretching performance targets The interests of shareholders and executives are aligned by formal shareholding guidelines Executive Directors are required to have acquired and retained a holding of Dechra shares equivalent to the value of at least 100% of their base salary by the third anniversary of appointment Moreover, the Chief Executive Officer and Chief Financial Officer are further expected to have acquired and retained a holding equivalent to at least 200% and 150% of their base salary respectively by the fifth anniversary of appointment		

Incentive Outturns in 2016

As a result of the progress in our strategy, we have delivered underlying profit before tax during the year of £49 7 million, an improvement of 10 2% 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 84, bonuses for the year equal to 72% of salary have been earned by the Executive Directors

LTIP Awards were granted to Ian Page, Anne-Francoise Nesmes and Tony Griffin in November 2013 and vested by reference to performance over the three year period ended 30 June 2016 Each Award was subject to a total shareholder return (TSR) performance condition as regards 50% of the Award and an earnings per share (EPS) performance condition as regards 50% of the Award, with an underpin based on ROCE applying to each element As disclosed on page 84, the Awards granted in November 2013 are due to vest in November 2016

- as to 92 5% of the TSR element (46 25% of the total Award) by reference to TSR performance (reflecting median to upper quartile performance), and
- as to 100 % of the underlying diluted EPS element (50 % of the total Award) by reference to EPS performance (reflecting that the growth in the underlying diluted EPS at 13 6% was above the maximum threshold of 13%)

In aggregate, taking into account the ROCE underpin (reflecting that the ROCE at 16 1% had not fallen below 15 0%), the LTIP Awards vested as to 96 25%

Executive Director Salaries in respect of 2016
During the annual pay review cycle Anne-Francoise Nesmes and Tony Griffin were each awarded a 4 5% salary increase in respect of the 2016 financial year, broadly in line with the average range of increases awarded to employees throughout the Group Ian Page elected to waive a review of his salary for 2016

In addition, during the 2016 financial year, we undertook a comprehensive review of Tony Griffin's remuneration in light of the increases to the scope of his role as a result of geographic expansion in Europe and in anticipation of the successful acquisition of Genera As a result of that review, his salary was increased with effect from 1 January 2016 by 8 35%, more information is given on page 83

EPS Performance Targets for 2016 and 2017 LTIP Adjustments
Following the acquisitions of Genera and Putney in 2016, we have reviewed the performance targets for existing LTIP Awards and LTIP Awards to be granted in 2017 financial year This is in line with our previous discussions with shareholders that the EPS targets for the LTIP would be set for organic growth and that they would be adjusted for the impact of any significant acquisitions and divestments For the 2016 financial year Awards (granted in September 2015, with a performance period ending June 2018), we have decided to increase the EPS performance requirement for maximum vesting from 13% per annum to 16% per annum This recognises the announcement at the time of acquiring Putney that the acquisition was expected to be earnings enhancing from 2018 and reflects the increase in 2018 financial year broker forecasts as a result of the acquisition

For the 2017 financial year LTIP Awards (to be granted in September 2016, with a performance period ending June 2019), we have decided to increase the EPS performance requirement for maximum vesting from 13% per annum to 20% per annum to reflect the higher forecast earnings as a result of the acquisitions, as well as taking into account the potential headwinds and risks in delivering this stretching level of growth The Committee is mindful that this level of growth is exceptional based on the integration of the acquired businesses and is not anticipated to be sustainable in the longer term It is therefore expected that the EPS targets would need to be reduced for future Awards to reflect a lower level of sustainable growth

No changes are proposed to the relative TSR targets (which represent 50% of the Awards) or the ROCE underpin The EPS target for threshold vesting has not been adjusted However, as a balance, no adjustment has been made to the ROCE underpin, although the Committee is aware that as a result of the transactions the ROCE underpin has become more challenging

The Committee strongly believes that this approach to the EPS performance conditions recognises the additional earnings forecasted from the acquisition, without unduly penalising management for having made acquisitions that enhance shareholder value and which are aligned to our strategy

Directorate Changes
As previously announced, Anne-Francoise Nesmes left the business on 31 July 2016 Anne-Francoise remained with the business for the whole of the 2016 financial year and, accordingly, has earned a bonus for the year as referred to on pages 83 and 84 In accordance with the rules of the Company's LTIP, Anne-Francoise will retain her LTIP Award granted in November 2013 as she remained with the business until the end of the performance period, but her other LTIP Awards lapsed on 31 July 2016

Anne-Francoise's replacement, Richard Cotton, is expected to join the Company in January 2017, and the remuneration package has been determined in accordance with the shareholder approved Policy, further information is given on page 88

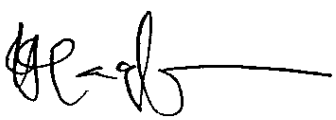
Forward Looking
This is the final year under the current remuneration framework as we will be seeking approval for a new Directors' Remuneration Policy at the 2017 Annual General Meeting Therefore, the Committee will be reviewing the current remuneration framework with its advisers during the forthcoming year to ensure that the remuneration package continues to

- promote the long term success of Dechra,
- provide appropriate alignment between Dechra's strategic goals, shareholder returns and executive reward, and
- have a competitive mix of base salary and short and long term incentives, with appropriate performance conditions attached to variable remuneration

Our existing LTIP was approved by shareholders in 2008 and expires for the purposes of new grants in November 2018 As part of the renewal of the Directors' Remuneration Policy at the 2017 Annual General Meeting, we propose to seek shareholder approval for a new LTIP, reflecting that new policy

Shareholder Views
We consult with shareholders on policy and on any significant events and take shareholders' views into account before any decisions are taken, and we have discussed with shareholders the adjustments made to the 2016 financial year LTIP Awards, EPS targets and the approach to the EPS targets for the 2017 financial year LTIP Awards 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 do not hesitate to contact me or the Company Secretary

Ishbel Macpherson
Remuneration Committee Chairman
5 September 2016



Directors' Remuneration Report

2016 Annual Report on Remuneration

The following section provides detail in respect of remuneration earned by the Directors during the year in line with the Directors' Remuneration Policy approved by the shareholders at the Annual General Meeting held on 24 October 2014 PricewaterhouseCoopers LLP (PwC) have audited pages 82 to 90 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 2016 The table shows the remuneration for each such person in respect of the year ended 30 June 2016 and the year ended 30 June 2015

	Salaries & Fees £000[1]		Benefits £000[2]		Annual Bonus £000[3]		Long Term Incentives £000[4]		Pension £000[5]		Total £000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015[6]	**2016**	2015	**2016**	2015
Ian Page	**440**	440	**54**	53	**317**	352	**1,405**	1 027	**62**	62	**2,278**	1,934
Anne-Francoise Nesmes	**323**	309	**16**	17	**232**	247	**719**	382	**45**	43	**1,335**	998
Tony Griffin[7]	**232**	220	**28**	29	**167**	176	**371**	374	**25**	26	**823**	825
Mike Redmond	**126**	126	–	–	–	–	–	–	–	–	**126**	126
Ishbel Macpherson[8]	**43**	43	–	–	–	–	–	–	–	–	**43**	43
Dr Chris Richards[9]	**35**	45	–	–	–	–	–	–	–	–	**35**	45
Julian Heslop	**45**	45	–	–	–	–	–	–	–	–	**45**	45
Tony Rice[10]	**6**	–	–	–	–	–	–	–	–	–	**6**	–
Total	**1,250**	1,228	**98**	99	**716**	775	**2,495**	1,783	**132**	131	**4,691**	4,016

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

1 Salaries & Fees – this is the cash paid or received in respect of the relevant period

2 Benefits – this represents the taxable value of all benefits paid or received in respect of the relevant period The benefits provided include the use of a fully expensed car, medical cover and life assurance 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 27 to the Group s financial statements

3 Annual Bonus – this is the amount of cash bonus paid in respect of the relevant period

4 Long Term Incentives – this is the value of any long term incentives vesting where the performance period ended in the relevant period

5 Pension – this is the cash value of the employer contribution to the Group stakeholder personal pension scheme or, in the case of Tony Griffin, defined contribution pension plan plus the value of any salary supplement paid

6 The 2015 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 £10 086 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2015) This has been restated to show the actual value determined by reference to a price of £11 68 (being the market value of a share on 15 March 2016 the date of vesting) The 2015 value assigned to the long term incentives for Anne-Francoise Nesmes reflected the value at the actual date of vesting (30 June 2015) rather than an estimate and accordingly, has not been restated

7 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 3045 for 2015 and 1 3432 for 2016 His salary was €311,949 for 2016 (reflecting six months at a salary of €299 449 and six months at a salary of €324 449) and €286,554 for 2015

8 Ishbel Macpherson's fee increased to £48,000 from £43 000 on her appointment as Chairman of the Remuneration Committee this has been pro-rated

9 Chris Richards resigned on 8 April 2016

10 Tony Rice was appointed on 5 May 2016

Additional Disclosures in Respect of the Single Figure Table

Salaries and Fees

As disclosed in the Directors' Remuneration Report in the 2015 Annual Report, the Executive Directors' base salaries, excluding Ian Page, were reviewed in September 2015 in order that the review is aligned with the performance development review calendar to provide a clearer link between performance and reward Ian Page elected to waive a review of his salary for the year ended 30 June 2016

Following that review, Anne-Francoise Nesmes' and Tony Griffin's salaries were increased by 4 5% with effect from 1 July 2015, broadly in line with the average range of increases awarded to employees in the wider Group

During the 2016 financial year, a comprehensive review of Tony Griffin's remuneration was undertaken, in light of changes to the scope of his role through the expansion of the Food producing Animal Products Business Unit and the geographic expansion in Europe into Italy, Austria, Poland and the Adriatic region, (this last being through the acquisition of Genera) Following this review, the Committee agreed that an increase in his salary was appropriate and, accordingly, his salary was increased by 8 35% to €324,449 with effect from 1 January 2016

The Committee's approach to Executive Directors' salaries for the year ending 30 June 2017 is summarised on page 88

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 No changes were made to any of these fees for the year ended 30 June 2016 Accordingly, the fees for the year ended 30 June 2016 were the same for the year ended 30 June 2015, as follows

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

The approach in relation to the Chairman and Non-Executive Directors' fees for the year ending 30 June 2017 is summarised on page 89

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 2016 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 2016 against targets for the 2016 financial year is as follows

2016 Financial Year Targets	Amount Achieved for the Year Ended 30 June 2016
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 £47 2 million Actual underlying profit before tax was £49 7 million This converted into an achievement of 103% of the profit target when translated at constant exchange rate resulting in a payment worth 62% of salary
Personal objectives up to an additional 10% of salary was payable to Executive Directors upon the achievement of personal objectives*	Actual performance resulted in payment worth 10% of salary The objectives are based on key aspects of delivering the Group's strategy*
Total Annual Bonus Earned for the Year Ended 30 June 2016	**72% of salary**

* The Committee considers that the objectives for the forthcoming financial year (2017) are commercially sensitive as they give our competitors insight into our business plans and therefore are not detailed in this report

Further information regarding the 2016 financial year personal objectives for each Executive Director and the performance achieved is given on the following page

The personal objectives of each Executive Director for the year ended 30 June 2016 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	Acquisitions	Completion of three acquisition, Genera d d , Laboratorios Brovel S A de C V, and Putney Inc , during the financial year
	Pipeline Delivery	Successful launch of *Zycortal* in US and European markets
Anne-Francoise Nesmes	Business Integration	Successful integration of three newly acquired businesses during the year
	Development of Supply Chain	Developed an integrated approach to Supply Chain management across DVP EU with DVP North America plan on track for delivery in forthcoming financial year
Tony Griffin	Geographical Expansion	Successful launch of new territory in Austria, Poland performing above expectations, and additional countries in the Adriatic region gained through acquisition of Genera
	Portfolio Focus	Set up a dedicated Food producing Animal Product Business Unit to identify growth opportunities, stem the previous year's decline and coordinate our response to a tough competitive environment
	Acquisition Integration	Successfully led the restructure and integration of Genera, delivered within expected timeframe

Based on the above assessment against objectives set, the Committee determined that the performance of Ian Page, Anne-Francoise Nesmes and Tony Griffin warranted maximum payout in relation to the non-financial elements of their respective bonuses The Committee's approach to Executive Directors' annual bonus opportunities for the year ending 30 June 2017 is summarised on page 89

LTIP Awards Vesting in Respect of the Year Ended 30 June 2016

The LTIP Awards granted on 27 November 2013 are due to vest on 27 November 2016 All of the Executive Directors were granted LTIP Awards on 27 November 2013, the performance targets for which are as follows 50% of the Award is subject to a performance condition based on the Company's total shareholder return (TSR) performance over the performance period relative to the constituent companies of the FTSE 250 index (excluding investment trusts) over the performance period as follows

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

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

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

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

With respect to the performance conditions relating to the LTIP Award due to vest on 27 November 2016, the Company's TSR performance was over 65 7% compared with a 69 7% TSR for the upper quartile company in the comparator group Therefore 92 5% of the TSR element will vest In addition, the growth in the Group's underlying diluted EPS for the performance period was 13 6% Accordingly, 100% of the EPS element will vest Overall, taking into account that ROCE performance for 2016 was 16 1%, the LTIP Awards will vest as to 96 25% of maximum opportunity In the single figure table on page 82, 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 £11 299 (being the average market value of a share over the last quarter of the Company's financial period ended on 30 June 2016)

The details of the LTIP Awards granted during the year ended 30 June 2016 are set out below The Committee's approach to Executive Directors' LTIP awards for the year ending 30 June 2017 is summarised on page 89

The aggregate gain made by the Executive Directors on share options and LTIP Awards exercised during 2016 was £1,803,017 (2015 £1,024,971)

Pension

All Executive Directors (excluding Tony Griffin) were 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 reduced from £40,000 to £10,000 on 6 April 2016 Anne-Francoise Nesmes 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 2015	€10,161
Increase in accrued benefit excluding inflation allowance	€10,886
Increase in accrued benefit including inflation allowance	€10,965
Transfer value of benefit accrued during the period less member contributions	€13,000
Transfer value at 1 July 2015	€192,000
Transfer value at 30 June 2016	€206,000
Increase in transfer value over the period after member contribution	€14,000

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 an non-reduced pension is payable is 10 February 2040

Chief Executive Officer Remuneration for Seven Previous Years

Year ended	Total single figure remuneration £000	Annual bonus payout (% of maximum opportunity)	LTIP vesting (% of maximum number of shares)
30 June 2016	2,278	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 2015 and the year ended 30 June 2016 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		
	2016 £000	2015 £000	Increase %	**2016 £000**	2015 £000	Increase %
Salary[1]	**440**	440	0	**31 6**	30 2	4 6
Taxable benefits[2]	**54**	52	3 8	**1 6**	1 5	6 7
Annual bonus	**317**	352	(9 9)	**2.8**	2 9	(3 4)

1 Ian Page elected to waive his salary increase for the 2016 and 2015 financial years

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 2015 and the year ended 30 June 2016

	Year ended 30 June 2016 £000	Year ended 30 June 2015 £000	% change
Distributions to shareholders by way of dividend and share buyback	**16,865**	14,900	13 2
Overall expenditure on pay	**56,504**	45,613	23 9

Total Shareholder Return (TSR) Graph
The graph below shows the TSR performance of the Company over the past seven financial years compared with the TSR over the same period for the FTSE 250 Total Return Index Throughout the financial year ended 30 June 2016 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

Long Term Incentive Arrangements and Share Schemes.
LTIP Awards Made During the Year Ended 30 June 2016
Awards were granted to the Executive Directors on 15 September 2015, on the following basis

	Type of award	**Maximum opportunity**	**Number of shares**	**Face value at grant[1]**	**% of award vesting at threshold**	**Performance period**
Ian Page	Nil cost option under the LTIP	200% of salary	90 721	£879,994	25%	1 July 2015 – 30 June 2018
Anne-Francoise Nesmes[2]	Nil cost option under the LTIP	150% of salary	49,933	£484,350	25%	1 July 2015 – 30 June 2018
Tony Griffin	Nil cost option under the LTIP	100% of salary	22 641	£219,618	25%	1 July 2015 – 30 June 2018

1 For these purposes the face value of the Award is calculated by multiplying the number of shares by £9 70 (being the average share price used to determine the number of shares comprised in the Awards)
2 Anne-Francoise Nesmes' Awards lapsed when she left the business on 31 July 2016

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

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

50% of each Award is subject to a performance condition based on the growth in the Group's underlying diluted EPS over the performance period As referred to on page 81, following the acquisitions of Genera and Putney in 2016, we have adjusted the EPS growth targets for these Awards to increase the EPS growth requirement for maximum vesting, recognising the additional earnings forecasted For ease of reference, we have set out below the original and revised EPS growth targets as follows

Original EPS compound annual growth rate	Adjusted EPS compound annual growth rate	Vesting Percentage
<8% CAGR	<8% CAGR	0%
8% CAGR	8% CAGR	25% of the EPS portion will vest
CAGR between 8% and 13%	CAGR between 8% and 16%	Pro-rata vesting between 25% and 100%
>13% CAGR	>16% CAGR	100% of the EPS portion will vest

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

SAYE Options Granted in the Year
No Directors were granted SAYE options during the year ended 30 June 2016

Payments to Past Directors (Unaudited)
There were no payments made to past Directors during the period

Payments for Loss of Office (Unaudited)
There were no payments for loss of office made to Directors during the period Anne-Francoise Nesmes left the business on 31 July 2016 No payments for loss of office were made to her in the year ended 30 June 2016 nor will be made in the year ended 30 June 2017 Anne-Francoise remained with the business for the whole of the 2016 financial year and, accordingly, earned a bonus for the year, as referred to on pages 83 and 84 In accordance with the rules of the LTIP, Anne-Francoise's LTIP Award granted in November 2013 will vest in November 2016 as she remained with the business for the whole performance period Her LTIP Award granted in September 2014 and her LTIP Award granted in September 2015 lapsed on 31 July 2016

Shareholding Guidelines and Statement of Directors' Shareholdings and Interests:
Executive Directors
By the third anniversary of their appointment to the Board, Executive Directors are required to have acquired and retained a holding of Dechra shares equivalent to the value of at least 100% of their base salaries Thereafter, by the fifth anniversary of appointment, the Chief Executive Officer and the Chief Financial Officer are required to have acquired and retained a holding equivalent to the value of at least 200% and 150% respectively of their base salary The holdings of the Executive Directors and their families as at 30 June 2016 are as follows

Name	Appointment date	Ordinary shares Number	Ordinary shares £000*	% of salary
Ian Page	13 June 1997	752 166	8,815	2,003
Anne-Francoise Nesmes	22 April 2013	39,502	463	143
Tony Griffin	1 November 2012	52,104	611	263

* Calculated using the share price as at 30 June 2016

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 2016 are as follows

Name	Appointment date	Ordinary shares Number	Ordinary shares £000*	% of base fee
Mike Redmond	19 April 2001	73,417	860	683
Ishbel Macpherson	1 February 2013	5,848	69	171
Julian Heslop	1 January 2013	10,000	117	293
Tony Rice	5 May 2016	20,000	234	586

Calculated using the share price as at 30 June 2016

There have been no changes in the holdings of the Directors between 30 June and 5 September 2016

Directors' Remuneration Report
continued

Executive Directors' Interests under Share Schemes Long Term Incentive Plan
Awards held under the Long Term Incentive Plan by each person who was a Director at 30 June 2016 are as follows

	Award date	Number of shares at 30 June 2015	Granted during the year	Lapsed during the year	Exercised during the year	Number of shares at 30 June 2016	Status	Performance period
Ian Page	5 March 2013	94,420	–	(6,515)	(87,905)	–	Vested	2012–2015
	27 November 2013	129,211	–	–	–	**129,211**	Unvested	2013–2016
	15 September 2014	115,334	–	–	–	**115,334**	Unvested	2014–2017
	15 September 2015	–	90,721	–	–	**90,721**	Unvested	2015–2018
Anne-Francoise Nesmes	27 September 2013[1]	41,739	–	(2,880)	(38,859)	–	Vested	2012–2015
	27 November 2013	66,079	–	–	–	**66,079**	Unvested	2013–2016
	15 September 2014[2]	60,747	–	–	–	**60,747**	Unvested	2014–2017
	15 September 2015[2]	–	49,933	–	–	**49,933**	Unvested	2015–2018
Tony Griffin	5 March 2013	34,401	–	(2,374)	(32,027)	–	Vested	2012–2015
	27 November 2013	34,129	–	–	–	**34,129**	Unvested	2013–2016
	15 September 2014	29,937	–	–	–	**29,937**	Unvested	2014–2017
	15 September 2015	–	22,641	–	–	**22,641**	Unvested	2015–2018

1 This Award is the Recruitment Award granted to Anne-Francoise Nesmes, and was subject to the same performance conditions as those applying to the LTIP Awards granted on 5 March 2013 It was granted outside the rules of the LTIP
2 These Awards lapsed on 31 July 2016

SAYE Scheme
Options held under the SAYE Scheme by each person who was a Director at 30 June 2016 are shown below

	Date of grant	Number of options	Option price	Exercise date
Ian Page	7 April 2014	1,630	£5 52	May 2017
	13 October 2014	1,465	£6 14	December 2017
Anne-Francoise Nesmes[1]	7 April 2014	1,630	£5 52	May 2017
	13 October 2014	1,465	£6 14	December 2017

1 These options lapsed on 31 July 2016

Implementation of the Directors' Remuneration Policy in the Year Ending 30 June 2017 (Unaudited):
The Directors' Remuneration Policy outlined on pages 90 to 93 will be implemented in the year ending 30 June 2017 in line with the way in which it has been implemented in the year ended 30 June 2016

Recruitment Arrangements for the New Chief Financial Officer
Anne-Francoise Nesmes left the business on 31 July 2016 Anne-Francoise's replacement, Richard Cotton, is expected to join the Company in January 2017, and the remuneration package has been determined in accordance with the shareholder approved Directors' Remuneration Policy Richard Cotton's remuneration package will include a salary of £350,000 and a bonus opportunity of 100% of salary (in accordance with the Policy), which will be pro-rated for the 2017 financial year to reflect his period in service during that year As part of his recruitment, Richard will be granted two 'buy out' awards in respect of incentives forfeited as a consequence of joining Dechra Each Award will be over shares with a value of £350,000 at the date of grant The first Award will vest one year after Richard joins Dechra, subject to his performance in role The second Award will be subject to the same performance conditions as apply to the LTIP Awards granted in September 2015 (as adjusted) and will vest following the assessment of those performance conditions following the end of the performance period in June 2018 Each Award may be reduced to take account of any relevant performance conditions for the forfeited awards not being achieved Richard will not receive an Award under the LTIP in respect of the year ended 30 June 2017

Malus and Clawback
Malus provisions apply to the annual bonus and LTIP Awards, and clawback provisions apply to the annual bonus and LTIP Awards granted after 1 July 2015 These provisions will enable the Committee to require repayment of some or all of an Award for up to two years following payment in the event of material misstatement in the financial statements or gross misconduct on the part of the participant

Salary and Fees
The next review of Executive Directors' salaries will be undertaken in September 2016 It is planned that Tony Griffin's salary for 2017 will increase in line with the range of increases proposed for the wider workforce It is also planned during the forthcoming financial year to review Ian Page's salary (which has not changed since January 2014) An independent external review will be undertaken in light of the exceptional change in size and complexity of the Group

No changes will be made to the fee for the Chairman for the year ending 30 June 2017 In terms of the remaining Non-Executive Directors, it has been agreed to increase the base fee from £40,000 to £50,000 per annum This increase is effective from 1 July 2016 There will be no changes to the additional fees

Annual Bonus
No changes have been made to the bonus structure, consequently Executive Directors will have a bonus opportunity of 100% of salary for the year ending 30 June 2017, on the same basis as for the year ended 30 June 2016 Details of the bonus structure can be found on pages 83 and 84 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 84 in respect of bonuses for the Group's 2016 financial year

LTIP
The Committee proposes that LTIP Awards for the year ending 30 June 2017 (the 2017 Grant) will be made at the level of 200% of salary for Ian Page and 100% of salary for Tony Griffin As with the Awards granted in respect of the 2016 financial year, the performance measures for the Awards will be based on TSR (50%) and EPS (50%), with an underpin based on ROCE The TSR targets will be the same as for the Awards made in the 2016 financial year, details of which can be found on page 87 Richard Cotton will not receive an Award under the LTIP in respect of the year ending 30 June 2017 other than the buy-out awards in respect of incentives forfeited as a result of joining Dechra as outlined on page 88

As referred to on page 81, the EPS growth target required for maximum vesting for the 2017 Grant has been increased to 20% CAGR to reflect the higher forecast earnings as a result of the acquisitions of Genera and Putney Accordingly, the EPS targets for the 2017 Grant are

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

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

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 members' attendance at the Committee's meetings is detailed on page 66

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 2016 financial year this review took place at the June 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 are provided on page 67

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

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

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

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

Deloitte is retained to provide independent advice to the Committee as required Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the Code of Conduct in relation to executive remuneration consulting in the UK Deloitte's fees for providing remuneration advice to the Committee were £11,500 for the year ended 30 June 2016 The Committee assesses from time to time whether this appointment remains appropriate or should be put out to tender and takes into account the Remuneration Consultants Group Code of Conduct when considering this Deloitte was appointed by the Committee and has provided share scheme advice and general remuneration advice to the Company Details of additional services which Deloitte provided to Dechra are detailed on page 76

Statement of Voting at Last 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 23 October 2015 and 24 October 2014 respectively

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
To approve Remuneration Report	69,175,413	99 43	394,203	0 57	107 863
To approve Remuneration Policy	66,935,753	98 32	1,140,380	1 68	302,814

Directors' Remuneration Policy
Dechra's Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting held on 24 October 2014 with 98 32% of all votes cast in favour The full Policy can be found at www dechra com

The Policy Tables of the Directors' Remuneration Policy are provided below as it is considered these would be most helpful for shareholders to have repeated here However, to aid reading in relation to the application of the Policy for 2017, certain date references have been updated

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

- pay increases within the Group more generally, and
- Group organisation, profitability and prevailing market conditions

Maximum opportunity
Whilst there is no maximum salary, increases will normally be in line with the level of salary increase awarded (in percentage of salary terms) to other employees in the Group However, higher increases may be awarded in certain circumstances, such as

- on promotion or in the event of an increase in scope of the role or the individual's responsibilities,
- where an individual has been appointed to the Board at a lower than typical market salary to allow for growth in the role in which case larger increases may be awarded to move salary positioning to a typical market level as the individual gains experience,
- change in size and complexity of the Group, and/or
- significant market movement

Such increases may be implemented over such time period as the Committee deems appropriate

Performance measure
Not applicable

Element: Pension

Purpose and link to strategy
Help retain and recruit employees and provide appropriate income in retirement

Operation
The Company operates a Group Stakeholder personal pension scheme that has been effective since 1 July 2005 All Executive Directors excluding Tony Griffin are members of this 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 Salary over this cap is paid into a defined contribution pension plan

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

Performance measure
Not applicable

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, medical cover and life assurance scheme

Other benefits may be provided based on individual circumstances, which may include relocation costs and expatriate allowances

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

Performance measure
Not applicable

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 payout is determined by the Committee after the year end based on targets set for the financial period

The Committee has discretion to amend the payout should any formulaic output not reflect the Committee's assessment of overall business performance

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

Performance measure
Operational targets (which may be based on financial or strategic measures) and individual objectives are determined at the beginning of the financial year

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

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

For 2017, a bonus of up to 90% of salary may be earned based on underlying profit before tax targets and up to 10% of salary based on personal objectives, which include non-financial targets,as described on page 89

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 existing LTIP

Under the LTIP, the Committee may grant Awards as conditional shares, as nil cost options, as forfeitable shares or as cash settled equivalents (or may settle in cash a share award)

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 vesting period (this payment may assume that dividends had been reinvested in Dechra shares on a cumulative basis)

Awards under the LTIP granted in November 2013 are subject to a malus provision enabling the Committee to revoke Awards in the event of a material misstatement of the financial statements For Awards granted after 1 July 2014, the malus provision has been extended to provide the ability to revoke, reduce or impose further conditions on unvested Awards in the event of serious reputational damage to the Company or if a previous annual bonus opportunity has paid out at a higher level than would have been the case but for the material misstatement or serious reputational damage to the Company

The Company also has in place a Company Share Option Plan (CSOP) Awards under the CSOP take the form of options to acquire shares, with a per share exercise price equal to the market value of a share at the date of grant

The Committee may at its discretion structure awards as Approved Performance Share Plan (APSP) Awards comprising both a tax qualifying option granted under the CSOP and LTIP Award, with the vesting of the LTIP Award scaled back to take account of any gain made on exercise of the approved option Other than to enable the grant of APSP Awards, the Company does not intend to grant awards under both the LTIP and CSOP in the same grant period Where an APSP Award is granted, the qualifying option under the CSOP will be subject to a malus provision to the extent permitted in accordance with the applicable legislation

Maximum opportunity
The maximum award level under the LTIP in respect of any financial year is 200% of salary For the 2017 financial year, the following award levels will apply

- Chief Executive Officer — 200%
- Other Executive Directors — 100%

Although no Award will be made to the Chief Financial Officer in respect of the year ending 30 June 2017 other than the buy-out awards in respect of incentives forfeited as a result of joining Dechra as outlined on page 88, the intention is that he will be eligible to receive an Award of up to 150% in September 2017

If an APSP Award is granted, the option under the CSOP may be granted over shares with a value of up to £30,000 or any other applicable HMRC limit going forward Because of the scale back of the LTIP element of the APSP Award, the value of shares subject to the CSOP option will not count towards the limits referred to above

Other than where a CSOP option is granted as part of an APSP award, options under the CSOP will not be granted to Executive Directors

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)

At least 50% of any Award will be subject to a performance measure based on earnings per share

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

Where an option under the CSOP is granted as part of an APSP Award, the CSOP option will be subject to the same performance condition as the LTIP Award

For 2017, LTIP performance targets will be based 50% on total shareholder return (TSR) and 50% on earnings per share (EPS), with each element subject to an underpin based on return on capital employed (ROCE) as described on page 89

Element: All Employee Share Plans	
Purpose and link to strategy Provision of the 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 employees	**Performance measure** Not subject to performance conditions in line with the HMRC qualifying operation of such plans
Maximum opportunity The limit on participation under the SAYE scheme will be that set in accordance with the applicable tax legislation from time to time The contribution limit is £500 per month currently The limit on participation under 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	

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

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 to recruit and retain Non-Executive Directors of a high calibre with the requisite experience required to achieve success for the Company and its shareholders	The fees of the Chairman are determined by the Committee and the fees of the Non-Executive Directors are determined by the Board following a recommendation from both the Chief Executive Officer and the Chairman Non-Executive Directors are not eligible to participate in any of the Company's share schemes, incentive schemes or pension schemes Non-Executive Directors may be eligible to receive benefits such as travel and other reasonable expenses	Non-Executive Directors are paid a basic fee with additional fees paid for the chairing of Committees An additional fee is also paid for the role of Senior Independent Director Where benefits are provided to Non-Executive Directors they will be provided at a level considered to be appropriate taking into account the individual circumstances

This Directors' Remuneration Report, excluding the Directors' Remuneration Policy, will be put to an advisory vote at the Annual General Meeting on 21 October 2016 The Directors' Remuneration Report was approved by the Board on 5 September 2016 and signed on its behalf by

Ishbel Macpherson
Remuneration Committee Chairman
5 September 2016

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 2016 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 6 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,
- Going concern and viability statements,
- Employees with disabilities and employee involvement, and
- Details in respect of Greenhouse Gas Emissions

Information in relation to post-balance sheet events and financial risk management (including the exposure to price, credit and liquidity risk) can be found in note 23 to the Financial Statements

Acquisitions and Disposals
The acquisitions during the year under review are as follows

Date of Acquisition	Detail		Consideration
November 2015	Genera d d	Manufacturer of animal health products in Croatia with a strong market share in its local market and neighbouring countries	The cost of acquiring the 92 26% controlling interest in Genera was €36 6 million which was funded from Dechra's existing cash and debt facilities Subsequently £0 4 million of the minority interest was acquired equating to 1 13% of the voting shares
January 2016	Laboratorios Brovel S A de C V	A veterinary pharmaceuticals company based in Mexico City	Consideration of US$5 0 million (£3 3 million) in cash on completion and a further US$1 0 million (£0 6 million) is contingent upon Brovel reaching registration milestones for Dechra's products in Mexico The consideration was funded from the Group's existing cash resources
April 2016	Putney, Inc	A developer of generic companion animal pharmaceuticals in the US, based in Portland, Maine	Consideration of US$200 0 million (£134 2 million) funded through a combination of borrowings and equity placing

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
The Group has bank facilities with a syndicate of banks comprising HSBC Bank Plc, The Royal Bank of Scotland plc and Barclays Bank PLC (the Banks), these facilities include a change of control provision Under this provision, a change of control of the Company could result in withdrawal of facilities No other agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid are considered to be significant in terms of their potential impact on the business as a whole

The Company does not have agreements with any Director or employee that provide compensation for loss of office or employment resulting from a takeover, other than the Company share schemes Under such schemes outstanding options and awards normally vest and become exercisable on a change of control, subject to the satisfaction of any performance conditions at that time In the event of a change of control, unvested awards under the Long Term Incentive Plan will vest to the extent determined by the Remuneration Committee taking into account the relevant performance conditions and, unless the Remuneration Committee determines otherwise, the extent of vesting so determined shall be reduced to reflect the proportion of the relevant performance period that has elapsed

The Directors consider that there are no contracted or other single arrangements, such as those with major suppliers, which are likely to influence, directly or indirectly, the performance of the business and its values Furthermore, there are no contracts of significance subsisting during the financial year between any Group undertaking and a controlling shareholder or in which a Director is or was materially interested

Directors
The Articles of Association state that a Director may be appointed by an ordinary resolution of the shareholders or by the Directors, either to fill a vacancy or as an addition to the existing Board but so that the total number of Directors does not exceed the maximum number of Directors allowed pursuant to the Articles of Association The maximum number of Directors currently allowed pursuant to the Articles of Association is ten

The Articles of Association also state that the Board of Directors is responsible for the management of the business of the Company and in doing so may exercise all the powers of the Company subject to the provision of relevant legislation and the Company's Articles of Association The powers of the Directors set out in the Articles of Association include those in relation to the issue and buy-back of shares

Overseas Branches
The Company, through its subsidiary Genera d d , has established branches in Bosnia-Herzegovina and Serbia

Political Donations and Expenditure
No political donations were made during the year ended 30 June 2016 (2015 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 36 and 37 The expense on this activity for the year ended 30 June 2016 was £10,355,000 (2015 £8,671,000) and a further £570,000 (2015 £1,035,000) was capitalised as development costs

Results and Dividends
The results for the year and financial position at 30 June 2016 are shown in the Consolidated Income Statement on page 107 and Consolidated Statement of Financial Position on page 109 The Directors are recommending the payment of a final dividend of 12 91 pence per share which, if approved by shareholders, will be paid on 18 November 2016 to shareholders registered at 28 October 2016 The shares will become ex-dividend on 27 October 2016 An interim dividend of 5 55 pence per share was paid on 6 April 2016, making a total dividend for the year of 18 46 pence per share (2015 16 94 pence per share) The total dividend payment is £16,865,000 (2015 £14,900,000)

Share Capital
The issued share capital of the Company for the year is set out in note 24 to the Consolidated Financial Statements As at the end of the financial year 92,746,998 fully paid ordinary shares were in issue, which included 377,235 ordinary shares issued during the year in connection with the exercise of options under the Company's share option schemes 4,398,600 ordinary shares ("New Ordinary Shares") were offered by way of a placing at an issue price of 1100 pence per share, raising approximately £47 0 million (net of underwriting commission) The New Ordinary Shares were issued on 17 March 2016 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 being the Trustees of the Dechra Employee Benefit Trust, who hold 2,880 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 23 October 2015, the Company was authorised to purchase up to 8,797,214 of its ordinary shares, representing 10% of the issued share capital of the Company as at 14 September 2015 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 2015 Annual General Meeting and resolutions to renew these authorities will be proposed at the 2016 Annual General Meeting

Directors' Report — Other Disclosures
continued

Substantial Interests in Voting Rights
In accordance with the requirements in the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority, the Company had been notified of the following interests exceeding the 3% notification threshold as at the end of the financial year and a date not more than one month before the date of the notice of the Annual General Meeting

	30 June 2016		**15 August 2016**	
	Aggregate voting rights	Percentage	**Aggregate voting rights**	**Percentage**
Fidelity Management & Research	8,140,794	8 78	**8,306,939**	**8 96**
Schroders	7,052,937	7 60	**6,239,599**	**6 73**
BlackRock Inc	5,803,176	6 26	**5,728,855**	**6 18**
Aberdeen Group	5,055 417	5 45	**4,883,694**	**5 27**
Standard Life	4,408,241	4 75	**4,498,648**	**4 85**
The Capital Group Companies, Inc	4,099,442	4 42	**4,099,442**	**4 42**
Legal & General Group	3 558,271	3 84	**3,512,234**	**3 79**
AEGON	3,110,455	3 35	**3,110,455**	**3 35**
Hargreave Hale Ltd Stockbrokers	3,024,634	3 26	**2,870,686**	**3 10**
Aviva plc	2,886,549	3 11	**2,813,624**	**3 03**
Old Mutual	1,892,763	2 04	**3,032,897**	**3 27**

Auditor
A resolution to re-appoint PricewaterhouseCoopers LLP as external auditor and to authorise the Directors 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

Suzana Cross
Company Secretary
5 September 2016

Statement of Directors' Responsibilities

Statement of Directors' Responsibilities in Respect of the Annual Report and the Financial Statements
The Directors are responsible for preparing the Annual Report, the Directors' Remuneration Report, and the Group and Parent Company financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year Under that law they are required to prepare the Group financial statements in accordance with applicable law and International Financial reporting Standards (IFRSs) as adopted by the European Union (EU) and have elected to prepare the Parent Company financial statements in accordance with applicable law and United Kingdom (UK) Accounting Standards (UK Generally Accepted Accounting Practice)

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 Parent Company and of their profit or loss for that period In preparing each of the Group and Parent Company financial statements, the Directors are required to

- select appropriate accounting policies and apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU,
- for the Parent Company financial statements state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Parent Company financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Parent Company's transactions, disclose with reasonable accuracy at any time the financial position of the Group and the Parent Company, and enable them to ensure that its financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation They are also responsible for safeguarding the assets of the Parent Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Directors' Responsibility Statement
Each of the Directors as at the date of the Annual Report, whose names and functions are set out on pages 62 and 63, confirm that to the best of his/her knowledge

1 the Group financial statements, prepared in accordance with the IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Parent Company and the undertakings included in the consolidation taken as a whole,

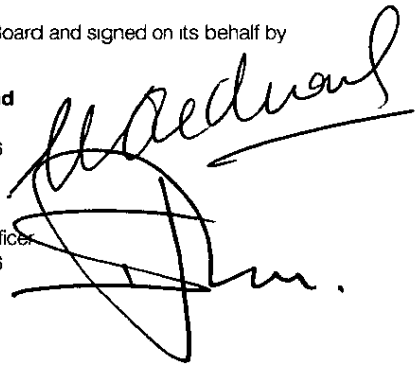
2 the Strategic Report includes a fair review of the development and performance of the business and the position of the Parent Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face, and

3 the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

Approved by the Board and signed on its behalf by

Michael Redmond
Chairman
5 September 2016

Ian Page
Chief Executive Officer
5 September 2016



Our Financials

100 Independent Auditor's Report
107 Consolidated Income Statement
108 Consolidated Statement of Comprehensive Income
109 Consolidated Statement of Financial Position
110 Consolidated Statement of Changes in Shareholders' Equity
111 Consolidated Statement of Cash Flows
112 Notes to the Consolidated Financial Statements
150 Company Balance Sheet
151 Reconciliation of Movements in Shareholders' Funds
152 Notes to the Company Financial Statements
161 Financial History

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

Report on the Financial Statements
Our 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 2016 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, 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

What We Have Audited
The Financial Statements, included within the Annual Report and Accounts (the Annual Report), comprise

- the Consolidated Statement of Financial Position as at 30 June 2016,
- the Company Statement of Financial Position as at 30 June 2016,
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended,
- the Consolidated Statement of Cash Flows for the year then ended,
- the Consolidated Statement of Changes in Shareholders' Equity for the year then ended,
- the Company Statement of Changes in Shareholders' Equity for the year then ended, and
- the notes to the Consolidated and Company Financial Statements, which include a summary of significant accounting policies and other explanatory information

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the Financial Statements These are cross-referenced from the Financial Statements and are identified as audited

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is IFRSs as adopted by the European Union, and applicable law The financial reporting framework that has been applied in the preparation of the Company Financial Statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice)

Our Audit Approach
Overview

- Overall Group materiality £1 6 million which represents 5% of profit before tax adjusted for non-underlying and exceptional items save for amortisation relating to the intangible assets (adjusted profit before tax)
- Following our assessment of the risks of material misstatement of the Group financial statements we performed audits of the complete financial information of 18 reporting units and specified procedures for a further two reporting units
- In addition the Group engagement team audited the Company and certain centralised functions, including those covering derivative financial instruments, 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 94% of Group revenue and 92% of adjusted profit before tax
- As part of our supervision process, the Group engagement team have visited or have performed the audit of significant components, in addition to performing the audits of the in scope UK reporting locations We also visited the component auditors in Croatia following the acquisition of Genera d d during the year
- Our assessment of the risk of material misstatement also informed our views on the areas of particular focus for our work which are listed below
  - Assessment of the acquired balance sheet and fair value accounting for the significant acquisitions
  - Assessment of the carrying value of acquired intangible assets

The Scope of Our Audit and Our Areas of Focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland))

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the Financial Statements as a whole, and any comments we make on the results of our procedures should be read in this context This is not a complete list of all risks identified by our audit

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

continued

Area of focus	How our audit addressed the area of focus
Assessment of the accounting position adopted on the opening balance sheet accounting for the Genera, Brovel and Putney acquisitions *Refer to the Audit Committee Report on page 74, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 112, and note 31 (Acquisitions)* The Group completed the following acquisitions during the year • Genera d d on 21 October 2015, • Laboratorios Brovel S A de C V on 13 January 2016, and • Putney Inc on 22 April 2016 We focused on this area because the accounting for business combinations including the respective provisional 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 both Genera d d (Genera) and Putney Inc (Putney), significant value has been attributed to the brand and product portfolio, the recognition of which is dependent on cash flow forecasts including future business growth, product development and the application of an appropriate discount rate, all of which are subjective The land and property acquired was restated to fair value This required the use of assumptions including building construction costs and the discounted land values within the valuation methodology The accounting standards state that acquired inventory should be recognised at fair value which is equal to the selling price less costs to sell This has resulted in value uplifts to the acquired inventory held in Genera, Putney and Laboratorios Brovel S A de C V (Brovel) The appropriateness of the fair value adjustments are dependent on the existence and quality of inventory held at the acquisition date and the calculation of selling costs We have focused on the completeness of liabilities recorded at the respective acquisition date As the recognition of obligations can be subject to the extent of information available this can give rise to judgement being exercised The calculation of deferred tax liabilities arising on the identifiable intangible assets is reliant on the correct application of local tax rates The measurement of deferred taxes is dependent on the understanding and application of local tax rules, with the recognition of any deferred tax assets being judgemental based on the Directors' evaluation of recoverability	• *Intangible assets* – We obtained the cash flow forecasts supporting the intangible assets identified and agreed that these were consistent with those approved by the Board as part of the acquisition process For sales volumes and margin data we tested that the relevant assumptions were consistent to the historical performance of each of the acquired businesses 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 corroborated that development costs have been appropriately included based on actual costs previously incurred on comparable products developed by the Group We engaged our valuation specialists who benchmarked within a reasonable range that the growth assumptions were in line with industry expectation and the specific geographical locations in which the business operates Our valuation specialists also agreed that the discount rates were consistent to those applied by companies of comparable size and within the relevant industry • *Land and buildings* – We engaged our valuation specialists who agreed that both key assumptions were within a reasonable range The building construction costs were agreed as consistent with average data available for industrial property development within Central and Eastern European countries and the land discount was compared with the value of sites sold which are similar in size and nature • *Inventory* – We have corroborated the respective selling costs by agreeing to sales invoices and agreeing that these costs have been accurately included within the overall calculations performed We attended and undertook physical inventory counts at key locations validating that inventory was being held and accurately recorded As part of our physical attendance we surveyed the aging and quality of specific inventory items and evaluated the local obsolescence policies which adequately aligned to the inventory profiles observed • *Liabilities* – We considered the completeness of liabilities through our knowledge of the business, by making enquiries of the Directors, examining correspondence with legal counsel and reading the respective sale and purchase agreements We performed substantive procedures on material purchase invoices and bank payments post acquisition date and confirmed that these were correctly recorded • *Taxation* – We recalculated the deferred tax liabilities arising on the acquired intangibles assets and agreed that relevant tax rates have been used We read the prior year tax computations and available correspondence from the respective tax authorities and agreed that all known significant obligations and threats have been suitably considered In respect of Putney, the Directors evaluated operating losses which are available to be utilised in future periods We agreed the quantum and nature of the losses to prior period tax computations We read the local tax rules and verified the accuracy of the calculation as to the losses which can be recognised in line with the rules We recalculated the associated deferred tax asset and agreed the recognition of this by confirming the basis of recoverability is consistent with Board approved forecasts

Area of focus	How our audit addressed the area of focus
Assessment of the carrying value of acquired intangible assets and other relevant assets *Refer to the Audit Committee Report on page 74, the critical accounting estimates and judgements in note 1 (b) to the accounts on page 112, and note 11 (Intangible assets)* The Directors' exercise judgement as to whether impairment triggers, which require a full impairment assessment to be performed, have been identified in relation to acquired intangible assets and other relevant assets Where a full impairment assessment is required to support the carrying value of the assets held, the Directors' have prepared a discounted cash flow which includes a number of assumptions The assumptions which are deemed to be the most significant in respect of these forecasts are the current and future performance of individual products The long term growth and discount rate are also considered to be subjective The Directors recorded an impairment charge of £3 3 million relating to a US generic pharmaceutical product The Directors' have concluded that this asset is impaired following the acquisition of Putney and a review of products acquired It was established that a comparable drug is produced by Putney which already held FDA approval Therefore a decision was taken to stop developing this product resulting in a full impairment of the associated asset value The impairment charge is material to the financial statements and is dependent on the accurate assessment of the Putney products and their purpose	• *Acquired intangible assets and other relevant assets* – We agreed that the basis of the current and future revenue forecasts are consistent with previous performance Our valuation specialists benchmarked, within a reasonable range, the growth and discount rate to economic and industry averages and the cost of capital for other comparable companies respectively We have performed sensitivities on a selection of these assumptions confirming that the level of headroom calculated is not unduly susceptible to change • *US generic pharmaceutical product* – We confirmed the accuracy of the impairment charge by tracing the carrying value to the asset ledger We validated the appropriateness of the Directors' conclusion to fully impair the asset by obtaining and reading a copy of the FDA approval supporting the Directors' explanation as to the preferability of the comparable drug and as such supporting the strategic decision to stop developing this product

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 geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates

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 25 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 25 active reporting units we identified 18 which, in our view, required a full audit of their complete financial information in order to ensure that sufficient audit evidence was obtained The reporting units on which a full audit of their complete financial information was performed accounted for 94% of Group revenue and 92% of adjusted profit before tax Of these reporting units, two were considered to be significant components due to their size, the Dechra Veterinary Products trading entities in Denmark and the USA

In addition to the significant components, 16 active non-significant reporting units were subjected to a full scope audit, five located in the UK, seven which are accounted for at the shared service centre in Denmark, and one located in the US, the Netherlands, Germany and Croatia respectively, were conducted such that the audit work was complete prior to the finalisation of the Group Financial Statements either by the Group engagement team or by PwC network firms in those territories, operating under our instruction Specific audit procedures on certain balances and transactions were performed on a further two reporting units

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

continued

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 derivative financial instruments, UK and corporate taxation and goodwill and intangible asset impairment assessments We also performed Group level analytical procedures on all of the remaining out of scope active reporting units to identify whether any further audit evidence was needed, which resulted in no extra testing being required The Company was also subject to a full scope audit

The Group engagement team visits component auditors based on significance and/or risk characteristics, to ensure coverage across the Group The group engagement team are responsible for the audit of all in scope UK reporting locations performing full scope audits The Group engagement team have visited or have performed the audit of all significant components, in addition to visiting the non-significant component of Croatia

Additionally the Group audit team was in contact, at each stage of the audit, in line with detailed instructions issued and through global planning calls and further regular written communication Specifically, for all component teams, the Group team discussed in detail the planned audit approach at the component level, were in attendance at local audit close meetings and following independent review, discussed the detailed reported findings of the audit with each component team

Materiality

The scope of our audit was influenced by our application of materiality We set certain quantitative thresholds for materiality These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows

Overall Group materiality	£1 6 million
How we determined it	5% of profit before tax adjusted for non-underlying and exceptional items save for amortisation relating to the intangible assets
Rationale for benchmark applied	We believe that profit before tax adjusted for transaction costs incurred 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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons

Going Concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 70, in relation to going concern We have nothing to report having performed our review

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements We have nothing material to add or to draw attention to

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements The going concern basis presumes that the Group and Company have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the Financial Statements were signed As part of our audit we have concluded that the Directors use of the going concern basis is appropriate However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Company's ability to continue as a going concern

Other Required Reporting
Consistency of Other Information

Companies Act 2006 opinion	
In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements	
ISAs (UK & Ireland) reporting	
Under ISAs (UK & Ireland) we are required to report to you if, in our opinion	
• information in the Annual Report is • materially inconsistent with the information in the audited financial statements, or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group and company acquired in the course of performing our audit, or • otherwise misleading	We have no exceptions to report
• the statement given by the Directors on page 75, in accordance with provision C 1 1 of the UK Corporate Governance Code (the Code), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for 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 acquired in the course of performing our audit	We have no exceptions to report
• the section of the Annual Report on page 67, as required by provision C 3 8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee	We have no exceptions to report

The Directors' Assessment of the Prospects of the Group and of the Principal Risks that Would Threaten the Solvency or Liquidity of the Group

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to	
the Directors' confirmation on page 70 of the Annual Report, in accordance with provision C 2 1 of the Code, 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	We have nothing material to add or to draw attention to
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated	We have nothing material to add or to draw attention to
• the Directors' explanation on page 70 of the Annual Report, in accordance with provision C 2 2 of the Code, 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 material to add or to draw attention to
Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements, checking that the statements are in alignment with the relevant provisions of the Code, and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit We have nothing to report having performed our review	

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

continued

Adequacy of Accounting Records and Information and Explanations Received
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
- 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

Directors' Remuneration
Directors' Remuneration Report - Companies Act 2006 Opinion
In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006

Other Companies Act 2006 Reporting
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made We have no exceptions to report arising from this responsibility

Corporate Governance Statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code We have nothing to report having performed our review

Responsibilities for the Financial Statements and the Audit
Our Responsibilities and those of the Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 97, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

What an Audit of Financial Statements involves
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error This includes an assessment of

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the Directors, and
- the overall presentation of the Financial Statements

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the Financial Statements

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Andrew Hammond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
5 September 2016

Consolidated Income Statement

For the year ended 30 June 2016

	Note	2016 Underlying £000	2016 Non-underlying items* (notes 4 & 5) £000	2016 Total £000	2015 Underlying £000	2015 Non-underlying items* (notes 4 & 5) £000	2015 Total £000
Revenue	2	**247,562**	**–**	**247,562**	203,480	–	203,480
Cost of sales		**(109,052)**	**(6,070)**	**(115,122)**	(87,338)	–	(87,338)
Gross profit		**138,510**	**(6,070)**	**132,440**	116,142	–	116,142
Selling, general and administrative expenses		**(75,298)**	**(27,294)**	**(102,592)**	(63,120)	(18,371)	(81,491)
Research and development expenses		**(10,355)**	**–**	**(10,355)**	(8,671)	–	(8,671)
Operating profit	2	**52,857**	**(33,364)**	**19,493**	44,351	(18,371)	25,980
Finance income	3	**21**	**–**	**21**	2,242	–	2,242
Finance expense	4	**(3,200)**	**(1,766)**	**(4,966)**	(1,496)	(920)	(2,416)
Profit before taxation	6	**49,678**	**(35,130)**	**14,548**	45,097	(19,291)	25,806
Income taxes	8	**(11,288)**	**9,252**	**(2,036)**	(9,790)	3,443	(6,347)
Profit for the year		**38,390**	**(25,878)**	**12,512**	35,307	(15,848)	19,459
Attributable to							
Owners of the parent		**38,376**	**(25,708)**	**12,668**	35,307	(15,848)	19,459
Non-controlling interests	26	**14**	**(170)**	**(156)**	–	–	–
Profit for the year		**38,390**	**(25,878)**	**12,512**	35,307	(15,848)	19 459
Earnings per share							
Basic	10			**14 00p**			22 14p
Diluted	10			**13.90p**			21 99p
Dividend per share (interim paid and final proposed for the year)	9			**18 46p**			16 94p

* Non underlying items comprise amortisation and impairment of acquired intangibles acquisition expenses, fair value of uplift of inventory acquired through business combinations rationalisation costs, loss on extinguishment of debt and reversal of fair value and other movements on deferred and contingent consideration Refer to note 1(b) for further details

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	2016 £000	2015 £000
Profit for the year	**12,512**	19,459
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit pension scheme	**(1,551)**	(111)
Income tax relating to components of other comprehensive income	**385**	97
	(1,166)	(14)
Items that may be reclassified subsequently to profit or loss		
Effective portion of changes in fair value of cash flow hedges	**(154)**	(136)
Cash flow hedges recycled to income statement	**233**	178
Losses arising on available for sale financial assets	**(450)**	(37)
Foreign currency translation differences for foreign operations	**32,116**	(18,525)
Income tax relating to components of other comprehensive income	**1,234**	(4)
	32,979	(18,524)
Total comprehensive income for the period	**44,325**	921
Attributable to		
Owners of the parent	**44,202**	921
Non-controlling interests	**123**	–
	44,325	921

Consolidated Statement of Financial Position

At 30 June 2016

	Note	2016 £000	2015 £000
ASSETS			
Non-current assets			
Intangible assets	11	**360,381**	166,684
Property, plant and equipment	12	**37,718**	16,822
Deferred tax assets	14	**197**	1,397
Total non-current assets		**398,296**	184,903
Current assets			
Inventories	15	**54,375**	31,744
Trade and other receivables	16	**68,938**	30,932
Cash and cash equivalents	17	**39,142**	45,948
Total current assets		**162,455**	108 624
Total assets		**560,751**	293,527
LIABILITIES			
Current liabilities			
Borrowings	20	**(1,672)**	(8)
Trade and other payables	18	**(60,220)**	(31,025)
Deferred and contingent consideration		**(467)**	(4,417)
Current tax liabilities	19	**(3,897)**	(8,659)
Total current liabilities		**(66,256)**	(44,109)
Non-current liabilities			
Borrowings	20	**(154,093)**	(32,519)
Deferred and contingent consideration		**(3,166)**	(3,412)
Employee benefit obligations	22	**(3,721)**	(1,311)
Provisions	21	**(3,334)**	–
Deferred tax liabilities	14	**(53,569)**	(17,688)
Total non-current liabilities		**(217,883)**	(54,930)
Total liabilities		**(284,139)**	(99,039)
Net assets		**276,612**	194,488
EQUITY			
Issued share capital	24	**927**	880
Share premium account		**172,451**	124,801
Own shares	25	**(21)**	(303)
Hedging reserve		**(15)**	(94)
Foreign currency translation reserve		**5,524**	(27,547)
Merger reserve		**1,770**	1,770
Retained earnings		**93,995**	94,981
Total equity attributable to equity holders of the parent		**274,631**	194,488
Non-controlling interests	26	**1,981**	–
Total equity		**276,612**	194,488

The financial statements were approved by the Board of Directors on 5 September 2016 and are signed on its behalf by

Ian Page
Chief Executive Officer
5 September 2016

Michael Redmond
Chairman
5 September 2016

Company number 3369634

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 30 June 2016

	Attributable to owners of the parent									
Year ended 30 June 2015	Issued share capital £000	Share premium account £000	Own shares £000	Hedging reserve £000	Foreign currency translation reserve £000	Merger reserve £000	Retained earnings £000	**Total £000**	Non-controlling interests £000	**Total equity £000**
At 1 July 2014	877	124,429	(606)	(132)	(9,022)	1,770	87,490	**204,806**	–	**204,806**
Profit for the period	–	–	–	–	–	–	19,459	**19,459**	–	**19,459**
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(140)	–	–	–	**(140)**	–	**(140)**
Losses arising on available for sale financial assets	–	–	–	–	–	–	(37)	**(37)**	–	**(37)**
Foreign currency translation differences for foreign operations, net of tax	–	–	–	–	(18,525)	–	–	**(18,525)**	–	**(18,525)**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	–	(14)	**(14)**	–	**(14)**
Cash flow hedges recycled to income statement, net of tax	–	–	–	178	–	–	–	**178**	–	**178**
Total comprehensive income	–	–	–	38	(18,525)	–	19,408	**921**	–	**921**
Transactions with owners										
Dividends paid	–	–	–	–	–	–	(13,857)	**(13,857)**	–	**(13,857)**
Share-based payments	–	–	–	–	–	–	2,243	**2,243**	–	**2,243**
Shares issued	3	372	–	–	–	–	–	**375**		**375**
Own shares recycled to retained earnings	–	–	303	–	–	–	(303)	**–**	–	**–**
Total contributions by and distributions to owners	3	372	303	–	–	–	(11,917)	**(11,239)**	–	**(11,239)**
At 30 June 2015	880	124,801	(303)	(94)	(27,547)	1,770	94,981	**194,488**	–	**194,488**
Year ended 30 June 2016										
At 1 July 2015	880	124,801	(303)	(94)	(27,547)	1,770	94,981	**194,488**	–	**194,488**
Profit/(loss) for the period	–	–	–	–	–	–	12,668	**12,668**	(156)	**12,512**
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	–	(154)	–	–	–	**(154)**	–	**(154)**
Losses arising on available for sale financial assets	–	–	–	–	–	–	(450)	**(450)**	–	**(450)**
Foreign currency translation differences for foreign operations, net of tax	–	–	–	–	33,071	–	–	**33,071**	279	**33,350**
Remeasurement of defined benefit pension scheme, net of tax	–	–	–	–	–	–	(1,166)	**(1,166)**	–	**(1,166)**
Cash flow hedges recycled to income statement, net of tax	–	–	–	233	–	–	–	**233**	–	**233**
Total comprehensive income	–	–	–	79	33,071	–	11,052	**44,202**	123	**44,325**
Transactions with owners										
Dividends paid	–	–	–	–	–	–	(15,292)	**(15,292)**	–	**(15,292)**
Share-based payments	–	–	–	–	–	–	3,536	**3,536**	–	**3,536**
Shares issued	47	47,650	–	–	–	–	–	**47,697**	–	**47,697**
Acquisition of non-controlling interests	–	–	–	–	–	–	–	**–**	1,858	**1,858**
Own shares recycled to retained earnings	–	–	282	–	–	–	(282)	**–**	–	**–**
Total contributions by and distributions to owners	47	47,650	282	–	–	–	(12,038)	**35,941**	1,858	**37,799**
At 30 June 2016	927	172,451	(21)	(15)	5,524	1,770	93,995	**274,631**	1,981	**276,612**

Hedging Reserve

The hedging reserve represents the cumulative fair value gains or losses on derivative financial instruments for which cash flow hedge accounting has been applied, net of tax

Foreign Currency Translation Reserve

The foreign currency translation reserve contains exchange differences on the translation of subsidiaries with a functional currency other than Sterling and exchange gains or losses on the translation of liabilities that hedge the Company's net investment in foreign subsidiaries

Merger Reserve

The merger reserve represents the excess of fair value over nominal value of shares issued in consideration for the acquisition of subsidiaries where statutory merger relief has been applied in the financial statements of the Parent Company

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the period		**12,512**	19,459
Adjustments for			
Depreciation	12	**3,763**	2,412
Amortisation	11	**21,552**	19,126
Loss on disposal of tangible assets	6	**69**	–
Impairment of intangible assets	6	**4,162**	45
Finance income	3	**(21)**	(2,242)
Finance expense	4	**4,966**	2,416
Equity settled share-based payment expense	27	**2,058**	1,767
Income tax expense		**2,036**	6,347
Operating cash flow before changes in working capital		**51,097**	49,330
Decrease/(increase) in inventories		**11,782**	(4,527)
Increase in trade and other receivables		**(16,393)**	(2,553)
Increase in trade and other payables		**9,965**	4,738
Cash generated from operating activities before interest and taxation		**56,451**	46,988
Interest paid		**(1,393)**	(1,338)
Income taxes paid		**(11,483)**	(4,667)
Net cash inflow from operating activities		**43,575**	40,983
Cash flows from investing activities			
Interest received		**33**	16
Acquisition of subsidiaries (net of cash acquired)	31	**(166,173)**	(908)
Acquisition of non-controlling interests	26	**(390)**	–
Purchase of property, plant and equipment	12	**(2,802)**	(2,081)
Capitalised development expenditure	11	**(570)**	(1,035)
Purchase of other intangible non-current assets	11	**(4,133)**	(643)
Net cash outflow from investing activities		**(174,035)**	(4,651)
Cash flows from financing activities			
Proceeds from the issue of share capital	24	**47,697**	375
New borrowings		**103,841**	–
Expenses of raising borrowing facilities		**(360)**	(1,235)
Repayment of borrowings		**(10,572)**	(102)
Dividends paid	9	**(15,292)**	(13,857)
Net cash inflow/(outflow) from financing activities		**125,314**	(14 819)
Net (decrease)/increase in cash and cash equivalents		**(5,146)**	21,513
Cash and cash equivalents at start of period		**45,948**	26,773
Exchange differences on cash and cash equivalents		**(1,660)**	(2,338)
Cash and cash equivalents at end of period	17	**39,142**	45,948

Reconciliation of net cash flow to movement in net (borrowings)/cash			
Net (decrease)/increase in cash and cash equivalents		**(5,146)**	21,513
New borrowings		**(103,841)**	–
Repayment of borrowings		**10,572**	102
Expenses of refinancing borrowing facilities		**360**	1,235
Acquisition of subsidiary borrowings		**(15,027)**	–
Exchange differences on cash and cash equivalents		**(1,660)**	(2,338)
Retranslation of foreign borrowings		**(14,308)**	(1 442)
Other non-cash changes		**(994)**	(659)
Movement in net (borrowings)/cash in the period		**(130,044)**	18,411
Net cash/(borrowings) at start of period		**13,421**	(4,990)
Net (borrowings)/cash at end of period	28	**(116,623)**	13,421

Notes to the Consolidated Financial Statements

1 Accounting Policies

Dechra Pharmaceuticals PLC is a company domiciled in the United Kingdom The consolidated financial statements of the Group for the year ended 30 June 2016 comprise the Company and its subsidiaries

(a) Statement of Compliance

These consolidated financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union The Company has elected to prepare its Parent Company financial statements in accordance with FRS 101 and they are separately presented on pages 150 to 160

(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 6 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 70 for details

The consolidated financial statements are presented in Sterling, rounded to the nearest thousand, or rounded to the nearest million in the commentary to the notes They are prepared on a going concern basis and under the historical cost convention, except where International Financial Reporting Standards 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 13

(ii) Valuation of Intangible Assets
Product rights, commercial relationships and brand intangibles that are acquired by the Group as part of a business combination are stated at fair value at the date of acquisition less accumulated amortisation and impairment losses Fair value at the date of acquisition reflects management's judgement of the fair value of the individual intangible asset calculated by reference to the net present value of future benefits accruing to the Group from the utilisation of the asset, discounted at an appropriate discount rate

(iii) Taxation
The Group recognises deferred tax assets and liabilities based upon future taxable income and the expected recoverability of the balance The estimate will include assumptions regarding future income streams of the Group and the future movement in corporation tax rates in the respective jurisdictions In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability The estimate of liabilities in respect of current taxation depends on estimates and judgements in respect of whether or not, and the extent to which, items of income and expenditure will be taxable

(iv) Non-underlying items
The Group presents a number of non-GAAP measures This is to allow investors to understand the underlying performance of the Group, excluding items associated with areas such as acquisition and disposal related expenses and income (including amortisation and impairment on acquired intangibles, and the reversal of fair value and other movements on deferred and contingent consideration), the profit and related expenses on disposal of discontinued operations, debt refinancing including any loss on extinguishment of debt, and rationalisations Judgement is associated with the classification of these items

(v) Business Combinations
Deferred and contingent consideration and assets and liabilities acquired through business combinations are recorded at fair value at the acquisition date Those fair values are generally 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 judgmental

1 **Accounting Policies** continued

Adoption of New and Revised Standards

The following standard is applicable to the Group and has been adopted in the current period as it is mandatory for the year ended 30 June 2016

- Amendments to IAS 19 'Defined Benefit Plans Employee Contributions' — effective for annual periods beginning on or after 1 January 2015

There are no other new standards, amendments to standards or interpretations mandatory for the first time for the year ended 30 June 2016

The adoption of this amendment has not had a material impact on the Group's financial statements

New Standards and Interpretations not yet Adopted

The following standards and amendments have been published, endorsed by the EU, and are available for early adoption, but have not yet been applied by the Group in these financial statements

- Accounting for acquisitions of interests in joint operations (Amendments to IFRS 11) — effective for annual periods beginning on or after 1 January 2016
- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38) — effective for annual periods beginning on or after 1 January 2016
- Agriculture – bearer plants (Amendments to IAS 41) — effective for annual periods beginning on or after 1 January 2016
- Equity method in separate financial statements (Amendments to IAS 27) — effective for annual periods beginning on or after 1 January 2016
- Disclosure initiative (amendments to IAS 1) — effective for annual periods beginning on or after 1 January 2016
- Investment entities – applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28) — effective for annual periods beginning on or after 1 January 2016

In addition to the above, amendments to a number of standards under the annual improvements project to IFRS have been endorsed by the EU but not yet adopted

None of these new standards or amendments are expected to have a material impact on the Group's financial statements

(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 Dechra Veterinary Products Sp z o o (which had a year end of 30 November 2015, and the next financial period will have the same reporting date as the Company), and 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)

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 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 assets and liabilities of foreign operations are translated to Sterling at the closing rate at the reporting date The income and expenses are translated to Sterling at the average rate for the period being reported Foreign currency differences 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, 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

1 **Accounting Policies** continued

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 When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when it is recognised In other cases, the amount recognised in other comprehensive income is transferred to the income statement in the same period that the hedged item affects profit or loss

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 according to the original terms of the receivables The amount of the provision is recognised in the income statement in operating expenses

Trade and Other Payables

Trade and other payables are initially recognised at fair value and subsequently at amortised cost

Borrowings and Borrowing Costs

Borrowings are recognised initially at fair value net of directly attributable transaction costs incurred Borrowings are subsequently stated at amortised cost Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method

Borrowings are classified as current liabilities unless the Group has a right to defer settlement of the liability for at least 12 months after the reporting date

Borrowing costs directly attributable to the acquisition, construction, or production of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use All other borrowing costs are recognised in the income statement in the period in which they are incurred

(f) **Property, Plant and Equipment**

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (j))

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 10 years
- motor vehicles 4 years

The residual value, if not insignificant, is reassessed annually

1. Accounting Policies continued

(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 since 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 less accumulated amortisation and impairment losses Expenditure on internally generated goodwill and other intangibles is recognised in the income statement as an expense is incurred

Subsequent Expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates or extends the asset life All other expenditure is expensed as incurred

1 **Accounting Policies** continued

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 Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each consolidated statement of financial position date Other intangible assets are amortised from the date that they are 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

(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 based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity

(i) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits Bank overdrafts that are repayable on demand and form an integral part of the Group s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows

(j) Impairment

The carrying amounts of the Group's assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated

The recoverable amount of assets is the greater of their net selling price and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each consolidated statement of financial position date and when there is an indication that the asset is impaired

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units (group of units), and then to reduce the carrying amount of the other assets in the units (group of units) on a pro-rata basis

An impairment loss in respect of goodwill is not reversed

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

1. Accounting Policies continued

(k) Dividends

Dividends are recognised in the period in which they are approved by the Company's shareholders or, in the case of an interim dividend, when the dividend is paid

(l) Employee Benefits

Pensions

The Group operates a stakeholder personal pension scheme for certain employees Obligations for contributions are recognised as an expense in the income statement as incurred

Dechra Veterinary Products SAS and Dechra Veterinary Products BV participate in state-run pension arrangements These are not considered to be material to the Group financial statements and are accounted for as defined contribution schemes, with contributions being recognised as an expense in the income statement as incurred

The Group sponsors defined benefit arrangements in certain countries the most material being a defined benefit pension plan in the Netherlands This is a funded career average pay arrangement, where pensionable salary is subject to a cap The arrangement is funded through an insurance contract

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods

That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted The liability discount rate is the yield at the Statement of Financial Position date using AA rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations The calculation is performed by a qualified actuary using the projected unit credit method

All actuarial gains and losses that arise in calculating the Group's obligation in respect of a scheme are recognised immediately in reserves and reported in the consolidated statement of comprehensive income Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan

Share-based Payment Transactions

The Group operates a number of equity settled share-based payment programmes that allow employees to acquire shares in the Company The Group also operates a Long Term Incentive Plan for Directors and Senior Executives

The fair value of shares or options granted is recognised as an employee expense over the vesting period on a straight-line basis in the income statement with a corresponding movement to equity reserves Fair values are determined by use of an appropriate pricing model and by reference to the fair value of the options granted The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date

At each consolidated statement of financial position date, the Group revises its estimates of the number of share incentives that are expected to vest The impact of the revisions of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity reserves, over the remaining vesting period

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model, as performed by a qualified third party valuation expert

The fair values of options granted under all other share option schemes have been determined using the Black-Scholes option pricing model, as performed by a qualified third party valuation expert

When the options are exercised, the company issues new shares The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each consolidated statement of financial position date

Bonus and Commission Payments

The Group operates sales incentives schemes for certain employees and third party sales representatives in particular territories

The related bonuses and commissions are accrued in line with the related sales revenues

1 **Accounting Policies** continued

(m) Revenue Recognition

Revenue is recognised in the income statement when goods are supplied to external customers against orders and, title and risk of loss are passed to the customer As sales arrangements differ from time to time (for example by customer and by territory), each arrangement is reviewed to ensure that revenue is recognised when title and risk has passed in full to the customer This review and the corresponding recognition of revenue encompasses a number of factors which include, but are not limited to the following

- reviewing delivery arrangements and whether the buyer has accepted title – we recognise the revenue at the point at which full title has passed, and/or
- where distribution arrangements are in place, recognising when the goods pass to the third party customer (for example by reviewing insurance arrangements) and recognising revenue at the point at which title has passed

Rebates, deductions and discounts are provided for in the same period as the related sales are recorded, and are recognised when reliable estimates can be made of relevant deductions and all relevant obligations have been fulfilled, such that the earnings process is regarded as being complete

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 delivery of the product, or upon full provision of the service

Revenue represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in light of contractual and legal obligations, historical trends, past experience and projected market conditions Market conditions are evaluated using wholesaler and other third party analysis, and internally generated information Value added tax and other sales taxes are excluded from revenue

(n) Leases

Operating Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease Lease incentives received are recognised in the income statement evenly over the period of the lease, as an integral part of the total lease expense

Finance Leases

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the effective interest rate method

(o) Net Financing Costs

Net financing costs comprise interest payable on borrowings, unwinding of discount on provisions, interest receivable on funds invested, gains and losses on hedging instruments that are recognised in the income statement (see accounting policy (e)) and gains or losses on the retranslation of financial assets and liabilities denominated in foreign currencies Interest income is recognised in the income statement as it accrues The Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method

(p) Provisions

Provisions for legal claims, environmental remediation, deferred rent and advanced grants for property, plant and equipment are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been 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

(q) Non-controlling Interests

Non-controlling interests are accounted for at fair value at the time of purchase, and movements in non-controlling interests are recorded in equity at fair value

Transactions with non-controlling interests are recorded directly in equity

1 **Accounting Policies** continued

(r) Basis of Charge for Taxation

Income tax expense comprises current and deferred tax Current and deferred taxes are recognised in the income statement except to the extent that it relates to a business combination or items recognised directly in equity or in other comprehensive income

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the consolidated statement of financial position date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided using the consolidated statement of financial position liability method and represents the tax payable or recoverable on most temporary differences which arise between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes (the tax base) Temporary differences are not provided on goodwill that is not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and do not arise from a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is based upon tax rates enacted or substantively enacted at the consolidated statement of financial position date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised Deferred tax assets are reduced to the extent that it is not probable that the related tax benefit will be realised against future taxable profits The carrying amounts of deferred tax assets are reviewed at each consolidated statement of financial position date

In respect of uncertain tax positions, where an outflow of funds is believed to be probable and a reliable estimate of the outcome of the dispute can be made, management provides for its best estimate of the liability In calculating any such liability a risk based approach is applied which takes into account, as appropriate, the probability that the Group would be able to obtain compensatory adjustments under international tax treaties

The estimated annual benefit of global intellectual property and innovation incentives is accounted for within current and deferred tax.

Current and deferred tax credits received in respect of share-based payments are recognised in the income statement to the extent that they do not exceed the standard rate of taxation on the income statement charge for share-based payments Credits in excess of the standard rate of taxation are recognised directly in equity

(s) Earnings per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the period Diluted EPS is determined by adjusting the profit attributable to ordinary shareholders and the weighted average number of ordinary shares in issue for the effects of all potential dilutive ordinary shares, which comprise share options granted to employees

The Group has also chosen to present an alternative EPS measure, with profit adjusted for non-underlying items A reconciliation of this alternative measure to the statutory measure required by IFRSs is given in notes 4 and 5

2 **Operating Segments**

The Group has three reportable segments, as discussed below, which are based on information provided to the Board of Directors, which is deemed to be the Group's chief operating decision maker Several operating segments which have similar economic characteristics have been aggregated into the reporting segments

The European Pharmaceuticals Segment comprises Dechra Veterinary Products EU, Genera and Dechra Pharmaceuticals Manufacturing This Segment operates internationally and manufactures and markets Companion Animal, Equine and Food producing Animal Products This Segment also includes third party manufacturing and other non-core activities sales The Segment expanded during the year with the acquisition of Genera

The North American (NA) Pharmaceuticals Segment consists of Dechra Veterinary Products US, Putney, Dechra Veterinary Products Canada, and Dechra-Brovel, which sell Companion Animal and Equine Products into those territories The Segment expanded during the prior year with the opening of the Canadian subsidiary, and during the current year with the acquisition of Putney Inc and Laboratorios Brovel S A de C V (now known as Dechra-Brovel S A de C V)

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

2 Operating Segments continued

Reconciliations of reportable segment revenues, profit or loss and liabilities and other material items

		2016 £000	2015 £000
Revenue by segment			
European Pharmaceuticals	– total	**188,859**	168,665
	– inter segment	**–**	(32)
NA Pharmaceuticals	– total	**58,732**	34,870
	– inter segment	**(29)**	(23)
		247,562	203,480
Operating profit/(loss) by segment			
European Pharmaceuticals		**51,653**	48,030
NA Pharmaceuticals		**17,500**	10,637
Pharmaceuticals Research and Development		**(10,355)**	(8,671)
Segment operating profit		**58,798**	49,996
Corporate and other unallocated costs		**(5,941)**	(5,645)
Underlying operating profit		**52,857**	44,351
Amortisation of acquired intangibles		**(20,149)**	(17,871)
Impairment of acquired intangibles and associated deferred consideration		**(1,675)**	–
Fair value uplift of inventory acquired through business combinations		**(6,070)**	–
Rationalisation costs of acquired entities		**(1,581)**	(9)
Expenses relating to acquisition activities		**(3,889)**	(491)
Total operating profit		**19,493**	25,980
Finance income		**21**	2,242
Finance expense		**(4,966)**	(2,416)
Profit before taxation		**14,548**	25,806
Total liabilities by segment			
European Pharmaceuticals		**(47,498)**	(24 567)
NA Pharmaceuticals		**(15,890)**	(11,486)
Pharmaceuticals Research and Development		**(776)**	(710)
Segment liabilities		**(64,164)**	(36,763)
Corporate loans and revolving credit facility		**(155,741)**	(32,519)
Corporate accruals and other payables		**(6,768)**	(3 410)
Current and deferred tax liabilities		**(57,466)**	(26,347)
		(284,139)	(99,039)
Revenue by product category			
CAP		**137,686**	113,888
Equine		**20,518**	17,040
FAP		**38,101**	27,278
Diets		**24,383**	25,575
Other		**26,874**	19,699
		247,562	203,480
Additions to intangible non-current assets by segment (including through business combinations)			
European Pharmaceuticals		**15,809**	802
NA Pharmaceuticals		**165,790**	–
Pharmaceuticals Research and Development		**55**	422
Corporate and central costs		**2,404**	454
		184,058	1,678

2 Operating Segments continued

	2016 £000	2015 £000
Additions to Property, Plant and Equipment by segment (including through business combinations)		
European Pharmaceuticals	**19,443**	1,688
NA Pharmaceuticals	**924**	214
Pharmaceuticals Research and Development	**36**	102
Corporate and central costs	**69**	77
	20,472	2,081
Depreciation and amortisation by segment		
European Pharmaceuticals	**18,984**	17,156
NA Pharmaceuticals	**5,901**	3,828
Pharmaceuticals Research and Development	**345**	497
Corporate and central costs	**85**	57
	25,315	21,538

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

	2016 Revenue £000	2016 Non-current assets £000	2015 Revenue £000	2015 Non-current assets £000
UK	**61,086**	**19,624**	59,673	17,368
Germany	**34,105**	**2,326**	34,052	1 983
Rest of Europe	**85,128**	**162,138**	65,796	123,976
USA	**53,912**	**211,368**	32,848	41,576
Rest of World	**13,331**	**2,840**	11,111	–
	247,562	**398,296**	203,480	184,903

3. Finance Income

	2016 £000	2015 £000
Finance income arising from		
– Cash and cash equivalents	**21**	23
– Loans and receivables	**–**	3
– Foreign exchange gains	**–**	2,216
	21	2,242

4 Finance Expense

Underlying	2016 £000	2015 £000
Finance expense arising from		
– Financial liabilities at amortised cost	**2,372**	1,460
– Net interest on net defined benefit obligations	**17**	36
– Foreign exchange losses	**811**	–
Underlying finance expense	**3,200**	1,496

Non-underlying	2016 £000	2015 £000
Loss on extinguishment of debt (note 20)	**844**	392
Fair value and other movements on deferred and contingent consideration	**922**	528
Non-underlying finance expense	**1,766**	920
Total finance expense	**4,966**	2,416

5 Non-underlying Items

Non-underlying items comprise

	2016 £000	2015 £000
Amortisation of acquired intangibles	**20,149**	17 871
Impairment of acquired intangibles and associated deferred consideration	**1,675**	–
Fair value uplift of inventory acquired through business combinations	**6,070**	–
Rationalisation costs of acquired entities	**1,581**	9
Expenses relating to acquisition activities	**3,889**	491
	33,364	18,371

Rationalisation costs relate to the integration and restructuring programmes implemented since the acquisitions of Genera d d and Putney Inc

Expenses relating to acquisition activities includes legal and professional fees incurred during the acquisitions

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

Impairment of acquired intangibles and associated deferred consideration includes the impairment of a US generic pharmaceutical product following the acquisition of Putney Inc , as Putney have already developed a similar product It also includes the impairment of an acquired intangible due to the cessation of sales following a competitor registration in the US

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

6 Profit Before Taxation

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

	2016 £000	2015 £000
Cost of inventories recognised as an expense	**104,221**	82,319
Impairment of inventories included in above figure	**988**	336
Depreciation of property, plant and equipment		
– owned assets	**3,761**	2,412
– under finance leases	**2**	–
Amortisation of intangible assets	**21,552**	19,126
Loss on disposal of property, plant and equipment	**69**	–
Impairment of intangible assets	**4,162**	45
Impairment of receivables	**93**	97
Operating lease rentals payable	**2,543**	2,624
Research and development expenditure as incurred	**10,355**	8,671
Auditor's remuneration	**559**	304
Analysis of total fees paid to the Auditor*		
Audit of these financial statements	**186**	50
Audit of financial statements of subsidiaries pursuant to legislation	**317**	215
Other services pursuant to legislation	**35**	30
Other assurance services	**21**	3
Other tax advisory services	**–**	6
Total fees paid to Auditor	**559**	304

* Fees paid to the Auditor in 2015 were paid to KPMG LLP

7 Employees

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

	2016 Number	2015 Number
Manufacturing	**417**	309
Distribution	**121**	89
Administration	**770**	465
Total	**1,308**	863

The costs incurred in respect of these employees were

	2016 £000	2015 £000
Wages and salaries	**44,331**	35,618
Social security costs	**6,748**	5,671
Other pension costs	**3,039**	2,076
Share-based payments charge (see note 27)	**2,386**	2,248
Total	**56,504**	45,613

Related party transactions – the remuneration of key management was as follows

	2016 £000	2015 £000
Short term employee benefits	**4,350**	4,213
Post-employment benefits	**251**	229
Share-based payments charge	**1,332**	1,477
	5,933	5,919

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 79 to 90

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 £3,039,000 (2015 £2,076,000) Contributions to defined benefit pension schemes included in the above figures total £581,000 (2015 £594,000)

8 Income Tax Expense

		2016 £000	2015 £000
Current tax	— UK corporation tax	**1,629**	2,146
	— overseas tax at prevailing local rates	**7,755**	6,185
	— adjustment in respect of prior years	**(218)**	257
Total current tax expense		**9,166**	8,588
Deferred tax	— origination and reversal of temporary differences	**(7,178)**	(3,123)
	— adjustment in respect of prior years	**48**	882
Total deferred tax expense		**(7,130)**	(2,241)
Total income tax expense in the Consolidated Income Statement		**2,036**	6,347

The tax on the Group's profit before tax differs from the standard rate of UK corporation tax of 20 0% (2015 20 75%) The differences are explained below

	2016 £000	2015 £000
Profit before taxation	**14,548**	25,806
Tax at 20 0% (2015 20 75%)	**2,910**	5,355
Effect of		
— expenses not deductible	**235**	434
— acquisition expenses	**167**	—
— one-off costs (FX/acquisition costs) in relation to the acquisition of Putney Inc	**1,314**	—
— research and development related tax credits	**(231)**	—
— patent box tax credits	**(1,118)**	(923)
— impact of financing (income not taxable)	**(405)**	(387)
— effects of overseas tax rates	**(608)**	587
— adjustments in respect of prior years	**(170)**	1,139
— difference between current and deferred tax rates	**4**	150
— change in tax rates	**(62)**	(8)
Total income tax expense in the Consolidated Income Statement	**2,036**	6,347

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

Tax Credit/(Charge) Recognised Directly in Equity

	2016 £000	2015 £000
Corporation tax on foreign currency translation	**1,234**	—
Deferred tax on effective portion of changes in fair value of cash flow hedges	**—**	(4)
Deferred tax on employee benefit obligations	**385**	97
Tax recognised in Consolidated Statement of Comprehensive Income	**1,619**	93
Corporation tax on equity settled transactions	**1,366**	157
Deferred tax on equity settled transactions	**112**	319
Total tax recognised in Equity	**1,478**	476

The Government has announced that it intends to reduce the rate of corporation tax to 17% with effective from 1 April 2020 As this legislation was not substantively enacted as at 30 June 2016, the impact of the anticipated rate change is not reflected in the tax provisions reported in these accounts Finance Act 2015 (No 2), which was substantively enacted in October 2015, included provisions to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and 18% from 1 April 2020 Accordingly, deferred tax balances have been revalued to the lower rate of 19% in these accounts which has resulted in a credit to the Consolidated Income Statement of £63,000 and a debit to retained earnings of £36,000 To the extent that the deferred tax reverses after 1 April 2020, then the impact on the net deferred tax liability will be reduced

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 BEPS actions

9 Dividends

	2016 £000	2015 £000
Final dividend paid in respect of prior year but not recognised as a liability in that year 11 82 pence per share (2015 10 65 pence per share)	**10,401**	9,355
Interim dividend paid 5 55 pence per share (2015 5 12 pence per share)	**4,891**	4,502
Total dividend 17 37 pence per share (2015 15 77 pence per share) recognised as distributions to equity holders in the period	**15,292**	13,857
Proposed final dividend for the year ended 30 June 2016 12 91 pence per share (2015 11 82 pence per share)	**11,974**	10,398
Total dividend paid and proposed for the year ended 30 June 2016 18 46 pence per share (2015 16 94 pence per share)	**16,865**	14,900

In accordance with IAS 10 'Events After the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2016 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 2017 There are no income tax consequences The final dividend for the year ended 30 June 2015 is shown as a deduction from equity in the year ended 30 June 2016

10. 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

	2016 Pence	2015 Pence
Basic earnings per share		
– Underlying*	**42.95**	40 17
– Basic	**14 00**	22 14
Diluted earnings per share		
– Underlying*	**42 65**	39 90
– Diluted	**13 90**	21 99

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

	2016 £000	2015 £000
Earnings for underlying basic and underlying diluted earnings per share	**38,390**	35,307
Earnings for basic and diluted earnings per share	**12,512**	19,459

	Number	Number
Weighted average number of ordinary shares for basic earnings per share	**89,380,414**	87,890,277
Impact of share options	**628,307**	604,887
Weighted average number of ordinary shares for diluted earnings per share	**90,008,721**	88,495,164

* Underlying measures exclude non-underlying items as defined in the Consolidated Income Statement on page 107

At 30 June 2016, there are 309,407 options that are excluded from the EPS calculations as they are not dilutive for the period presented but may become dilutive in the future

11 Intangible Assets

	Goodwill £000	Software £000	Development costs £000	Patent rights £000	Marketing authorisations £000	Acquired intangibles £000	Total £000
Cost							
At 1 July 2014	54,978	5,587	9,777	3,680	853	198,148	273,023
Additions	–	643	1,035	–	–	–	1,678
Disposals	–	(52)	(86)	–	–	–	(138)
Foreign exchange adjustments	(5,652)	(515)	(86)	–	–	(12,534)	(18,787)
At 30 June 2015 and 1 July 2015	49,326	5,663	10,640	3,680	853	185 614	255,776
Additions	–	2,796	570	1 337	–	–	4,703
Acquisitions through business combinations	56,350	108	–	–	–	122,897	179,355
Impairment	–	(151)	(1,537)	–	–	(4,277)	(5,965)
Foreign exchange adjustments	11,830	752	592	–	–	36,755	49,929
At 30 June 2016	**117,506**	**9,168**	**10,265**	**5,017**	**853**	**340,989**	**483,798**
Amortisation							
At 1 July 2014	–	2,269	4 793	1 802	–	67,977	76,841
Charge for the year	–	187	732	336	–	17,871	19,126
Disposals	–	(52)	(41)	–	–	–	(93)
Foreign exchange adjustments	–	(178)	(186)	–	–	(6,418)	(6,782)
At 30 June 2015 and 1 July 2015	–	2,226	5,298	2,138	–	79,430	89,092
Charge for the year	–	202	796	405	–	20,149	21,552
Impairment	–	(151)	(1,319)	–	–	(333)	(1,803)
Foreign exchange adjustments	–	264	354	–	–	13 958	14,576
At 30 June 2016	**–**	**2,541**	**5,129**	**2,543**	**–**	**113,204**	**123,417**
Net book value							
At 30 June 2016	**117,506**	**6,627**	**5,136**	**2,474**	**853**	**227,785**	**360,381**
At 30 June 2015	49,326	3,437	5,342	1,542	853	106,184	166,684

	2016 £000	2015 £000
Software assets in the course of construction included above	**1,451**	1,121

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 13

11. Intangible Assets continued

In accordance with the disclosure requirements of IAS 38 'Intangible Assets', the components of acquired intangibles are summarised below

	Commercial relationships £000	Brand £000	Capitalised development costs £000	Product rights £000	Total £000
Cost					
At 1 July 2014	–	–	23,337	174 811	198,148
Foreign exchange adjustments	–	–	(2,618)	(9,916)	(12,534)
At 30 June 2015 and 1 July 2015	–	–	20,719	164,895	185,614
Acquired through business combinations	1 370	11,546	109,981	–	122,897
Impairment	–	–	–	(4,277)	(4,277)
Foreign exchange adjustments	192	886	12,024	23,653	36,755
At 30 June 2016	**1,562**	**12,432**	**142,724**	**184,271**	**340,989**
Amortisation					
At 1 July 2014	–	–	4,434	63,543	67,977
Charge for the year	–	–	2,233	15,638	17,871
Foreign exchange adjustments	–	–	(658)	(5,760)	(6,418)
At 30 June 2015 and 1 July 2015	–	–	6,009	73,421	79,430
Charge for the year	188	309	4,126	15,526	20,149
Impairment	–	–	–	(333)	(333)
Foreign exchange adjustments	19	24	1,364	12,551	13,958
At 30 June 2016	**207**	**333**	**11,499**	**101,165**	**113,204**
Net book value					
At 30 June 2016	**1,355**	**12,099**	**131,225**	**83,106**	**227,785**
At 30 June 2015	–	–	14,710	91,474	106 184

The amortisation charge is recognised within administrative expenses in the Consolidated Income Statement

During the year, the Company has acquired £122 9 million of intangible assets through the acquisitions of Genera d d , Putney Inc , and Laboratorios Brovel S A de C V (Brovel) These assets principally relate to acquired development costs, in addition to customer relationships, and brand intangibles The amortisation period of these assets is 10 to 15 years for the acquired development costs, 7 years for the customer relationships, and 3 to 10 years for the brand intangibles

The remaining principal assets within acquired intangibles are the development costs and product rights recognised on the acquisitions of Dechra Veterinary Products Holding A/S, DermaPet Inc , Genitrix® Limited and Eurovet Animal Health B V The carrying value of these assets at 30 June 2016 was £91 6 million with a remaining amortisation period of 1½ years, 9½ years, 4½ years and 6 years respectively The other significant assets within acquired intangibles are the product rights recognised on the acquisition of Pharmaderm Animal Health and *HY-50* The carrying values at 30 June 2016 were £1 0 million and £2 9 million with a remaining amortisation period of 7 years and 5½ years respectively

In May 2014, the Company completed the purchase of product rights to *Phycox*, which competes in the US veterinary joint health supplement market The carrying value of these assets at 30 June 2016 was £5 2 million, with a remaining amortisation period of 8 years The product rights in relation to *Levocrine*® have been written off during the year, resulting in a loss of £0 6 million

The Company previously completed a licensing, supply and distribution agreement for a branded veterinary generic pharmaceutical product from a US pharmaceutical development company £3 3 million was written off in relation to this asset during the year following the acquisition of Putney Inc , who had already developed a similar product

The principal 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 2016 was £0 6 million with a remaining amortisation period of 2½ years The rights to *Equidone*®, which was launched in the US during 2011, has a carrying value of £0 5 million with a remaining amortisation period of 5 years During the year, £0 9 million and £0 4 million was added to patent rights for new in-licenced products within EU and Canada respectively, with remaining amortisation periods of 4½ years and 9½ years respectively

£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

12 Property, Plant and Equipment

	Freehold land and buildings £000	Short leasehold buildings £000	Motor vehicles £000	Plant and fixtures £000	Total £000
Cost					
At 1 July 2014	19,644	3 920	122	17,715	41,401
Additions	–	233	15	1,833	2,081
Disposals	–	–	(2)	(295)	(297)
Foreign exchange adjustments	(2,108)	(25)	(10)	(817)	(2,960)
At 30 June 2015 and 1 July 2015	17,536	4,128	125	18,436	40,225
Additions	142	167	2	2,491	2,802
Acquired through business combinations	11,554	51	215	5,850	17,670
Disposals	(98)	(7)	(67)	(202)	(374)
Foreign exchange adjustments	4,421	15	(19)	2,516	6,933
At 30 June 2016	**33,555**	**4,354**	**256**	**29,091**	**67,256**
Depreciation					
At 30 June 2014	8,755	1,895	106	12,387	23,143
Charge for the year	582	252	10	1,568	2,412
Disposals	–	–	(2)	(295)	(297)
Foreign exchange adjustments	(1,023)	(1)	(8)	(823)	(1,855)
At 30 June 2015 and 1 July 2015	8,314	2,146	106	12,837	23,403
Charge for the year	1,007	308	42	2,406	3,763
Disposals	(98)	(7)	–	(200)	(305)
Foreign exchange adjustments	1,453	8	(29)	1,245	2,677
At 30 June 2016	**10,676**	**2,455**	**119**	**16,288**	**29,538**
Net book value					
At 30 June 2016	**22,879**	**1,899**	**137**	**12,803**	**37,718**
At 30 June 2015	9,222	1,982	19	5,599	16,822
Net book value of assets held under finance leases					
At 30 June 2016	**–**	**43**	**–**	**–**	**43**
At 30 June 2015	–	–	–	–	–

	2016 £000	2015 £000
Contracted capital commitments	**112**	1,186
Assets in the course of construction included above	**269**	28

13 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 3% (2015 3%) per annum in years three and four,
- Thereafter, a terminal value is calculated based on year four cash flows, and assuming a long term growth rate of 0% (2015 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

13. Impairment Reviews continued

Value in use calculations were performed at 30 June 2016 for the following assets

	2016			
Cash generating unit	**Goodwill carrying value £000**	**Indefinite life assets carrying value £000**	**Total value £000**	**Pre-tax discount rate %**
Dechra Veterinary Products EU	**54,510**	**853**	**55,363**	**12 3**
Dechra Veterinary Products NA	**60,765**	**–**	**60,765**	**13 5**
Dechra Pharmaceuticals Manufacturing – Skipton	**2,231**	**–**	**2,231**	**11 1**
	117,506	**853**	**118,359**	

	2015			
Cash generating unit	Goodwill carrying value £000	Indefinite life assets carrying value £000	Total value £000	Pre-tax discount rate %
Dechra Veterinary Products EU	46,691	853	47,544	11 0
Dechra Veterinary Products NA	404	–	404	13 3
Dechra Pharmaceuticals Manufacturing – Skipton	2,231	–	2,231	10 1
	49,326	853	50,179	

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 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 1% and a reduction in the growth rate to nil would still not result in the requirement for an impairment provision

14 Deferred Taxes

(a) Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities		Net	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Intangible assets	**–**	–	**(64,028)**	(17,235)	**(64,028)**	(17,235)
Property, plant and equipment	**–**	–	**(3,604)**	(1,806)	**(3,604)**	(1,806)
Inventories	**–**	165	**(321)**	–	**(321)**	165
Receivables/payables	**1,191**	480	**–**	–	**1,191**	480
Share-based payments	**1,370**	1,210	**–**	–	**1,370**	1,210
Losses	**10,951**	99	**–**	–	**10,951**	99
R&D tax credits	**162**	129	**–**	–	**162**	129
Employee benefit obligations	**907**	667	**–**	–	**907**	667
	14,581	2,750	**(67,953)**	(19,041)	**(53,372)**	(16,291)

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

A deferred tax asset of £10,655,000 in relation to losses arising on the acquisition of Putney Inc has been recognised as future taxable profits associated with the future sale of products are expected to be available for offset

14 Deferred Taxes continued

(b) Unrecognised Deferred Tax

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognised is £nil (2015 £nil) The estimated unprovided deferred tax liability in relation to these temporary differences is £nil (2015 £nil)

Deferred tax assets in relation to losses amounting to £386,000 (2015 £6,000) have not been recognised due to uncertainty over their recoverability Included within unrecognised losses are £384,000 of losses which expire in 2030 Other losses may be carried forward indefinitely

(c) Movements during the Year

	Balance at 1 July 2014 £000	Recognised in income £000	Disposals £000	Recognised in equity £000	Foreign exchange adjustments £000	Balance at 30 June 2015 £000
Intangible assets	(21,738)	2,072	–	–	2,431	(17,235)
Property, plant and equipment	(1,641)	(293)	–	–	128	(1,806)
Inventories	477	(342)	–	–	30	165
Receivables/payables	303	179	–	(4)	2	480
Share-based payments	719	172	–	319	–	1,210
Losses	90	9	–	–	–	99
R&D tax credits	–	129	–	–	–	129
Employee benefit obligations	292	315	–	97	(37)	667
	(21,498)	2,241	–	412	2,554	(16,291)

	Balance at 1 July 2015 £000	Recognised in income £000	Acquired through business combinations £000	Recognised in equity/OCI £000	Foreign exchange adjustments £000	**Balance at 30 June 2016 £000**
Intangible assets	(17,235)	3,824	(45,009)	–	(5,608)	**(64,028)**
Property, plant and equipment	(1,806)	(127)	(1,289)	–	(382)	**(3,604)**
Inventories	165	2,698	(3,102)	–	(82)	**(321)**
Receivables/payables	480	689	(93)	–	115	**1,191**
Share-based payments	1,210	48	–	112	–	**1,370**
Losses	99	197	9,919	–	736	**10,951**
R&D tax credits	129	13	–	–	20	**162**
Employee benefit obligations	667	(212)	–	385	67	**907**
	(16,291)	7,130	(39,574)	497	(5,134)	**(53,372)**

Deferred tax assets and liabilities are analysed in the statement of financial position, after offset of balances within countries as follows

	2016	2015
Deferred tax asset	**197**	1,397
Deferred tax liability	**(53,569)**	(17,688)
	(53,372)	(16,291)

15 Inventories

	2016 £000	2015 £000
Raw materials and consumables	**13,375**	10,131
Work in progress	**4,378**	1,159
Finished goods and goods for resale	**36,622**	20,454
	54,375	31,744

Included in finished goods and goods for resale is £5,188,000 of inventory held at net realisable value having been acquired through business combinations

16. Trade and Other Receivables

	2016 £000	2015 £000
Trade receivables	**59,232**	27,705
Other receivables	**8,084**	1,268
Available for sale financial assets (note 23)	**129**	579
Prepayments and accrued income	**1,493**	1,380
	68,938	30,932

17 Cash and Cash Equivalents

	2016 £000	2015 £000
Cash at bank and in hand	**39,142**	45,948

18 Trade and Other Payables

	2016 £000	2015 £000
Trade payables	**24,326**	10 370
Other payables	**17,210**	7,813
Derivative financial instruments	**50**	138
Other taxation and social security	**5,147**	3,861
Accruals and deferred income	**13,487**	8,843
	60,220	31,025

19 Current Tax Liabilities

	2016 £000	2015 £000
Corporation tax payable	**3,897**	8,659

20. Borrowings

	2016 £000	2015 £000
Current liabilities		
Bank loans	**1,648**	–
Finance lease obligations	**24**	8
	1,672	8
Non-current liabilities		
Bank loans	**154,435**	33,496
Arrangement fees netted off	**(342)**	(977)
	154,093	32,519
Total borrowings	**155,765**	32 527

In April 2016, the Group refinanced its existing bank facility, which gave rise to a loss on extinguishment of debt of £0 8 million in the year ending 30 June 2016 The Group's revised borrowing facility comprises a £150 0 million multi-currency revolving credit facility and a £30 0 million Accordion facility committed until September 2019 and various finance lease obligations

If the borrowings drawn down in foreign currencies exceed the £150 0 million limit at the reset date according to the exchange rates on the reset date, then resetting of foreign currency borrowings occurs and a repayment is required to ensure the movements in foreign exchange rates do not result in the committed revolving credit facility being exceeded At the year end exchange rates the drawn down borrowings in US Dollars and Euros equated to £151 6 million, of which the £1 6 million above the £150 0 million has been classified as a current liability At the last reset date in July 2016, the Group chose to repay £5 7 million to reduce the borrowings below the £150 0 million facility limit No further repayments were required at the August 2016 reset date

20 Borrowings continued

The revised borrowing facility is not secured on any specific assets of the Group but is supported by a joint and several cross-guarantee structure Interest will be charged at 1 3% over LIBOR All covenants were met during the year ended 30 June 2016

Genera also has borrowing facilities of £7 4 million of which £4 4 million was drawn down at 30 June 2016 Interest is fixed at 3 2%

The maturity of the bank loans and overdrafts is as follows

	2016 £000	2015 £000
Payable		
Within one year	**1,648**	–
Between two and five years	**154,093**	32,519
	155,741	32,519

The minimum lease payments and the present value of minimum lease payments payable under finance lease obligations are

	Minimum lease payments		Present value of minimum lease payments	
	2016 £000	2015 £000	**2016 £000**	2015 £000
Within one year	**24**	8	**24**	8
Total minimum lease payments	**24**	8	**24**	8
Future finance charges	**2**	–	**2**	–
Present value of lease obligations	**26**	8	**26**	8

Further information on the interest profile of borrowings is shown in note 23

21 Provisions

	Deferred Rent £'000	Provision for PPE grant £'000	Environmental Health & Safety £'000	**Total £'000**
At start of period	–	–	–	**–**
Impairment provision recognised/(released)	26	–	–	**26**
Acquired through business combinations	(546)	(2,644)	(402)	**(3,592)**
FX differences	(39)	(334)	(30)	**(403)**
Impairment provision utilised		375	260	**635**
At end of period	(559)	(2,603)	(172)	**(3,334)**

The Group has received advanced payment for rental income on its facilities in Portland This has been recognised at amortised cost and is being utilised over the period of the rental contract

Genera has received advanced funding for the refurbishment of the manufacturing facility for a third party manufacturing contract The funding has been recognised at amortised cost and is being utilised over the life of the property, plant and equipment

On the acquisition of Genera, the Group acquired a fair value provision to address existing legal and environmental compliance A provision is recognised at the present value of the costs to be incurred for the remediation of the manufacturing site

22. 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 £187,000 (2015 £53,000) for employees in the Netherlands are recognised within other payables in the Consolidated Statement of Financial Position as at 30 June 2016

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

22 Employee Benefit Obligations continued

The major actuarial assumptions used by the actuary were

	2016	2015
Discount rate	**1 50%**	2 80%
Inflation assumption	**1 80%**	1 80%
Salary growth	**2 30%**	2 30%
Rate of increase in accrued pensions of active members	**1 00%**	1 00%
Rate of increase in pensions in payment	**0 00%**	0 00%
Rate of increase in pensions in deferment	**0 00%**	0 00%

In valuing the liabilities of the pension scheme at 30 June 2016 and 30 June 2015, mortality assumptions have been made as indicated below

The mortality assumption follows the Prognosetafel AG2014 (2015 Prognosetafel AG2014) mortality tables with an experience adjustment in line with the ES-P2 tables as published by the Dutch Alliance of Insurers

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

	2016 £000	2015 £000
Present value of funded defined benefit obligations	**(17,360)**	(7,210)
Fair value of scheme assets	**13,639**	5,899
Net pension scheme deficit	**(3,721)**	(1,311)

Movements in Present Value of Defined Benefit Obligations

	2016 £000	2015 £000
Defined benefit obligation at beginning of the period	**7,210**	5 927
Service cost	**867**	702
Interest cost	**211**	203
Employee contributions	**165**	158
Remeasurement loss	**6,848**	900
Foreign exchange difference on translation	**2,059**	(680)
Defined benefit obligations at end of the period	**17,360**	7,210

Movements in Fair Value of Scheme Assets

	2016 £000	2015 £000
Fair value of scheme assets at beginning of the period	**5,899**	4,857
Interest income	**194**	167
Additional charges	**(124)**	(116)
Employer contributions	**581**	594
Employee contributions	**165**	158
Remeasurement gain	**5,297**	789
Foreign exchange difference on translation	**1,627**	(550)
Fair value of scheme assets at end of the period	**13,639**	5,899

Analysis of the Amount Charged to the Income Statement

	2016 £000	2015 £000
Service cost	**867**	702
Net interest cost	**17**	36
Additional charges	**124**	116
Net pension expense	**1,008**	854

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

	2016 £000	2015 £000
Amounts charged in previous periods	**1,019**	908
Actuarial loss on defined benefit pension scheme	**1,551**	111
Net pension expense	**2,570**	1,019

22 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

	2016	2015
	£000	£000
Discount rate used to value assets	**1 50%**	2 80%
Total fair value of assets	**13,639**	5,899
Actual return on scheme assets	**194**	167

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 £819 000 (2015 £621,000)

History of Amounts in the Current Penod

	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
Present value of funded defined benefit obligations	**(17,360)**	(7,210)	(5,927)	(4,722)	(2,801)
Fair value of scheme assets	**13,639**	5,899	4,857	3,726	2,438
Deficit in the scheme	**(3,721)**	(1,311)	(1,070)	(996)	(363)

23 Financial Instruments and Related Disclosures

The Group's financial instruments comprise cash deposits, bank loans and overdrafts, finance lease obligations, derivatives used for hedging purposes and trade receivables and payables

Treasury Policy

The Group reports in Sterling and pays dividends out of Sterling profits The role of the Group's treasury activities is to manage and monitor the Group's external and internal funding requirements and financial risks in support of the Group's corporate activities

The Board of Directors has approved a policy which governs all treasury activities

The Group uses a variety of financial instruments, including derivatives, to finance its operations and to manage market risks from these operations Derivatives, principally comprising forward foreign currency contracts, foreign currency options and interest rate swaps, are used to hedge against changes in foreign currencies and interest rates Hedges of net investments in foreign operations are also used in the management of foreign currency risk

The Group does not hold or issue derivative financial instruments for speculative purposes and the Group's treasury policy specifically prohibits such activity All transactions in financial instruments are undertaken to manage the risks arising from underlying business activities, not for speculation

Capital Management

The capital structure of the Group consists of net borrowings and shareholders' equity At 30 June 2016, net borrowings was £116 6 million (2015 net cash was £13 4 million), whilst shareholders' equity was £276 6 million (2015 £194 5 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 EBITDA The Group complied with these covenants in 2016 and 2015

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

23 Financial Instruments and Related Disclosures continued

The Group's policy is to maintain borrowing facilities centrally which are then used to finance the Group's operating subsidiaries, either by way of equity investments or loans

Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments

- liquidity risk
- market risk
- credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk

Liquidity Risk

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities as they fall due Cash flows and covenants of the Group are monitored quarterly These are reviewed to ensure sufficient financial headroom exists for at least a 12 month period

The Group manages its funding requirements through the following lines of credit

- £150 0 million multi-currency revolving credit facility,
- an Accordion facility of £30 0 million,
- £7 4 million bank loans, and
- various finance leases

The Group's revised borrowing facilities at 30 June 2016 are detailed in note 20

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates or interest rates, will affect the Group's income or the value of its holding of financial instruments

Interest Rate Risk Management

The majority of the Group's borrowings bear interest at floating rates linked to base rate or LIBOR and are consequently exposed to cash flow interest rate risk

The Group has hedged interest rate risk on a proportion of its revolving credit facility by means of an interest rate swap arrangement whereby the Group's exposure to fluctuations in LIBOR is fixed at a rate of 1 3% on the revolving credit facility The amount of the revolving credit outstanding at 30 June 2016 was £151 6 million at the year end exchange rates (2015 £32 5 million) Refer to note 20 for details on resetting the foreign currency drawn down balances at the reset dates The hedge is in place until 31 October 2016

Foreign Exchange Risk Management

Foreign currency transaction exposure arising on normal trade flows is not hedged The Group matches receipts and payments in the relevant foreign currencies as far as possible To this end, bank accounts are maintained for all the major currencies in which the Group trades Translational exposure in converting the income statements of foreign subsidiaries into the Group's presentational currency of Sterling is not hedged

The Group hedges selectively expected currency cash flows outside normal trading activities During the year the Group designated a US dollar loan of $120 0 million, as a net investment hedge of US dollar net assets

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations

The Group considers its maximum credit risk to be £67 4 million (2015 £29 6 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

The principal customers of the Pharmaceuticals Segments are European, US, Canadian and Rest of World 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 accounted for approximately 11 8% of gross trade receivables at 30 June 2016 (2015 13 8%) This customer accounted for 14 5% of total Group revenues No other customer accounted for more than 10% of total Group revenues (2015 none)

Receivables are written off against the impairment provision when management considers the debt to be no longer recoverable

23 Financial Instruments and Related Disclosures continued

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 2016 and 30 June 2015 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

Analysis of Financial Instruments

The financial instruments of the Group are analysed as follows

	2016		2015	
	Carrying value £000	**Fair value £000**	Carrying value £000	Fair value £000
Financial assets				
Cash and cash equivalents	**39,142**	**39,142**	45,948	45,948
	39,142	**39,142**	45,948	45,948
Available for sale financial instruments	**129**	**129**	579	579
Loans and receivables				
— trade receivables	**59,232**	**59,232**	27,705	27 705
— other receivables	**8,084**	**8,084**	1,268	1,268
	67,445	**67,445**	29,552	29 552
Total financial assets	**106,587**	**106,587**	75,500	75,500
Financial liabilities				
Bank loans and overdrafts	**(155,741)**	**(155,741)**	(32,519)	(32,519)
Held for trading financial liabilities				
— derivatives designated as hedges	**(50)**	**(50)**	(138)	(138)
Finance lease liabilities	**(24)**	**(24)**	(8)	(8)
Trade payables	**(24,326)**	**(24,326)**	(10,370)	(10,370)
Other payables	**(17,210)**	**(17,210)**	(7,813)	(7,813)
Deferred and contingent consideration	**(3,633)**	**(3,633)**	(7,829)	(7,829)
Total financial liabilities	**(200,984)**	**(200,984)**	(58,677)	(58,677)
Net financial (liabilities)/assets	**(94,397)**	**(94,397)**	16,823	16,823

In March 2015, the Group made an investment of US$1 million in Jaguar Animal Health Inc (Jaguar) to potentially gain access to the EU marketing rights for a companion animal product At 30 June 2016, the Company holds 178,571 shares in Jaguar following its IPO The Company also holds 89,286 warrants, which are valid for three years The shares and warrants have been classified as available for sale financial instruments and have been valued at fair value at the period end, with any gains or losses being recognised in the Consolidated Statement of Comprehensive Income

Fair Value Hierarchy

The table below analyses the Group's financial instruments carried at fair value, by valuation method Where possible, quoted prices in active markets are used (Level 1) Where such prices are not available, the asset or liability is classified as Level 2, provided all significant inputs to the valuation model used are based on observable market data If one or more of the significant inputs to the valuation model is not based on observable market data, the instrument is classified as Level 3 There were no transfers between Level 1 and Level 2 during the year

30 June 2016	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Available for sale financial instruments	**129**	**—**	**—**	**129**
Derivative financial liabilities	**—**	**(50)**	**—**	**(50)**
Deferred and contingent consideration for business combinations	**—**	**—**	**(3,633)**	**(3,633)**
Total	**129**	**(50)**	**(3,633)**	**(3,554)**

23 Financial Instruments and Related Disclosures continued

30 June 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial instruments	579	–	–	579
Derivative financial liabilities	–	(138)	–	(138)
Deferred and contingent consideration for business combinations	–	–	(7,829)	(7,829)
Total	579	(138)	(7,829)	(7,388)

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

At 30 June 2016, the deferred and contingent consideration balance is made up of £0 6 million in relation to the Brovel acquisition, and £3 0 million in relation to the *Phycox* acquisition Movements in deferred and contingent consideration consist of a £3 2 million payment in the period in relation to the DermaPet acquisition, £0 5 million increase due to foreign exchange differences and £2 0 million write-off in relation to a US generic pharmaceutical, addition of £0 6 million in relation to the Brovel acquisition, and payments of £0 5 million and £0 4 million of unwinding of discount in relation to the *Phycox* acquisition

Credit Risk – Overdue Financial Assets
The following table shows financial assets which are overdue and for which no impairment provision has been made

	2016 £000	2015 £000
Overdue by		
Up to one month	**3,524**	3,858
Between one and two months	**1,844**	389
Between two and three months	**259**	–
Over three months	**200**	42
	5,827	4,289

The movement in the impairment provision was as follows

	2016 £000	2015 £000
At start of period	**263**	176
Impairment provision recognised	**93**	97
Acquired through business combinations	**2,327**	–
Foreign exchange differences	**291**	–
Impairment provision utilised	**(138)**	(10)
At end of period	**2,836**	263

Liquidity Risk – Contracted Cash Flows of Financial Liabilities
The following table shows the cash flow commitments of the Group in respect of financial liabilities excluding derivatives at 30 June 2016 and 30 June 2015 Where interest is at floating rates, the future interest payments have been estimated using current interest rates

At 30 June 2016	**Deferred and contingent consideration £000**	**Bank loans and overdrafts £000**	**Finance leases £000**	**Trade and other payables £000**	**Total £000**
Carrying value	**(3,633)**	**(156,083)**	**(24)**	**(41,536)**	**(201,276)**
Arrangement fees netted off	**–**	**342**	**–**	**–**	**342**
Future interest	**(1,273)**	**(632)**	**(2)**	**–**	**(1,907)**
Total committed cash flow	**(4,906)**	**(156,373)**	**(26)**	**(41,536)**	**(202,841)**
Payable					
Within 6 months	**(234)**	**(632)**	**(5)**	**(41,536)**	**(42,407)**
Between 6 months and 1 year	**(234)**	**–**	**(5)**	**–**	**(239)**
Between 1 and 2 years	**(789)**	**–**	**(8)**	**–**	**(797)**
Between 2 and 3 years	**(961)**	**–**	**(7)**	**–**	**(968)**
Between 3 and 4 years	**(541)**	**(155,741)**	**(1)**	**–**	**(156,283)**
Between 4 and 5 years	**(570)**	**–**	**–**	**–**	**(570)**
Over 5 years	**(1,577)**	**–**	**–**	**–**	**(1,577)**
	(4,906)	**(156,373)**	**(26)**	**(41,536)**	**(202,841)**

23 Financial Instruments and Related Disclosures continued

At 30 June 2015	Deferred and contingent consideration £000	Bank loans and overdrafts £000	Finance leases £000	Trade and other payables £000	Total £000
Carrying value	(7,829)	(33,496)	(8)	(18,183)	(59,516)
Arrangement fees netted off	–	977	–	–	977
Future interest	(1 658)	(1,109)	–	–	(2,767)
Total committed cash flow	(9,487)	(33,628)	(8)	(18,183)	(61,306)
Payable					
Within 6 months	(3,386)	(132)	(8)	(18,183)	(21,709)
Between 6 months and 1 year	(1,161)	–	–	–	(1,161)
Between 1 and 2 years	(434)	–	–	–	(434)
Between 2 and 3 years	(456)	–	–	–	(456)
Between 3 and 4 years	(479)	–	–	–	(479)
Between 4 and 5 years	(462)	(33,496)	–	–	(33,958)
Over 5 years	(3,109)	–	–	–	(3,109)
	(9,487)	(33,628)	(8)	(18 183)	(61,306)

The contractual undiscounted cash flows in respect of derivative financial instruments are as follows

	2016 £000	2015 £000
Due		
Within 6 months	**50**	52
Between 6 months and 1 year	**–**	52
Between 1 and 2 years	**–**	34
Between 2 and 5 years	**–**	–
	50	138

The Group has a contractual obligation to pay £50,000 (2015 £44,000) under its interest rate swap arrangement covering the period from 30 June to 30 September 2016

With the exception of the above disclosed, there are no other assets that have been impaired during the year

Foreign Currency Exposure

The Sterling equivalents of financial assets and liabilities denominated in foreign currencies at 30 June 2016 and 30 June 2015 were

At 30 June 2016	**Danish Krone £000**	**Euro £000**	**US Dollar £000**	**Other £000**
Financial assets				
Trade receivables	**–**	**4,057**	**1,402**	**851**
Other receivables	**–**	**–**	**51**	**49**
Cash balances	**–**	**–**	**495**	**6,422**
	–	**4,057**	**1,948**	**7,322**
Financial liabilities				
Bank loans and overdrafts	**(15,167)**	**(31,688)**	**(122,838)**	**–**
Trade payables	**(2)**	**(4,513)**	**(698)**	**(133)**
Other payables	**–**	**(790)**	**(16)**	**(705)**
Derivatives	**–**	**(25)**	**(25)**	**–**
	(15,169)	**(37,016)**	**(123,577)**	**(838)**
Net balance sheet exposure	**(15,169)**	**(32,959)**	**(121,629)**	**6,484**

23 Financial Instruments and Related Disclosures continued

At 30 June 2015	Danish Krone £000	Euro £000	US Dollar £000	Other £000
Financial assets				
Trade receivables	–	1,755	–	83
Other receivables	–	–	1,001	–
Cash balances	10,286	–	791	1,154
	10,286	1,755	1,792	1,237
Financial liabilities				
Bank loans and overdrafts	–	(8,282)	(28,616)	–
Trade payables	(11)	(1,979)	(726)	(288)
Other payables	–	(1 864)	(148)	(1,183)
Derivatives	–	(63)	(76)	–
	(11)	(12,188)	(29,566)	(1,471)
Net balance sheet exposure	10,275	(10,433)	(27,774)	(234)

Sensitivity Analysis

Interest Rate Risk

A 2 0% increase in annual interest rates compared to those ruling at 30 June 2016 would reduce Group profit before taxation and equity by £3,120,000 (2015 £143,000)

Foreign Currency Risk

The Group has significant cash flows and net financial assets and liabilities in Danish Krone, US Dollar and Euro The Group does not hedge either economic exposure or the translation exposure arising from the profits of non-Sterling businesses The Group is hedging certain foreign currency translations through the designation of a US dollar loan as a net investment hedge of US dollar net assets

The following table shows the impact on the Group's profit after taxation of a 10% appreciation of Sterling against each of these currencies compared to the rates prevailing at the year end date In this analysis, only financial assets and liabilities held on the balances sheet at the year end are assessed and are only considered sensitive to foreign exchange rates where they are not in the functional currency of the entity that holds them There is no impact on other equity reserves

	Profit after taxation £000
Danish Krone	(1,066)
US Dollar	(2,316)
Euro	(8,546)

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

Hedges

Cash Flow Hedges

The Group has entered into interest rate swaps on the revolving credit facility of £150 0 million The Group has designated these as cash flow hedges The risk being hedged is the variability of cash flows arising from movements in interest rates During the period, £nil (2015 £20,000) was written off to the Consolidated Income Statement as an ineffective hedge All other hedges remained effective throughout the period

The hedges are in place until 31 October 2016 The amounts recognised in equity are recycled to the Consolidated Income Statement to offset gains and losses in the period in which the cash flows occur

The amount recognised in equity in the year ended 30 June 2016 was a liability of £50,000 including an income tax credit of £35,000 (2015 £138,000 including an income tax credit of £44,000)

24 Share Capital

	Ordinary shares of 1p each			
	2016		2015	
	£000	Number	£000	Number
Allotted, called up and fully paid at start of year	880	87,971,163	877	87,712,564
New shares issued	47	4,775,835	3	258,599
Allotted, called up and fully paid at end of year	927	92,746,998	880	87,971,163

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, 377,235 new ordinary shares of 1p (2015 258,599 new ordinary shares of 1p) were issued following the exercise of options under the Long Term Incentive Plan, and the Approved, Unapproved and SAYE Share Options Schemes The consideration received was £742,988 (2015 £375,035) 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 4,398,600 shares of 1 pence each by way of a placing at an issue price of 1100 pence per share on 17 March 2016 The placing generated net proceeds of £46,955,600 after costs of £1,429,000 The placing price of 1100 pence per share is a 5 4% discount to the closing mid-market price per Ordinary Share on 14 March 2016, being the latest practicable date prior to the announcement of the placing

25. Own Shares

	2016	2015
	£000	£000
At start of the period	303	606
Recycled to profit and loss account	(282)	(303)
At end of period	21	303

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 27 for details) The number of ordinary shares held by the Employee Benefit Trust at 30 June 2016 was 2,880 (2015 41,739)

26 Non-Controlling Interests

	2016	2015
	£'000	£'000
At start of period	–	–
Acquired through business combinations	2,248	–
Additional consideration paid to non-controlling interests	(390)	–
Loss for the period	(156)	–
FX differences	279	–
At end of period	1,981	–

On 21 October 2015, Dechra acquired 92 26% of the controlling interest in Genera d d (Genera) The non-controlling interest was calculated using the fair value method

On 6 May 2016, the Group purchased another 1 13% of the voting shares for a consideration of HRK 3,756,000 The group now holds 93 39% of the equity share capital of Genera The carrying amount of the non-controlling interests in Genera on the date of acquisition was £2,248,000 The Group derecognised non-controlling interests of £390,000

27 Share-based Payments

During the year, the Company operated the Unapproved Share Option Scheme, the Approved Share Option Scheme, the Long Term Incentive Plan and the Save As You Earn (SAYE) Share Option Scheme as described below

Unapproved and Approved Share Option Schemes

Under these Schemes, options are granted to certain Executives and employees of the Group (excluding Executive Directors) to purchase shares in the Company at a price fixed at the average market value over the three days prior to the date of grant For the options to vest, there must be an increase in earnings per share of at least 12% above the growth in the UK Retail Prices Index (RPI) over a three year period Once vested, options must be exercised within ten years of the date of grant

Long Term Incentive Plan

Vesting is dependent on two performance conditions which must be satisfied over a three year performance period commencing from the start of the financial year within which the award is granted 50% of the Award will vest dependent on the Company's TSR performance against an appropriate comparator group 50% of the Award will vest subject to a performance condition based on annual earnings per share targets Each of the TSR and EPS elements is subject to an additional ROCE underpin Unless the Company's ROCE is 10% or more in the final year of the performance period, the award will lapse in full

27. Share-based Payments continued

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

Year ended 30 June 2016

	Exercise Period	Exercise price per share* Pence	At 1 July 2015 Number	Exercised Number	Granted Number	Lapsed Number	**At 30 June 2016 Number**
Unapproved Share Option Scheme							
2 April 2008†	2011–2018	336 15	9,915	(3 266)	–	–	**6,649**
10 October 2008†	2011–2018	364 62	11,976	(6,532)	–	–	**5,444**
30 March 2009†	2012–2019	381 15	20,683	(7,620)	–	(2,177)	**10,886**
1 March 2010†	2013–2020	418 81	14,143	(7,612)	–	(2,177)	**4,354**
28 February 2011†	2014–2021	461 97	18,461	(8,120)	–	(2,177)	**8,164**
10 September 2012†	2015–2022	541 00	63,244	(30,244)	–	(2,000)	**31,000**
16 September 2013	2016–2023	721 00	47,842	–	–	(214)	**47,628**
5 March 2014	2017–2024	698 00	2,000	–	–	–	**2,000**
11 September 2014	2017–2024	763 00	60,817	(721)	–	(2,383)	**57,713**
15 September 2015	2018-2025	975 00	–	–	55,060	–	**55,060**
18 March 2016	2019-2026	1188 00	–	–	950	–	**950**
			249,081	(64,115)	56 010	(11 128)	**229,848**
Approved Share Option Scheme							
19 March 2007†	2010–2017	265 43	7,620	(7 620)	–	–	**–**
2 April 2008†	2011–2018	336 15	9,766	(6,154)	–	–	**3,612**
1 March 2010†	2013–2020	418 81	5,360	–	–	–	**5,360**
28 February 2011†	2014–2021	461 97	5,545	(5,501)	–	–	**44**
10 September 2012†	2015–2022	541 00	10 756	(10,256)	–	–	**500**
16 September 2013	2016–2023	721 00	15,158	(2,123)	–	(1,877)	**11,158**
11 September 2014	2017–2024	763 00	15,183	(415)	–	(2,681)	**12,087**
15 September 2015	2018-2025	975 00	–	–	18,940	–	**18,940**
18 March 2016	2019-2026	1188 00	–	–	5,050	–	**5,050**
			69,388	(32,069)	23,990	(4 558)	**56,751**
Long Term Incentive Plan							
5 March 2013	2016–2016	–	226,168	(210,112)	–	(16 056)	**–**
27 September 2013	2014–2015	–	41,739	(38,859)	–	(2,880)	**–**
27 November 2013	2016–2017	–	276,012	(4,113)	–	(4,829)	**267,070**
15 September 2014	2017–2018	–	275 332	–	–	(9,174)	**266,158**
15 September 2015	2018–2019	–	–	–	220,621	–	**220,621**
22 March 2016	2019–2019	–	–	–	8,786	–	**8,786**
			819,251	(253,084)	229,407	(32,939)	**762,635**
SAYE Option Scheme							
13 October 2008	2011–2015	315 02	5,306	(5,306)	–	–	**–**
12 October 2009	2012–2016	304 92	3,418	–	–	–	**3,418**
13 December 2010	2013–2017	375 64	16,379	(8,830)	–	(485)	**7,064**
17 October 2011	2014–2018	365 54	6,825	–	–	(499)	**6,326**
16 October 2012	2015–2019	471 00	59,599	(50,686)	–	(1,337)	**7,576**
7 April 2014	2017–2019	552 00	102,257	(905)	–	(6,309)	**95,043**
13 October 2014	2017–2023	614 00	120,502	(1,091)	–	(12,834)	**106,577**
12 October 2015	2018–2024	792 00	–	–	101,513	(9,351)	**92,162**
			314,286	(66,818)	101,513	(30,815)	**318,166**
Total			1,452,006	(416,086)	410 920	(79,440)	**1,367,400**
Weighted average exercise price*			244 39p	178 56p	387 56p	364 60p	**300 46p**

* Adjusted to reflect the bonus element of the Rights Issue – there has been no impact on the overall fair value of options in issue

† Total share options exercisable at 30 June 2016 are 76,013

27 **Share-based Payments** continued

Year ended 30 June 2015

	Exercise Period	Exercise price per share* Pence	At 1 July 2014 Number	Exercised Number	Granted Number	Lapsed Number	At 30 June 2015 Number
Unapproved Share Option Scheme							
2 April 2008†	2011–2018	336 15	9,915	–	–	–	9,915
10 October 2008†	2011–2018	364 62	20,142	(8,166)	–	–	11,976
30 March 2009†	2012–2019	381 15	27,214	(6,531)	–	–	20,683
1 March 2010†	2013–2020	418 81	20,674	(6,531)	–	–	14,143
28 February 2011†	2014–2021	461 97	36,919	(18,458)	–	–	18,461
10 September 2012	2015–2022	541 00	65,244	–	–	(2,000)	63,244
16 September 2013	2016–2023	721 00	51,842	–	–	(4,000)	47,842
5 March 2014	2017–2024	698 00	2,000	–	–	–	2,000
11 September 2014	2017–2024	763 00	–	–	62,817	(2,000)	60,817
			233,950	(39,686)	62,817	(8,000)	249 081
Approved Share Option Scheme							
19 March 2007†	2010–2017	265 43	7,620	–	–	–	7,620
2 April 2008†	2011–2018	336 15	9 766	–	–	–	9,766
1 March 2010†	2013–2020	418 81	7,510	(2,150)	–	–	5,360
28 February 2011†	2014–2021	461 97	10,477	(4,932)	–	–	5 545
10 September 2012	2015–2022	541 00	10,756	–	–	–	10,756
16 September 2013	2016–2023	721 00	15,158	–	–	–	15,158
11 September 2014	2017–2024	763 00	–	–	15,183	–	15,183
			61,287	(7,082)	15,183	–	69,388
Long Term Incentive Plan							
7 September 2011	2014–2015	–	161,041	(161,041)	–	–	–
5 March 2013	2016–2016	–	226,168	–	–	–	226,168
27 September 2013†	2014–2015	–	83 478	(41,739)	–	–	41,739
27 November 2013	2016–2017	–	276,012	–	–	–	276,012
15 September 2014	2017–2018	–	–	–	275,332	–	275,332
			746,699	(202,780)	275,332	–	819,251
SAYE Option Scheme							
13 October 2008	2011–2015	315 02	5,306	–	–	–	5,306
12 October 2009	2012–2016	304 92	19,423	(16,005)	–	–	3,418
13 December 2010	2013–2017	375 64	16,379	–	–	–	16,379
17 October 2011	2014–2018	365 54	41,610	(34,785)	–	–	6,825
16 October 2012	2015–2019	471 00	59,981	–	–	(382)	59 599
7 April 2014	2017–2019	552 00	111,078	–	–	(8,821)	102,257
13 October 2014	2017–2023	614 00	–	–	124,033	(3,531)	120,502
			253,777	(50,790)	124,033	(12,734)	314,286
Total			1,295 713	(300 338)	477,365	(20,734)	1,452,006
Weighted average exercise price*			207 91p	124 87p	284 21p	621 96p	244 39p

* 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 2015 were 145,208

The weighted average exercise price of options eligible to be exercised at 30 June 2016 was 453 67p (2015 276 48p)

For options exercised during the year the weighted average market price at the date of exercise was 1,206p (2015 791p) The weighted average remaining contractual lives of options outstanding at the Consolidated Statement of Financial Position date was four years (2015 four years)

27 Share-based Payments continued

Outstanding options on all Long Term Incentive Plan, Approved and Unapproved plans prior to 30 June 2013 were exercisable at 30 June 2016

No options issued under SAYE plans were exercisable at 30 June 2016

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	22/03/16	15/09/15	15/09/14
Number of shares awarded	8,786	220,621	275,332
Share price at date of grant	1200p	990p	764p
Exercise price	Nil	Nil	Nil
Expected life	3 years	3 years	2 83 years
Risk-free rate	0 46%	0 68%	1 16%
Volatility	22%	22%	23%
Dividend yield	1 61%	0 54%	1 83%
Fair value per share	1021p	764p	596p
Unapproved and Approved Share Option Schemes			
Date of grant	18/03/16	15/09/15	11/09/14
Number of shares awarded	6,000	74 000	78,000
Share price at date of grant	1185p	990p	765p
Exercise price	1188p	975p	763p
Expected life	6 5 years	6 5 years	5 years
Risk-free rate	1 02%	1 47%	1 78%
Volatility	26%	27%	27%
Dividend yield	1 62%	0 54%	1 83%
Fair value per share	273p	284p	164p
Save As You Earn Option Scheme			
Date of grant		12/10/15	13/10/14
Number of shares awarded		101,513	124,033
Share price at date of grant		930p	716p
Exercise price		792p	614p
Expected life			
— three year scheme		3 25 years	3 25 years
— five year scheme		5 25 years	5 25 years
Risk-free rate			
— three year scheme		0 83%	1 09%
— five year scheme		1 17%	1 55%
Volatility			
— three year scheme		22%	24%
— five year scheme		26%	26%
Dividend yield		0 53%	1 96%
Fair value per share			
— three year scheme		215p	150p
— five year scheme		283p	186p

27 Share-based Payments continued

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 2016 of £842,000 (2015 £735,000), of which £65,000 (2015 £123,000) related to vested options The total charge to the Consolidated Income Statement in respect of share-based payments was

	2016 £000	2015 £000
Equity settled share-based transactions	**2,058**	1,767
Cash settled share-based transactions	**328**	481
	2,386	2,248

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

28 Analysis of Net (Borrowings)/Cash

	2016 £000	2015 £000
Bank loans	**(155,741)**	(32,519)
Finance leases and hire purchase contracts	**(24)**	(8)
Cash and cash equivalents	**39,142**	45,948
Net (borrowings)/cash	**(116,623)**	13,421

29 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	
	2016 £000	2015 £000	**2016 £000**	2015 £000	**2016 £000**	2015 £000
Within one year	**986**	784	**1,978**	1,131	**2,964**	1,915
Between one and five years	**2,619**	3 074	**3,142**	1 280	**5,761**	4,354
In five years or more	**1,536**	2,392	**1,517**	—	**3,053**	2,392
	5,141	6 250	**6,637**	2 411	**11,778**	8,661

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

30. Foreign Exchange Rates

The following exchange rates have been used in the translation of the results of foreign operations

	Average rate for 2015	Closing rate at 30 June 2015	Average rate for 2016	Closing rate at 30 June 2016
Danish Krone	9 7175	10 4869	10 0162	9 0010
Euro	1 3045	1 4057	1 3432	1 2099
US Dollar	1 5834	1 5728	1 4870	1 3433

31. Acquisitions

Acquisition of Genera

On 3 August 2015, Dechra announced that it had signed a conditional share purchase agreement to acquire 63 30% of the authorised shares (equivalent to 69 00% voting rights) in Genera d d (Genera), a Croatian pharmaceutical business Under the Croatian Takeover Rules, the conditional offer required Dechra to make a mandatory offer for the remaining issued share capital of Genera On 20 October 2015, the closing date for the Takeover Offer, Dechra had received further valid acceptances in respect of 82,390 Genera shares, amounting to 20 73% of Genera's share capital Accordingly, the agreement with Mr Marijan Hanžekovic, the majority shareholder in Genera, to acquire his 63 30% holding (equivalent to 69 00% voting rights) became unconditional The majority shares were transferred on 20 October 2015 and the minority shares on 21 October 2015 At the acquisition date, the Group owned 1,549,417 shares in Genera, amounting to 92 26% of the voting rights (83 99% of the share capital) of Genera The aggregate cost of acquiring the 92 26% controlling interest in Genera has been €36 6 million which has been funded from our existing cash and debt facilities The non-controlling interest has been calculated using the fair-value method The input to value the non-controlling interest was the prevailing share price for Genera at 21 October 2015 This strategic acquisition gives us an entry point into the fast growing poultry vaccines market and broadens our EU FAP business

	Fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**16,961**
Inventories	**6,781**
Trade and other receivables	**10,310**
Cash and cash equivalents	**283**
Trade and other payables	**(4,538)**
Provisions	**(3,046)**
Debt	**(8,728)**
Identifiable intangible assets	**9,674**
Net deferred tax liability	**(3,121)**
Net identifiable assets	**24,576**
Non-controlling interests	**(2,248)**
Goodwill	**4,466**
Total consideration	**26,794**
Satisfied by	
Cash	**26,794**
Total consideration transferred	**26,794**
Net cash outflow arising on acquisition	
Cash consideration	**26,794**
Less cash and cash equivalents acquired	**(283)**
	26,511

The fair value adjustments principally relate to the application of fair values on acquisition being the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3

The goodwill of £4,466,000 arising from the acquisition represents the technical expertise of the assembled workforce (including their in-house knowledge in vaccines development), access to the Adriatic region to continue geographic expansion, and broadening of the Group's contract manufacturing capabilities None of the goodwill is expected to be deductible for income tax purposes

31 Acquisitions continued

Acquisition of Genera continued

Acquisition related costs (included in operating expenses) amounted to £0 5 million Genera's results are reported within the EU Pharmaceuticals Segment Genera contributed £13 8 million revenue and £3 2 million loss to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date If the acquisition of Genera had been completed on the first date of the financial year, Group revenues for the period would have been £253 3 million and the Group pre-tax profit would have been £14 5 million

On 6 May 2016, the Group purchased another 1 13% of the voting shares for a consideration of HRK 3,756,000 (£0 4 million) The Group now holds 93 39% of the equity share capital of Genera Refer to note 26 for further details

Acquisition of Brovel

On 13 January 2016, Dechra acquired 100% of the share capital of Laboratorios Brovel S A de C V (Brovel), a veterinary pharmaceuticals company based in Mexico City The Group paid US$5 0 million consideration in cash on completion and a further US$1 0 million is contingent upon Brovel successfully reaching registration milestones for Dechra's products in Mexico

	Provisional fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**243**
Inventories	**1,152**
Trade and other receivables	**346**
Cash and cash equivalents	**202**
Trade and other payables	**(465)**
Net deferred tax liability	**(131)**
Net identifiable assets	**1,347**
Goodwill	**2,575**
Total consideration	**3,922**
Satisfied by	
Cash	**3,331**
Contingent consideration arrangement	**591**
Total consideration transferred	**3,922**
Net cash outflow arising on acquisition	
Cash consideration	**3,331**
Less cash and cash equivalents acquired	**(202)**
	3,129

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 the application of fair values on acquisition, being the recognition of fair value uplift on acquired inventory in accordance with IFRS 3 A review to identify any intangible assets on acquisition was performed with no identifiable intangible assets being recognised

The goodwill of £2,575,000 arising from the acquisition represents the geographical expansion potential provided through access to the Latin America market and future sales expected to be achieved through the registration of Dechra products in these countries None of the goodwill is expected to be deductible for income tax purposes

Acquisition related costs (included in operating expenses) amounted to £0 5 million Brovel's results are reported within the NA Pharmaceuticals Segment Brovel contributed £1 5 million revenue and £0 1 million loss to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date If the acquisition of Brovel had been completed on the first date of the financial year, Group revenues for the period would have been £249 1 million and the Group pre-tax profit would have been £14 4 million

31 Acquisitions continued

Acquisition of Putney

On 22 April 2016 Dechra acquired 100% of the share capital of Putney Inc (Putney), a veterinary pharmaceuticals company based in Maine, USA The Group paid US$200 0 million consideration in cash on a debt free, cash free basis

	Provisional fair value £000
Recognised amounts of identifiable assets acquired and liabilities assumed	
Identifiable assets	
Property, plant and equipment	**466**
Inventories	**14,037**
Trade and other receivables	**5,699**
Cash and cash equivalents	**1,541**
Trade and other payables	**(7,501)**
Net deferred tax liability	**(35,845)**
Provisions	**(546)**
Debt	**(6,299)**
Identifiable intangible assets	**113,331**
Net identifiable assets	**84,883**
Goodwill	**49,309**
Total consideration	**134,192**
Satisfied by:	
Cash	**134,192**
Total consideration transferred	**134,192**
Net cash outflow arising on acquisition	
Cash consideration	**134,192**
Less cash and cash equivalents acquired	**(1,541)**
	132,651

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 the recognition of fair value uplift on acquired inventory and intangibles in accordance with IFRS 3

The goodwill of £49,309,000 arising from the acquisition represents the technical expertise within the assembled workforce in relation to their regulatory expertise, as well as their in-house knowledge and skill at completing the product development process for future pipeline developments In addition, the goodwill reflects the synergies that are expected to be realised as a consequence of a greater presence in the North American market None of the goodwill is expected to be deductible for income tax purposes

Acquisition related costs (included in operating expenses) amounted to £1 5 million Putney's results are reported within the NA Pharmaceuticals Segment Putney contributed £6 5 million revenue and £6 7 million loss to the Group's pre-tax profit for the period between the date of acquisition and the balance sheet date If the acquisition of Putney had been completed on the first date of the financial year, Group revenues for the period would have been £277 8 million and the Group pre-tax profit would have been £14 8 million

Acquisition of Phycox

On 20 May 2014, the Group acquired certain trade and assets of PSPC Inc for a maximum total consideration of US$14 2 million PSPC's principal product is *Phycox*, a patented nutraceutical which competes in the US veterinary joint health supplement market US$4 2 million of the consideration is contingent on future sales During the year ended 30 June 2016, US$0 6 million (£0 5 million) of the contingent consideration was paid

Acquisition of DermaPet Inc

On 22 October 2010, the Group acquired 100% of the share capital of DermaPet Inc , a Florida based business which develops and markets a range of dermatological preparations, including shampoos, conditioners and ear products, for the US market During the period, the Group paid a further US$5 0 million (£3 2 million) which was contingent upon revenue exceeding US$20 0 million in any rolling 12 month period There is no further consideration outstanding

32 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 159 to 160

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 79 to 90 The remuneration of key management is disclosed in note 7

Non-Controlling Interests

Refer to note 26 for transactions with non-controlling interests during the year

33 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 2016

	Note	2016 £000	2015 £000
Non-current assets			
Investments	III	**413,199**	261,939
Intangible assets	IV	**5,726**	3,846
Tangible assets	V	**197**	203
		419,122	265,988
Current assets			
Trade and other receivables (includes amounts falling due after more than one year of £1,351,000 (2015 £1,222,000))	VI	**18,485**	34,789
Cash at bank and in hand		**–**	–
		18,485	34,789
Borrowings	VIII	**(32,133)**	(2,016)
Trade and other payables	VII	**(34,613)**	(53,339)
Net current liabilities		**(48,261)**	(20,566)
Total assets less current liabilities		**370,861**	245,422
Non-current liabilities			
Borrowings	VIII	**(128,163)**	(32,519)
Net assets		**242,698**	212,903
Equity			
Called up share capital	X	**927**	880
Share premium account		**172,451**	124,801
Foreign currency translation reserve		**545**	545
Hedging reserve		**(15)**	(91)
Retained earnings		**68,790**	86,768
Total equity shareholders' funds		**242,698**	212,903

The financial statements were approved by the Board of Directors on 5 September 2016 and are signed on its behalf by

Ian Page
Chief Executive Officer
5 September 2016

Michael Redmond
Chairman
5 September 2016

Company number 3369634

Statement of Changes in Shareholders' Equity

For the year ended 30 June 2016

	Attributable to owners of the parent					
	Issued share capital £000	Share premium account £000	Hedging reserve £000	Foreign currency translation reserve £000	Retained earnings £000	Total equity £000
Year ended 30 June 2015						
At 1 July 2014	877	124,430	(132)	545	56,095	181,815
Profit for the period	–	–	–	–	42,800	42,800
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(137)	–	–	(137)
Losses arising available for sale financial assets	–	–	–	–	(37)	(37)
Cash flow hedges recycled to income statement, net of tax	–	–	178	–	–	178
Total comprehensive income	–	–	41	–	42,763	42,804
Transactions with owners						
Dividends paid	–	–	–	–	(13,857)	(13,857)
Share-based payments	–	–	–	–	1,767	1,767
Shares issued	3	371	–	–	–	374
Total contributions by and distributions to owners	3	371	–	–	(12,090)	(11,716)
At 30 June 2015	**880**	**124,801**	**(91)**	**545**	**86,768**	**212,903**
Year ended 30 June 2016						
At 1 July 2015	880	124,801	(91)	545	86,768	212,903
Loss for the period	–	–	–	–	(5,772)	(5,772)
Effective portion of changes in fair value of cash flow hedges, net of tax	–	–	(154)	–	–	(154)
Losses arising available for sale financial assets	–	–	–	–	(450)	(450)
Cash flow hedges recycled to income statement, net of tax	–	–	230	–	–	230
Total comprehensive income	–	–	76	–	(6,222)	(6,146)
Transactions with owners						
Dividends paid	–	–	–	–	(15,292)	(15,292)
Share-based payments	–	–	–	–	3,536	3,536
Shares issued	47	47,650	–	–	–	47,697
Total contributions by and distributions to owners	47	47,650	–	–	(11,756)	35 941
At 30 June 2016	**927**	**172,451**	**(15)**	**545**	**68,790**	**242,698**

Notes to the Company Financial Statements

(i) Principal Accounting Policies of the Company

Adoption of FRS 101

This is the first year in respect of which the Company has prepared its financial statements under FRS 101 The previous financial statements for the year ended 30 June 2015 were prepared under 'old UK GAAP' The date of transition to FRS 101 for the Company is 1 July 2014 Set out below are descriptions of the various implementation options applied by the Company in preparing the financial statements for the year ended 30 June 2016, as well as reconciliations from 'old UK GAAP' to FRS 101 for total equity as at 1 July 2014 and 30 June 2015

Mandatory Exceptions to Retrospective Application

Set out below are the applicable mandatory exceptions to retrospective application in IFRS 1 applied in converting from 'old UK GAAP' to FRS 101

(a) Hedge accounting exemption

Hedge accounting can only be applied prospectively from the transition date to transactions that satisfy the hedge accounting criteria in IAS 39 at that date Hedging relationships cannot be designated retrospectively and the supporting documentation cannot be created retrospectively As a result, only hedging relationships that satisfied the hedge accounting criteria as of 1 July 2014 are reflected as hedges in the company's results under FRS 101

(b) Exemption for estimates

Estimates made as at 1 July 2014 under FRS 101 are consistent with those made previously under 'old UK GAAP'

IFRS 1 Exemptions Options

Set out below are the applicable IFRS 1 exemptions applied by the company in converting from 'old UK GAAP' to FRS 101 Management expect that these exemptions will continue to apply for the period ended 30 June 2017

(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)

Accounting Principles

The Company Statement of Financial Position has been prepared under the historical cost convention except for derivatives which are stated at fair value in accordance with applicable UK accounting standards and the Companies Act 2006

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 loss dealt with in the accounts of the Company was £5,772,000 (2015 profit £42,800,000) Fees paid to PricewaterhouseCoopers LLP and its associates for audit and non-audit services to the Company itself are not disclosed in the individual financial statements of Dechra Pharmaceuticals PLC because the Group financial statements are required to disclose such fees on a consolidated basis

Investments

Investments held as fixed assets are stated at cost less any impairment losses Where the consideration for the acquisition of a subsidiary undertaking includes shares in the Company to which the provisions of section 612 of the Companies Act 2006 apply, cost represents the nominal value of the shares issued together with the fair value of any additional consideration given and costs Where investments are denominated in foreign currencies, they are treated as monetary assets and revalued at each year end date

Intangible Assets

Product rights that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses Product rights are amortised over the period of their useful lives

(i) **Principal Accounting Policies of the Company** continued

Derivative Financial Instruments

The Company uses derivative financial instruments to manage its exposure to foreign exchange and interest rate risks In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for speculative purposes However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments

Derivative financial instruments are recognised initially at fair value Subsequent to initial recognition, derivative financial instruments are stated at fair value The gain or loss on remeasurement to fair value of instruments that do not qualify for hedge accounting is recognised immediately in the income statement

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the instrument at the statement of financial position date The fair value of forward exchange contracts and options is their quoted market price at the year end date, being the present value of the quoted forward price

Hedging

Cash Flow Hedges

Changes in the fair value of derivative financial instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective To the extent that the hedge is ineffective, changes in fair value are recognised as profit or loss in the income statement

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised In other cases, the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss

Cash Flow Statement

As the ultimate holding company of the Group, the Company has relied upon the exemption in FRS 101 not to present a cash flow statement as part of its financial statements

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 7 and 32 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 9 of the Consolidated Financial Statements)

Notes to the Company Financial Statements
continued

(i) Principal Accounting Policies of the Company continued

Employee Benefits

(a) Pensions

The Company operates a Group stakeholder personal pension scheme for certain employees Obligations for contributions are recognised as an expense in the income statement as incurred

(b) Share-based Payment Transactions

The Company operates a number of equity settled share-based payment programmes that allow employees to acquire shares of the Company The Company also operates a Long Term Incentive Plan for Directors and Senior Executives

The fair value of shares or options granted is recognised as an employee expense on a straight-line basis in the income statement with a corresponding movement in equity The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares or options (the vesting period) The fair value of the shares or options granted is measured using a valuation model, taking into account the terms and conditions upon which the shares or options were granted The amount recognised as an expense in the income statement is adjusted to take into account an estimate of the number of shares or options that are expected to vest together with an adjustment to reflect the number of shares or options that actually do vest except where forfeiture is only due to market-based conditions not being achieved

The fair values of grants under the Long Term Incentive Plan have been determined using the Monte Carlo simulation model The fair values of options granted under all other share option schemes have been determined using the Black–Scholes option pricing model

National Insurance contributions payable by the Company on the intrinsic value of share-based payments at the date of exercise are treated as cash settled awards and revalued to market price at each statement of financial position date

Where the Company grants options over its own shares to the employees of its subsidiaries, it recharges the expense to those subsidiaries

Foreign Currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions Monetary assets and liabilities are translated at the closing rate at the reporting date Foreign exchange gains and losses are recognised in the income statement

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply and have been substantively enacted in the periods in which the timing differences reverse and is provided in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by IAS 12 'Income Taxes'

Financial Guarantee Contracts

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements, and accounts for them as such In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee

(ii) Directors and Employees

Total emoluments of Directors (including pension contributions) amounted to £2,754,000 (2015 £2,906,000) Information relating to Directors' emoluments, share options and pension entitlements is set out in the Directors' Remuneration Report on pages 79 to 90

(iii) Investments

	Shares in subsidiary undertakings £000
Cost	
At 1 July 2015	274,183
Additions	151,260
At 30 June 2016	**425,443**
Impairment	
At 1 July 2015	12,244
Charge for the period	–
At 30 June 2016	**12,244**
Net book value	
At 30 June 2016	**413,199**
At 30 June 2015	261,939

A list of subsidiary undertakings is given in note (xii)

During the year, the Company invested in Dechra Finance Limited and Dechra Finance Sterling Limited, both wholly owned subsidiaries incorporated in England and Wales, Dechra Finance Ireland Designated Activity Company, a wholly owned subsidiary incorporated in the Republic of Ireland, and Dechra US Holdings Inc , a wholly owned subsidiary incorporated in USA

A correcting adjustment has been made to the opening balance sheet at 1 July 2014 to reduce investments by £20 5 million and corresponding amounts owed to subsidiary undertakings by £19 8 million following a review of the investments held and identifying an error in the valuation of the investment in Dechra Investments Limited

Notes to the Company Financial Statements
continued

(iv) Intangible Assets

	Acquired Intangibles £000	Software £000	Intangible assets £000
Cost			
At 1 July 2015	5,114	479	5,593
Additions	–	2,404	2,404
At 30 June 2016	**5,114**	**2,883**	**7,997**
Amortisation			
At 1 July 2015	1,747	–	1,747
Charge for the year	512	12	524
At 30 June 2016	**2,259**	**12**	**2,271**
Net book value			
At 30 June 2016	**2,855**	**2,871**	**5,726**
At 30 June 2015	3,367	479	3 846

(v) Tangible Assets

	Tangible assets £000
Cost	
At 1 July 2015	326
Additions	68
At 30 June 2016	**394**
Depreciation	
At 1 July 2015	123
Charge for the year	74
At 30 June 2016	**197**
Net book value	
At 30 June 2016	**197**
At 30 June 2015	203

(vi) Trade and Other Receivables

	2016 £000	2015 £000
Amounts owed by subsidiary undertakings	**11,853**	31,068
Group relief receivable	**4,726**	1,775
Deferred taxation (see note (ix))	**1,351**	1 222
Available for sale financial instruments	**129**	579
Other receivables	**344**	96
Prepayments and accrued income	**82**	49
	18,485	34,789

Included in debtors are amounts of £1,351,000 (2015 £1,222,000) due after more than one year relating to deferred tax assets Of the amounts owed by subsidiary undertakings, £nil is due after more than one year (2015 £nil)

In March 2015, the Group made an investment of US$1 0 million in Jaguar Animal Health Inc (Jaguar) to potentially gain access to the EU marketing rights for their companion animal products At 30 June 2016, the Company holds 178,571 shares in Jaguar following its IPO The Company also holds 89,286 warrants, which are valid for three years The shares and the warrants have been valued at fair value at the period end, with any gains or losses being recognised in other comprehensive income

(vii) Trade and Other Payables

	2016 £000	2015 £000
Amounts due to subsidiary undertakings	**30,631**	50,275
Trade payables	**1,200**	—
Derivative financial instruments	**50**	139
Accruals and deferred income	**2,732**	2,925
	34,613	53,339

In accordance with IAS 10 'Events after the Balance Sheet Date', the proposed final dividend for the year ended 30 June 2016 of 12 91 pence per share (2015 11 82 pence per share) has not been accrued for in these financial statements It will be shown in the financial statements for the year ending 30 June 2017 The total cost of the proposed final dividend is £11,974,000 (2015 £10,398,000)

(viii) Borrowings

	2016 £000	2015 £000
Borrowings due within one year		
Bank overdraft	**32,133**	2,016
Borrowings due after more than one year		
Aggregate bank loan instalments repayable		
— between two and five years	**128,163**	32,519
Total borrowings	**160,296**	34,535

In April 2016, the Company refinanced its existing bank facility The Company's revised borrowing facility comprises a £150 0 million revolving credit facility and a £30 0 million Accordion facility committed until September 2019 Refer to note 20 to the Consolidated Financial Statements for further details No interest has been capitalised during the year (2015 £nil)

The Company guarantees certain borrowings of other Group companies which at 30 June 2016 amounted to £nil (2015 £8,000)

(ix) Deferred Tax

	£000
At 1 July 2015 (included in trade and other receivables)	1,222
Amounts recognised in profit and loss	(37)
Amounts recognised in equity	166
At 30 June 2016 (included in trade and other receivables)	**1,351**

The amounts provided for deferred taxation at 19% (2015 20%) are as follows

	2016 £000	2015 £000
Short term timing differences	**1,453**	1,237
Accelerated capital allowances	**(102)**	(15)
	1,351	1,222

Notes to the Company Financial Statements
continued

(x) Called up Share Capital

Issued share capital	£000	Ordinary shares of 1p each Number
Allotted, called up and fully paid at 1 July 2015	880	87,971,163
New shares issued	47	4,775,835
Allotted, called up and fully paid at 30 June 2016	**927**	**92,746,998**

Details of new ordinary shares issued following the share placing on 17 March 2016 and the exercise of options under the Long Term Incentive Plan and the Approved, Unapproved and SAYE Share Option Schemes are shown in notes 24 and 27 to the Consolidated Financial Statements

Share Options
Details of outstanding share options over ordinary shares of 1p at 30 June 2016 under the various Group share option schemes are shown in note 27 to the Consolidated Financial Statements

(xi) Reconciliation of Total Equity as at 1 July 2014 and 30 June 2015

	Note	Previously reported under old UK GAAP 1 July 2014 £000	GAAP adjustments and correction £000	Under FRS 101 1 July 2014 £000	Previously reported under old UK GAAP 30 June 2015 £000	GAAP adjustments and correction £000	Under FRS 101 30 June 2015 £000
Non-current assets							
Investments	a	242,065	(20,477)	221,588	282,416	(20,477)	261,939
Intangible assets	b	3,879	25	3,904	3,367	479	3,846
Tangible assets	b	208	(25)	183	682	(479)	203
		246,152	(20 477)	225,675	286 465	(20,477)	265,988
Current assets							
Trade and other receivables	a,c	16,560	20,074	36,634	14,430	20,359	34,789
Cash at bank and in hand		–		–	–		–
		16,560	20,074	36,634	14,430	20,359	34,789
Borrowings		(3,485)		(3,485)	(2,016)		(2,016)
Trade and other payables		(45,356)		(45,356)	(53,339)		(53,339)
Net current liabilities		(32,281)	20,074	(12,207)	(40,925)	20,359	(20,566)
Non-current liabilities							
Borrowings		(31,653)		(31,653)	(32,519)		(32,519)
Net assets		182,218	(403)	181,815	213,021	(118)	212,903
Equity							
Called up share capital		877		877	880		880
Share premium account		124,430		124,430	124,801		124,801
Own shares	d	(606)	606	–	(303)	303	–
Foreign currency translation reserve	a	–	545	545	–	545	545
Hedging reserve		(132)		(132)	(91)		(91)
Profit and loss account	a,c,d	57 649	(1,554)	56,095	87,734	(966)	86,768
Total equity shareholders' funds		182,218	(403)	181,815	213,021	(118)	212,903

(xi) Reconciliation of Total Equity as at 1 July 2014 and 30 June 2015 continued

(a) Management have corrected the carrying value of the investments held by the Company Refer to note (iii) for details

(b) This adjustment relates to the reclassification of Software from Property, Plant and Equipment to Intangible Assets

(c) This is the impact on the recognition of deferred tax assets in relation to the Share Based Payment schemes under FRS 101

(d) Previously, under 'old UK GAAP', the net assets of the Employee Benefit Trust were consolidated into the Company only accounts This is not required under FRS 101

(xii) Subsidiary Undertakings

Operating subsidiaries

Company	Country of Incorporation and Place of Business	Principal Activity
Albrecht GmbH∞	Germany	Marketer of veterinary pharmaceuticals and distributor of veterinary pharmaceuticals and equipment
Cooperatieve Dechra Finance Netherlands W A ^	The Netherlands	Activities of financial services holding company
Dechra LimitedΩ	England and Wales	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals
Dechra-Brovel, S A de C V**	Mexico	Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals
Dechra Development LLC†	USA	Regulatory and product development
Dechra Finance B V***	The Netherlands	Financial services
Dechra Finance Limited	England and Wales	Activities of financial services holding company
Dechra Finance Ireland Designated Activity Company	Republic of Ireland	Financial services
Dechra Finance Sterling Limited	England and Wales	Financial services
Dechra Veterinary Products, Inc**	Canada	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products GmbH**	Austria	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products N V∞	Belgium	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products A/S	Denmark	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Oy#	Finland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products SAS#	France	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products S r l **	Italy	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AS#	Norway	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products B V#	The Netherlands	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Sp z o o **	Poland	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products, S L Unipersonal#	Spain	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products AB#	Sweden	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products Limited#	England and Wales	Marketer of veterinary pharmaceuticals and pet diets
Dechra Veterinary Products, LLC†	USA	Marketer of veterinary pharmaceuticals and pet diets
Eurovet Animal Health B V	The Netherlands	Holding company, developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals
Genera d d +	Croatia	Holding company, Developer, regulatory, manufacturer and marketer of veterinary pharmaceuticals and crop protection
Genera d o o Sarajevo‡	Bosnia Herzegovina	Marketer of veterinary pharmaceuticals
Genera Pharma d o o ‡	Serbia	Marketer of veterinary pharmaceuticals
Genera SI d o o‡	Slovenia	Marketer of veterinary pharmaceuticals
Putney, Inc†	USA	Developer, regulatory and marketer of veterinary pharmaceuticals
Scanimalhealth ApS∞	Denmark	Marketer of veterinary pharmaceuticals

Notes to the Company Financial Statements
continued

(xii) Subsidiary Undertakings continued
Other subsidiaries

Company	Country of Incorporation and Place of Business	Principal Activity
Arnolds Veterinary Products Limited*	England and Wales	Non-trading
Broomco 4263 Limited*	England and Wales	Non-trading
Dales Pharmaceuticals Limited*	England and Wales	Non-trading
Dechra Holdings US Inc**	USA	Holding company
Dechra Investments Limited	England and Wales	Holding company
DermaPet, Inc¶	USA	Non-trading
Farvet Laboratories B V∞	The Netherlands	Non-trading
Veneto Limited	England and Wales	Holding company

* 100% of ordinary share capital held by Veneto Limited
Ω 100% of ordinary share capital held by Dechra Investments Limited
100% of ordinary share capital held by Dechra Veterinary Products A/S
¶ 100% of ordinary share capital held by Dechra Veterinary Products LLC
** 100% of ordinary share capital held by Dechra Limited
∞ 100% of ordinary share capital held by Eurovet Animal Health B V
^ Sole member being Dechra Finance Limited
*** 100% of ordinary share capital held by Cooperatieve Dechra Finance Netherlands W A
+ Dechra Pharmaceuticals hold 83 99% of share capital 10 10% is held as treasury stock and 5 91% is held by minority shareholders
† 100% of membership interest/holding share capital held by Dechra Holdings US Inc
‡ 100% of ordinary share capital held by Genera d d

Financial History

	2016 £000	2015 £000	2014 £000	2013 £000	2012 (Restated)† £000	2012 £000
Consolidated Income Statement						
Revenue	**247,562**	203,480	193,571	189,176	124,330	426,041
Underlying operating profit	**52,857**	44,351	42 168	39,108	25,545	36,601
Underlying profit after taxation	**38,390**	35,307	31,849	25,464	16,029	24,302
Underlying earnings per share						
— basic (pence)	**42 95**	40 17	37 61	38 98	—	32 37*
— diluted (pence)	**42 65**	39 90	37 48	38 71	—	32 27*
Continuing underlying earnings per share						
— basic (pence)	**42 95**	40 17	36 45	29 27	21 35*	—
— diluted (pence)	**42 65**	39 90	36 32	29 07	21 28*	—
Dividend per share (pence)	**18.46**	16 94	15 40	14 00	12 27*	12 27*
Operating profit	**19,493**	25,980	24,996	18,336	10,272	20,890
Profit after taxation	**12,512**	19,459	19,416	10,850	3,905	11,749
Earnings per share						
— basic (pence)	**14 00**	22 14	67 57	20 59	—	15 65*
— diluted (pence)	**13 90**	21 99	67 33	20 45	—	15 60*
Continuing earnings per share						
— basic (pence)	**14 00**	22 14	22 22	12 47	5 20	—
— diluted (pence)	**13 90**	21 99	22 14	12 39	5 18	—
Consolidated Statement of Financial Position						
Non-current assets	**398,296**	184 903	214,440	235,670	237,132	242,592
Current assets	**162,455**	108,624	86,334	89,672‡	86,863‡	161,829
Current liabilities	**(66,256)**	(44,109)	(35,715)	(49,558)‡	(48,217)‡	(103,461)
Non-current liabilities	**(217,883)**	(54,930)	(60,253)	(136,991)	(147,278)	(147,278)
Net assets held for sale	**—**	—	—	35,823	25,182	—
Shareholders' funds	**276,612**	194,488	204,806	174,616	153,682	153,682
Consolidated Statement of Cash Flows						
Net cash inflow from operating activities	**43,575**	40,983	11,472	36,865	—	19,242
Net cash (outflow)/inflow from investing activities	**(174,035)**	(4,651)	76,575	(19,368)	—	(120,344)
Net cash (outflow)/inflow from financing activities	**125,314**	(14,819)	(92,148)	(18,266)	—	103,708

* Restated to reflect the impact of the bonus element of the Rights Issue
† Restated to reflect the Services Segment as discontinued operations
‡ Excluding net assets held for sale

Glossary

The following is a glossary of a number of the terms and acronyms which can be found within this document

Adriatic region
Croatia, Bosnia-Herzgovinna, Serbia and Slovenia

API
Active Pharmaceutical Ingredient

APP
Actinobacillis pleuropneumonia (APP) is a bacterial infection that affects the respiratory system of pigs

APSP
Approved Performance Share Plan

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

CAGR
Compound Annual Growth Rate

CAP
Companion Animal Products

CER
Constant Exchange Rate

CMC
Chemistry and Manufacturing Controls

CSOP
Company Share Option Plan

Cushing's Syndrome
A condition caused by excess cortisol and is named after the physician who first described the condition in humans in the early twentieth century

Dechra Values or Values
Dedication, Enjoyment, Courage, Honesty, Relationships and Ambition

DPM
Dechra Pharmaceuticals Manufacturing

DOCP
Desoxycortine pivolate

DVP
Dechra Veterinary Products

DVP EU
Dechra Veterinary Products EU or Dechra Veterinary Products Europe

DVP NA
Dechra Veterinary Products North America

DVP US
Dechra Veterinary Products US

EBIT
Earnings before interest and tax

EBITDA
Earnings before interest, tax, depreciation and amortisation

EPS
Earnings Per Share

ERP
Enterprise Resource Planning

Executive Directors
The Executive Directors of the Company, currently Ian Page, 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

FTSE100 Index
An index comprising the 1st to 100th largest companies listed on the London Stock Exchange in terms of their market capitalisation

FTSE250/350 Index
An index comprising the 101st to 350th largest companies listed on the London Stock Exchange in terms of their market capitalisation

GAAP
Generally Accepted Accounting Practices

GHG
Greenhouse Gas

GMP
Good Manufacturing Practice

HANFA
Hrvatska agencija za nadzor financijskih usluga (Croatian Financial Services Agency)

HCM
Human Capital Management

HR
Human Resources

Hyperthyroidism
Occurs when the thyroid glands produce excessive amounts of thyroid hormone This causes an increase in the animal's metabolism (the rate at which energy is utilised)

IAS
International Accounting Standards

IFRS
International Financial Reporting Standards

Intertrigo
Refers to a bacterial, fungal or viral infection that has developed at the site of broken skin due to inflammation of body folds This infection is common in dogs with folds, such as Pugs or Shar Peis

IT
Information Technology

KPI
Key Performance Indicator

LIBOR
The London Inter-Bank Offered Rate

LTAFR
Lost Time Accident Frequency Rate

LTIP
Long Term Incentive Plan

MAT
Moving Annual Total

Malassezia
Yeasts that cause a secondary inflammatory skin disease Malassezia is often found in otitis externa

MHRA
Medicines and Healthcare products Regulatory Agency, an executive agency of the Department of Health in the UK

MPLS
Multiprotocol Label Switching

Maximum Residue Limit (MRL)
The maximum acceptable concentration of a substance that may be found in a food product obtained from an animal that has received a veterinary medicine

NADA
New Animal Drug Application

Non-Executive Directors
The Non-Executive Directors of the Company, currently Michael Redmond, Julian Heslop, Ishbel Macpherson and Tony Rice

OECD
The Organisation for Economic Cooperation and Development

Ordinary Shares
An ordinary share of 1 pence in the share capital of the Company

Otitis Externa
A condition which causes inflammation of the external ear canal (the tube between the outer ear and the ear drum)

Oracle Programme
Enterprise Resources Planing (ERP) software

PDRA
Dechra's Product Development and Regulatory Affairs team

QC
Quality Control

R&D
Research and Development

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

ROI
Return On Investment

RPI
Retail Price Index

S&OP
Sales and Operations Planning

SAGARPA

Secretaria de Agricultura, Ganaderia, Desarrollo Rural, Pesca y Alimentacion (Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food)

SAYE
Save As You Earn Share Scheme

SET
Senior Executive Team

SG&A
Selling, General and Administrative Expenses

S suis
Streptococcus suis is a bacterial infection which occurs primarily in nursing or recently weaned pigs

Staphylococcal Infections
Communicable conditions caused by the Staphylococcus type of bacteria and generally characterised by pyoderma or the formation of abscesses

Surface Pyoderma
Pyoderma is the medical term used to denote infections of the skin caused by bacteria Surface Pyoderma is a bacterial infection which is confined to the surface of the skin, one of the commonest types is known as Pyotraumatic Dermatitis (acute moist dermatitis, or 'hot spots') It is typified by localised itching, moist reddened skin patches and ulcerated lesions

TSR
Total Shareholder Return

VMD
Veterinary Medicines Directorate

Shareholder Information

Financial Calendar

Interim Management Statement	21 October 2016
2016 Annual General Meeting	21 October 2016
Final Dividend Ex-Dividend Date	27 October 2016
Final Dividend Record Date	28 October 2016
Final Dividend Payment Date	18 November 2016

Annual General Meeting

The 2016 Annual General Meeting of the Company will be held at 1 00pm on 21 October 2016 at Investec Bank plc, 2 Gresham Street, London EC2V 7QP The notice of meeting (the Notice), which includes special business to be transacted at the Annual General Meeting together with an explanation of the resolutions to be considered at the meeting, is made available on the Company website or mailed to shareholders, if they have elected to receive the Notice in paper format

Share History

Dechra floated on the London Stock Exchange in September 2000 at £1 20 per share, with a market capitalisation of £60 0 million

In relation to the acquisition of VetXX Holdings A/S, on 15 January 2008, Dechra undertook a placing and open offer on the basis of 11 Open Offer shares for every 50 existing shares held on 10 December 2007 at an issue price of 303 pence On 9 January 2008, 11,624,544 shares were issued

On 5 April 2012, a Rights Issue was announced on the basis of three new ordinary shares for every existing ten shares held on 23 April 2012 at a subscription price of £3 00 per share The Rights Issue resulted in 20,040,653 shares being issued with dealings commencing on 16 May 2012

On 17 March 2016 4,398,600 ordinary shares were offered by way of placing at an issue price of £11 00 per share

Company Website

The Dechra website (www dechra com) is the best source of useful and up-to-date information about Dechra and its activities, including the latest news, financial and product information to help improve understanding of our business Additionally, the terms of reference of all our Committees, Articles of Association, our Values and a number of our internal policies are published on the website

Visit us at our website
www dechra com

* Lines are open from 8 30am to 5 30pm (London time) Monday to Friday (except UK public holidays)

Electronic Communications

Shareholders now have the opportunity to receive shareholder communications electronically, e g Annual Reports, Notice of the Annual General Meeting and Proxy Forms You can elect to receive email notifications of shareholder communications by registering at www shareview co uk, where you can also set up a bank mandate to receive dividends directly to your bank account and to submit proxy votes for shareholder meetings Receiving the Company's communications electronically allows the Company to communicate with its shareholders in a more environmentally friendly, cost effective and timely manner

Registrar

Dechra's Registrar is Equiniti Limited

Equiniti should be contacted for any matters relating to your shareholding, including

- Notification of change in name and address
- Enquiries about dividend payments
- Submission of proxy form for voting at the Annual General Meeting

Shareholders who receive duplicate sets of Company mailings because they have multiple accounts should contact Equiniti to have their accounts amalgamated

Equiniti offers a facility whereby shareholders are able to access their shareholdings in Dechra via their website (www shareview co uk)

Alternatively, Equiniti can be contacted at

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

Registrars' Shareholder Helpline for Dechra 0371 384 2030* or +44(0) 121 415 7047, if calling from outside of the UK

Please have your Shareholder Reference Number to hand whenever you contact the Registrar, this can be found on your share certificate or a recent dividend tax voucher

Share Dealing Service

Equiniti Financial Services Limited offer a Share Dealing Service to buy or sell shares Further information can be obtained from www shareview co uk/dealing or by telephoning 0845 603 7037

	Telephone share dealing	Internet share dealing	Postal share dealing
Fee (on value of transaction)			
up to £50,000	1 5%	1 5%	1 75%
Balance over £50,000	0 25%	0 25%	1 75%
Minimum charge	£60 00	£45 00	£60 00
Stamp duty charge (purchases only)	0 5%	0 5%	0 5%

Equiniti Financial Services Limited and its agents are authorised and regulated by the Financial Conduct Authority

Please note that the price of shares can go down as well as up, and you are not guaranteed to get back the amount you originally invested If you are in any doubt, you should contact an independent financial adviser

Warning to Shareholders
Share fraud includes scams where investors are called out of the blue and offered shares that often turn out to be worthless or non-existent, or an inflated price for shares they own Previously we were alerted by some of our shareholders to cold calls which they had received The callers purport to represent various entities, including Drexel-Bearns, a US based firm The callers stated that they were seeking to gain control of investor shareholdings held in the Company and/or personal financial information We believe these to be boiler room scams

These types of calls are typically from overseas based 'brokers' who target UK shareholders and are commonly referred to as 'boiler rooms' These 'brokers can be very persistent and extremely persuasive While high profits are promised, those who buy or sell shares in this way usually lose their money

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money

- check the FCA Register at www fca org uk/firms/systems-reporting/register to ensure they are authorised,
- confirm that the firm is genuine by asking them for their firm reference number and contact details Always use the details on the FCA Register to contact the firm You should only access the Register from the FCA website at www fca org uk,
- call the FCA Consumer Helpline on 0800 111 6786 if there are no contact details on the Register or you are told they are out of date,
- make additional checks to confirm that you are dealing with the firm direct, for example, checking the details on the firm's website with directory enquiries or Companies House,
- search the FCA unauthorised firms list, and
- remember if it sounds too good to be true, it probably is!

If you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme if things go wrong

If you are approached about a share scam, you should tell the FCA by contacting their Consumer Helpline on 0800 111 678 If you have been offered, bought or sold shares, you can use the share fraud reporting form at www fca org uk/scams

If you have already paid money to share fraudsters or suspect fraud, you should contact Action Fraud on 0300 123 2040

Protecting your Identity
Suggestions for safeguarding your shares

- ensure all your share certificates are kept in a safe place or hold your shares electronically in CREST via a nominee,
- keep all correspondence relating to your shares in a safe place or destroy the correspondence by shredding,
- notify the Registrar of a change of address in writing or via their website (as detailed on the previous page),
- consider having your dividend paid directly into your bank account to eliminate the risk of a lost dividend cheque,
- notify the Registrar of bank account detail changes in writing or via their website, and
- if you decide to sell or buy shares, use only brokers registered in your own country or the UK

Advisers

Auditor
PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Stockbroker & Financial Advisers
Investec Bank plc
2 Gresham Street
London
EC2V 7QP

Lawyers
DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham
B2 4DL

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Financial PR
TooleyStreet Communications
Regency Court
68 Caroline Street
Birmingham
B3 1UG

Principal Bankers
Barclays Bank PLC
One Snowhill
Snow Hill Queensway
Birmingham
B3 2WN

Principal Bankers continued
HSBC Bank plc
Midlands Corporate Banking Centre
4th Floor
120 Edmund Street
Birmingham
B3 2QZ

The Royal Bank of Scotland plc
Corporate Banking
1 Spinningsfield Square
Manchester
M3 3AP

Trademarks
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